BANK OF GEORGIA
HOLDINGS PLC

Capturing growth opportunities

Annual Report 2014

Bank of Georgia Holdings PLC

Bank of Georgia Holdings PLC (BGH or Bank of Georgia Holdings) is a UK-incorporated holding company of JSC Bank of Georgia (the Bank or Bank of Georgia) representing the Bank's subsidiaries making up a group of companies (the Group). BGH is a Georgia-focused banking group with an investment arm. (See page 16 for our business model and page 18 for our strategy.)

Banking Business

Our Banking Business comprises at least 80% of BGH's profit and consists of Retail Banking, Corporate Banking and Investment Management businesses at its core and other banking businesses such as P&C Insurance, Leasing, Payment Services and Banking operations in Belarus (BNB). The Group strives to benefit from the underpenetrated banking sector in Georgia especially through its Retail Banking services. (See page 4 for the structure of our business.)

Investment Business

Our Investment Business comprises up to 20% of BGH's profit and consists of Georgia Healthcare Group (Healthcare Business), m^2 Real Estate (Real Estate Business) and Georgia Global Utilities (Utility Business) and other legacy investments. Georgia's fast growing economy provides opportunities in a number of underdeveloped markets and the Group is well positioned to capture growth opportunities in the Georgian corporate sector. (See page 4 for the structure of our business.)

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Read this report online
Find the digital version of this report on our corporate website at: www.bogh.co.uk.

Financial highlights

The effectiveness of our strategy is reflected in the record 2014 financial results highlighted below.

Revenue (GEL million)

605.6

+11.3% y-o-y

2012	2013	2014
497.5	544.3	605.6

Profit (GEL million)

240.8

+15.0% y-o-y

2012	2013	2014
179.6	209.3	240.8

Net loans (GEL million)

4,360.7

+23.8% y-o-y

2012	2013	2014
3,092.3	3,522.9	4,360.7

Client deposits (GEL million)

3,313.7

+6.6% y-o-y

2012	2013	2014
2,622.9	3,107.2	3,313.7

Return on Equity

19.0*%

+0.4ppts y-o-y

2012	2013	2014
19.1	18.6	19.0

Earnings per share (GEL)

6.85*

+15.5% y-o-y

2012	2013	2014
5.22	5.93	6.85

Tier 1 Capital ratio

22.1%

-0.9ppts y-o-y

2012	2013	2014
21.2	23.0	22.1

Cost to Income ratio

42.8%

+1.5ppts y-o-y

2012	2013	2014
44.3	41.2	42.8

Healthcare business: healthcare service revenue (GEL million, stand-alone)

138.5

+62.5% y-o-y

2012	2013	2014
63.7	85.2	138.5

Real estate business: apartment sales (US$ million)

46.7

+34.4% y-o-y

2012	2013	2014
21.7	34.7	46.7

* Adjusted for results of placing ordinary shares on 4 December 2014 and before one-off impairment of BG Bank Ukraine in Q2 2014.

Operating highlights

2014 operating highlights reflect the expanding footprint of our banking and investment businesses in Georgia.

Number of Retail Banking clients

1,451,777

+206,729 (over 2013)

Banking branches

219

+17 (over 2013)

Number of cards

1,156,631

+180,984 (over 2013)

Express Pay terminals

2,239

+1,254 (over 2013)

POS terminals

6,320

+1,484 (over 2013)

ATMs

523

+27 (over 2013)

Healthcare business: Number of hospital beds

2,140

+811 (over 2013)

Real estate business: Number of apartments sold

574

+194 (over 2013)

The structure of our business

We are a banking group with an investment arm. We are uniquely positioned to capture growth opportunities in the underpenetrated banking sector and wider corporate landscape in Georgia.

Banking Business

Retail Banking

We operate the largest retail bank in Georgia, serving c.1.5 million customers through 219 branches, 523 ATMs and 2,239 Express Pay (self-service) terminals and have a sales force of more than 2,000. In order to better serve the varied needs of our customers, in addition to traditional banking services, Retail Banking offers differentiated products and services. These include the well-recognised brands such as Solo Banking, a premier banking service for the mass affluent segment and Express Banking service, which is aimed at attracting mass market customers with minimal incremental operation costs through cost-efficient distance channels such as our Express Pay terminals, internet and mobile banking and technology-intensive Express branches. We added c.400,000 retail customers and 4.9% market share in retail loans to our Retail Banking operations, as a result of the acquisition of Privatbank completed in January 2015.

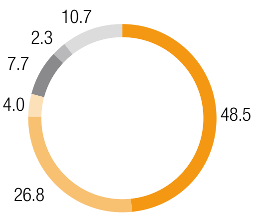
Corporate Banking

Bank of Georgia is the country's largest corporate lender with unmatched sector knowledge and local expertise. Our dedicated bankers serve more than 6,000 businesses in the country, extending loans and other credit facilities to businesses in various sectors of the economy such as trade, energy, industry and tourism, among others. Our Corporate Banking business offers the most comprehensive range of products and services in the country to provide flexibility and choice to our corporate clients. Corporate Banking serves as the country's leading trade finance business and provides leasing services through the Group's wholly-owned subsidiary, Georgian Leasing Company (GLC).

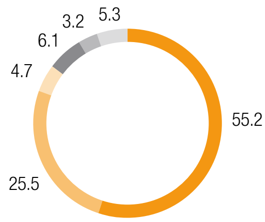
Investment Management

Our Investment Management business consists of Wealth Management and our newly rebranded brokerage arm, Galt & Taggart. Galt & Taggart brings under one brand corporate advisory, private equity and brokerage services. Through our Wealth Management business we provide private banking services to our high-net-worth individual clients and offer investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Our Investment Management business serves international clients from more than 70 countries. These businesses leverage our superior knowledge and capabilities in the Georgian and neighbouring markets both in terms of reach and our expertise. Our Research department, which is part of Galt & Taggart, currently covers the Georgian and Azeri economies and publishes Georgian sector research.

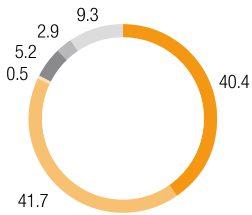
Share in Group's revenue 2014 (%)



Share in Group's profit 2014 (%)



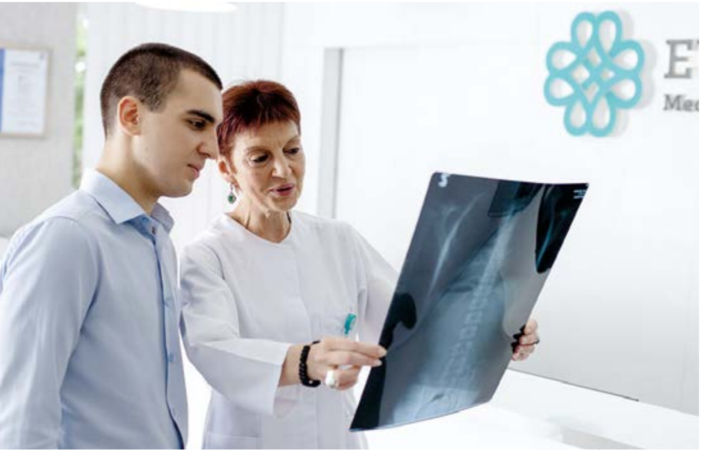
Share in Group's assets 2014 (%)



- Retail Banking
- Corporate Banking
- Investment Management
- Georgia Healthcare Group
- m² Real Estate
- Other

Excludes inter-segment eliminations. Other includes P&C Insurance (Aldagi), Belarusky Narodny Bank (BNB), Liberty Consumer and Corporate Centre.

Investment Business



Georgia Healthcare Group (GHG)

We are the largest private healthcare services provider in the fast-growing Georgian market. We operate a synergistic business model that comprises healthcare services and health insurance. Our business was established in 1990 and we have over 25 years' experience in the insurance market and have provided healthcare services since 2006. We primarily focus on the mass market segment through our network of 33 hospitals and six ambulatory clinics. Our healthcare services business had a 22.0% market share as of 31 December 2014, with 2,140 hospital beds and we have the widest geographic coverage among our peers with facilities located in six regions that contain two-thirds of the population of Georgia. We are also the largest healthcare insurer in Georgia with a 36.7% market share as of 30 September 2014, based on revenue and with approximately 200,000 people holding our health insurance policies as of 31 December 2014. We plan to do an initial public offering of our healthcare business in 2015.

m² Real Estate (m²)

Our real estate business, the Bank's wholly-owned subsidiary m² Real Estate, develops residential property in Georgia. For the past couple of years it has established itself as one of the most recognisable and trustworthy residential housing brands in the country. m² Real Estate outsources the construction and architecture works while focusing on project management and sales. The Bank's real estate business is in place to meet the unsatisfied demand for housing through our well-established branch network and sales force, while stimulating our mortgage lending business. m² Real Estate completed sales of 1,327 apartments worth US$111.2 million since 2011 with 99% of apartments sold in two successfully completed projects and 66% pre-sales in four ongoing projects. m² Real Estate also sold a total of GEL 58.3 million mortgages.

Georgian Global Utilities (GGU)

A major player on the market, GGU is a privately owned Tbilisi water utility company with 143MW hydropower facilities. In December 2014, we have acquired a minority interest in GGU, initially a 25% stake with an option to step up to 49.9% within a 10-month period. GGU, through its wholly owned subsidiaries, is a natural monopoly that supplies water and provides wastewater service to 1.4 million people (approximately 1/3 of Georgia's total population) in Tbilisi, Mtskheta and Rustavi. In addition, GGU owns and operates three hydropower generation facilities with a total capacity of 143MW. We believe that GGU fits into our strategy to acquire attractive businesses which can be monetised within a maximum of six years, via an IPO or an M&A trade. GGU posted EBITDA of GEL 51.4 million in 2014.

A clear strategic direction for the future

Neil Janin
Chairman

For more information about our governance, see page 64

In my Chairman's letter to shareholders last year, I focused on the many aspects of progress made by Georgia over the last decade. I am pleased that this progress has continued throughout 2014, namely with the Government commitment to the continued effective implementation of the Association Agreement with the EU.

The bank has continued to deliver a strong earnings performance this year. You should also note that we have formalised an inflection of our strategy to capture further growth opportunities within Georgia over the medium term. At the same time, Georgia's regional trading partners have faced significant geopolitical and economic challenges.

In this letter, I will address the change in the Company's strategy and the geopolitical issues, before concluding on dividend and governance matters.

Strategy issues

Over the last decade, Bank of Georgia has evolved to become the market leader in what is a well regulated and competitive banking sector. In what was a year of substantial challenge, Bank of Georgia has delivered over 11% revenue growth, 15% earnings growth and a 19% return on shareholders' equity. You will find all details on our performance in these assets in this report.

In 2014, we decided to modify the strategy, structure and governance of the institution to profit from attractive investment opportunities in healthcare and beyond. Why did we choose to follow this strategy when we risked being called by one of the worst epithets possible, that of being a conglomerate?

One way to think about Bank of Georgia is in terms of capabilities. It has three macro skills: it knows how to execute well; it knows Georgia well; and it is disciplined in thinking in terms of capital allocation and return on capital, as opposed to market share and growth. Moreover, the institution attracts talent and capital beyond its needs.

Georgia has sectors of the economy which could be developed profitably with an infusion of capital and talent. The first one that we developed, and the closest one to our business of banking, was real estate. We noticed that as the economy picked up after the 2008 crisis, our mortgage portfolio did not keep up with this growth. The reason was that there was no supply of houses as builders/promoters had gone bust, and nobody was building housing any more. The builders had invested their capital in land purchases in a speculative drive, and were totally illiquid when the crisis of 2008 hit. We decided to enter this market as builders and promoters, and supplied the market with apartments. The result was the success of our subsidiary, m^2 Real Estate, which provides affordable housing to a growing middle class. You can read all about its excellent performance in this report.

Healthcare was another such sector where we were present through Aldagi, our insurance subsidiary. Universal healthcare was being introduced in the country, and the offering by providers was uneven, inefficient and fragmented. An injection of capital, talent, and best practice could change the industry structure in Georgia, and provide patients with a much higher quality of care. Good assets could be bought relatively cheaply. This made us invest in hospitals and create our wholly-owned subsidiary, GHG, Georgia Healthcare Group. It now has a 22% market share of hospital beds in the country and is currently planning its international stockmarket listing in the second half of 2015.

Our strategy is one of buying potentially very high-quality, but currently underperforming assets, at a cheap price, bringing best practices to them, professionalising their management, and then selling them to the market at a higher price. Having access to top-quality management, corporate governance and capital in a fast-developing country like Georgia creates opportunities to achieve substantial value creation for shareholders. Our CEO Irakli Gilauri, describes in his letter why we can buy cheaply, what sectors look attractive to us today, and the discipline we bring to investment.

Let me reiterate that the banking businesses – retail, corporate and investment management – will remain our priority and a minimum of 80% of the Group's earnings. Our goal this year is to prove to the market that this strategy delivers by selling to the market a major share of our healthcare subsidiary. Our shareholders will be free to own this business directly and we will attract new investors who specialise in healthcare.

The Bank's structure has been modified to adapt to this strategy. In 2014, we established an investment arm to manage our non-banking businesses, which include our Healthcare operations, our Real Estate subsidiary and our recent pre-IPO purchase of a 25% minority interest in the leading Georgian water utility business. Irakli Gilauri goes into much more detail with regard to the implementation of this strategy later in this Annual Report. The Board is clear that our ability to continue leveraging our market-leading banking franchise, with an emphasis on the higher return retail business, together with a strategy to benefit from other carefully selected investments in the development of the Georgian corporate landscape, will provide clear and sustainable value creation for shareholders.

There is significant information in the body of this Annual Report highlighting the Group's strategic priorities for 2015 and beyond. This stems from a Board review of the Group's strategy at the end of 2014 that aims to ensure that capital continues to be allocated effectively, to ensure the sustainability of the Group's strong returns over the long term. Now let us turn to the context in which we operate.

Geopolitical issues

Georgia remains a steadfast Euro-Atlantic partner – a stance supported by most political parties and a significant majority of the population. In June 2014, Georgia signed an Association Agreement with the European Union, which included provision for a Deep and Comprehensive Free Trade Agreement that will underpin increased future trade growth for Georgia. Additionally, in March 2015, China and Georgia signed an agreement on co-operation for the development of the "New Silk Road Economic Belt", which further highlights Georgia's future economic potential. Georgia aims to protect itself from Russian regional dominance. This strategy has been costly in terms of territory lost (about 20%), but successful in terms of economic and standard of living growth (GDP per capita based on PPP more than doubled to $7,700 from 2003–2014).

The current Government has succeeded in having a more open and pragmatic approach towards Russia, while moving the country towards greater integration with the West – a balancing act to say the least. This is not to say that all is done inside the country: the EU expects and civil society would be better served when the currently ongoing judiciary reform will be completed. Nevertheless, we should remember that only 4% of respondents admitted to having paid bribes in Georgia according to the Berlin-based Transparency International's 2013 Global Corruption Barometer, well ahead of many European countries. In addition, the World Bank's latest ranking shows Georgia as 15th in the list of countries where it is easiest to do business, between Germany and Canada.

From a macroeconomic perspective, Georgia delivered strong GDP growth in 2014, at an estimated 4.8%. The Georgian Lari depreciated 7.3% against the US Dollar, but appreciated by 5.3% against the Euro, the single largest trading partner currency of Georgia. In early 2015 there has been some further currency weakness, but this now seems to have stabilised. This performance was to be expected and was managed skillfully by the Central Bank, which proved once again its independence. Overall, 2014 saw a particularly robust performance against the backdrop of ongoing geopolitical concerns and macroeconomic and currency devaluation pressures in many of Georgia's trading partners, and demonstrates the resilience of the Georgian economy. The section on macroeconomics covers our prediction on GDP growth next year, in the face of the situation of Georgia's trading partners and the country's attractiveness to foreign investment and tourism. I hope that you will conclude, as we do, that this country, which has transformed itself into an economically liberal, market-oriented democracy, remains very promising.

In conclusion, I want to highlight and acknowledge the significant efforts of the senior management team and the excellent leadership of our Chief Executive – Irakli Gilauri. In addition to their clear delivery against the existing strategy, having nearly tripled earnings and generated substantial returns for shareholders over the last five years, in December 2014 they worked with the Board to update the strategy for the Group and have established a clear strategic direction for the future.

Shareholders should take note of 2 key governance features of the institution: the alignment of interest between management and shareholders, and the division of roles between the Board and management. I will summarise our philosophy below.

Our incentive package to top management features a high percentage of stock vested over a long period of time. This scheme creates a sharply upward sloping wealth curve – the more a company's stock price improves, the higher the percentage increase to the CEO and his top team's total wealth. It encourages intelligent risk taking, as it heavily rewards the CEO and his top team to create long-term value, and punishes them if they do not deliver returns to shareholders. In summary, it discourages short-term thinking and risky behaviour, and encourages thinking like an owner manager.

My role as a Chair is to run the Board, and the role of the CEO is to run the Company. One of the Board's main roles is to be involved in setting the strategy and to monitor the operations of the Company to ensure that it is being run to the benefit of all stakeholders and as mandated. The second important role of the Board is to determine the pay of the CEO and the main executives.

Finally, the Audit Committee, although composed of independent members, reports to the Chair – a further guarantee of independence. It should be clear that having the CEO be also the Chairman of the Board, opens the door for potential abuse in all three cases above. All depends on the quality of the Board.

The Group now has a first-class Board of Directors. Their combined experience and support is invaluable to the organisation. The Governance section of this Annual Report highlights, amongst other things, our Board Diversity Policy. Within this policy the Board has stated its aim to increase the number of women on the Board to two within the next two years. To end, I would like to thank the members for their ongoing support and the provision of guidance and mentoring to executive management, at a time of significant economic and geopolitical uncertainty.

At the 2015 Annual General Meeting, the Board intends to recommend an annual dividend of GEL 2.1 per share payable in British Sterling at the prevailing rate. This represents an increase of 5%, compared to an annual dividend of GEL 2.0 last year.

2014 was clearly a year of demonstrable delivery and progress. The Board is pleased with this progress and is confident about the Group's prospects for 2015 and beyond.

Neil Janin
Chairman
7 April 2015

Record performance and updated strategy to capture growth opportunities

Irakli Gilauri
Chief Executive Officer

Dear shareholders,

We have posted yet another record year in terms of profit and Earnings Per Share in 2014. You can read about our strong financial performance in this Annual Report. In this letter, rather than focusing on the past, in view of our upgraded strategy and recent regional currency tensions, I would like to focus on three key issues:

1. Regional macro tensions and our response to it.
2. Our upgraded strategy.
3. The way we want to conduct our investment business.

We stay disciplined in the light of a weaker 2015 macro outlook

With the oil price decrease and the strength of the US Dollar, we are witnessing significant changes in the region. In particular, capital flows from remittances to Georgia and revenue from exports to regional countries are decreasing. Even though the Georgian economy is well diversified and resilient to external shocks, we believe growth in 2015 will be affected by the weak regional economies. Therefore, we have revised our GDP growth targets for 2015 to be within the 1.5%–3% range. In our view there are three key takeaways from the current environment in the region:

1. Subdued capital flows in the region have had a short-term negative impact on both the Lari and the Georgian economy. The Georgian economy is getting rebased in order to stay competitive in the new reality. However, in the medium to longer term we see lower oil prices as a big positive for Georgia as the country will be saving c.US$450 million from oil imports and on the back of lower oil prices we will witness efficiency pick-ups in a number of different sectors within the economy – making Georgia more competitive.
2. Our view is that this rebasing will not be significant – in the short term, Georgia will weather reduced capital flows better than oil producing countries in the region as due to lower oil prices we are experiencing much lower inflation than our neighbours. Lower inflation is also an outcome of the country's disciplined fiscal and monetary policies.
3. As dollar capital has been reduced in the region, it seems that Georgia and the Lari are getting more dependent on Eurozone economies and the Euro respectively. Two points can be highlighted in this regard: firstly, the European Union (EU) is our largest trading partner representing more than 26% of trade; and secondly, Georgia recently signed a free trade agreement with the EU.

Our response to this changing and challenging environment in 2015 is to stay disciplined, until we get some clarity in terms of Lari stability and economic growth picking up.

1. **Credit and liquidity risk management:** On the credit risk side, we are applying stricter underwriting standards and will be slightly increasing interest rates on loans. At the same time, we are proactively re-profiling US Dollar loans to clients with non-US Dollar income. Re-profiling implies effectively increasing the tenor of the loan so that monthly payment in Lari stays at the same level as it was prior to the recent devaluation of the Lari. When re-profiling, we do not change the interest rate of the loan. In Retail Banking, our mortgage loan clients are most likely to apply for re-profiling, as in total we have 7,500 mortgage loans worth of GEL 400 million which are US Dollar loans to Retail Banking clients with non-US Dollar income. We consider re-profiling applications from our corporate, SME and micro borrowers on a case-by-case basis. So far 413 loans totalling GEL 35 million have been re-profiled.

   Even though Bank of Georgia enjoys high liquidity and its positive liquidity gap up to six months is GEL 1 billion, we are now working with a number of Development Financial Institutions (DFI) to arrange further long-term loans to improve our Net Loan to Deposits + DFI funding ratio. Because the Euro influence on Lari is increasing and the Lari is effectively becoming a Euro proxy, we will be targeting to raise Euro funding and try to shift US Dollar loans into Euros.

2. **Costs:** Being extra cost conscious in a volatile environment is the right thing to do. At the same time we are accelerating the integration of the merger with Privatbank in order to start extracting cost synergies sooner than originally planned.

3. **Investments:** Even though we believe that the Lari has found its new equilibrium, we will further observe the Lari's stability over a period of time, before we step up investment activities. During this period, we will remain vigilant and will continue to actively analyse and consider different opportunities.

4. **Capital expenditure:** For our banking operations we are targeting capital expenditure at a lower level than our depreciation charge. Our key projects for 2015 are Privatbank integration (which is not taking much capital expenditure), our Solo roll out (a key driver for our capex budget) and further investment in our IT infrastructure, to increase the reliability of our system. In the Healthcare Business, we will be pursuing a quite aggressive capex programme, and will concentrate most of it on new equipment purchases and developing high-margin businesses.

We upgraded our strategy from 3x20 to 4x20

In December 2014 we upgraded our strategy from 3x20 to 4x20 – the 4th 20% being the minimum level of IRR we target from investments in Georgian corporates. The goal with this upgraded strategy is to create sustainable high returns and high growth generating a strong platform for our shareholders. With this model we are targeting to generate ordinary dividends from the Banking Business and continuous special dividends from the Investment Business. Both businesses are Georgia focused, where average real GDP growth rate was 6.3% from 2003–2014. Most importantly the current management team knows Georgia extremely well as a result of running the largest bank in the country for the past 10 years and the team has demonstrated a track record of successful growth in non-banking businesses such as healthcare and real estate.

Why we upgraded our strategy to 4x20, when at first glance all looked good with a 3x20 strategy?

Our key goal is to continue producing high returns in the long run for our shareholders. Currently, we see that Retail Banking is producing over 30% ROAE while Corporate Banking is producing c.10% ROAE. We do not think that in the long run it is possible for Retail Banking to keep producing 30% ROAE. Therefore, we see the risk of high returns for the Group decreasing over the longer term. At the same time we do not want to be forced to lend to Corporates in order to show you growth of 20% in the total loan book, while growing a business line with an unattractive risk return profile. This is why we announced the 20% growth target for the retail loan book only. It is noteworthy that penetration of retail loans is half of that of corporate loans (when counting in DFI funding and outstanding Eurobonds) at 21% of GDP. Due to the superior returns in Retail Banking, we expect our Retail Business to continue to drive the banking business ROAE. The recent acquisition of Privatbank is in line with our updated strategy to further strengthen our retail franchise by adding c.400,000 clients, stepping up our payments business as well as capturing synergies by merging Privatbank with our existing Express Banking franchise. Our other two pillars of banking business strategy remain unchanged: ROAE at c.20% and Tier I Capital c.20%.

Due to the limited access to capital and management in a small frontier economy such as Georgia, we see a much better risk return profile when investing in Georgian companies than when lending to those same corporates. We also believe that the Group will be adding value for our shareholders by investing in opportunities, which currently are not accessible to our shareholders, changing management and governance, institutionalising and scaling up the companies, and most importantly, unlocking value by exiting from these companies over time. Our Plan A in exit is to take the company public. This way, as far as possible it is our firm intention to create an opportunity for our shareholders to participate in such offerings.

Strategy going forward for the Banking Business

Banking is the crown jewel in our Group and the key driver of profitability. We have three segments in the banking business, of which Retail Banking will drive most of our banking business growth, Corporate Banking and Investment Management will improve our ROAE, with the latter also contributing an increasing share of our fee and commission income.

1. Retail Banking

In our retail business we are covering 1.6 million individual clients and 90,000 SME and Micro clients. In order to capture different segments of our retail client base we are pursuing a multi-brand strategy for mass affluent, mass retail and the emerging bankable population.

a. Under the Solo brand, we are targeting the mass affluent segment. Currently, we have only 8,000 individual clients under the Solo brand. In April, we launched a new strategy, where we will be providing clients with a superior customer experience by giving them access to newly designed Solo lounges and providing them with new lifestyle opportunities. Solo personal bankers will be offering tailor-made solutions for our Solo clients and introducing new financial products such as bonds and other capital market products developed by our investment management team. We estimate that our current market share in this segment is less than 15% and our goal with the new strategy is to significantly increase this market share in the next three to four years.
b. Under the Bank of Georgia brand we target the mass retail segment. This is our flagship brand and most significant profit contributor, with 1.1 million individual clients and 90,000 SME and Micro clients. This segment is very much product driven and our biggest challenge is to change the business model to become more client centric and therefore increase the 1.7 current product to client ratio over time.
c. Under the Express Banking brand we target the emerging bankable population. We are currently estimating the market of a 1.5 million emerging bankable population, which either do not have interaction with a bank or use a limited number of banking products. Privatbank clients are part of the latter and we would like to integrate the majority of 400,000 Privatbank clients within the Express Banking franchise. After the integration we expect the number of Express Banking clients to increase to c.500,000. Under the Express Banking franchise we are scaling up our payments business, which currently is in its nascent stage, by increasing our lower-end merchant footprint and thus giving more people access to card payments. Through Privatbank we will be increasing our footprint from 6,300 merchants to more than 7,500 merchants, increasing our coverage ratio to nearly 85% of the total number of merchants. Also, we are scaling up self-service terminals under the Express Banking franchise. This way, we plan to introduce a more efficient way to access the mass retail segment and allow easy transactional banking to the country's under-banked population. Currently, country-wide we operate more than 2,200 self-service terminals.

2. Corporate Banking

One critical goal in the Corporate Banking business is to increase ROAE and we plan to do this by de-concentrating our loan book and decreasing the cost of risk. Our experience shows that if, in any given year, one of our top 20 clients has some problems, the Corporate Banking business ROAE gets depressed. Therefore our key goal is to de-concentrate the loan book by:

a. Syndicating loans out.
b. Selling risk.
c. Helping our large corporate clients to access capital by issuing debt securities on the local capital market.

We will focus on further building our fee business through the trade finance franchise, which we believe is the strongest in the region.

3. Investment Management

We expect to grow our fee income by building our local debt capital markets and M&A advisory franchise. As we would like to de-concentrate the corporate loan book in corporate banking, local debt issuance is one way to go in combination with our advisory business enhancing ROAE by generating more off-balance sheet business. On the M&A side we see the need for some sectors to consolidate and Galt & Taggart plans to take a leading role in this consolidation process.

As Georgia has a pay-as-you-go pension system, we believe that our international wealth management franchise can benefit by focusing on the distribution of local debt. So far we see that c.70% of the demand in local paper issuances comes from our international wealth management clients. Further enlargement of the footprint of our international wealth management franchise will be critical for the success of our strategy to build local capital markets. Therefore, we will be investing more in this area.

To summarise our Investment Management strategy, we need to do the following:

a. Enhance ROAE through our investment in the issuance of more debt paper in the local market.
b. Enlarge our wealth management footprint internationally to further strengthen our distribution channels.

The way we invest and manage

As our Investment Strategy is new for our shareholders, I would like to spend more of your time and provide you with more insight into how we plan to conduct investments and manage companies. Let me outline our key principles, which are derived from our experience in running Bank of Georgia:

1. Be opportunistic and disciplined.
2. In scale we trust.
3. Getting our hands dirty.
4. Good governance makes good returns.
5. Liquidity is the king.

Let me expand on each of these points to give you more flavour on how we see our job in investing and managing the companies.

1. Be opportunistic and disciplined

We want to be opportunistic and disciplined when investing, by buying cheaply and in small ticket sizes.

For us buying assets cheaply is the first and most important postulate in our investment strategy. It is difficult to go wrong when you buy assets cheaply. The key questions are:

a. How do we define cheap in a small illiquid market?
b. How do we manage to buy cheaply?

When considering an acquisition, whether it's pre-IPO or otherwise, we look at multiples of listed peers in the same sector and apply at least a 40% discount. This is our definition of cheap.

Georgia is a small frontier economy and access to capital is limited. It is difficult to find liquidity for any single asset worth more than US$10 million. At the same time, owners of assets are often asset rich but cash poor. Georgia's GDP has grown on average 12% in nominal terms over the past 10 years and local businesses have been reinvesting over that time to stay competitive.

We like paying dividends to our shareholders as it creates natural self-discipline in buying assets cheaply. Therefore, before investing we will always ask ourselves the question: is it worth investing this money in this company or opportunity or better to pay/increase dividends?

Another reason for us being disciplined is that we are under no pressure to make any new investment as Bank of Georgia is producing good returns. If we do not find a good opportunity we may not invest for two to three years. We are always following different sectors of the economy and if a good opportunity arises we would want to capture it. To this end, we would like to sit on at least US$30 million of cash (under the current market cap) at the holding company level to make sure that cash is available as opportunities arise in our existing business lines or new ones. Also cash is very handy in slower business cycles and can help to buy assets cheaply.

We plan to be disciplined not only in terms of finding new opportunities through investment appraisals and understanding the risk return profile, cyclicality of the business and quality of revenue, but also in terms of the size of the initial investment in any new sector. We believe that our initial investment in any new sector should not exceed c.US$25 million. When and if we get comfortable with the sector, only after that would we allow ourselves to increase the ticket size of the investment. The small size of the investment is important as we are human beings and we may make a mistake. By investing in small ticket sizes we will be far away from betting the house. *Making a small mistake is OK, just learn from it – do not bet the house.*

To summarise, Georgia was born 10 years ago and different sectors and businesses are in the process of formation, access to capital and management is limited, owners of businesses are cash poor and therefore good opportunities can be captured cheaply. At the same time, we are under no pressure to make new investments and we will be extremely selective and opportunistic and will not commit more than US$25 million in a single investment in a sector where we are not already present. Our dividend policy is the natural self-discipline mechanism for our investment business.

2. In scale we trust

We strongly believe that any investee company and/or sector in which we invest in should be large and scalable. In case of pre-IPO opportunities, EBITDA of the existing business should be at least US$25-50 million – depending on the sector. In the case of greenfield investment, we need to see an opportunity to scale up and achieve US$25-50 million in EBITDA over the next five to six years.

We like to hold and/or target large market shares in any given sector. Our sweet spot is 30% market share in any given sector. This way we will have the scale to be efficient and competitive and at the same time not be overly dominant to attract the attention of regulators. We should be mindful not to abuse the power of a large market share and we should be open to share the benefits of scale with our customers. In a nutshell, we do not mind *sharing success with our clients*.

We like large, but fragmented, sectors to have an opportunity to consolidate it – like we are doing in the healthcare sector. We also like natural monopolies like GGU. We would consider sectors where you have one dominant player with 50%+ market share. We like simple business models.

We had a bad experience of acquiring small companies in 2005-2007. In a small period of time we acquired 10+ companies in total. The good thing was that capital commitment was limited, but it took too much senior management time and because of the limited size of company we were unable to hire good management teams. The strategy proved to be wrong due to the limited size of the investee companies.

To summarise, achieving superior economies of scale in a small frontier economy is an essential part of the success. It actually significantly diminishes the risk of failure.

3. Getting our hands dirty

Before we undertake an investment we like to take time and get our hands dirty to understand inside out the sector and business we are targeting. Diligence and modelling in excel is the key before entering any business.

Getting things done is the single most important task for our executives.
No matter how great our strategy is, we strongly believe that execution is the key. No matter how good the investment opportunity is, we will not pursue it if we do not think that we have a first-class management team to put in place.

At Bank of Georgia we have spent a lot of time building a top-class management team and we have a deep bench of people who have grown and are ready to take bigger responsibilities. One of the reasons we are confident in our strategy is that we have human capital available both on the top and mid-management levels. We spend a lot of time coaching and mentoring our talent and our Board's role in this process is invaluable.

Along with selling the companies, we will be selling the management team and saying goodbye to our management team, therefore we fully understand that our machine of producing new executives should not stop. Furthermore, for our top talent we have introduced a self-development programme by hiring coaches to help them to better understand their strengths and weaknesses. According to our policy, no matter how good the performance of our top executive is they may get limited bonuses if we do not see progress in executive's self-development and growing their successor(s).

You have observed rotations in our top management every two to three years. In December 2014, we announced another round of rotation. We would like our top talent to receive experience in different roles and learn and grow. Rotations will continue in the future.

In some of the sectors where we have limited operational experience we would put together a complementary team of talent from our Group and sector specialists from outside the Group. We are confident that talent from within our Group can learn the sector in a short period of time. In the early stage of the investment cycle, the management from the holding company level will spend more time on coaching and guiding the management team. That is exactly what we are doing at Georgian Global Utilities now.

The question we need to ask before entering the new sector is not whether we are the best, but whether our management team is better than that of the next player. This is a relative play game.

At this stage, we do not want to hold more than four investments at any given time, as we are limited in terms of oversight as well as management resources to put in place in more than four companies.

To summarise, similarly to limited access to capital in this country, the availability of management is limited and by being a machine of producing top talent in the country we can add value for our shareholders. We understand that great management teams make great companies, and investing time in growing people continues to be critical for the success of our strategy.

4. Good governance makes good returns

We have already learned that great institutions are not built without robust governance and ultimately without it one cannot deliver sustainable value creation for its shareholders.

We like to institutionalise companies by putting good governance in place. We do not like to bet on one person's judgement and do not believe that one person can perform magic. Therefore, we believe that first of all the CEO should be surrounded with an outstanding management team from below and a first-class Board from above. *Meritocracy, loyalty to institution rather than to individuals* is our approach. To this end, our approach is to separate the roles of Chairman and CEO. We operate like this at Bank of Georgia and we truly believe in healthy checks and balances between the Board of Directors and executives. Having separate individuals for the top job on both levels is the key signal we are sending to our shareholders on governance.

We think that a high-quality, diversified independent Board is extremely important for the success of the Company. We see the Board not only as an institution, which is doing its duty of oversight of the management and setting strategy, but also the Board is providing guidance and coaching of our top and mid-level management team.

In our case, the Board's role of oversight is made relatively straightforward by creating a natural alignment of interest between shareholders and management. For that we award long-term vesting shares (up to five years) to management and make compensation in shares a large proportion of total annual compensation (e.g. 85-90%). This way we create long-term alignment of interest between management and shareholders. *If shareholders make money, management makes money and if shareholders lose money, management also loses money.* With this simple approach, on top of being executives, the management team feels and acts more like shareholders – because they are.

Even though this compensation structure has a lot of positives as outlined above, it has one main drawback: when share prices rise too rapidly *the risk of management becoming arrogant and complacent is high*. This is another reason why we think a strong Board is essential to *bring management back to reality*.

The Nomination Committee is always searching for professionals around the world to make sure that we have all the skill-set available on the Board. For example, currently we are searching for an experienced potential Board member with background in Energy and Utilities to give us more guidance for our GGU investment.

To summarise, we are big believers that robust governance is the source of value creation for our shareholders. The natural and simple alignment of interest between shareholders and management by awarding long-term stock works well for value creation and, finally, we want to have good balance by having separate people as the Chairman and CEO of the Company.

5. Liquidity is the king

According to our investment policy, we target to exit from our investment through a trade sale (full or partial) or IPO in up to six years from the initial investment. Because we are a publicly held company our preferred option is to take the Company public to give the market the opportunity to participate in the future upside.

No matter how well our companies do in terms of operating results, we want to see their exit to unlock the value and with the generated profit pay special dividends and pursue new opportunities – in the event that we see one. According to our strategy we will be targeting three special dividends in the next five years. Our aim for the size of aggregate special dividends is to be at least 50% of ordinary dividends paid by the banking business during these five years.

Because we aim for high returns and not for control, we do not mind selling below the 50% shareholding level at the IPO. We fully understand that liquidity for both incoming investors and our Group is the key. We have learned that increased liquidity of shares itself creates value as shares become accessible to a wider investor universe. This was indeed the case when we converted from our GDR listing to the London Stock Exchange Premium listing in 2012. As shares of Bank of Georgia became more accessible, their value increased while fundamentals did not change.

Unlocking the value through IPO is more critical for us than any money we leave on the table at the IPO. At the end of the day and as far as possible it is our firm intention to create an opportunity for our shareholders to participate in the newly IPO'd company by buying its shares.

As many of you know we are in the process of preparation to IPO our healthcare subsidiary Georgia Healthcare Group. The Board and I have complete confidence that the management will deliver on our stated strategy of doubling 2015 revenue by 2018. Some would argue that we might be better off to take the Company public in two to three years' time, as more profits are expected to be generated by then. But we want to be disciplined in terms of unlocking value for our shareholders, as set out in our 4x20 strategy, and are targeting an IPO in 2015. I personally am extremely excited about the prospects of the Company. As far as possible, it is our firm intention to allow our shareholders to participate in the IPO and I, for one, will definitely be placing an order.

To summarise, in order for our strategy to work we need to be disciplined in unlocking the value of companies in which we invest and manage. Taking companies public is our preferred option for exit, as it is our intention to give our shareholders an opportunity to participate.

In the end, I would encourage you to visit Georgia and meet our management team. You can meet and get to know our Board members at our annual investor day. We have a saying in Georgia: "It is better to see the place once than hear about it 100 times". What I promise you is dinner at a restaurant overlooking beautiful old Tbilisi – the place where East meets West at the old Silk Road, from where you will be able to feel the future.

Irakli Gilauri
Chief Executive Officer
7 April 2015

The Strategic Report, as set out on pages 2 to 63, has been reviewed and approved by the Board of Directors on 7 April 2015.

On behalf of the Board of Directors

Irakli Gilauri
Chief Executive Officer
7 April 2015

A fast-growing economy

Georgia – one of the fastest growing countries in Eastern Europe, is an open and easy emerging market in which to do business, with real GDP growth averaging 6.3% during 2003-14.

Ease of doing business ranked Georgia in 2015

15th

Source: World Bank-IFC Doing Business
Up from 115 in 2005, ahead of UK, Australia and UAE

Economic Freedom Index ranked Georgia in 2015

22nd

Source: Heritage Foundation
Ahead of Hungary, France and Italy

Global Corruption Barometer (% admitting having paid a bribe in 2013)

4%

Source: Transparency International
Ahead of UK, US and Czech Republic

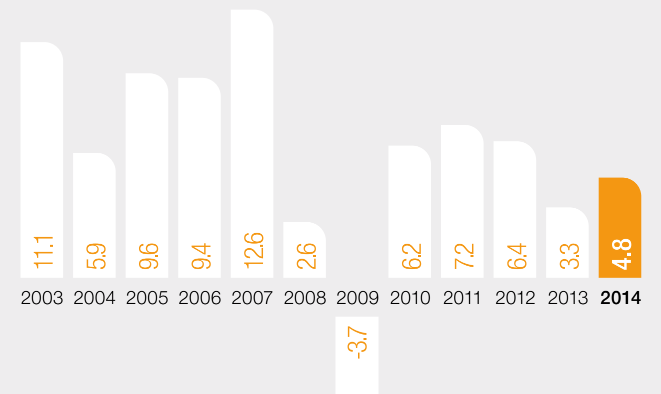
Growth-oriented reforms and ongoing economic liberalisation transformed Georgia into one of the most business friendly economies in the world and the EU Deep and Comprehensive Free Trade Agreement (DCFTA) **creates new investment opportunities**.

Georgia's key economic drivers

Liberal economic policy. The country was ranked 15th out of 189 economies in the "Ease of Doing Business" ranking in 2015 by the World Bank; 22nd out of 178 countries by Index of Economic Freedom measured by Heritage Foundation in 2015 and only 4% of people, less than in UK and US, admitted having paid a bribe during 2012 according to the 2013 Global Corruption Barometer study by Transparency International. The economic Liberty Act, effective since January 2014, ensures continuation of a credible fiscal and monetary framework for Georgia, by capping consolidated Government expenditures at 30% of GDP, fiscal deficit at 3% of GDP and public debt at 60% of GDP. The Liberty Act also requires electorates' approval through a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions. Georgia slashed the number of taxes from 21 in 2004 to just six now (corporate income tax and personal income tax are flat at 15% and 20%, respectively), becoming one of the world's most friendly tax regimes (see charts 1 and 2).

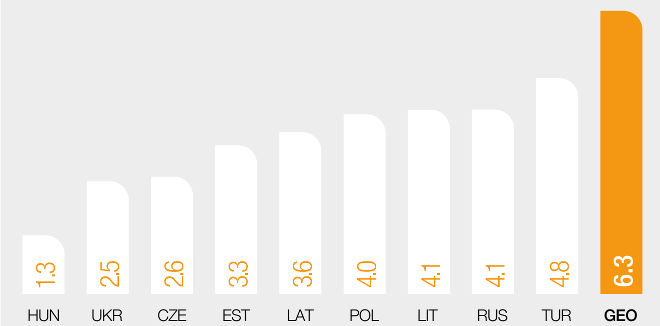
The continued support from the international community. In June 2014, Georgia and the EU signed an Association Agreement. The deal includes a DCFTA, effective 1 September 2014, which will vastly simplify Georgia's access to the EU market, a common-customs zone of c.500 million customers, spurring exports and enhancing the diversification and competitiveness of Georgian products. An EU study of the DCFTA impact on Georgia suggests a potential increase in GDP growth of 4.3% in the long run.
The Government continues maintaining strong relations with

Chart 1: Real GDP growth rate (%)



Source: Geostat

Chart 2: Comparative real GDP growth rates (2003-2014) (%)



Source: IMF, Geostat

international development partners (both bilateral and multilateral), focusing in the first place on infrastructure development priorities. An ongoing IMF programme helps to implement the Government's economic reform programme aimed at reducing macroeconomic vulnerabilities to increase policy buffers and to support growth, while making the economy more resilient to external shocks.

Regional logistics and tourism hub. Developed maritime-air-land networks of cross-border and in-country connectivity and a favourable geographic location (between land-locked energy rich countries in the East and the European markets in the West) are positioning Georgia to better realise its potential in transport, logistics and tourism. Continued public capital spending on road, energy, tourism and municipal infrastructure is helping to strengthen a platform for businesses willing to trade and work in/with Georgia. Georgia is a regional energy transit corridor with approximately 1.6% of the world's oil production and diversified gas supply passing through the country. Travel inflows, with a 28.9% CAGR in the number of visitors over 2005-2014, are a significant source of foreign currency for Georgia, generating US$1.8 billion in 2014.

Stable energy supply. Georgia has a developed, stable and competitively priced energy sector. Georgia has overcome the chronic energy shortages and gas supply interruptions of the recent past by renovating hydropower plants and by increasingly relying on natural gas imports from Azerbaijan instead of from Russia. Georgia transformed into a net electricity exporter during 2007-2011 (a net importer in 2012-2014 due to low precipitation), from being net electricity importer for more than a decade before 2007 as a result of significantly boosted transmission capacity in recent years. A 400kv transmission line to Turkey became operational in 2013 allowing a 700MW of export capacity to Turkey. Other transmission lines to Armenia and Russia have also been upgraded. Georgia's transmission capacity to Russia is expected to rise 1.7x to 1,480MW by 2016 after a new 500kv line becomes operational. Currently, only 20% of hydropower capacity is utilised. 66 hydropower plants are being built or are in different stages of development (feasibility study, obtaining construction permit).

Maintaining healthy economic growth is high on the agenda. Georgia has experienced high GDP growth rates for the past decade, averaging 6.3% annually from 2003 to 2014 and reaching US$16.5 billion in 2014, while GDP per capita increased 4x to US$3,681 in 2014 from US$920 in 2003. Georgia is expected to continue similar gains as much of the infrastructural and institutional platform has already been put in place. The low point of the Georgia/Russian relationship which translated into armed conflict in 2008 is now behind us, as Russia lifted a ban on the Georgian exports in July 2013 and exports to Russia increased 44.2% y-o-y in 2014. In late 2012, Georgia pleasantly surprised the world when it ensured a peaceful transition of political power, and subsequent Presidential (October 2013) and local (June 2014) elections show that democratic institutions are working effectively. Commitment to fiscal discipline is high on the agenda as after an initial increase in social spending (when the new Government took office in 2013) current expenditures have been adequately contained, achieving healthy fiscal and public debt performance. In 2014 public debt to GDP ratio stood at 35% of GDP and fiscal deficit reached 3.0% of GDP. The Georgian Government continued low-regulation, low-tax, free market policies, strengthening anti-trust policy, and amending the labour code (while still remaining flexible and providing comfort for private sector participants) to comply with International Labour Standards.

Estimates by Galt & Taggart Research suggest that the negative impact on Georgia arising from Russia's economic troubles could reach a one-time 1.2% of GDP, but this is more than offset by the country's savings on oil products, estimated at 1.7% of GDP.

Georgia's diversified export markets and commodities are helping to keep Russia's share in total exports below pre-embargo level. After the Russian embargo of 2006, Georgia's exports to Russia decreased from 18% in 2005 to 8% in 2006 and 2% in 2008-2012 and never recovered to pre-embargo levels even after Russia lifted its ban in July 2013. The embargo forced Georgian producers to redirect exports to other CIS countries, the EU, and the Middle East. Exports to Russia picked up in 2013 as Russia opened its borders to Georgian wines but accounted for only 6% in total export growth in 2013. While dependence on the Russian market increased further as Russia's share in total Georgian exports went up to 9.7% in 2014 it is still well below pre-embargo levels when Georgian products could not successfully compete in the world markets. Even without Russia, Georgian exports have increased 4X since 2005 to US$2.6 billion in 2014.

Why Georgia is different from Ukraine. Despite a similar political past with Ukraine and similar economic diversity, the respective paths of Georgia and Ukraine and their economic relations with Russia have split over the last decade. This was a result of differences in reform initiatives, in the internal political climate, and the Russian embargo on Georgia that forced it to redirect its focus. Georgia's key positives lie in its trade diversification and lower export exposure to Russia. The share of trade turnover with Russia was 4x higher in Ukraine than in Georgia. In 2013, Russia accounted for 6.5% (US$190 million) of Georgian exports and 23.8% (US$ 15.1 billion) of Ukrainian exports. Furthermore, Georgia's limited energy dependence on Russia, the success of implemented reforms, its macroeconomic resilience, lower public debt levels, stronger banking sector, and the underdevelopment of the stock market, shields Georgia from negative shocks. In short, Georgia is unlikely to experience any of the economic troubles Ukraine is currently facing.

Resilient 2014 and outlook for economy in 2015

Relatively limited economic ties with Russia helped Georgia maintain strong growth in 2014 in the midst of regional uncertainties. In 2014, real GDP expanded by 4.8%, outperforming regional peers. The private sector was the significant contributor to growth in 2014 with private investments up 38.0% y-o-y in nominal terms in 2014, accounting for 83.6% of the total investments. As a result, investments as a share of GDP increased 5.0 ppts y-o-y to 29.8% in 2014. In 2014, Moody's and Fitch upgraded the outlook on Georgia's sovereign credit rating to positive, citing improved economic prospects and the provisional application of the DCFTA. Relatively limited economic ties with Russia and diversified export markets and products helped Georgia to ably absorb the negative impact from the Russian-Ukrainian crisis. Russia and Ukraine accounted for a relatively limited share of goods exports (14.5% in 2014, 2.5% of GDP) and FDI (just 4.2% of cumulative FDI over 2004-2014). Remittances constitute Georgia's largest exposure to Russia (4.3% of GDP in 2014), but strong remittance inflows from other countries largely offset the drop in money transfers from Russia in 2014.

Plunging oil prices and EU DCFTA help Georgia maintain positive economic growth outlook in 2015 despite the weaker external demand. Given the deepening recession in Russia (negatively effecting the region) and devaluations of trading partner currencies, Georgia's economy is slowing (real GDP grew by 0.5 % in January 2015). However, with the successful implementation of EU DCFTA, Georgia is better placed to weather external shocks compared to its regional peers. Growth this year could reach 2.0% according to IMF. However, significant upside factors are also in place: lower oil prices are expected to help the economy to improve growth prospects and save on its oil import bill. Additionally, lower fuel prices help to restrain inflation growth and support expansionary monetary policy, which add stimulus to the economy.

FDI – a reliable source of current account deficit funding in 2014 and beyond. Georgia's business-friendly environment coupled with its sustainable growth prospects continue to attract foreign investment. Georgia posted a six-year high FDI growth of 35% y-o-y to US$1,273 million in 2014, with the transport and communications sector being the largest FDI recipient (27% of total). Netherlands topped the list of investors with US$331 million (26% of total), with Azerbaijan coming in second at US$302 million (24%) in 2014. While FDI from Russia increased considerably from US$2 million in 2013 to US$66 million in 2014, its share in cumulative FDI (2004-2014) remains limited at just 3.8%. Alongside the economic recovery, an increase in imports and the weak external environment suggest the current account deficit will widen to an estimated 9.7% of GDP in 2014. Nevertheless, FDI related to the EU DCFTA and planned investment projects in different sectors will be a reliable source of current account funding in the coming years.

2015 fiscal parameters are prudent as current expenditures are adequately contained fostering sustainable fiscal and debt performance. The 2015 fiscal framework keeps the current expenditures broadly constant in real terms (increasing just 5.8% y-o-y), while growth-enhancing capital expenditures are increasing by 15% y-o-y, being the main contributor to deficit formation. To keep the fiscal deficit at 3.0% of GDP in 2015, additional revenues are expected to mobilise from excise tax increases on tobacco, alcohol and telecommunications (total effect of 0.4% of GDP). Public debt stock is expected to reach 37.2% of GDP. Based on the IMF debt sustainability analysis (January 2015) macroeconomic shocks do not jeopardise the sustainability of public debt, and the public debt ratio would remain well below a critical level even at a hypothetical 30% depreciation of national currency.

Monetary policy remains accommodative as inflation is expected to remain below the Central Bank target of 5.0% in 2015. With inflation below the Central Bank target, the policy rate has been kept relatively low in 2014. Food prices have been rising in 2014 partly driven by strong demand from Russia, however, stronger Nominal Effective Exchange Rate (NEER) and falling world commodity prices contained the overall growth in price level; annual inflation reached 2.0 in 2014. Lari depreciation since end-2014 increased inflationary expectations, while NEER continued to strengthen restraining imported inflation along with falling world commodity prices. While annual inflation reached just 1.4% in January 2015, core inflation increased by 3.2% y-o-y and to anchor expectations Central Bank increased the policy rate by 50 bps to 4.5% in February 2015 and kept it unchanged at the monitory policy committee meeting in March 2015. However, monetary policy still remains accommodative with the policy rate being still below neutral value (which is 6-7%).

Lari's floating exchange rate regime mitigates external shocks and preserves foreign reserves. The Lari remained broadly stable for most of 2014 while other currencies significantly lost their values against the Dollar. However, the weaker external environment supported depreciation pressures by the end-2014 as was anticipated and the Lari lost 7.3% of its value against the Dollar in 2014. However, the Lari strengthened by 5.3% against the Euro in 2014. The Lari's 18.4% depreciation against the Dollar since the beginning of the year helped the economy to absorb external imbalances and the Central Bank's interventions for defending the Lari were limited compared to the last year. A more competitive Lari may help reduce the current account deficit along with encouraging producers to compete with imports, and the resulting profitability may also encourage the production of new export goods.

Looking at Georgia's growth in 2014 and beyond, we believe external challenges can be mitigated by coherent economic policies. Today's Georgia – largely corruption-free, open, and flexible, with a clear political vector and signs that democratic institutions are working – is well-placed to serve regional markets. EU DCFTA is a clear roadmap for fresh reforms and the Government's commitment to the enactment of the plan can help the economy reach new heights.

Growing and well capitalised banking sector

The Georgian banking sector has been one of the faster growing sectors of the Georgian economy, yet still has one of the lowest penetration ratios among peer countries, particularly in retail. The banking sector assets growth rate of 28% (10-year CAGR) has far outstripped the real GDP growth rate for the same period. Although on the rise, loan and deposit penetration rates still remain low (45% of GDP and 40% of GDP, respectively) and only c.50% of the population have bank accounts, partly due to high interest rates and the population's low earnings, which is evidenced by the lower penetration of the retail segment compared to the corporate segment (see chart 3). Penetration is also low as the Central Bank requires banks to apply a 175% risk-weighting to FX loans (except for export oriented borrower exposures). As a result of the Central Bank's conservative regulations, banking sector liquidity and capitalisation rates have been historically high. Despite high levels of liquidity and capitalisation, banking sector profitability has remained robust at 12% ROAE over the past three years. The banking sector is entirely privately owned and quite concentrated with the two largest banks accounting for 57% of total assets.

Significant growth opportunities in the healthcare sector

Substantially improved infrastructure and increased access to healthcare over the past decade resulted in over 2x increased incidence. Georgia's healthcare sector, supported by strong GDP growth and high relative expenditure on healthcare (around 10% of GDP), grew at 15.9% CAGR between 2001 and 2011. The Georgian healthcare industry has undergone a number of reforms and transformations during the last two decades and the eventual favourable Government policy, resulted in:

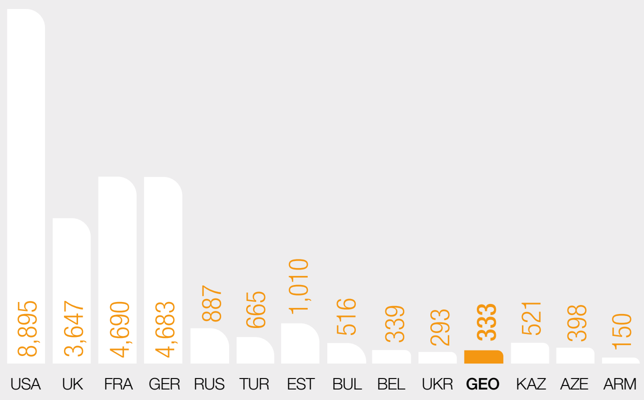
- **Renovated and privatised nationwide healthcare infrastructure** (of nationwide hospital bed capacity, over 60% is new and only under 20% is public), both brick and mortar and medical equipment, replacing rundown Soviet-era facilities.
- **Increased access to healthcare** through a state-financed universal healthcare programme that provides basic coverage of healthcare needs to the entire population since 2013. According to the IMF, reform should improve health outcomes and is estimated to add 1% of GDP per year to existing health costs, making health the largest reform area.

Nonetheless, significant growth opportunity remains as per capita expenditure and incidence levels lag far behind peer benchmarks. Georgia has one of the lowest per capita expenditures on health (see chart 4), the lowest in the region's average number of outpatient encounters per capita (Georgia: 2.7, CIS: 8.9, EU: 7.7) and incidence levels (e.g. malignant neoplasms incidence rate in Georgia: 110.1, EU: 543.7). Furthermore, the highly fragmented supply side, together with the excessive number of doctors in the country (Georgia: 456.3 per 100k population, EU: 345.8) that is still to be optimised and a very low nurse to doctor ratio (1:1.6 in 2013, vs World Health Organization recommendation of 4:1) provide room for further system-wide efficiencies to be extracted.

Chart 3: Underpenetrated retail banking sector provides room for further growth (%)

Ratios calculated based on NBG data as at 31 December 2014.

Chart 4: Per capita expenditure on health (US$)



Source: World Bank data 2012

Our business model is simple and purpose-built to capture growth opportunities in Georgia

We are a Georgia focused banking group with an investment arm. We have a successful track record of delivering profitable growth for almost a decade, growing our market capitalisation by more than 60 times to over US$1.3 billion.

Our banking business includes Retail Banking, Corporate Banking and Investment Management and comprises at least 80% of our profit, and our investment business which includes Healthcare, Real Estate development, Utility businesses and legacy investments and comprises up to 20% of our profit. We are the number one player on the market in all our business lines.

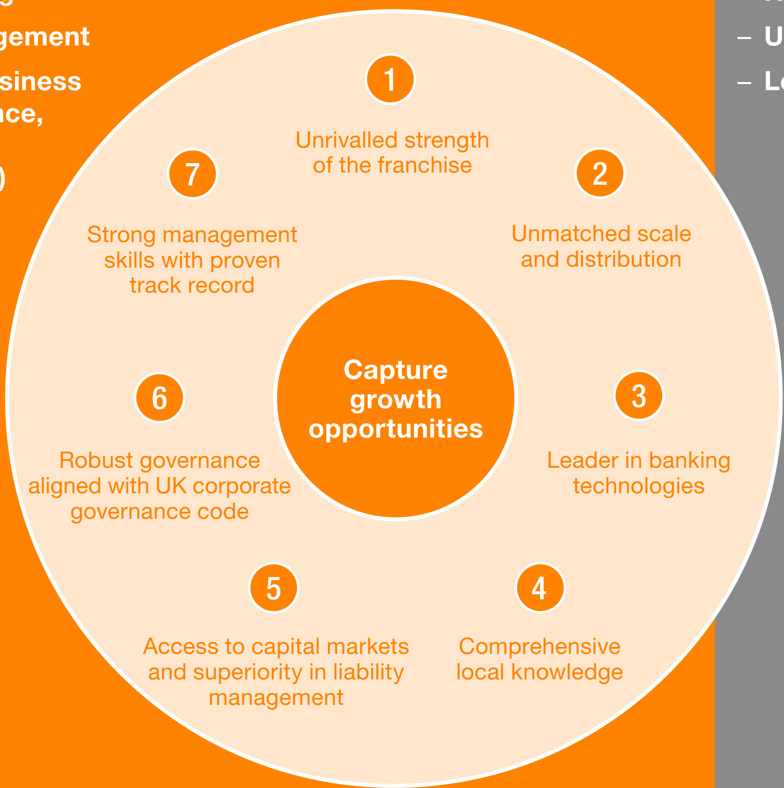
At the core of our success lie our strengths and capabilities that we have built over the last decade to create superior value for our shareholders as we follow – and in many ways lead – Georgia's path to prosperity.

Banking Business

- **Retail Banking**
- **Corporate Banking**
- **Investment Management**
- **Other Banking Business lines (P&C Insurance, leasing, payment services and BNB)**

Investment Business

- **Healthcare Business**
- **Real Estate Business**
- **Utilities**
- **Legacy Investments**



Elements of our business model

1. Unrivalled strength of the franchise	Market leader in all of our businesses offering the most comprehensive range of products and services in Georgia	– No.1 Bank by market share in total assets – 35.5%[1] – No.1 Bank by market share in client deposits – 31.5%[1] – No.1 Bank by market share in total loans – 34.9%[1] – No.1 in healthcare services sector – 22.0% – No.1 insurance business – 36.7% (Health), 37.8% (P&C and Life) – Leading real estate business
	Undisputed leader in mass retail banking with an unmatched segment offering through our Express Banking franchise	– 560,000 emerging mass market clients attracted and more than 720,000 Express cards issued since the launch of Express Banking three years ago See page 52 for more information on Express Banking
	Well-established and trusted brands with distinctive culture and values based on entrepreneurial spirit, teamwork and professionalism	– Spontaneous awareness rate of the Bank of Georgia brand at 96% – 94% general awareness for Aldagi brand[2]
2. Unmatched scale and distribution	Extensive reach through the largest distribution network in the country translating into superior cross-selling ability, significant economies of scale and efficiency gains	– 1.5 million Retail Banking customers – 219 bank branches, 523 ATMs, 6,320 POS terminals, 2,239 Express Pay terminals, 2,000 sales force – 39 healthcare facilities and 2,140 hospital beds, located in six regions that contain two-thirds of the population of Georgia – 87 points of sale and more than 200 account managers servicing over 250,000 P&C insurance clients – m^2 Real Estate developed 645 apartments in two completed projects and 1,024 apartments in four ongoing projects
3. Leader in banking technologies	Established leader in payment systems such as internet banking, mobile banking and Express Pay terminals complementing our Express Banking strategy	– 72,000 active internet banking users, up 33.7% y-o-y – 29,000 mobile banking users, up 103.7% y-o-y – Transactions executed through remote channels increased nearly twofold vs 4.0% decrease through tellers See page 52 for more information on Express Banking
	Capturing more than half of the merchant acquiring network in the country	– 6,320 POS terminals
4. Comprehensive local knowledge	Exclusive insight into the Georgian market through trusted relationships with our extensive client base and coverage across all sectors of the economy	– c.6,000 Corporate Banking customers – c.90,000 SME and micro customers
	Strong research capabilities through Galt & Taggart Research, providing unmatched insight in the main sectors of the Georgian economy	– Georgian macroeconomic research – Azerbaijan macroeconomic research – Georgian sector research including: Energy, Real Estate, Agriculture, Tourism, Wine – Fixed income corporate research including: Georgian Railway and Georgian Oil and Gas Corporation – Weekly news coverage, including market data and economic updates See page 55 for more information on Galt & Taggart
	Loan collection systems and an in-house developed and maintained credit scoring system, translates into exclusive insight into bankable population and customer behaviour – a distinctive competitive advantage of the Bank	– 470,000 individuals scored in 2014
5. Access to capital markets and superiority in liability management	Superior access to both equity and debt capital, provides flexibility with liability management and is our key competitive advantage in realising our ambition to capture attractive investment opportunities in Georgia	– Premium listing on the LSE in 2012 (first from Georgia) – IPO on the LSE in 2006 (first from Georgia and second from the CIS) – US$114 million capital raised in 2014 – US$400 million Eurobond outstanding (only private issue from the Caucasus) – US$200 million bond issue in 2007 (first from Georgia)
	Undisputed leader in the local capital market industry through Galt and Taggart and Bank of Georgia custody	– c.GEL 100 million local corporate bonds placed by Galt & Taggart in 2014 – The only international sub-custodian in the region through State Street, Citi and Deutsche Bank
	The strength of our franchise and brand name translates into pricing power driving down Cost of Deposits. Ability to replace more costly borrowings with cheaper funding also leads to improved funding costs	– Lower deposit rates than offered on the market – Cost of Client Deposits 4.3% in 2014 down from 7.5% in 2010 – Cost of Funds 4.9% in 2014, down from 8.2% in 2010
6. Robust governance aligned with UK corporate governance code	Culture of transparency and adherence to robust governance	– Premium listed company on the LSE – Component of FTSE 250 Index – Fully independent Non-Executive Directors on the Board See page 64 for Governance report
	Primarily deferred share-based compensation for top executives of the Group, aligning long-term shareholder interests with management reward	– More than 80% of total compensation for each Management Board member comprises shares with a vesting period – No cash bonuses for senior management since 2011 See page 86 for Remuneration report
7. Strong management skills with proven track record	As an employer of choice, attracts top talent both at senior and middle management levels	– Western educated professionals with work experience at leading financial institutions such as Lehman Brothers, Bear Stearns, etc
	Proven track record in creating superior value for its shareholders through banking and investment businesses	– Market valuation at US$1.3 billion, up x60 since 2004 – EBITDA of healthcare services business increased 9.5 times since 2011 – IRR of >30% in completed real estate projects

1. Includes Privatbank.
2. Source: ACT research, Mar 2013 (act-gr.com).

Updating our strategy from 3x20 to 4x20

Our strategy combines pushing the most lucrative touch points of our business model with seizing opportunities presented to us in Georgia.

At the end of 2014, we introduced our updated 4x20 strategy, which entails a 20% metric for our ROAE, Tier I CAR, retail loan growth and IRR for investment business. The updated strategy will allow us to capture compelling investment opportunities in Georgia's corporate sector, on top of our continued commitment to growing our strong banking business.

Over the last few years we have made strong progress in delivering growth in our core Retail Banking, Corporate Banking and Investment Management businesses. This growth has been combined with maintaining a solid capital and liquidity position and consistently high returns on shareholder equity, delivering dividends that have more than quadrupled over the last three years and an excellent total return to shareholders. In addition, we have made great progress in developing and profitably growing our non-banking operations: healthcare and real estate businesses.

Georgia's economic development has remained robust and the Company expects this progress to be maintained in the future. The banking sector in Georgia remains relatively underpenetrated and we expect our recent strong customer lending growth, particularly in the retail bank, to continue. Georgia's capital markets development, which remains in its infancy, will create significant opportunities over the next few years to develop more capital efficient growth opportunities throughout the business and we expect to be at the forefront of that capital market development in the country, thereby producing value creation opportunities for our shareholders.

Performance against strategy in 2014

Strategic target	2014 performance
ROAE c.20%	**Record profitability:** – Revenue up 11.3% y-o-y to GEL 605.6 milllion in 2014 – Profit up 15.0% y-o-y to GEL 240.8 milllion in 2014 – Non-interest income up 13.6% y-o-y to GEL 261.5 milllion in 2014 – NIM stood at 7.4% – ROAE[1] stood at 19.0% in 2014 **Operational efficiency and scale:** – Cost to Income ratio at 42.8% in 2014 – Positive q-o-q and y-o-y operating leverage at 2.9 ppts and 1.6 ppts, respectively, in Q4 2014 **Prudent risk management:** – Cost of Risk of 1.2% in 2014, compared to 1.4% in 2013
Tier I c.20%	**Strong internal cash generation to support loan growth without compromising capital ratios:** – BIS Tier I Capital Adequacy ratio (CAR) of 22.1% and BIS Total CAR of 26.1% as of 31 December 2014 – NBG (Basel 2/3) Tier I CAR and Total CAR stood at 11.1% and 14.1% as of 31 December 2014 **Conservative regulation of National Bank of Georgia (NBG):** – Risk weighting of FX assets at 175% – Bank's leverage stood at 3.7x as of 31 December 2014
Growth c.20%	– Net loan book grew 23.8% y-o-y to GEL 4,360.7 million, while client deposits increased 6.6% y-o-y to GEL 3,313.7. million – Cost of Client Deposits declined to 4.3% in 2014 from 5.6% in 2013. RB Cost of Client Deposits: 3.8% in 2014 vs 5.2% in 2013; CB Cost of Client Deposits: 2.9% in 2014 vs 4.6% in 2013
Dividend payout ratio of 25-40%	– At the 2015 AGM the Board intends to recommend an annual dividend of GEL 2.1 per share payable in British Sterling at the prevailing rate, representing 31.2% payout ratio. This represents an increase of 5%, compared to the annual dividend of GEL 2.0 per share last year.

1. Adjusted for results of placing of ordinary shares on 4 December 2014 and before one-off impairment of BG Bank in Ukraine in Q2 2014.

The updated strategy – Georgia-focused banking group with an investment arm – reflects our competitive strengths and opportunities in the market

The updated strategy is focused on enhancing BGH's profitability by optimising capital allocation. This includes our continued commitment to the Bank's highly profitable retail franchise and augmenting the Group returns through carefully targeted direct equity investments with a clear exit strategy and targeted IRR above 20%.

The BGH Board has undertaken a business and strategy review with the aim of delivering sustainable profitable growth by allocating capital to our most attractive business units and investment opportunities. In order to achieve this, we plan to increase the relative size of our highly profitable Retail Banking business and to generate additional non-interest income from advisory and other fee-generating businesses. In addition, we plan to make further equity investments in areas outside our core banking operations. The strategy will improve returns through direct equity investments, capturing compelling opportunities in the Georgian corporate sector. Georgia's fast-growing economy provides opportunities in an underdeveloped market. The Board believes that the Company's management expertise and access to international capital markets, combined with a limited buyer universe for large domestic acquisitions in Georgia, position it well to acquire high-quality assets at attractive valuation levels. BGH's management has a proven track record, both in real estate and healthcare, of creating value through successful business development and investments.

We will target an IRR of greater than 20% on any investment and, in aggregate, that no more than 20% of BGH's future net income will be generated from our non-banking business. We will acquire only businesses that we believe have a well-defined exit path, to which end we will target companies with potential EBITDA of at least US$30 million within 3-4 years post acquisition with a view to potential future exits, including by way of stock market listings or trade sale. We intend to pay special dividends upon the realisation of our financial investments and we are targeting at least three special dividends in the next five years.

Current strategy

Leading Georgian bank with investments in non-core sectors with a divestment strategy

1. ROAE c.20%
2. TIER I c.20%
3. GROWTH c.20%

Dividend policy:
- Payout ratio 25-40%
- One-off dividends from divestments over time

Updated strategy

Georgia-focused banking group with an investment arm

Banking Business

1. **ROAE c.20%**
   - ROAE of 19.0% in 2014
2. **TIER I c.20%**
   - Strong internal cash generation to support loan growth without compromising capital ratios
   - Tier 1 ratio of 22.1% in 2014
3. **GROWTH c.20%**
   - Aiming 20% growth in retail banking business
   - 28.1% y-o-y Retail loan book growth in 2014

Dividend policy:
- **Recurring:** linked to recurring profit from banking business
- Aiming for a 25-40% dividend payout ratio

Investment Business

4. **Min. IRR of 20%**
   - Target investments with min. 20% IRR and partial or full exit in a maximum of six years

Dividend policy:
- Aiming for at least **three special dividends** in the next five years

4x20 strategy

Revising the Group's corporate structure

The National Bank of Georgia, the Bank's regulator, has recently announced that it intends to regulate banks in Georgia on a standalone basis and thereby restrict, from a regulatory perspective, investments in non-banking businesses by locally regulated banking entities. Domestic banks will have to comply with this new requirement by the end of 2015 and, as a result, BGH intends to undertake a legal entity restructuring that will involve the transfer of ownership and separation of the banking and non-banking businesses from BOG to a Georgian holding company, which will be 100% owned by BGH. The corporate restructuring and transfer of these businesses – in particular the Group's healthcare and real estate subsidiaries – is expected to take place in 2015.

Banking Business

1. c.20% Return on Equity in the Banking Business – Profitability is expected to be driven by further growth in both the retail and corporate banking businesses with an increased focus on the significantly more profitable retail franchise. As we aim to increase our share in retail loans, the acquisition of Privatbank delivers a strong strategic fit with loans to individuals representing 86% of Privatbank's loan book. In addition, we are looking to further grow our Express (self-service) Banking network as well as our payments business.

Capital allocation[1] (GEL million)

473

Retail Banking

614

Corporate Banking

1. Based on FY2014 IFRS consolidated financial statements.

2. c.20% Retail loan book growth – Our net loan book has grown at a CAGR of 20.8% from 2010 to 2014 and we remain committed to 20% growth in our retail customer lending. In addition to the above mentioned growth of our retail banking business, the Privatbank acquisition will significantly enhance our retail customer franchise as well as increase the distribution network.

3. c.20% Tier I capital adequacy ratio – we are committed to growing our business while maintaining our existing strong capitalisation. We aim to maintain capitalisation levels consistent with our existing target of greater than 20% Tier 1 CAR under Basel I. The Bank's strong internal capital generation will continue to support loan growth without compromising capital ratios. Tier 1 CAR ratio Basel I stood at 22.1% as of 31 December 2014.

Investment Business

4. Internal rate of return of minimum 20% for each of the individual future investments of the company – We will target investments with a minimum of 20% IRR and partial or full exit in a maximum of six years.

Investment Approach: Highly disciplined approach to unlock value through selective investments in Georgia, which have a well-defined exit path.

- **Big opportunities with small capital commitments.** Underdeveloped corporate sector and weak competition creates ample opportunities to benefit from growth prospects in various sectors of the Georgian economy
- **Capital needed to fund growth.** Demand for capital for well performing companies is growing. Access to capital provides significant advantage.
- **Opportunities to add value through better management.** There is significant potential to improve operating performance through better management, EBITDA potential of at least GEL 60 million (c.US$30 million) in 3–4 years
- **Low competition from other investors.** Limited number of potential buyers translate into attractive valuations

Dividends: Our future dividend policy will comprise recurring dividend payments linked to recurring profits from the banking group, with a targeted dividend payout ratio of 25–40%. In addition, we will aim to pay special dividends upon the realisation of our financial investments and are targeting at least three special dividends in the next five years. Some of the profits may be reinvested if further attractive investment opportunities arise.

How we are going to achieve our targets:

Strategic pillar	How are we doing this
Reinforce market leader position	**Banking Business:** – Expand our product offering through continuous innovation to remain at the forefront of meeting the growing funding and investment needs of our extensive retail customer and corporate client base. – Expand our Express Banking strategy to increase our number of customers by attracting the currently unbanked population and by means of a shift towards transactional banking. – Leverage our superior distribution network and local expertise across various business lines to step up our cross-selling strategies. – Shift from current segment approach to client-centric approach with an aim to capture growth opportunities and increase penetration through cross-selling, to be measured primarily by an improvement in product/client ratio. **Investment Business:** – Accomplish one-third market share in healthcare business. – Enhance pipeline of our real estate projects to meet unsatisfied demand for housing in Georgia.
Further diversify revenue base	– Leverage our access to capital and local knowledge to roll-out Investment Management products that will enhance the Bank's fee-generating capabilities. – Leverage our local knowledge, track record and strength of our business lines to identify and capitalise on new revenue streams. – Expand on our market-leading payments business in Georgia through our Express Banking strategy. – Continued investment in our IT and payment business with the view of exporting the business outside Georgia.
Further decrease Cost of Funding for Banking Business	– Leverage the Bank's pricing power stemming from its market leadership to continue optimising its Cost of Deposits without compromising deposit growth. – Expand Express Banking to increase current accounts, the cheapest source of funding. – Access international capital markets to attract cheaper international funding.
De-dollarise balance sheet	– Utilise the NBG repo facility for floating rate Lari mortgage loans to the extent practicable. – Encourage Lari savings by maintaining a high differential between the US Dollar and Lari savings rates.
Cost discipline	– Continued cost control measures and implementation of technologies aimed at improving workflow efficiency. – Leverage the strength of our franchise to increase the cost-efficiency benefit for the underlying businesses and the Group as whole. – Expansion of Express Banking strategy and investing in Express Technologies to enable us to further scale up the business with minimal incremental operating costs. – Education platform to contribute further to lowering operating costs over the medium and long term.
Create education platform	– Most recently started to create education platform and established Bank of Georgia University. – Established training centre for medical personnel. – Education platform to be used for training purposes as well. – Aimed at identifying talent and future leaders, including from among our 13,395 employees.
Efficient capital allocation	– Enhance our profitability by optimising capital allocation. This includes our continued commitment to the Bank's highly profitable retail franchise and augmenting the Group returns through carefully targeted direct equity investments with a clear exit strategy and targeted IRR above 20%.

A strong performance

Our KPIs for 2014 reflect a continuing strong performance in each of our Banking and Investment Businesses, demonstrating excellent customer lending growth with improving margins, balance sheet strength and strong profitability, together with substantial further progress in our healthcare and real estate businesses.

For more information on our financial results, see page 106

Returns KPIs

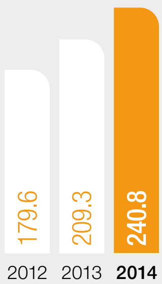
Diversified revenue sources, a growing loan book and improved funding were the main drivers of the exceptional results in terms of profitability against the backdrop of a weak external environment in 2014.

The resilience of NIM is a function of our distribution capabilities and pricing power. The substantial growth of the loan book during 2014 enabled our NIM to withstand downward pressures from lower asset yields and higher excess liquidity levels than in 2013. The resulting robust growth in interest income, the further increased contribution of non-interest income to our revenue, strong margins and improving cost efficiency translated into 15.0% growth in profit.

In 2015 and beyond, we will continue to focus on profitable earnings growth, to be driven by good levels of customer lending growth without compromising asset quality, an increase in the share of income from fee-generating operations and an expansion of our Healthcare and Real Estate operations.

Profit (GEL million)

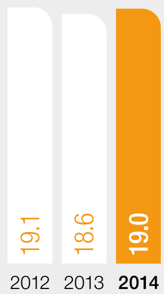
240.8



Profit is calculated in accordance with IFRS and represents revenue less operating expenses, cost of credit risk, net non-recurring expenses and tax expense.

Return on Average Equity (%)

19%*



Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders is made up of share capital, additional paid-in capital, treasury shares, retained earnings and other reserves.

Earnings per share (GEL)

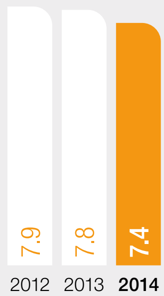
6.85*

Profit attributable to shareholders divided by weighted average number of outstanding shares.

* Adjusted for results of placing ordinary shares on 4 December 2014 and before one-off impairment of BG Bank in Ukraine in Q2 2014.

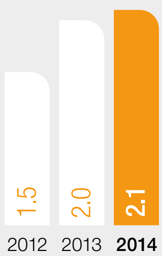
Net Interest Margin (%)

7.4%



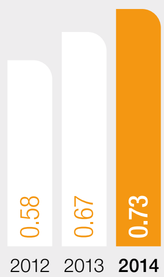
Dividend per share (GEL)

2.1



Dividend per share (GBP)**

0.73



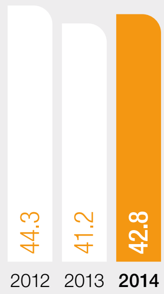
** The following GEL/GBP exchange rates are used for presenting GBP amounts: 2014: 2.8932 as of 31 December 2014 (the actual currency conversion date: 8 June 2015), 2014 dividends to be approved by shareholders at the 2015 AGM; 2013: 2.9815/GBP as of 9 June 2014, the currency conversion date for the year 2013; 2012: 2.6051/GBP as of 10 June 2013, the currency conversion date for the year 2012.

Efficiency KPIs

The shift to Express Banking, a technology-intensive remote channel banking, is the main driver of efficiency strategy for our Banking Business. Other measures such as various investments in IT aimed at optimisation of workflow processes and the introduction of cost centre reporting procedures represent the cost control measures we continue to deploy across the board in order to keep a tight grip on costs. Our healthcare business, which has completed a string of acquisitions in recent years, placed an upward pressure on costs as synergies have not yet been fully realised from these acquisitions.

Cost to Income ratio (%)

42.8%



Operating expenses divided by revenue.

Operating leverage (%)

-4.1%

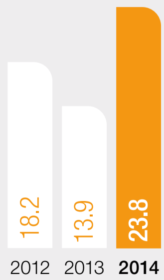
Operating leverage is measured as the percentage change in revenue less the percentage change in operating expenses.

Growth KPIs

The 23.8% loan book growth was boosted by the increased credit demand in the fourth quarter of 2014 particularly in our Retail Banking business, which posted a 28.1% growth in the loan book in 2014. Pick-up in Corporate Banking lending in the fourth quarter of 2014 led to the 18.8% growth of Corporate Banking. We are targeting 20% growth of our Retail Banking loan book over the medium term.

Net loan book (% growth, y-o-y)

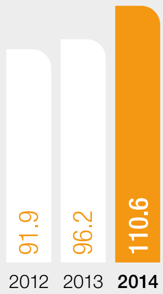
23.8%



Net loans to customers and net finance leases receivables at the end of the period compared to the same period of the prior year.

Net loans to customer funds and DFIs (%)

110.6%



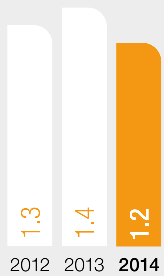
Net loans to customers and net finance leases receivables divided by amounts due to customers and DFIs.

Asset quality KPIs

Our asset quality improved in 2014 as a result of economic growth and our continued prudent risk management policies. Cost of risk stood at 1.2%, remaining within our target of 1–1.5%. NPL coverage ratio adjusted for the discounted value of collateral stood at a comfortable level of 111.1%.

Cost of Risk (%)

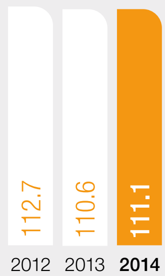
1.2%



Cost of Risk equals impairment charge for loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period.

NPL coverage ratio adjusted for discounted value of collateral (%)

111.1%



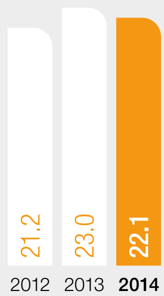
NPL Coverage Ratio adjusted for discounted value of collateral equals allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment).

Capital KPIs

In 2014, our Tier I Capital Adequacy ratio stood at 22.1% compared to 23.0% in 2013. The risk weighted assets increased by 23.1%, reflecting the 26.5% increase in interest earning assets during the year. In 2015 and beyond, we intend to maintain strong capital ratios, above the regulatory requirements.

Tier I Capital Adequacy ratio (%)

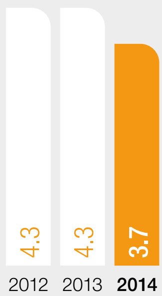
22.1%



BIS Tier I Capital Adequacy ratio: Tier I Capital divided by risk weighted assets.

Leverage (times)

3.7



Leverage is calculated as total liabilities divided by total equity.

Sustainability lies at the heart of our business

As a leading financial institution in Georgia, we understand our responsibility not only to shareholders but to society at large.

The concept of sustainability lies at the heart of our business and reflects our contribution to sustainable development – development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

We consider sustainability to be integral to the growth of our business. Our sustainability agenda allows us to be profitable as well as environmentally and socially responsible at the same time. By implementing a sustainability approach in our activities, we foster long-term relationships with our main stakeholders by providing high return on investment for shareholders, satisfying the financial needs of customers, developing employees and contributing to the economic and social welfare of local communities, whilst taking into account our environmental footprint.

In order to effectively manage the Group's direct and indirect impact on society and the environment, the Board of Directors adopted an Environmental and Social Policy in 2012. This policy defines the Group's strategy to develop solid management controls which will conserve natural resources, minimise health and safety risks, and provide employees with equal development opportunities, fair compensation and benefits. We are pioneering sustainability practices in our operations and are constantly seeking new ways to improve our performance.

Social matters

The Group considers the interests of its main stakeholders, which include customers, shareholders, employees, lenders, and society, in the development of strategy and operations improvement processes.

We strive to positively contribute to society through the entire scope of our business activities by developing socially oriented products and services, implementing responsible approaches to our business operations, and carrying out sponsorship and charity activities.

Socially oriented products and services

Corporate Banking

In order to efficiently manage its indirect environmental and social impact, the Bank prioritised the integration of sustainable finance principles into its credit risk management procedures. In 2013, the Bank updated its Environmental and Social Risk Management Procedures in order to ensure the proper application of appropriate, risk-based and sector-specific environmental and social risk assessment practices to its commercial lending activities and in 2014, the Bank actively started to put the procedures into practice. The Bank defined priority targets and promotes environmental and social risk management activities accordingly. Since then the Bank ensures it has a consistent approach to evaluating and managing environmental, human health and safety risks of the financed projects. These procedures are now being integrated into the Bank's credit risk management process and will soon be routinely applied to all commercial transactions. In all that the Bank does, it strives to find sustainable solutions that make good business sense to clients and minimise their impact on the social and natural environment.

The main objective of the Environmental and Social Policy is to increase the environmental and social benefits for our clients. Through Environmental and Social Risk Management Procedure, the Bank enhances the clients' opportunities to be in compliance with national environmental and social regulations and to adopt best international practices in this area. The Environmental and Social Policy and Risk Management Procedures, along with other tools necessary for their implementation, comprise the core components of the Bank's Environmental and Social Risk Management System (ESMS). Under this concept, the Bank endeavours to become an environmentally friendly financial institution.

The Bank has appointed an Environmental and Social Coordinator, responsible for ensuring the proper operation and maintenance of the ESMS, and will appoint an Environmental and a Social Risk Manager, responsible for the practical, day-to-day implementation of the Bank's ESMS.

We implement the following procedures to ensure the operation and maintenance of the ESMS:

- We refrain from financing environmentally or socially sensitive business activities mentioned in the exclusion lists of such Development Finance Institutions as EBRD, IFC, DEG, FMO, ADB and others.
- We aim at assessing the relative level of environmental and social risk associated with clients' businesses. We require certain customers to implement specific environmental or social action plans to avoid or mitigate their environmental and social impact and adhere to specific monitoring and reporting requirements that we set in order to minimise environmental and social risk. These requirements are included as covenants in agreements between certain of our customers and the Bank.
- We aim at regular monitoring of environmental and social risks associated with the Bank's activities, and assessing clients' compliance with the terms of respective agreements.

Through ensuring comprehensive environmental and social assessment and action plans, as part of the stable due diligence, the Bank encourages the customers in fulfilment of their environmental and social obligations and has established a framework for them to achieve good environmental and social standards. In many cases, the Bank's proper and timely management of the customers' environmental and social risks facilitate them to avoid financial and legal sanctions during inspections conducted by the state enforcement agency.

Environmental and social issues are tracked at the project site in cooperation with the facility staff, providing ongoing advice and guidance on good practice and standards and monitoring compliance with the requirements. For environmental and social due diligence of certain high-risk and A category projects, the Bank has contracted independent external experts. As part of monitoring, the Bank requires each of its high-risk clients to provide the Bank with the annual report on their environmental and social performance and the implementation of applicable Environmental and Social Action Plans or each client is visited by the Bank staff on a regular basis. During 2014, the Bank held extensive Environmental and Social Due Dilligence (ESDD) and developed action plans for non-compliant clients.

The Bank regularly checks legal developments and updates with regard to environmental, health and safety and labour issues and places great emphasis on improvement of ESDD opportunities.

In 2014, the Bank provided full opportunities for the development and enhancement of employees' capacities. Two Environmental and Social Management trainings were conducted with a strong focus on topics such as key E&S risks, requirements of Georgian E&S legislation and IFIs' E&S policy, compliance monitoring and enforcement and the Bank staff's role in efficient implementation of the E&S risk management procedures. More than one hundred employees were trained.

Other highlights of the year included a review of the Environmental and Social Management System. The purpose of the review was to ensure that policy remains fit for purpose, taking into account lessons learned from experience and changes in the relevant legislation. The review process began at the end of 2014 and the revised policy document is planned for adoption in 2015.

The Bank continues to make progress towards its objective and to ensure efficient implementation of the Environmental and Social Management System. The Bank will continue to conduct business with due consideration to environmental protection and contribute to the creation of a sustainable society. The Bank will help increase clients' benefits through proper and highly active implementation of the Environmental and Social Policy.

The Bank also continues to support Georgia's emerging economy by financing industries that are strategically important for the development of the entire nation.

Infrastructure development. Infrastructure development continued to be a key financing and guarantee granting theme for the Bank, with almost $47 million committed to the construction and rehabilitation of the land-reclamation system, the improvement of sanitary conditions for IDP, the improvement of specific infrastructure for the European Youth Olympic Festival 2015, the rehabilitation of water supply and wastewater systems, the construction of refugee settlements, the construction and rehabilitation of highways, local municipal roads and bridges, the construction of a new multipurpose shopping centre, and the construction and rehabilitation of recreational/sport facilities and historical buildings.

From US$47 million, about US$7.5 million is committed to the construction and rehabilitation of highways and municipal roads to provide easy access to the regions and enhance road safety standards.

The tourism sector has become a vital part of the Georgian economy as demonstrated by its significant growth since 2000. In 2014, the Bank continued to finance the hospitality sector of Georgia by providing loans for hotel construction in Batumi (US$8 million) and Borjomi (US$2.2 million).

Georgia's hydropower sector holds significant development potential. In 2014, the Bank financed for construction of the Hydropower Plant (HPP) and financing equipment purchase via letters of credit (LCs). The bank financed two HPPs the amount of US$8.83 million with installed capacity of 9.4MW and annual production of 50MWH and installed capacity of 1.94MW and annual production of 8.6MWH

We have also provided financing for "Georgian Water and Power" (GWP) in amount of $22 million. GWP is a leading company on the water supply market of Georgia and South Caucasus. The company delivers drinking water to Tbilisi and its neighbourhood and provides wastewater services to the capital. The loan will enable GWP to provide 24-hour water supply for the population and rehabilitation of the sewage system in order to eliminate effluent discharge into Kura River.

The Bank endeavours to finance the projects that provide millions of people with access to safe drinking water, sanitary waste water disposal services, well-maintained urban roads and other types of projects that provide important sustainable development benefits to households and enterprises across the country.

Healthcare and education support. Continuous improvement in medical services in Georgia remains a top priority for the country's strategic development. In 2014, the Bank financed the construction of unique medical facilities that will provide neurosurgery, traumatology, paediatric, aesthetic, oncology and emergency treatment in the Tbilisi, Kutaisi and Samtskhe region in the amount of US$36.12 million.

Information and communications technology. The Bank financed the leading fixed-line telecommunication service provider in Georgia, offering internet, IPTV, voice IP and fixed line communication services in the amount of US$24 million for the purpose of 4G/LTE development. This investment will help to penetrate the internet into the regions. Also, the bank approved a credit to communication and security systems integrator and products supplier in the amount of US$3.17 million for the purpose of digital terrestrial TV network turnkey project, which will impact on developing tourism in Borjomi.

Retail Banking

Bank of Georgia continues to innovate and come up with a wide range of socially oriented financial products and services that bring added value to individuals and small and medium-sized businesses (SMEs) and meet their respective needs.

Express Banking. The Georgian banking sector still experiences difficulties in overcoming economic and geographical barriers on its way to expanding financial services in remote regions and among low-income parts of the population. In order to address this issue, we have developed our Express Banking service:

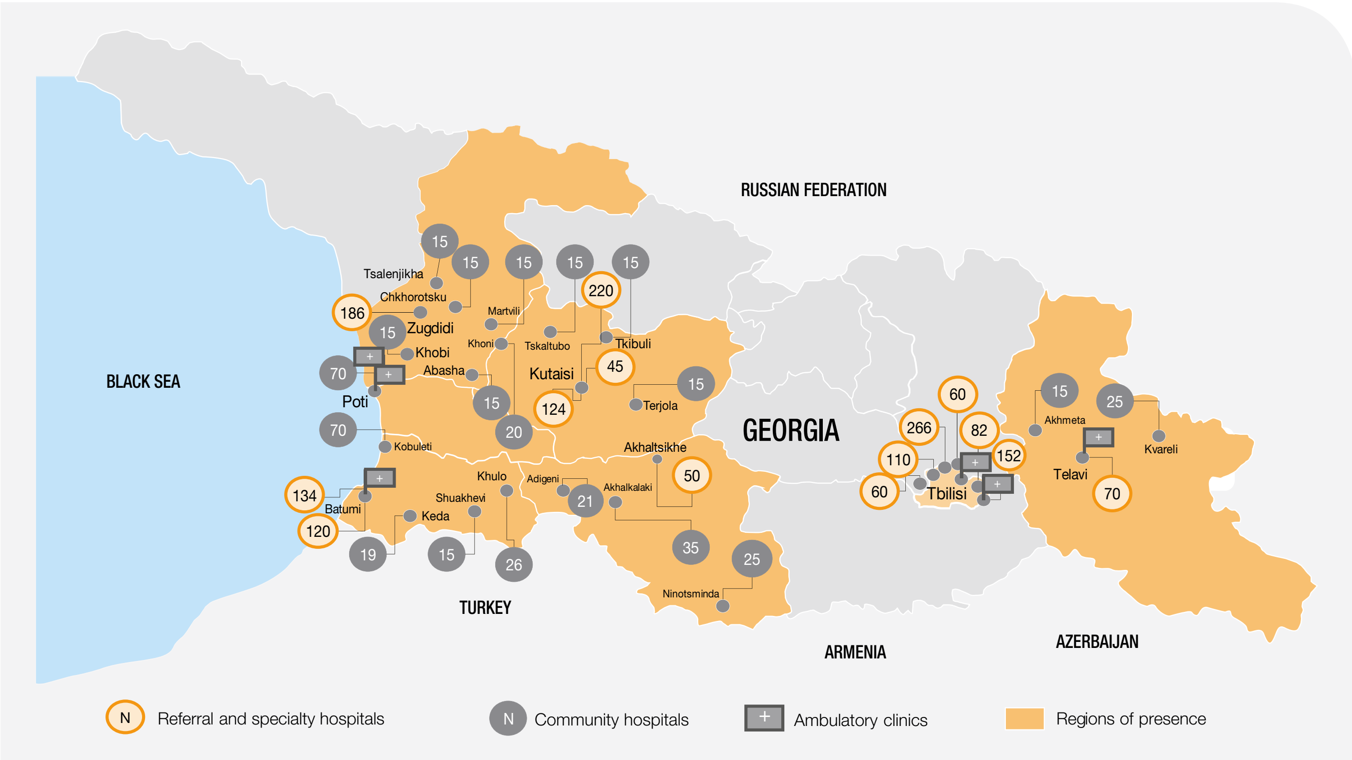
- As at 31 December 2014, a network of 2,239 Express Pay terminals, 60 Express and 24 Metro branches which are located all over the country including in remote mountain regions.
- Express financial products such as Express card, Express deposit and Express loan. These financial products are uncomplicated, easily accessible and affordable to a segment of the population that would not have access to banking products and services otherwise. Since the beginning of the Express Banking service in December 2011, the Bank has attracted 562,963 clients by 31 December 2014, of which 206,729 were attracted in 2014 alone.

As part of the Express Banking service, we prioritise improving financial literacy of our clients. In every Express branch, our current and potential customers can receive financial advice and educational support from our employees free of charge. In 2015, the Bank plans to start educational events in flagship service centres, where customers will have an opportunity to learn how to plan their budgets, set financial goals, assess financial risks, manage cash flow, and use financial instruments.

Youth support. We have developed a wide range of financial products to support young people in Georgia. For example, through the special conditions of the Child Deposit we provide parents with an opportunity to secure the future of their children. Starting from a minimal amount of GEL 10, a deposit can be opened for two years minimum at any time from a child's birth until the age of 18. The annual interest rate (9.25% for GEL and 3.25-5.25% for foreign currency) is added to the initial deposit. In 2014 we opened approximately 4,013 child deposit accounts.

The Bank also offers special products that allow the youth to receive secondary and higher education. Examples of such products are school and student loans with favourable terms that do not require any financial guarantees and collateral. The total amount of school and student loans granted in 2014 was GEL 130,148 and GEL 176,578 respectively.

Extensive geographic coverage



Another example of a product supporting youth is a student card which provides special benefits for students of Georgian universities. The benefits include discounts for public transportation, a 2% interest rate for savings on the card GEL accounts and 1% for foreign currency, free distance banking services and others. In 2014 the Bank issued 82,722 of these cards. In addition, every three months, the Bank awards 20 holders of student cards with three-month scholarships to encourage the student population to use financial instruments and support them financially during their study.

SME support. We continue to provide financing to SMEs, a backbone of the Georgian economy that ensures sustainable development of our country. Apart from our own micro-financing and SME loan programmes, we also participate in various programmes that support entrepreneurs. In 2014, the Bank partnered with a non-profit Agricultural Projects Management Agency which supports agricultural SMEs. Together, we co-financed agricultural loans at fixed annual interest rates which were significantly lower than previous loans SMEs received by other institutions. In 2014, the total amount of Bank loans issued to SMEs was GEL 767.4 million, of which GEL 63.4 million was issued to female entrepreneurs.

Combined with supporting SMEs financially, the Bank also plans to organise educational events and provide financial and business knowledge related advice to entrepreneurs in order to enhance their finance management skills and ensure the sustainable development of their businesses. For example, the planned events in flagship service centres mentioned above will provide entrepreneurs with knowledge and skills in accounting, the drafting of legal documents, business development, sales and marketing.

Also the environmental and social risk management process of SME clients is embedded throughout the Bank's activities. Through ensuring comprehensive environmental and social risk assessment and action plans, we encourage the SME clients to be in compliance with national environmental and social legislation and achieve good environmental and social standards. During site visits, we provide advices and guidance on good practice and standards in this area, update the clients with regard to environmental, health and safety and labour issues and monitor compliance with the E&S legislation. In many cases of non-compliance, our proper and timely management of the SME clients' environmental and social risks facilitate avoidance of financial and legal sanctions during inspections conducted by the state enforcement agency.

Mass retail. Energy efficiency consumer and mortgage loans were also provided to various groups of retail customers including households, drivers and others for energy conservation purposes. For example, the favourable terms of the instant energy instalment included the opportunity for a borrower to receive a 10% subsidy of a loan principle amount.

Affordable housing

Currently, the Georgian real estate market is vulnerable to various economic and financial uncertainties. Numerous construction projects remain unfinished for long periods of time while there is a strong growing demand for housing from the Georgian population. In response to this increasing demand, the Group's real estate development business, m^2 Real Estate was established in order to offer affordable housing to the emerging middle class in Georgia, especially young families. Currently, m^2 Real Estate has completed its second successful project for the development and sale of affordable residential apartments.

The Company uses an innovative approach to design and construction processes so that each square metre is distributed efficiently and fits customers' needs and wishes. As few customers can afford to buy large flats with an area exceeding 100 square metres, the company continuously works to optimise the size of the apartments to meet the current demand of its customers without compromising the apartments' convenience and usability. A large segment of the Group's customers is represented by young Georgian families. We believe that by continuing to offer affordable housing products, we are helping to significantly enhance the quality of their lives.

Healthcare and health insurance

A network of medical centres and hospitals, "JSC Medical Corporation EVEX" (EVEX) comprises the Group's healthcare services business. EVEX covers more than 67% of the Georgian population, predominantly in Western Georgia. Its clinics are located across the country and provide access to high-quality medical services to the population including those living in remote mountain regions. The accessibility of medical services is ensured by scheduling regular visits by specialists to small towns and villages and by providing patients with transportation to larger clinics in urgent cases and in cases when more sophisticated treatment is required.

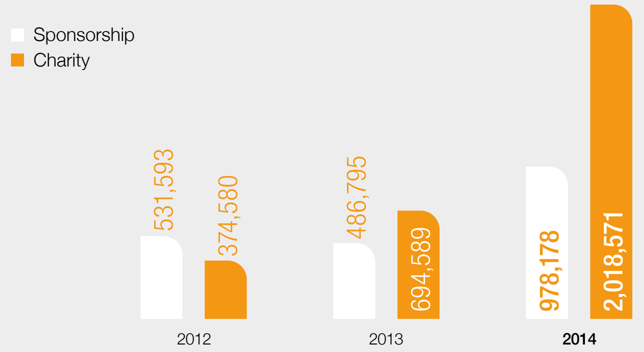
EVEX also provides free regular medical examinations at various locations across the country including Batumi, Khulo, Keda, Shuakhevi, Poti, Kvareli, Telavi and others. In addition, EVEX specialists deliver free medical services, including examinations and treatments for socially and economically disadvantaged parts of the population. In cooperation with other healthcare institutions, EVEX arranges free blood transportation and donations for its patients.

The Group's health insurance business is represented by Imedi L, which participated in the State insurance programme in 2014. Through this programme, it served more than 400,000 policyholders represented by people below the poverty level, the elderly, children below five years of age, students, teachers, and refugees.

Sponsorship and charity

Within its sponsorship and charity activities, the Group focuses on promoting and enhancing access to education, conserving nature and supporting children with disabilities. The Group's Sponsorship and Charity Policy implies partnering with Foundations and NGOs to deliver sustainable results and bring about positive change. Our priority is to help solve a cause, not the symptom. The Group chose to focus on the three areas bearing utmost importance for Georgian society. Sponsorship and charity funds are channelled through the Tree of Life Foundation (formerly Bank of Georgia Future Foundation) that in its turn distributes funding via means of grants competitions thus assuring a transparent and fair way of financing.

Total expenses for charity and sponsorship (GEL)



Group's total sponsorship and charity expenses increased by 154% in 2014.

Promoting and enhancing access to education. In 2014 the Bank established Bank of Georgia University, the main goal of which is to provide high-quality financial and business education to various groups of the population. The University welcomed its first intake of MBA in Finance students in Fall 2014. The cost of studies were in a large part subsidised by the Bank, GEL 91,210 in total, giving a possibility to the top 10 students to study free of charge while the next 20 can enjoy a 0% loan and start repaying it one year after graduation. Besides providing high-quality education, Bank of Georgia University offers its students hands-on experience by offering them a possibility to observe various business processes at the Group's companies.

In summer 2014 Bank of Georgia's start-up incubator, Vegalab, started to operate. In total GEL 300,467 was spent on setting up and running the Lab which allows its incumbents to use a centrally located office and its facilities, training and mentoring free of charge. Authors (individuals and groups) of 11 business ideas were selected to join the incubator and are currently being reviewed for moving to the next stage – capital financing.

In 2013 the Bank became the first Georgian company to cooperate with one of the most prestigious scholarship programmes in the world, the Chevening scholarship, in order to provide Georgian students with an opportunity to pursue education in the UK. The Group provided GEL 152,710 in total to fund two students in 2014. The partnership with Chevening has been extended for the next year and the Group looking forward to selecting up to three students who will continue their Master's studies in the UK.

In 2014 the Bank signed a partnership agreement with the prestigious US Fulbright scholarship scheme. Thanks to Bank of Georgia's contribution two students from Georgia will be able to enrol in a two-year Master's degree programme at a US University in 2015.

For the past two years the Bank's been supporting a Public Speaking competition organised by the English Speaking Union, Georgia. The competition allows top students who are in their senior year at a high school, or freshmen year at a University, to prepare a speech on a predetermined topic and present in front of a competent jury. The winner is granted a fully paid trip to London, to attend the global Public Speaking competition.

Conserving nature. Another priority of the Group's charity activities is the preservation of wildlife diversity. Since 2010, the Bank has granted US$300,000 to the Caucasus Nature Fund (CNF) to cover the maintenance costs of Borjomi-Kharagauli National Park (BKNP), one of the most treasured national parks in Georgia. In 2014, the Bank donated GEL 176,173 and extended financing to include other protected areas as well (CNF is free to decide which protected area to support).

Supporting children. In 2014 the Bank focused its efforts on supporting children with disabilities – one of the most vulnerable social groups in Georgia. The Bank donated GEL 643,849 to the Tree of Life Foundation which distributed the funds through two grants competitions for relevant NGOs. In order to qualify for the competitions, proposals had to focus on sustainable results and causing change in one of the following areas: providing education, or developing infrastructure for disabled children, fostering integration into the society.

One of the large-scale projects selected through the grants competition involved setting up rompers on all the main streets in Tbilisi.

The Bank went further to involve its employees in the process. A programme named Tree of Life Ambassadors offered Bank employees up to GEL 2,000 grants each to carry out a project of their own in the field of supporting children with disabilities, caring for the environment or promoting education. In 2014 the Bank fully adapted its 14 key service centres in Tbilisi for the disabled, spending a total of GEL 155,541. Adapting the whole network is in the pipeline.

EVEX runs a wide range of charitable activities on a permanent basis for children with leukaemia.

EVEX also regularly gifts personal computers to children from socially and economically disadvantaged large families. Additionally, on religious holidays we deliver presents to the new-borns across the EVEX's patient network.

Back in 2008, the Bank introduced the Orange Santa character as a part of the large-scale New Year campaign. The idea of the initiative called "Letter to Santa" was to give the Bank's Facebook fans a chance to send their message to the real Santa. "Letter to Santa" was successful in 2014 as well, allowing up to 12 individuals representing socially vulnerable groups to fulfil their most cherished wishes.

Employee matters

A key factor to our success is a cohesive and professional team, capable of accomplishing the Group's objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment.

The HR management system ensures that the Group attracts the best talent in order to guarantee the sustainable growth of our business. The system is managed in accordance with HR Policy and Procedures which include a wide range of supporting policies:

- employee planning and recruiting;
- staff administration;
- compensation and benefits;
- code of conduct;
- employee development and training;
- human rights;
- grievance policy;
- whistleblowing policy; and
- retrenchment policy.

HR Policy and Procedures determine key principles, areas, approaches and methods that are crucial for building HR management systems for all our businesses. The Bank's HR management department works closely with HR managers and executives from our subsidiaries in order to ensure proper implementation of the main principles and provision of necessary support in all HR-related matters.

We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent any sort of discrimination or harassment.

In order to improve the working environment and effectively address grievances or other employee-related issues we conduct regular employee satisfaction surveys. Above all, employee feedback is used to improve our customer focus orientation and client servicing approach.

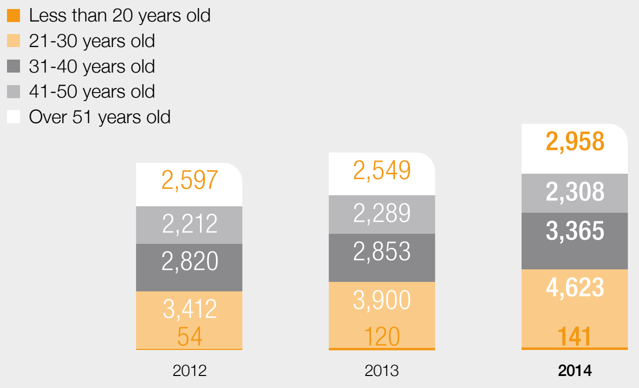
Total headcount per employee category broken down by gender

2012	Directors	Senior managers	Employees	Total
Female	7	48	7,773	**7,828**
Male	21	66	3,180	**3,267**
Total	**28**	**114**	**10,953**	**11,095**

2013	Directors	Senior managers	Employees	Total
Female	6	53	8,448	**8,507**
Male	23	72	3,109	**3,204**
Total	**29**	**125**	**11,557**	**11,711**

2014	Directors	Senior managers	Employees	Total
Female	7	57	9,722	**9,786**
Male	41	81	3,487	**3,609**
Total	**48**	**138**	**13,209**	**13,395**

Total headcount by age category



The Group's total headcount increased by 14% in 2014.

Talent attraction

Sustained development of the Group's businesses requires the strengthening of the teams of our subsidiaries both by using the Group's own significant internal resources through staff development and rotation, and by attracting external candidates. Our recruitment policy and relevant control procedures ensure an unbiased hiring process that provides equal opportunities for all candidates.

According to the HR Policy, internal candidates have priority when filling vacant positions, especially in situations where there are vacancies in top and middle management. Thus, in 2014, 146 Group employees were promoted to managerial positions.

In order to attract young talent, we actively partner with leading Georgian business schools and universities, participate in job fairs and run extensive internship programmes aimed at the professional development of young professionals and their further employment. In 2012, Bank of Georgia established a new format for its traditional internship programme. It attracts promising graduates and provides them with the opportunity to participate in a major professional training and leadership development programme. Interns are directly coached by the Bank's executives to help them on their path to gaining their first management positions in the near future. In 2014, the number of young professionals (under 30 years old) increased by 19% compared to 2013 and currently represents 36% of total headcount.

Training and development

To manage our employees in a way that best supports our business strategy, we seek to help our employees contribute to business performance through personal and professional development.

Following our aspiration to develop strong leaders, we have developed an extensive programme for leadership development. We provide a standard Induction Training course for employees appointed to managerial positions. This programme covers a wide range of topics including corporate values, strategy and objectives, organisational structure, HR management policies, history of the Group, and specific courses for development of communication, presentation, management and leadership skills, among others. Selected mid-level and senior-level employees are given the opportunity to receive external training in well-known training institutions outside of Georgia.

The Group's corporate learning system is comprised of a wide range of internal and external training sessions specifically designed to meet the needs of front and back office employees at the Group's subsidiaries including banking, healthcare, insurance and real estate development. In 2014 Bank of Georgia launched a Leadership Development online programme for Senior Managers and some of our key employees. The programme is provided by a UK company and aims to support the individual development of participants' leadership capabilities.

Each of the Group's businesses has developed an extensive training programme for front office employees in order to provide them with relevant skills, such as effective communication and building strong and valued client relationships. For example, the Bank's Mentoring programme is part of a front office training process. Every new employee is provided with regular advice, guidance and practical instructions from an appointed mentor who later participates in the new employee's performance appraisal. Through this programme, we aim to provide individual support to our employees in achieving their professional results and improving their personal effectiveness.

EVEX (formerly MFC) provides additional training to its employees that work in the specialised field of healthcare. Following the Training-Of-Trainers programme for nurses in the Imereti region, launched in 2013, in January 2014 40 professional nurses began conducting training for personnel of EVEX's hospital network in other regions. EVEX also established a unique training centre in the Kutaisi region that will enhance the professional knowledge and skills of local medical personnel.

Occupational health and safety

Ensuring the safety of the workplace and providing healthy working conditions are among the Group's fundamental HR management principles. The Group pays particular attention to preventive measures, such as conducting regular staff training and medical check-ups, certifying workplaces, and promoting a healthy lifestyle.

The Group's real estate development business is associated with high health and safety risks for contractors on sites. In order to minimise such risks, m^2 Real Estate established a Health and Safety Policy and management procedures ensuring implementation of the health and safety measures at all worksites. The policy contains a range of precautions that seek to prevent any accidents related to the Company's contractors or injuries to community members, as well as property damage and incidents caused by equipment failure.

In order to enhance the awareness of employees and contractors regarding health and safety risks associated with the construction process the company conducts regular training and educational seminars. In 2014 and 2013, the number of health and safety training hours amounted to approximately 1,008 and 500 respectively. In addition, the Company publishes brochures and booklets with warnings and special rules to be followed when working on sites. Respective control procedures include quarterly audits by external health and safety consultants and internal monthly inspections of m^2 Real Estate worksites. In addition, m^2 Real Estate has a comprehensive reporting procedure for health and safety concerns. In 2014 and 2013, no work-related fatalities or injury incidents occurred at the Company's construction sites.

With regard to emergency preparedness and response, m^2 Real Estate established an Emergency Management Plan. It outlines possible scenarios during emergency situations and determines specific strategies for the Company's employees, contractors and visitors on how to react when in a crisis situation.

Environmental matters

The Group recognises that its operations have both an indirect and direct impact on the environment and therefore seeks to establish management approaches which will help it become a more environmentally friendly institution. Being the largest financial institution in Georgia, the Bank produces significant indirect environmental impact through the projects which it finances. In order to properly manage this impact, the Bank has implemented an Environmental and Social Policy and Environmental and Social Policy and Risk Management Procedures, as described in the "Social matters" section.

As for direct environmental impact, we believe that the impact of the banking and insurance businesses is not significant. Nevertheless, we undertake a number of measures to reduce electricity, paper, water, and fuel consumption. For example, in 2013 we upgraded our lighting system in the Bank's headquarters by installing energy-saving bulbs and implemented KNX (EIB) System management, which not only helped us minimise our environmental impact but also reduced our energy costs by GEL 4,000 – GEL 5,000 per month. We implemented this system in all of the Bank's branches during 2014.

The Group is also in the process of automating its operational processes in order to reduce the volume of printed documents and consequently minimise the overall use of paper. The Bank continues to acquire new printers which offer double-sided printing by default.

We are considering replacing part of our car fleet, which runs on petrol, with electric vehicles.

We aim to reduce greenhouse gas emissions resulting from our operations. Refer to the Directors' Report for more detailed information on the issue.

The most significant direct impact on the environment within the Group is created by our real estate development business, m^2 Real Estate. The Company addresses industry-specific environmental issues and undertakes appropriate measures to manage them.

Focusing on enhancing resource efficiency of its apartment buildings, m^2 Real Estate started two new development projects with financial support from IFC. The Company not only follows high environmental standards that IFC imposes on its borrowers but has also become a participant of the IFC-Canada Climate Change Program[1] and thus meets all mandatory requirements of the programme regarding green building construction. Aiming at increasing the efficient use of energy, water and materials, m^2 Real Estate installs energy efficient lighting systems and uses double glazed windows and other modern insulation materials thus reducing the U-value of constructed buildings to $0.21W/m^2K$. It is expected that utility costs for these buildings will be reduced up to 43% compared to an average residential building in Georgia.

1. The IFC-Canada Climate Change Programme, established in 2011, is a partnership between the Government of Canada and IFC to promote private sector financing for clean energy projects, through the use of concessional funds to catalyse investments in renewable, low-carbon technologies that would not otherwise happen (www.ifc.org).

In order to minimise the negative impact to the environment caused by the construction process, m^2 Real Estate has adopted an Environmental and Social Management Plan which helps identify the environmental impacts of its activities and define measures to prevent them as outlined below.

Environmental aspect	Preventive measures
Dust	– Introducing speed limits on unmade roads – Damping down using water bowsers with spray bars – Sheeting of construction materials and storage piles – Using defined moving routes and reductions in vehicle speed limits where required
Spills and leaks during refuelling	– Installing a sealed drainage system at refuelling areas – Providing suitable tanks (e.g. double skinned), bunds and impermeable liners at fuel stores and refuelling points – Using drip trays for static plant (e.g. generators and pumps) – Training staff in refuelling and pump operations – Shortening the refuelling line as much as possible – Performing regular maintenance checks of hoses and valves – Conducting follow up procedures for proper and safe refuelling by operators
Air emissions	– Ensuring that new vehicles comply with the current European Union (EU) emissions standards at the time of purchase – Implementing a regular maintenance programme to ensure all new vehicles continue to comply with relevant EU emissions standards – Ensuring that older vehicles are maintained in order to eliminate extra emissions as much as reasonably practicable – Strictly enforcing speed limits in order to optimise fuel consumption and production of exhaust fumes, and minimise dust generation on unpaved surfaces.
Water contamination	– Locating fuel stores and refuelling points further away from watercourses and aquifers
Fire	– Providing a fire extinguisher adjacent to each item of mobile plant and equipment
Noise	– Fitting effective silencers at all plant and machinery, and providing ear defenders and/or plugs on sites – No idling or revving of plant engines and all vehicles – Using controlled venting, silenced equipment and absorbing screens – Working at preferred times of day (daylight hours Monday to Saturday, otherwise communicated to the local community and authorities)
Vibration	– Operating the equipment within the manufacturer specification limits and limiting any overuse
Depletion of the stratospheric ozone layer	– Ensuring that no ozone depleting substances (ODS) such as chlorofluorocarbons (CFCs) and hydro-chlorofluorocarbons (HCFCs) or products with known global warming potential are used

m² Real Estate is currently working on establishing management reporting systems on environmental aspects. We expect that environmental data will be available for the reporting year 2015.

EVEX's direct environmental impact is mainly characterised by medical waste which needs special treatment and safe disposal. EVEX implemented procedures that are in line with the Georgian legislation which defines risk categories of medical waste and establishes appropriate procedures for its treatment, storage and disposal. EVEX strives to improve its efficiency and thus outsources medical waste management to a company specialising in medical waste disposal. The total amount of generated medical waste in 2014 amounted to 159 tonnes compared with 55 tonnes in 2013, an increase which correlated with the significant expansion of EVEX's hospital network.

Total greenhouse gas emissions data for the period beginning 1 January 2014 and ended 31 December 2014 (tonnes of CO_2e)

	2012	2013	**2014**
Scope 1 (emissions from combustion of fuel and operation of facilities)	8,023	8,453	**7,614**
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	5,411	5,457	**11,034**
Scope 3 (emissions from air travel and land transportation)	2,163	2,165	**3,822**
Total greenhouse gas emissions	**15,597**	**16,075**	**22,470**
Total greenhouse gas emissions per FTE	**1.41**	**1.37**	**1.68**

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and additionally have reported on those emissions under Scope 3 that are applicable to our business. All reported sources fall within our consolidated financial statements which can be found on pages 106 to 191 of this Annual Report. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

In preparing this emissions data, we have used the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2014.

The reported data is collected and reported for the boundaries of four of the Group's main businesses:

- Banking (represented by the Bank), which includes all of its offices and retail branches where the Bank has operational control.
- Real estate development (represented by m² Real Estate), which includes its offices and construction sites.
- P&C insurance (represented by Aldagi), which includes all of its offices and retail branches where the company has operational control.
- Georgia Healthcare Group (represented by Evex and ImediL), which includes its main office and hospitals where the company has operational control.

Scope 1 (combustion of fuel and operation of facilities) includes emissions from:

- Combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites.
- Combustion of petrol, diesel and aviation fuel in owned transportation devices (cars and aeroplane).

Scope 2 (electricity, heat, steam and cooling purchased for own use) includes emissions from:

- Used electricity at owned and controlled sites; to calculate the emissions, we used the conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2014.
- Used heat and steam (only applies to one site of Imedi L).

Scope 3 includes emissions from:

- Air business travel (short haul and long haul); information on the class of travel is unavailable hence we used an "average passenger" conversion factor.
- Ground transportation, including taxis, coaches and car hire.

Data on emissions resulting from travel is reported for business-related travel only, and excludes commuting travel. Data from joint ventures, investments, or sub-leased properties have not been included within the reported figures.

The data is provided by on-site delegates, invoices and meter readings.

Understanding our risks

The table below describes the principal risks and uncertainties relating to the Group's operations and their potential impact, as well the trend and outlook associated with these risks and the mitigating actions we take to address these risks.

It is not possible to mitigate fully all of our risks, and there may be other risks and uncertainties besides those listed below which may also adversely affect the Group and its performance. More details on risk management can be found on page 78 and in the following sections of this Annual Report: Risk Committee Report (pages 84 and 85), Risk Management (pages 36 to 43) and Audit Committee Report (pages 79 to 83).

Risks and uncertainties	Trend and outlook	Mitigation
We may be adversely affected by devaluation of the Lari in addition to general deterioration of global, regional and Georgian economic conditions. Over the past six months, the Lari has depreciated against the US Dollar by nearly 25%. Although this devaluation has not adversely affected our business or performance to date, there is a risk that the devaluation that has occurred and/or any future devaluation of the Lari against the US Dollar may adversely affect the quality of our loan portfolio, as our corporate loan book is heavily US Dollar denominated and many of our customers earn Lari. We are also affected by other macroeconomic and market conditions globally, regionally and in Georgia. Growth has recently slowed in many emerging economies, including Georgia. In addition to currency exchange rates, other macroeconomic factors relating to Georgia, such as GDP, inflation and interest rates may have a material impact on loan losses, our margins and customer demand for our products and services.	Although the Lari has significantly depreciated against the US Dollar over the last six months, Lari depreciation against the Euro has been lower at approximately 5%. We expect that there may be further depreciation of the Lari but are unable to predict whether this will be significant. Global and regional economic conditions remain volatile and there is significant economic uncertainty notwithstanding general improvement in the financial sector. The IMF has predicted that GDP growth in the region is expected to decrease significantly in 2015. Although real GDP growth in Georgia was 4.8% in 2014, according to Geostat, we believe that real GDP growth in Georgia will be in the range of 1.5% to 3.0% due to the depreciation of the Lari against the US Dollar, declining net exports from Georgia to the region and weaker remittances. Despite the Lari depreciation, inflation is expected to remain relatively stable in 2015.	We continuously monitor market conditions and review market changes. We also perform stress and scenario testing to test our financial position in adverse economic conditions, which include Lari/US Dollar exchange rates of 2.5/1 and 2.7/1. We also establish limits on possible losses for each type of operation and monitor compliance with such limits. Given our strong liquidity position, we believe that we will be able to manage risk related to our US Dollar denominated loan book by re-profiling such loans. We are also looking at ways to stimulate growth of our Euro denominated loan book. In addition, the NBG requires banks to hold additional capital to mitigate potential risk associated with foreign currency loans to customers that earn Lari.

Risks and uncertainties	Trend and outlook	Mitigation
Our loan book is heavily US Dollar denominated, the quality of which may deteriorate as a result of Lari devaluation. As at 31 December 2014, approximately 80% and 55% of our corporate loan book and retail loan book, respectively, was denominated in US Dollars, while US Dollar income covered approximately 50% of the total loan book. The quality of our loan book is affected by changes in the creditworthiness of our customers, the ability of our customers to repay their loans on time, the statutory priority of claims against customers, our ability to enforce our security interests on customers' collateral and the value of such collateral should such customers fail to repay their loans, as well as factors beyond our control such as economic instability. Depreciation of the Lari against the US Dollar may result in customers having difficulty repaying their loans. Our impairment charges and, in turn, our cost of credit risk, may increase if a single large borrower defaults or a material concentration of smaller borrowers default.	In 2014, we saw significant loan book growth of 23.8%, as a result of the success of our Express Banking strategy. Despite the devaluation of the Lari, non-performing loans only increased by 6.0% during 2014. In 2014, the cost of our credit risk improved to 1.2% in 2014 compared to 1.4% in 2013. In Q1 2015, we have not seen an increase in non-performing loans despite the devaluation of the Lari against the US Dollar. Our loan book is collateralised and as at 31 December 2014, the value of collateral covered 88.1% of the gross loan book. In 2014 and the first quarter of 2015, there were no material changes to collateral values. The quality of our loan book and our future cost of risk is dependent on macroeconomic conditions and may deteriorate if conditions worsen. Devaluation of the Lari against the US Dollar may cause our customers to face difficulty in meeting their payment obligations.	We have credit policies and procedures in place which incorporate prudent lending criteria aligned with our risk appetite to effectively manage risk. These policies and procedures are reviewed frequently and amended as necessary to account for changes in the economic environment or other factors. Our Credit Committees set counterparty limits by the use of a credit risk classification and scoring system and approve individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, potential losses and corrective actions needed to reduce risk. We also stress test our loan book to estimate the size of the portfolio that may be impaired. In light of the Lari to US Dollar devaluation, we will continue to stress test using Lari/US Dollar exchange rates of 2.5/1 and 2.7/1. We allocate 75% more capital to the foreign currency loans of clients who earn income in Lari and discount real estate collateral values by 20% in our stress testing. Given our strong liquidity position, we believe that we will be able to manage risk related to our US Dollar denominated loan book by re-profiling such loans. Potential re-profiling may include extending maturities and/or converting US Dollar denominated loans into Euro denominated loans. We will also continue to expand our Lari and Euro denominated loan book in order to offset risk associated with our US Dollar denominated loan book.
The local economy and our business may be adversely affected by regional tensions. Since Georgia's independence from Russia in 1991, there have been ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia and with Russia. In 2008, Georgian troops engaged with local militias and Russian forces that crossed the international border. Although a ceasefire was signed in 2008, Russia continues to recognise the independence of the breakaway regions and its troops occupy these regions and relations between Russia and Georgia remain tense. The annexation of Crimea by Russia in 2014 has resulted in sanctions levied against Russia as well as social, political and military unrest between Russia and Ukraine, and has adversely affected the financial markets and economic stability of Russia and the neighbouring region. In addition, relations between Azerbaijan and Armenia, remain tense, particularly in relation to the Nagorno-Karabakh region, and there are sporadic instances of violence between these two countries.	Despite tensions in the breakaway territories, Russia has opened its market to Georgian exports. Over the past year, Russia and Ukraine's relationship has continued to deteriorate. Although Russia and Ukraine signed a ceasefire agreement in February, fighting continues between pro-Russian rebels and the Ukrainian Army. As a result, there is significant uncertainty as to if, how and when the conflict between Russia and Ukraine will be resolved.	Georgia has taken significant steps to reduce its dependence on Russia and Ukraine. Georgia's exports to Russia have decreased from 18.0% of total exports in 2006 to 9.9% of total exports in 2014. Georgia's energy dependence on Russia has also consistently decreased y-o-y. With the recent signing of the Deep and Comprehensive Free Trade Area (DCFTA) with the EU, we expect that Georgia's dependence on its regional neighbours will continue to decrease.

Risks and uncertainties	Trend and outlook	Mitigation
We face regulatory risk. Our businesses are highly regulated. Our banking operations must comply with capital adequacy and other regulatory ratios set by our regulator, the NBG, including reserve requirements and mandatory financial ratios. Our ability to comply with these regulations may be affected by a number of factors, including but not limited to increases in minimum capital adequacy ratios imposed by the NBG, our ability to raise capital, losses resulting from a deterioration in our asset quality, an increase in expenses and a decline in the values of our securities portfolio. We also provide other regulated financial services and offer financing products, including brokerage and pension fund operations, insurance and services such as asset management, all of which are subject to governmental supervision and regulation. With respect to our healthcare operations, there have been a number of reforms in the Georgian healthcare services market, including but not limited to the introduction of a Universal Healthcare Programme (UHC). It is possible that the Government may amend the UHC to enhance coverage and it may introduce new licensing or accreditation requirements, which may adversely affect our healthcare services and health insurance businesses.	Our businesses are currently in compliance with all applicable laws and regulations. Compliance with changes in capital adequacy requirements and other regulatory ratios may be affected by factors outside of our control, including but not limited to a weakening of the global and Georgian economies. In October 2014, an anti-monopoly agency was established and anti-monopoly legislation was implemented in respect of certain non-banking operations. We expect that such legislation may have an impact on our non-banking operations acquisitions as we will be required to seek permission to proceed with certain future acquisitions. As healthcare legislation is continuously evolving, we expect that additional regulations will be adopted. We, however, cannot predict what additional regulatory changes will be introduced in the future or their effect.	Continued investment in our people and processes is enabling us to meet our regulatory requirements and places us well to respond to changes in regulation. In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as required to fulfil our compliance obligations. Our compliance framework, at all levels, is subject to regular review by internal audit and external assurance providers.
We face operational risks. We are subject to the risk of incurring losses or undue costs due to inadequacies or failure of internal control processes or systems or human error, business disruptions, criminal activities (including fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. We are highly dependent on our information technology systems. The proper functioning of our systems, controls, risk management, accounting, customer service and other information technology systems, are critical to our operations.	Over the past few years, we have seen an increase in external fraud, although losses from such frauds have not increased significantly. In 2015, we expect that data security, particularly an increasing number of cyber-threats, will be the greatest concern in respect of operational risk.	We have an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department. We identify and assess operational risk categories within our processes and operations, detecting critical risk areas or groups of operations with an increased risk level and seek to implement appropriate preventative tools. Our internal audit function provides assurance on the adequacy and effectiveness of our internal controls. The work of the Audit Committee in reviewing our internal control system is set out on pages 79 to 83 of this Annual Report.

Risks and uncertainties	Trend and outlook	Mitigation
We face risks related to our healthcare business, GHG, and other non-banking investment businesses. Over the past year, we have significantly expanded our healthcare operations through GHG and intend to continue with this expansion by opening new healthcare facilities, and through the acquisition of additional healthcare facilities in Georgia. There is a risk that GHG may be unable to efficiently integrate the acquired hospitals and clinics and/or may not be able to realise the anticipated cost savings, benefits, synergies and revenue enhancements from the acquisitions. We have recently acquired a minority interest in Georgia Global Utilities, a water utility company. As this is a new business area for the Group, we face risks associated with water utility companies. We have stated that as part of our strategy we intend to divest our investment businesses (in full or partially) within six years. We have announced our intention to IPO our healthcare business through a planned stock market listing in 2015. It may not be possible, or desirable, to IPO our healthcare business due to a number of factors, including supportive equity issuance markets, the ability to achieve favourable terms for the IPO and/or the political and economic environment. With respect to future divestments by way of a stock market listing or trade sale, similar risks may be present.	From 2011 to 2013, we added over 800 beds through acquisitions and successfully integrated the acquired businesses, achieving significant cost savings, synergies and revenue enhancements from these acquisitions. In 2014, we added an additional 790 beds through acquisitions and either have or are in the process of completing the integration process. We expect to achieve the anticipated synergies during 2015. Businesses within the Group have successfully accessed the international capital markets since 2006. With respect to current capital markets conditions, although there is a strong level of preparatory activity by companies across Europe who are planning an IPO, the success of an IPO is very much linked to global and regional macroeconomic and political events, among other factors.	GHG has a solid track record of acquisitions. Led by a highly experienced management team, GHG has successfully acquired and integrated more than 20 companies in the hospital and insurance sectors over the past decade. We have a dedicated integration team comprising of highly experienced professionals with extensive integration project experience. The integration team meets at least weekly to discuss all aspects of the integration process, including but not limited to financial, commercial, clinical, human resources and legal matters. With respect to our minority interest in GGU, Mr Gilauri has recently joined the Supervisory Board and we have been able to select strong Group executives to join the GGU management team allowing us to learn the business from the inside. We are also seeking advice from experienced global professionals in the industry. With respect to the GHG IPO, we are targeting an IPO in 2015. However, if GHG decides to postpone the IPO due to market related or other reasons, we are confident that the Group's current funding levels are sufficient to meet our business plan and the financial position would not be adversely affected.

Managing risk effectively

The following discussion may not contain all the information that is important to readers of this Annual Report. A discussion of the Group's risk management and internal control framework can be found on page 78. The Group's principal risks and uncertainties are outlined on pages 32 to 35. The Risk Committee Report and the Audit Committee Report can be found on pages 79 to 85. In addition, Note 30 of the accompanying consolidated financial statements provides additional detail regarding risk management procedures.

Overview

The BGH Board is ultimately responsible for the Group's risk management and internal control framework.

Our approach to risk is founded on a strong risk management culture. Managing risk is engrained in our everyday business activities. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks and where business managers own the risks and risk management processes associated with their activities.

The BGH Board determines the Group's risk appetite and monitors risk exposures to ensure that the nature and extent of principal risks are aligned with the Group's overall goals and strategic objectives. The BGH Board has adopted formal policies and procedures which set out the system through which risks are identified, assessed, quantified, managed and monitored. Clearly delegated authority levels and reporting lines have been established and comprehensive reporting forms an integral part of our framework.

The BGH Risk Committee and BGH Audit Committee support the BGH Board in overseeing the risk management framework, the internal control infrastructure, monitoring risk exposures and reviewing the effectiveness of the risk management and internal control systems.

The role of the Bank in the overall risk management structure

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect to those risks. Business risks such as changes in the environment, technology and industry are monitored through the Group's strategic planning process.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of authority limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

Risk management structure

The Bank conducts its risk management activities within the framework of its unified risk management system.

Risk management bodies

The principal risk management bodies of the Bank are the: Supervisory Board, Audit Committee, Risk Committee, Management Board, Internal Audit and Compliance departments, Treasury, Credit Committees, Asset and Liability Management Committee (the ALCO) and Bank's Legal Department.

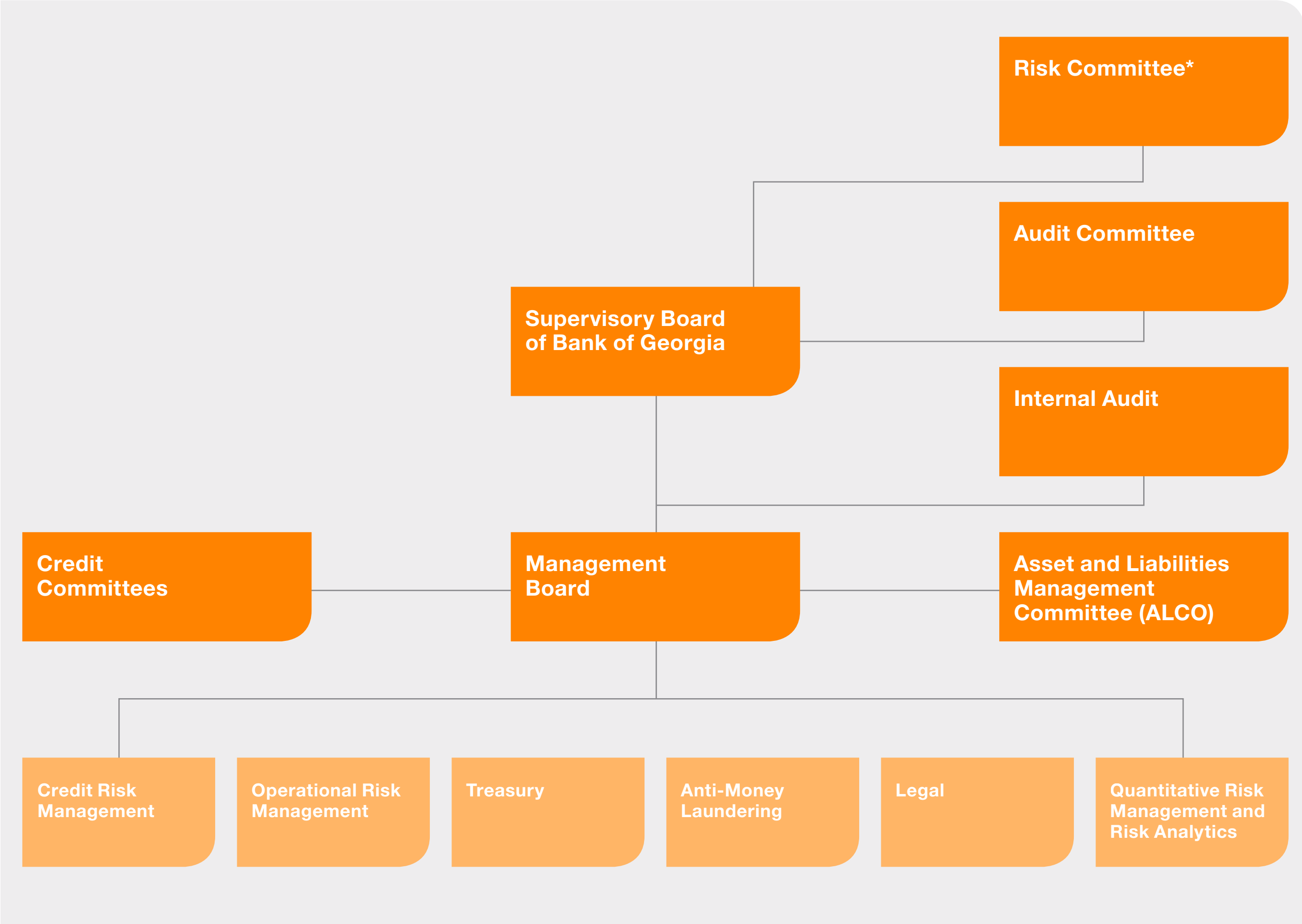
Supervisory Board. The Supervisory Board is responsible for the Bank's risk philosophy and appetite, overall risk management approach and for approving risk strategies and principles and is ultimately responsible for identifying and controlling risks.

The Supervisory Board approves the Bank's Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the respective authorities of the Credit Committees and/or Management Board (including approvals of single-borrower lending exposure exceeding US$25.0 million). The Bank Management Board presents a comprehensive credit risk report and market risk report to the Bank Supervisory Board for their review on a quarterly basis.

Risk Committee. Since 1 January 2014, the Risk Committee has the overall responsibility for advising the Supervisory Board on the Bank's overall risk appetite, tolerance and strategy taking into account the current and prospective macroeconomic and financial environment. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee reviews regularly and approves the parameters used by the Bank to assess risk and the adopted methodology and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to credit risk, market risk and operational risk.

Audit Committee. The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy related to the general control environment, manual and application controls, risks of intentional or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc. The Bank Audit Committee facilitates the activities of the internal audit and external auditors of the Bank. The Bank Audit Committee is elected and directly monitored by the Bank Supervisory Board.

Risk management bodies of Bank of Georgia



* As of 1 January 2014.

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.

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

The Bank Internal Audit Department is independent of the Bank Management Board. The Head of the Bank Internal Audit Department is appointed by the Bank Supervisory Board and reports directly to the Bank Audit Committee. The Bank Internal Audit Department has 13 employees. The Bank's Internal Audit Department audits all of the Bank's subsidiaries, apart from BNB and Medical Corporation EVEX which have their own internal audit departments.

As part of its auditing procedures, the Bank Internal Audit Department is responsible for the following:

- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives, as well as to current legislation and regulation and professional norms and ethics;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- reviewing the reliability of the Bank's information technology systems in accordance with a predetermined schedule;
- assessing the reliability and security of financial information;
- monitoring the Bank's internal controls and reporting procedures;
- participating in external audits and inspections by the NBG;
- making recommendations to management and the Audit Committee on the basis of external and internal audits to improve internal controls;
- monitoring the compliance of the Bank with the NBG regulations; and
- monitoring the implementation of auditors' recommendations.

Treasury. Treasury is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

Credit Committees. The Bank has three credit committees (together, the Credit Committees), each one supervising and managing the Bank's credit risks in respect of retail and investment management loans, corporate loans and counterparty loans. These three committees are: the Retail Banking Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk management Committee (FGCRMC), established in April 2014. The purpose of FGCRMC is to manage, monitor and control counterparty risk of financial and governmental counterparties of Bank of Georgia. Each Credit Committee approves individual loan transactions.

Each Credit Committee is comprised of tiers of subcommittees. The FGCRMC comprises two tiers of subcommittees. Committee consists of five members – Chief Risk Officer, Chief Financial Officer, Head of Quantitative Risk Management, Head of Treasury, Head of Trade Finance, and a majority of votes is enough for approval. If the potential exposure exceeds $10,000,000, then the decision is deferred to the Asset-Liability Committee (ALCO). The Credit Committee for retail loans comprises four tiers of subcommittees. (For risk management purposes, investment management loans are classified as retail loans.) The Credit Committee for corporate loans comprises three tiers of subcommittees. Participation of the CEO is required for exposures exceeding US$8.0 million. All exposures to single group borrowers over US$25.0 million require approval by the Supervisory Board. The first and second tier subcommittees of each of the Credit Committees meet on an as-needed basis, typically two to three times per week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its respective members.

Credit Committee tiers of subcommittees for Retail and Corporate Banking loans

	Subcommittee Chair	Approval limit for Corporate Banking loans (USD)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US$500,000 for existing and new borrowers
Tier II	Head of the Credit Risk Analysis unit	Between US$500,000 and US$1.5 million for existing and new borrowers
Tier III	CEO/CRO	Greater than US$1.5 million for existing and new borrowers

	Subcommittee Chair	Approval limit for Retail Banking loans (USD)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US$150,000
Tier II	Deputy Head of Credit Risk Management department	Between US$150,000 and US$300,000 for retail loans
Tier III	Director of the Credit Risk Management department	Between US$300,000 and US$2.0 million
Tier IV	CEO/CRO	Greater than US$2.0 million

Furthermore, the Credit Committee for Micro and SME loans comprises three tiers of subcommittees, and falls under the Credit Committee for retail loans. The first tier Micro and SME Credit Committee is chaired by the head of the group of the Micro and SME Lending Department and approves loans resulting in the Bank's overall exposure to a borrower of up to US$15,000. A loan officer, who submits a loan application/project to the Credit Committee, does not have right to vote for the approval of the loan. The second tier Micro and SME Credit Committee is chaired by the Micro and SME Department representative (head of the Micro and SME Department, deputy head of department, coordinator) and approves loans resulting in the Bank's overall exposure to a borrower up to US$100,000.

The third tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower in the range of US$100,000 to US$1,200,000. The committee is chaired by the Risk Manager, with mandatory participation from either the Head of the Credit Risk Analysis Unit or the Head of the Credit Risk Management Department (or his or her deputy) for exposures exceeding US$500,000.

Recovery Committees. The Problem Assets Committee is chaired by one of the following: (1) the heads of the Problem Loan Management Department; (2) the heads of the Risk departments, of which there are two; (3) the Deputy CEO (Chief Risk Officer); or (4) the Chief Executive Officer, depending on the level of exposure. The Problem Loan Recovery Department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Legal Officer). The Deputy CEO (Chief Risk Officer) also chairs the committee which oversees loans which are the subject of litigation.

The Corporate Recovery Committee is chaired by the Deputy CEO (Chief Risk Officer) and is responsible for monitoring all of the Bank's exposures to loans that are being managed by the Corporate Recovery Department. The Corporate Recovery Department reports to the Deputy CEO (Corporate Banking).

Asset and Liability Management Committee (ALCO). The 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, and approves treasury deals with non-standard terms. Specifically, ALCO:

- sets money-market credit exposure/lending limits;
- sets open currency position limits with respect to overnight and intraday positions;
- establishes stop-loss limits for foreign currency operations and securities;
- monitors compliance with the established risk management models for foreign exchange risk, interest rate risk and funding liquidity risk;
- sets ranges of interest rates for different maturities at which the Bank may place its liquid assets and attracts funding; and
- reviews different stress tests and capital adequacy models prepared by the Finance Department.

The ALCO is chaired by the CEO and sits at any time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the CEO, Deputy CEO Finance, Deputy CEO, Chief Risk Officer, Deputy CEO Corporate Banking, Deputy CEO, Retail Banking, Deputy CEO, Investment Management, the Head of the Finance Department, the Head of the Treasury Department and the Head of the Funding Department. The ALCO reviews financial reports and indices including the Bank's limits/ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, total cash flow analyses, customer cash flow analysis, and concentration risk analysis, for the past periods as well as future projections and forecasts, other financial analysis and further growth projections on a monthly basis.

Regulatory capital requirements in Georgia are set by NBG and are applied to the Bank, on a stand-alone basis. NBG requires the Bank to maintain a minimum Total Capital Adequacy ratio of 12% of risk-weighted assets and a minimum Tier I Capital Adequacy ratio of 8% of risk-weighted assets, both computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. On 30 June 2014, the NBG introduced new regulation aimed at replacing its old regulation, which was developed independently from international committees and organisations and was not based on Basel Accord. The new capital regulation is based on the Basel Accord 2/3, with material regulatory discretions applied by the NBG. Pillar 1 requirements of the new regulation came into force on 30 June 2014. The period starting 30 June 2014 through 31 December 2017 was declared as a transition period. During the transition period the Bank will be required to comply with both old and new capital regulations of the NBG. Pillar II of the Basel Accord 2/3, which entails implementation of the Internal Capital Adequacy Process (ICAAP), is expected to be introduced in 2015. The old regulation will be completely phased out by 1st January 2018.

ALCO is the key governing body for the capital adequacy management as well as for the respective risks identification and management. ALCO establishes limits and reviews actual performance over those limits for both NBG as well as Basel I capital adequacy regulations. The Finance Department is in charge of regular monthly monitoring and reporting over NBG and Basel I capital adequacy compliance with original pronouncements as well as with ALCO policies. Capital adequacy management is an integral part of the Bank's actual monthly reporting as well as the Bank's annual and semi-annual budget approval and budget review processes. The Finance Department prepares NBG and Basel I and Basel II – III capital adequacy actual reports as well as their forecasts and budgets, as well as different stress scenarios for both regulations, while ALCO and the Management Board regularly review them, identify risks, issue recommendations or propose amendment measures.

Legal Department. The Legal Department's principal purposes are to ensure that the Bank's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and the investigation of possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal Department is also responsible for providing legal support to structural units of the Bank and/or its subsidiaries.

Anti-Money Laundering (AML) Compliance. The Bank's AML Compliance Department is responsible for the implementation of the Bank's AML programme (including the development of AML policies and procedures, transaction monitoring and reporting and employee training) throughout the Bank and its subsidiaries. The AML programme is based on recommendations and requirements of international organisations including FATF and OFAC, as well as local regulations. The Bank's Internal Audit Department makes annual assessments of the Bank's AML systems and provides independent assurance of internal controls.

The Bank has adopted risk-based approach in its policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Financial Monitoring Service of Georgia (FMS), a legal entity of public law. The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular customers are engaged in money laundering or financing terrorism.

The Bank is obliged to notify the FMS of all transactions that are subject to monitoring. These reports are currently filed in electronic form in an offline mode by the AML Compliance Department, the reporting process is fully automated, and is supported by the special software application.

Bodies implementing risk management system

The Bank's risk management system is implemented by the Finance Department, Quantitative Risk Management and Risk Analytics Department, Treasury, Credit Risk Management, Operational Risk Management and Control, Legal, AML Compliance and Security departments and other departments. The Reporting and Analysis Unit reports to the Head of the Finance Department. The Finance Department and the Treasury Department report to the Deputy CEO (Finance). The Credit Risk Management (CB Portfolio Analysis), Quantitative Risk Management and Risk Analytics Department and Operational Risk Management and Control departments report to the Deputy CEO (Chief Risk Officer) and the Credit Risk Management (Retail Banking Portfolio Analysis) Department reports to the Deputy CEO (Retail Banking). The Legal Department, AML Compliance Department and Problem Loan Recovery Department report to the Deputy CEO (Legal).

The Quantitative Risk Management and Risk Analytics Department, in coordination with the Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO.

The Treasury Department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury Department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies, management of the quality of the Bank's loan portfolio and filing and loan administration.

The Operational Risk Management and Control Department identifies and assesses operational risk categories within the Bank's processes and operations. It also detects critical risk areas or groups of operations with an increased risk level and develops internal control procedures to address these risks, through (among other things) business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal Department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Compliance Unit of the Finance Department focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Bank Management Board and/or the Bank Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, Retail Banking operations procedures, the deposit policy and the Credit Policies.

Risk measurement and reporting

The Bank measures risk 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. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in the event that extreme events, however unlikely, do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control, allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Group maintains a management reporting system which requires the Credit Risk Management, Finance and Funding departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and treasury report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Bank Supervisory Board quarterly report containing analysis of the Bank's performance against its budget are provided.

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 report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank Management Board and Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank 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 Bank Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation and excessive risk concentration

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

The Bank actively uses collateral to reduce its credit risks.

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, 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 total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Definition: Credit risk is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities.

Mitigation: The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently if necessary. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented, new loan restructuring tools were introduced and the loan terms were tightened. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank monitors the market value of collateral, 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 the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to financial institutions is managed by limits covering on and off-balance sheet exposures and by settlement limits with respect to trading transactions such as foreign exchange contracts, etc.

The Credit Committees approve individual transactions and Credit Risk Management Department establish their credit risk categories and provisioning rates. The Deputy CEO (Chief Risk Officer) and Credit Risk Management Department reviews the credit quality of the portfolio and sets provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regulator 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 Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

Loan approval procedures

The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's Credit Policies that are approved by the Supervisory Board of the Bank and/or the Management Board of the Bank. The Credit Committees approve individual transactions. The Bank evaluates Corporate Banking clients on the basis of their credit history, business operations, market position, management, level of shareholder support, financial condition, proposed business and financing plan and on the quality of the collateral offered. The appropriate level of the relevant Credit Committee is responsible for making the decision for loan approval based on credit memorandum, and where appropriate, Credit Risk Manager's report. The loan approval procedures for Retail Banking loans depend on the type of retail lending product.

Applications for consumer loans, including credit cards and auto loans, are treated under the "scoring" approval procedure. While certain loans of up to GEL 6,000 are approved by the scoring system, the appropriate Credit Committee will determine the amount, terms and conditions of other loans. Applications for mortgage loans by Retail Banking clients are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount, terms and conditions of the loan, which must be approved at the appropriate Credit Committee level. In the case of microfinancing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate Credit Committee which makes the final decision. Credit Committee members have equal voting authority and decisions are approved by a simple majority of votes.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 December 2014, 88.1% of the Group's loans to clients were collateralised. An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal Department and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Measurement

Exposure and limits are subject to annual or more frequent review. The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management Department on a continuous basis. The Bank establishes provisions for impairment losses of financial assets on collective basis and on individual basis when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial condition and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgement of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets.

Provisions are made against gross loan amounts and accrued interest. Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of US$150,000 or more and non-significant loans are defined as loans less than US$150,000. The Credit Risk Management Department makes an individual assessment of all defaulted significant loans. Non-defaulted significant loans are given a collective assessment rate. All loans are divided into different groups (for example mortgage, consumer, microfinancing loans).

The Bank has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows.

Since 2004, the Bank, jointly with certain other Georgian banks and with the Credit information Group, a provider of Credit information solutions, established JSC Credit Information Georgia (CIG) that serves a centralised credit bureau in Georgia. Since 2009, all the participating banks share and contribute positive and negative customer credit information with CIG.

Change in loan loss provisioning methodology.

As of 1 January 2014, the Bank introduced a new loan loss provisioning methodology. The new provisioning methodology is based on statistical assessment of Probability of Default (PD) and Loss Given Default (LGD) for each of the loan type. The management believes that the new methodology is a refinement of the existing methodology and will allow better allocation of Cost of Risk between different products. The new methodology was developed in consultation with Deloitte. Deloitte was a provider of IT solution – fineVare.

Additionally, management considers this to be a change in significant accounting estimate. The new methodology is more granular than the previous methodology and introduces additional statistical analysis for determining the inputs. As at 1 January 2014 the Bank's allowance for loan impairment under the new methodology was GEL 114,552,000 a difference of GEL 3,843,000 as compared to the allowance for loan impairment if calculated based on the previous methodology (which represents less than 2.5% of the allowance). The allowance for loan impairment under the previous methodology would have been GEL 118,395,000 as at 1 January 2014. After 1 January 2014 it was impracticable for management to continue to estimate the allowance for loan impairment under the old methodology.

Non-corporate loans which are overdue for more than 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 365 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management Department, in consultation with the Bank's CEO and Deputy CEO, Finance.

Liquidity risk

Definition: Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Monitoring: Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/liabilities management process. The Finance department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to meet its payment obligations under both normal conditions and during a crisis situation. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank Management Board.

The Finance Department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Mitigation: The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 December 2014, in line with the NBG's requirements, 15% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customers' deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 5% for borrowings with a remaining maturity of one to two years and 10% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year.

Funding: In the Georgian marketplace, the majority of working capital loans are short term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

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

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

As of 31 December 2014, the Group's total consolidated amounts due to customers was GEL 3,338.7 million (US$1,791.5 million) (as compared to GEL 3,117.7 million and GEL 2,693.0 million as of 31 December 2013 and 2012, respectively) and represented 56.2% (as compared to 59.0% and 58.6% as of 31 December 2013 and 2012, respectively) of the Group's total liabilities. Included in amounts due to customers are term deposits of individuals. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In the case of early withdrawal, the interest on the deposit is foregone or reduced. As of 31 December 2014, total amounts due to credit institutions and debt securities issued were GEL 2,265.9 million (US$1,215.9 million) (as compared to GEL 1,886.1 million and GEL 1,657.2 million as of 31 December 2013 and 2012, respectively) and represented 38.1% (as compared to 35.7% and 36.1% as of 31 December 2013 and 2012, respectively) of the Group's total liabilities. Amounts due to credit institutions and debt securities are taken from a wide range of counterparties.

The Bank Management Board believes that both the Group's and the Bank's liquidity is sufficient to meet each of their present requirements. For information on the Group's liquid assets, liabilities and maturity profile of the Group's financial liabilities as well as further information on the liquidity risk of the Group see Note 30 of the Notes to consolidated financial statements of this Annual Report.

Borrowed funds maturity breakdown

31 December 2014 **Repayment schedule, USD million**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Eurobonds	–	–	400.0	–	–	–	–	–	–
Senior loans	77.1	63.0	43.8	18.6	9.5	–	–	–	–
Subordinated loans	–	–	–	10.0	–	–	–	–	65.0
Promissory notes	12.5	0.3	–	–	–	–	–	–	–
Total	89.6	63.3	443.8	28.6	9.5	–	–	–	65.0
% of total assets	2.2%	1.6%	10.9%	0.7%	0.2%	0.0%	0.0%	0.0%	1.6%

Market risk

Definition: The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from mismatches of maturity and currencies between the assets and liabilities, all of which are exposed to market fluctuations.

Mitigation: The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using different sensitivity analyses. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Quantitative Risk Management and Risk Analytics monitors compliance with such limits.

Currency exchange rate risk: Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on 400 business day statistical data. Its open currency positions are managed by the Treasury Department on a day-to-day basis and are monitored by the Quantitative Risk Management and Risk Analytics Department. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 15.0% of the Bank's NBG total regulatory capital. The open currency position is also limited by ALCO to a VAR of seven basis points of its NBG regulatory capital for a one-day trading period with a 95.0% "tolerance threshold". The ALCO limits are more conservative than NBG's requirements, which allow banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than US Dollars and Lari to 1% of the regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate potential negative impact on its net assets and earnings.

Interest rate risk: The Bank has exposure to interest rate risk as a result of lending at fixed and floating interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (net interest income before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the Quantitative Risk Management and Risk Analytics Department.

As of 31 December 2014, the Group's floating rate borrowings accounted for 10.5% of the Group's total liabilities.

The Bank is also subject to prepayment risk, which is the risk that the Bank 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. The Group reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

For further information on the Group's market risk see Note 30 of the Notes to consolidated financial statements of this Annual Report.

Operational risk

Definition: 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 Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and training and assessment processes, including the use of internal audit.

Mitigation: The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department.

The Operational Risk Management and Control Department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to mitigate identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Operational Risk Management and Control Department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Operational Risk Management Department, who reports to the Deputy CEO (Chief Risk Officer), is responsible for the oversight of the Bank's operational risks.

Executing our strategy

We have once again leveraged our distinctive capabilities and strengths to deliver record revenue and profit in 2014.

Consolidated results discussion

The following discussion may not contain all of the information that is important to readers of this Annual Report. The entirety of this Annual Report should be read for a more complete understanding of the events, risks and uncertainties affecting the Group, including liquidity, market, credit and operational risks.

This discussion compares the financial results for the year ended 31 December 2014 to the year ended 31 December 2013.

We reported full year 2014 record profit of GEL 240.8 million, up 15.0% y-o-y, translating into the earnings per share growth of 15.5% to GEL 6.85 per share, which compares to GEL 5.93 per share in 2013. We delivered record revenue of GEL 605.6 million, up 11.3% y-o-y supported by strong performance of all our main business segments. Return on Average Equity (ROAE) as a result stood at 19.0% in 2014, compared to 18.6% in 2013.

The 2014 performance reflects the strong profitability maintained during the year driven by robust performance of our banking businesses on the back of a 23.8% increase in net loan book. We also achieved strong non-interest income growth driven by the expansion of our Express banking footprint and the development of the Investment Management business. Our healthcare revenue more than doubled in 2014 as a result of organic growth as well as acquisitions.

Income statement summary

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Net interest income	**344,061**	314,096	9.5%
Net non-interest income	**261,517**	230,160	13.6%
Revenue[2]	**605,578**	544,256	11.3%
Operating expenses	**(258,949)**	(224,367)	15.4%
Operating income before cost of credit risk	**346,629**	319,889	8.4%
Cost of credit risk[3]	**(59,020)**	(61,802)	-4.5%
Net operating income before non-recurring items	**287,609**	258,087	11.4%
Net non-recurring items	**(11,017)**	(12,831)	14.1%
Profit	**240,767**	209,343	15.0%
Selected financial statistics			
Basic Earnings Per Share (Basic, diluted) (GEL)[1]	**6.85**	5.93	15.5%
ROAA (Return on Average Assets)	**3.6%**	3.6%	
ROAE (Return on Average Equity)[1]	**19.0%**	18.6%	
Dividends per ordinary share, GEL	**2.1**	2.0	
GEL/USD exchange rate, period end	**1.8636**	1.7363	
GEL/GBP exchange rate, period end	**2.8932**	2.8614	

1. Adjusted for results of placing of ordinary shares on 4 December 2014 and before one-off impairment of BG Bank in Ukraine in Q2 2014.
2. Revenue includes net interest income, net fee and commission income, net insurance revenue, net healthcare revenue and other operating non-interest income.
3. Cost of credit risk includes impairment charge (reversal of impairment) on: loans to customers, finance lease receivables and other assets and provisions.

ROAE	Net Interest Margin	Tier I Capital ratio (Basel 1)	Net loan book growth (y-o-y)
19.0%	7.4%	22.1%	23.8%

Discussion of results

Revenue

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Loans to customers	**539,983**	522,847	3.3%
Investment securities[1]	**39,988**	35,371	13.1%
Amounts due from credit institutions	**6,581**	8,423	-21.9%
Finance lease receivables	**8,370**	7,466	12.1%
Interest income	**594,922**	574,107	3.6%
Amounts due to customers	**(133,865)**	(159,028)	-15.8%
Amounts due to credit institutions, of which:	**(62,560)**	(65,161)	-4.0%
Subordinated debt	**(11,412)**	(22,394)	-49.0%
Loans and deposits from other banks	**(51,148)**	(42,767)	19.6%
Debt securities issued, of which:	**(54,436)**	(35,424)	53.7%
Eurobonds	**(52,679)**	(35,424)	48.7%
Other	**(1,757)**	–	–
Interest expense	**(250,861)**	(259,613)	-3.4%
Net interest income before interest rate swaps	**344,061**	314,494	9.4%
Net loss from interest rate swaps	**–**	(398)	-100.0%
Net interest income	**344,061**	314,096	9.5%
Fee and commission income	**132,455**	115,106	15.1%
Fee and commission expense	**(32,793)**	(28,210)	16.2%
Net fee and commission income	**99,662**	86,896	14.7%
Net insurance premiums earned	**95,850**	129,993	-26.3%
Net insurance claims incurred	**(66,421)**	(84,660)	-21.5%
Net insurance revenue	**29,429**	45,333	-35.1%
Healthcare revenue	**125,720**	60,013	109.5%
Cost of healthcare services	**(78,836)**	(37,644)	109.4%
Net healthcare revenue[2]	**46,884**	22,369	109.6%
Real estate income	**15,782**	5,898	167.6%
Net gain from trading and investment securities	**376**	3,097	-87.9%
Net gain from revaluation of investment property	**1,909**	9,788	-80.5%
Net gain from foreign currencies	**49,584**	43,512	14.0%
Other operating income	**17,891**	13,267	34.9%
Other operating non-interest income	**85,542**	75,562	13.2%
Net non-interest income	**261,517**	230,160	13.6%
Revenue	**605,578**	544,256	11.3%

1. Investment securities primarily consist of Georgian Government treasury bills and bonds and National Bank of Georgia's Certificates of Deposits (NBG CDs).
2. For the net healthcare revenue disclosures please see Healthcare Business segment discussion.

We delivered record revenue of GEL 605.6 million, up 11.3% y-o-y, as a result of maintained resilient growth momentum across all the major business lines in 2014. The robust performance was fuelled primarily by solid growth of the loan portfolio coupled with our continued focus on liability optimisation aimed at interest expense reduction. Additionally, fee and commission income also picked up significantly due to the expansion of our Express Banking footprint and investment management operations. Finally, our healthcare business also made a significant contribution, increasing 109.6% y-o-y, in line with our strategy to increase the scale of our healthcare business.

We delivered record net interest income for 2014 driven by the combined effect of high 'teens growth in lending and a 100 basis point cut in the Cost of Funding. Net interest income totalled GEL 344.1 million, up 9.5% y-o-y and driven by a 3.6% increase in interest income to GEL 594.9 million and a 3.4% decline in interest expense to GEL 250.9 million. Interest income grew primarily due to a 3.3% increase in interest income from loans to customers reaching GEL 540.0 million driven by a 17.7% increase in average net loans to customers, which more than offset 190 bps decline in the Loan Yield to 14.4% in 2014. The Loan Yield was impacted by strong competitive pressures driven by the high level of liquidity in the banking sector during the year, although our liquidity levels started to decline in the second-half of the year as a result of a significant pick-up in lending, translating into largely flat Loan Yield in Q4 2014 on q-o-q basis.

Interest expense declined, despite a 17.0% y-o-y increase in average interest bearing liabilities – a result of our intensified liability optimisation efforts during the year that drove Cost of Funding 100 bps lower y-o-y to 4.9%. The decline in the Cost of Funding was supported by a significant cost reduction in all respective items of interest bearing liabilities – Cost of Client Deposits, Cost of Amounts due to Credit Institutions and Cost of Debt Securities decreased 130 bps, 120 bps and 60 bps, respectively. The sharp decline in Cost of Client Deposits had the largest impact on the reduction in interest expense – despite an 8.9% increase in average client deposits, a corresponding balance sheet item. This decline was partly offset by a 53.7% increase in interest expense to debt securities to GEL 54.4 million as a result of an issue of Eurobonds in Q4 2013, which increased the corresponding average balance sheet item by 67.0% y-o-y.

Net Interest Margin (NIM)

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Net interest income	**344,061**	314,096	9.5%
Net Interest Margin	**7.4%**	7.8%	-40 bps
Average interest earning assets[1]	**4,680,837**	4,037,894	15.9%
Average interest bearing liabilities[1]	**5,127,194**	4,382,341	17.0%
Average net loans, currency blended	**3,710,551**	3,153,831	17.7%
Average net loans, GEL	**1,154,537**	972,229	18.8%
Average net loans, FC	**2,556,014**	2,181,602	17.2%
Average client deposits, currency blended	**3,087,110**	2,835,123	8.9%
Average client deposits, GEL	**905,757**	935,436	-3.2%
Average client deposits, FC	**2,181,353**	1,899,687	14.8%
Average liquid assets, currency blended	**1,864,265**	1,593,651	17.0%
Average liquid assets, GEL	**837,898**	746,107	12.3%
Average liquid assets, FC	**1,026,367**	847,544	21.1%
Excess liquidity (NBG)[2]	**177,917**	537,107	-66.9%
Liquid assets yield, currency blended	**2.5%**	2.7%	-20 bps
Liquid assets yield, GEL	**5.0%**	5.1%	-10 bps
Liquid assets yield, FC	**0.5%**	0.5%	–
Loan yield, total	**14.4%**	16.3%	-190 bps
Loan yield, GEL	**19.7%**	22.2%	-250 bps
Loan yield, FC	**11.8%**	13.5%	-170 bps
Cost of funding, total	**4.9%**	5.9%	-100 bps
Cost of funding, GEL	**4.0%**	4.9%	-90 bps
Cost of funding, FC	**5.2%**	6.3%	-110 bps

1. Daily averages are used for calculation of average interest earning assets and average interest bearing liabilities.
2. Excess liquidity is the excess amount of liquid assets, as defined per NBG, which exceeds the minimal amount of the same liquid assets for the purposes of the minimal 30% liquidity ratio per NBG definitions.

The NIM at 7.4% in 2014 was comfortably maintained within our target of 7% – 7.5%. It was down slightly by 40 bps y-o-y, reflecting the competitive pressures on Loan Yields driven by high level of liquidity in the banking sector during 2014. Our NIM of 7.4% in 2014 was a result of average interest earning assets growing faster than net interest income, coupled with decreasing yields (Loan Yield down 190 bps and Liquid Asset Yield down 20 bps) which were partially offset by declining Cost of Funding (down 100 bps). As mentioned above, our liquidity levels started to decline in the second-half of the year as a result of a significant pick-up in lending which reduced NIM pressure during the second half.

Net fee and commission income

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Fee and commission income	**132,455**	115,106	15.1%
Fee and commission expense	**(32,793)**	(28,210)	16.2%
Net fee and commission income	**99,662**	86,896	14.7%

We posted a record net fee and commission income of GEL 99.7 million in 2014, delivering growth of 14.7% y-o-y. This robust growth reflects the ongoing success of our Express Banking strategy, which resulted in the addition of over 200,000 Retail Banking clients, mostly emerging mass market customers, and triggered a significant increase in the volume of banking transactions. The increase – in line with the Express Banking strategy – has predominantly come through cost-effective remote channels. Fee and commission expense increased 16.2% to GEL 32.8 million as a result of fees related to client acquisition costs within the Express Banking strategy. Another factor contributing to the y-o-y increase in fee expenses was the outsourcing of the Bank's cash collection service (GEL 2.2 million in 2014), the costs of which effectively shifted from salaries and other employee benefits to fee and commission expense. The Investment Management business also increased its contribution to our net fee and commission income.

Net healthcare revenue and net insurance revenue

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Net insurance premiums earned	**95,850**	129,993	-26.3%
Net insurance claims incurred	**(66,421)**	(84,660)	-21.5%
Net insurance revenue	**29,429**	45,333	-35.1%
Healthcare revenue	**125,720**	60,013	109.5%
Cost of healthcare services, of which:	**(78,836)**	(37,644)	109.4%
Salaries and other employee benefits	**(47,085)**	(19,393)	142.8%
Depreciation expenses	**(6,598)**	(5,160)	27.9%
Other operating expenses	**(25,153)**	(13,091)	92.1%
Net healthcare revenue[1]	**46,884**	22,369	109.6%
Net insurance and healthcare revenue (total)	**76,313**	67,702	12.7%

1. For the net healthcare revenue disclosures please see the Healthcare Business segment discussion.

Our healthcare business further strengthened its market leader position in 2014 and enjoys a market share of 22.0% in terms of hospital beds as of 31 December 2014 (14.3% as of 31 December 2013). Our net healthcare revenue increased 109.6% y-o-y to GEL 46.9 million in 2014. The increase was driven by the strong performance of our healthcare operations, growing organically as well as through acquisitions. Furthermore, Government-funded universal healthcare programme (the Universal Healthcare Programme or UHC) favourably affected our healthcare business results. Finally, as the management shifts its focus to integrating the acquired facilities, it expects to realise significant synergies by upgrading the facilities, centralising the back-office functions and bringing their operational performance in line with the internal targets.

As anticipated, UHC had a negative effect on the health insurance businesses, which has over recent years been significant component of our insurance business. UHC resulted in a structural shift of private insurers' revenues that had previously come from state to the UHC system (and away from the private insurance companies). Furthermore, the shift of revenue to the UHC system did not immediately result in the elimination of associated costs, including insurance claims incurred. As anticipated, this has had a negative effect on the health insurance businesses. Notwithstanding these changes, our health insurance business strengthened its position in the market and accounted for 36.7% of the total health insurance sector in Georgia based on gross premiums revenue as of 30 September 2014, up from 28.9% as of 31 December 2013.

Other operating non-interest income

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Real estate income	**15,782**	5,898	167.6%
Net gain from trading and investment securities	**376**	3,097	-87.9%
Net gain from revaluation of investment property	**1,909**	9,788	-80.5%
Net gain from foreign currencies	**49,584**	43,512	14.0%
Other operating income	**17,891**	13,267	34.9%
Other operating non-interest income	**85,542**	75,562	13.2%

We benefited from completion of our second real estate project in 2014. Other operating non-interest income increased 13.2% to GEL 85.5 million, primarily as a result of nearly a threefold increase in real estate income to GEL 15.8 million. Real estate revenue predominantly comprises revenue from the sale of apartments in the second project of m² Real Estate, following completion of construction works as well as the handover of apartments. Net gain from foreign currencies is the second largest contributor to our other operating non-interest income and also increased to GEL 49.6 million, up 14.0% as a result of increased economic activity and higher volatility of Georgian Lari, which significantly increased the number of foreign currency transactions. The growth was also supported by a 34.9% increase in other operating income to GEL 17.9 million, which predominantly consists of revenue from the Bank's wine-making subsidiary, Teliani Valley.

The robust growth was partially offset by a decline in net gain from trading and investment securities from GEL 3.1 million to GEL 0.4 million, which comprises realised gains from investment securities consisting of Government-issued securities. Net gain from revaluation of investment property, which has declined from GEL 9.8 million in 2013 to GEL 1.9 million in 2014, comprises almost entirely of the revaluation of properties that m² Real Estate has earmarked for development.

Operating income before non-recurring items; cost of credit risk; profit for the period

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y
Salaries and other employee benefits	**(153,807)**	(135,065)	13.9%
General and administrative expenses	**(73,185)**	(60,364)	21.2%
Depreciation and amortisation expenses	**(28,207)**	(26,572)	6.2%
Other operating expenses	**(3,750)**	(2,366)	58.5%
Operating expenses	**(258,949)**	(224,367)	15.4%
Operating income before cost of credit risk	**346,629**	319,889	8.4%
Cost of credit risk	**(59,020)**	(61,802)	-4.5%
Operating income before net non-recurring items	**287,609**	258,087	11.4%
Net non-recurring items	**(11,017)**	(12,831)	-14.1%
Profit before income tax expense	**276,592**	245,256	12.8%
Income tax expense	**(35,825)**	(35,913)	-0.2%
Profit	**240,767**	209,343	15.0%

Our non-banking businesses scaled up significantly in 2014 and this is reflected in our operating expenses. Our operating expenses increased 15.4% driven by a 13.9% increase in salaries and other employment benefits to GEL 153.8 million and a 21.2% increase in general and administrative expenses to GEL 73.2 million. The increase in operating expenses was principally driven by the growth of our healthcare business, which continues to expand organically as well as through acquisitions. As a result of this expansion, the healthcare business headcount increased by 1,280 or 19.0% during the reporting period, pushing up costs. The effect is magnified in 2014 since the post-acquisition synergies have not yet been fully realised and cost synergies are expected mainly in the areas of procurement, process standardisation and payroll, as benchmarked against our internal targets. Bank of Georgia's stand-alone headcount has increased at a more modest rate of 5.5% to 3,769 employees but an increase in the number of senior managers eligible for share-based compensation resulted in higher salaries and other employee benefits expenses. Growth of operating expenses was also impacted by an expanded corporate social responsibility programme that entails initiatives promoting education, conserving nature and supporting children with disabilities. Our Investment Management business, which is gearing up to build its corporate advisory business, also put upward pressure on costs during the reporting period.

As a result, our Cost to Income ratio increased 160 bps to 42.8% in 2014. However, Cost to Income improved in the second half of the year, reaching 41.3% in Q4 2014. As the restructuring and integration process within our healthcare business nears completion, the Cost to Income ratio is expected to continue its recent downward trend. As a result of the foregoing, operating income before cost of credit risk increased 8.4% y-o-y to GEL 346.6 million.

Our asset quality has improved significantly as a result of further economic growth and our continuing prudent risk management policies. Cost of credit risk declined 4.5% to GEL 59.0 million in 2014. The increase in impairment of loans reflects the growth of the loan book, particularly in Retail Banking. As a result, our Cost of Risk improved to 1.2% in 2014, a 20 bps decrease from 1.4% in 2013. Cost of credit risk also reflects the new provisioning methodology the Bank implemented in January 2014. The overall effect of the new methodology[1] was largely immaterial as its positive impact on the Retail Banking cost of credit risk was only slightly more than a small negative impact on the Corporate Banking cost of credit risk.

NPL coverage adjusted for the discounted value of collateral stood at a comfortable level of 111.1% as of 31 December 2014 compared to 112.4% as of 30 September 2014 and 110.6% as of 31 December 2013. The Bank's non-performing loans (NPLs), defined as the principal and interest on the overdue loans for more than 90 days and additional potential losses estimated by management, increased 6.0% y-o-y to GEL 153.6 million as of 31 December 2014 – lower than the growth of the gross loan book. The Group's NPLs to Gross Loans to Clients ratio as a result declined from 4.0% as of 31 December 2013 to 3.4% as of 31 December 2014. The NPL Coverage ratio stood at 68.0%, compared to 83.8% as of 31 December 2013, the decline predominantly reflects increased write-offs in 2014.

The Group's net operating income before non-recurring items for 2014 totalled GEL 287.6 million, up 11.4% y-o-y. The Bank's net non-recurring items for the period decreased to GEL 11.0 million and included full impairment of the Bank's legacy investment in BG Bank in Ukraine (approximately GEL 3.8 million).

As a result, profit before income tax in 2014 totalled GEL 276.6 million, up 12.8% y-o-y. After deducting income tax expense of GEL 35.8 million, the Group's 2014 profit for the period stood at GEL 240.8 million, up 15.0% compared to 2014.

1. The new provisioning methodology is based on statistical assessment of Probability of Default (PD) and Loss Given Default (LGD) for each loan type. Management believes that the new methodology will allow better allocation of Cost of Risk between different products. The overall impact of the change in methodology on the provisioning rate and on the financial statements for this period is not material. The new methodology was developed in consultation with Deloitte, who also provided the respectively integrated IT solution.

Balance sheet highlights

Our balance sheet remained liquid (NBG Liquidity ratio of 35.0%) **and well-capitalised** (BIS Tier I of 22.1%) **with a diversified funding base** (Client Deposits to Liabilities of 55.7%). The y-o-y change in the composition of the balance sheet reflects strong growth of lending in the second half of 2014, particularly in Retail Banking, which drove net loans up by 23.8% to GEL 4,360.7 million. The pick-up in lending decreased the share of liquid assets to total assets to a comfortable level of 25.1% as at 31 December 2014 from 29.5% as at 31 December 2013, when the liquidity pool was significantly higher due to an issue of Eurobonds in Q4 2013. Our assets increased 16.2% y-o-y to GEL 7,579.1 million.

The Bank funded its growth predominantly through the excess liquidity. Additionally, more focus was placed on attracting cheaper Development Financial Institutions (DFI) funds in order to further reduce the Cost of Funding and as a result we prepaid GEL 114.0 million of DFI funding in 2014 with cheaper funds. As a result, the share of amounts due to credit institutions to total liabilities increased from 21.9% to 23.7%, with the share of client deposits to total liabilities declining from 58.8% to 55.7%. Cost of Funding improved by 100 bps to a record low of 4.9% on the back of a significant increase in interest bearing liabilities by 31 December 2014, which were up 12.0% y-o-y. The Group's total liabilities increased 12.6% to GEL 5,945.1 million.

Total equity attributable to the shareholders of the Group stood at GEL 1,574.1 million, up 33.1% y-o-y, reflecting an additional GEL 215.7 million of equity raised in December 2014 through the issue of new ordinary shares to existing and new institutional investors representing up to 9.99% of BGH's issued share capital. The Bank's book value per share on 31 December 2014 stood at GEL 41.45 (US$22.24/GBP14.33), compared to GEL 34.85 (US$20.07/GBP12.18) as of 31 December 2013.

Liquidity, Funding and Capital Management

GEL thousands, unless otherwise noted	31 Dec 2014	31 Dec 2013	Change y-o-y	30 Sep 2014	Change q-on-q
Amounts due to credit institutions, of which:	**1,409,214**	1,157,979	21.7%	1,264,299	11.5%
Subordinated debt	**140,045**	168,710	-17.0%	133,883	4.6%
Other amounts due to credit institutions	**1,269,169**	989,269	28.3%	1,130,416	12.3%
Debt securities issued, of which:	**856,695**	728,117	17.7%	794,952	7.8%
Eurobonds	**779,445**	728,117	7.0%	719,184	8.4%
Other	**77,250**	–	–	75,768	2.0%
Customer Funds, of which:	**3,338,725**	3,117,732	7.1%	3,088,254	8.1%
Client deposits, of which	**3,313,715**	3,107,209	6.6%	3,060,784	8.3%
CDs	**543,640**	221,539	145.4%	442,808	22.8%
Promissory notes	**25,010**	10,523	137.7%	27,470	-9.0%
Net Loans/Customer Funds	**130.6%**	113.0%		123.9%	
Net Loans/Customer Funds + DFIs	**110.6%**	96.2%		103.9%	
Liquid assets	**1,899,171**	1,921,704	-1.2%	1,750,417	8.5%
Liquid assets, GEL	**1,036,126**	806,870	28.4%	854,270	21.3%
Liquid assets, FC	**863,045**	1,114,834	-22.6%	896,147	-3.7%
Liquid assets as percent of total assets	**25.0%**	29.5%	-450 bps	25.7%	-70 bps
Liquid assets as percent of total liabilities	**31.8%**	36.4%	-460 bps	31.9%	-10 bps
NBG liquidity ratio	**35.0%**	45.7%	-10.7%	37.8%	-2.8%
Excess liquidity (NBG)	**177,917**	537,107	-66.9%	245,941	-27.7%
RATIOS					
Tier I Capital Adequacy ratio (NBG)	**13.3%**	14.4%	-110 bps	14.5%	-120 bps
Total Capital Adequacy ratio (NBG)	**13.8%**	15.4%	-160 bps	14.1%	-30 bps
Tier I Capital Adequacy ratio (NBG Basel 2/3)	**11.1%**	n/a	n/a	11.2%	-10 bps
Total Capital Adequacy ratio (NBG Basel 2/3)	**14.1%**	n/a	n/a	14.2%	-10 bps
Tier I Capital Adequacy ratio (BIS)	**22.1%**	23.0%	-90 bps	22.7%	-60 bps
Total Capital Adequacy ratio (BIS)	**26.1%**	27.1%	-100 bps	26.4%	-30 bps

We maintained a strong liquidity position while at the same time deploying a large portion of our excess liquid assets into loans in 2014. The deployment of liquid assets into loans in the second half of 2014 led to a 1.2% y-o-y decline in liquid assets. Consequently, the NBG liquidity ratio decreased to 35.0% from 45.7% at the end of 2013, against a regulatory requirement of 30.0%. The pick-up in lending during the period also resulted in a Net Loans to Customer Funds ratio of 130.6% compared to 113.0% a year ago. Net Loans to Customer Funds and DFIs ratio, closely observed by management, stood at 110.6% compared to 96.2% as of 31 December 2013.

The Bank's Tier I ratio (BIS) stood at a robust 22.1%, compared to 22.7% as of 30 September 2014 and 23.0% as of 31 December 2013. Risk weighted assets increased 23.1% y-o-y to GEL 6,253.0 million, reflecting the increase in the loan book during the year, while Tier I Capital (BIS) increased 18.1% to GEL 1,381.8 million. The Bank's NBG Tier I Capital Adequacy Ratio calculated according to new regulations based on Basel 2/3 stood at 11.1% compared to 11.2% as of 30 September 2014.

Retail Banking

The Bank's Retail Banking registered another year of record performance. In 2014, Retail Banking revenue increased 11.2% to GEL 296.6 million and profit increased 32.1% to GEL 133.3 million.

Net loan book (GEL million)

2,067.0

+28.1% y-o-y

Revenue (GEL million)

296.6

+11.2% y-o-y

Bank of Georgia is the largest Retail Banking services provider in Georgia, offering a wide range of products and services including consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and handling customer multicurrency deposits for both individuals and legal entities. In order to better serve the needs of our customers, in addition to the traditional banking services, Retail Banking offers differentiated products and services through the well-recognised Solo Banking, a premier banking service and recently launched Express Banking service, which aims to expand transactional banking coverage through various distance channels. Retail Banking serves over 1.5 million customers through 219 branches, 523 ATMs and 2,239 Express Pay terminals. Retail Banking also encompasses SMEs and micro businesses, serving approximately 90,000 small and medium-size companies.

The growth was driven by net interest income that increased 11.4% to GEL 213.8 million as a result of the significant growth of 28.1% in the Retail Banking loan book to GEL 2,067.0 million, strongly supported by a robust growth of SME and micro, mortgage loans and consumer loans.

Net fee and commission income and net gain from foreign currencies increased 9.0% and 24.3% respectively. The growth of both items are mainly attributed to the Express Banking franchise, which has attracted c.560,000 previously unbanked emerging mass market customers since its launch three years ago, and driven the number of client-related foreign currency and other banking transactions substantially higher. The growth of Retail Banking client deposit balances, which increased 24.2% y-o-y to GEL 1,349.6 million, has not been compromised by the cut in deposit costs. This is largely due to the significant number of new Express Banking clients, who bring with them the cheapest source of deposits for the bank – current accounts and demand deposits.

Operating expenses increased 7.5%, or at a much slower rate than revenue growth rate, reflecting cost efficiencies achieved largely due to the success of the Express Banking footprint, with an increasing shift to low-cost remote channel-intensive Express Banking services.

In 2014, transactions executed through Express Pay terminals, ATMs, internet and mobile channels increased 100.1%, 21.2% 38.4% and 202.2%, respectively while operations through tellers decreased 4.0%.

The cost of credit risk improved significantly from GEL 29.2 million to GEL 9.2 million, as a result of lower impairments reflecting further economic growth and our continuing prudent risk management policies. The effects of the new provisioning methodology also had a positive impact on the Retail Banking cost of credit risk. As a result, Retail Banking profit reached GEL 133.3 million, up by 32.1% y-o-y.

We enhanced our footprint in the significantly more profitable retail franchise through the Privatbank acquisition in January 2015. Privatbank is the 9th largest bank in Georgia by total assets and has a focus on retail banking, with retail loans representing 86% of its loan book, while the cards business accounts for 69% of loans (based on 2013 IFRS consolidated financial statements). Privatbank has a countrywide distribution network with 92 branches (equal to 42% of our current distribution network), 431 ATMs and 1,937 POS terminals and 1,154 employees. Privatbank has a 4.9% market share of retail loans and 3.0% of customer deposits (market data based on standalone accounts as published by the National Bank of Georgia ("NBG") as of 31 December 2014).

This transaction offers significant synergy potential. Express Pay terminals will be used by Privatbank customers for transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups. Potential revenue synergies are expected to be captured from the cross-selling of our banking products to the customers of Privatbank, which has a more limited portfolio of banking products due to its strategic focus on credit cards. Cost synergies are expected mainly as a result of a reduction in Privatbank's Cost of Funding, back office and distribution network optimisation initiatives and significant potential to increase the utilisation of the Privatbank franchise.

Operating highlights

- Increased number of Express Pay terminals to 2,239 from 985 in 2013 and utilisation of Express Pay terminals has doubled in 2014, with the number of transactions growing at 100.1% y-o-y to 99.4 million during the year. Express Pay terminals are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups.
- Outstanding balances on retail current accounts increased 24.7% to GEL 356.3 million in 2014.
- Issued 589,348 debit cards, including Express cards in 2014 bringing the total debit cards outstanding to 1,040,016, up 21.3% y-o-y. Since the launch on 5 September 2012, 721,909 Express cards have been issued, in essence replacing pre-paid metro cards in circulation since July 2009. Express cards are the first contactless cards in Georgia, which also serve as a metro and bus transport payment card and offer loyalty programmes to clients.
- Issued 33,779 credit cards of which 26,450 were American Express cards in 2014. A total of 230,790 American Express cards have been issued since the launch in November 2009. The total number of outstanding credit cards amounted to 116,615 (of which 110,362 were American Express cards).
- Number of Retail Banking clients totalled 1,451,777 up 16.6% y-o-y and by 5.3% (73,304 clients) q-o-q. In 2014 we acquired 1,701 new clients in the Solo business line, the Bank's mass- affluent sub-brand. As of 31 December 2014, the number of Solo clients reached 7,971.
- POS terminals outstanding reached 6,320, up 30.7% y-o-y. The volume of transactions through the Bank's POS terminals grew 35.4% y-o-y to GEL 579.1 million, while the number of POS transactions increased 7.4 million y-o-y from 7.2 million in 2013 to 14.6 million in 2014.

Financial performance

GEL thousands, unless otherwise noted	As at and for year ended 31 Dec 2014	31 Dec 2013	Change y-o-y
Net interest income	**213,790**	191,851	11.4%
Net fee and commission income	**58,867**	54,025	9.0%
Net gain from foreign currencies	**20,274**	16,308	24.3%
Other operating non-interest income	**3,650**	4,537	-19.6%
Revenue	**296,581**	266,721	11.2%
Operating expenses	**(128,972)**	(119,963)	7.5%
Operating income before cost of credit risk	**167,609**	146,758	14.2%
Cost of credit risk	**(9,226)**	(29,172)	-68.4%
Net non-recurring items	**(5,795)**	(2,200)	163.4%
Profit before income tax expense	**152,588**	115,386	32.2%
Income tax expense	**(19,325)**	(14,468)	33.6%
Profit	**133,263**	100,918	32.1%
Net loans, stand-alone	**2,066,973**	1,612,942	28.1%
Client deposits, stand-alone	**1,349,556**	1,086,607	24.2%
Net interest margin, stand-alone	**9.8%**	10.3%	-50 bps
Loan yield, stand-alone	**17.4%**	19.8%	-240 bps
Cost of deposits, stand-alone	**3.8%**	5.2%	-140 bps
Cost/income ratio	**43.5%**	45.0%	-150 bps

Side by side analysis of operating KPIs for Bank of Georgia and Privatbank

	31 Dec 2014		31 Dec 2013
	Bank of Georgia (stand-alone)	**Privatbank Georgia**	Bank of Georgia (stand-alone)
Total number of Retail Banking clients (k)	**1,452**	**436**[1]	1,245
Total number of cards (k)	**1,157**	**904**[2]	976
Number of branches	**219**	**92**	202
Number of ATMs	**523**	**431**	496
Number of POS	**6,320**	**1,937**	4,836
Number of employees	**3,769**	**1,154**	3,574

1. Includes active clients only.
2. Includes active and non-active card accounts.

Capturing growth opportunities
How Express works

Express branch

- 84 small format branches
- GEL 1.5 million net profit per month
- Average capex per one Express branch: US$50K
- Opening accounts and deposits
- Issuing loans and credit cards
- Credit card and loan repayments
- Cash deposit into accounts
- Money transfers
- Utility and other payments

Transport

- Acts as payments card in metro, buses and mini-buses
- 721,909 cards outstanding
- >14 million payments in transport in 2014

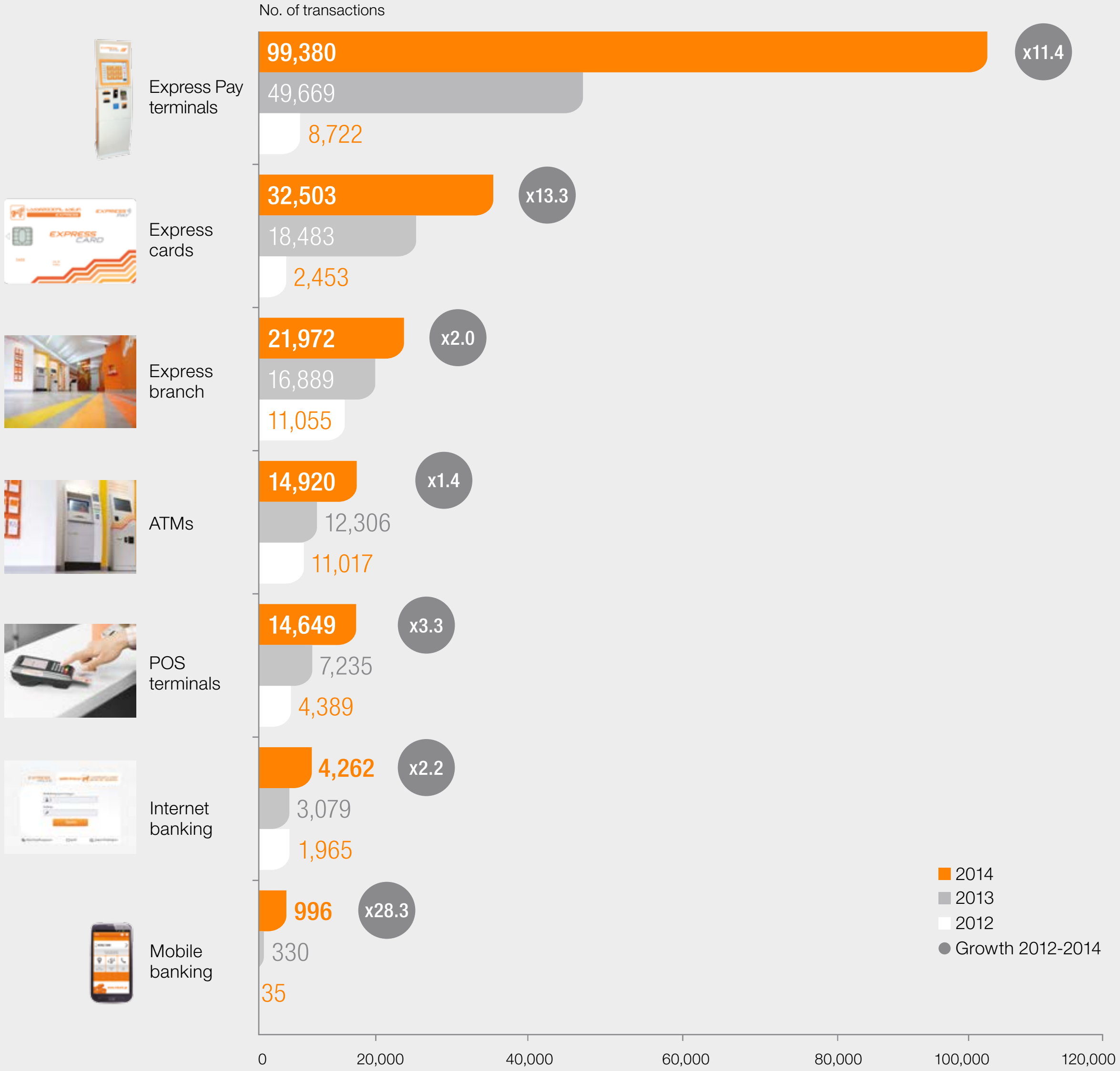
Express Pay terminals

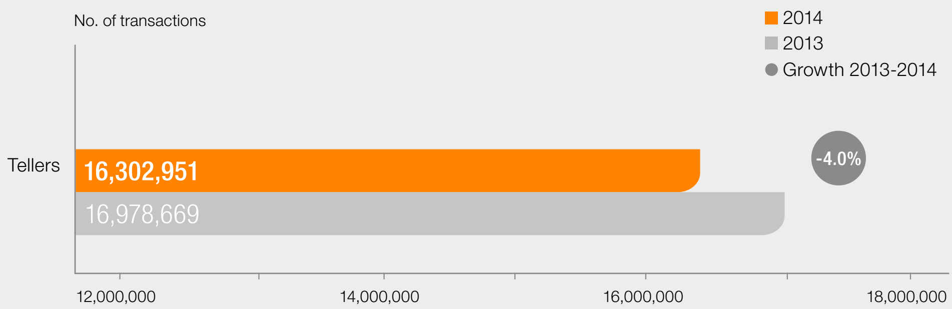
- 2,239 terminals
- 152 merchants and 230 services
- Cost of one Express Pay terminal: US$2,500 Credit card repayments
- Loan repayments Cash deposit into accounts Loan activation
- Utility and other repayments Mobile top-ups
- MetroMoney top-ups

Express merchant

- 6,320 POS terminals
- >50% market share
- Market size – 10,000 merchants
- Payments via cards and Express points
- P2P transactions between merchant and supplier
- Credit limit with 0% interest rate

Capturing emerging mass market customers through cost-effective channels





Corporate Banking

Net loan book (GEL million)

2,160.8

+18.8% y-o-y

Revenue (GEL million)

164.1

+1.3% y-o-y

Highlights

Revenue for the Corporate Banking segment remained largely flat, increasing 1.3% to GEL 164.1 million and profit decreased 15.9% to GEL 61.6 million, as a result of:

- A largely flat net interest income of GEL 105.2 million, up 1.2%, is a result of a slower growth of the Corporate Banking segment that was largely due to competitive pressures.
- High liquidity environment in the Georgian banking sector during the year, that resulted in declining Corporate Banking Loan Yields (down 180 bps) and consequent downward pressure on the NIM, which declined by 50 bps.
- NIM pressure that was partially offset by a 170 bps decline in Cost of Client Deposits and 18.8% y-o-y growth in the Corporate Banking loan book.
- 9.2% decrease in net fee and commission income to GEL 24.8 million.
- Net gain from foreign currencies increased 10.5% to GEL 27.4 million as a result of a significant growth of foreign currency related client transactions.
- Corporate Banking cost of credit risk rose to GEL 41.2 million, up 32.6% y-o-y, which reflected the default of a borrower in the agricultural sector in Q1 2014 as well as a slight negative impact of the new provisioning methodology.
- Agreed a US$25 million one-year Trade Finance Club facility with Citi, the first Trade Finance Club facility arranged by Citi for a Georgian bank.
- Signed a US$20 million trade facility loan agreement with Turk Eximbank to extend financing to Georgian companies that import Turkish consumer and capital goods in Georgia.

Financial performance

GEL thousands, unless otherwise noted	As at and for year ended 31 Dec 2014	31 Dec 2013	Change y-o-y
Net interest income	**105,223**	103,967	1.2%
Net fee and commission income	**24,810**	27,318	-9.2%
Net gain from foreign currencies	**27,386**	24,774	10.5%
Other operating non-interest income	**6,653**	5,971	11.4%
Revenue	**164,072**	**162,030**	**1.3%**
Operating expenses	**(49,060)**	(43,833)	11.9%
Operating income before cost of credit risk	**115,012**	**118,197**	**-2.7%**
Cost of credit risk	**(41,176)**	(31,054)	32.6%
Net non-recurring items	**(2,672)**	(2,690)	-0.7%
Profit before income tax expense	**71,164**	**84,453**	**-15.7%**
Income tax expense	**(9,528)**	(11,164)	-14.7%
Profit	**61,636**	**73,289**	**-15.9%**
Net loans, stand-alone	**2,160,767**	1,819,171	18.8%
Letters of credit and guarantees, stand-alone[1]	**552,661**	499,055	10.7%
Client deposits, stand-alone	**1,186,026**	1,221,428	-2.9%
Net interest margin, stand-alone	**4.5%**	5.0%	-50 bps
Loan yield, stand-alone	**10.6%**	12.4%	-180 bps
Cost of deposits, stand-alone	**2.9%**	4.6%	-170 bps
Cost/income ratio	**29.9%**	27.1%	280 bps

1. Off-balance sheet items.

Investment Management

AUM* (GEL million)

1,027.1

+21.4% y-o-y

Client deposits (GEL million)

805.3

+18.5% y-o-y

Investment Management, combining our superior knowledge and capabilities in the Georgian and neighbouring markets both in terms of reach and expertise, consists of Bank of Georgia Wealth Management and the brokerage arm of the Bank, Galt & Taggart. Bank of Georgia Wealth Management provides private banking services to high-net-worth individuals and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Investment Management serves international clients from 70 countries. Galt & Taggart brings under one brand corporate advisory, private equity and brokerage services. Our Research Department currently covers Georgian and Azeri economies and publishes Georgian sector research.

Highlights

- Wealth Management deposits increased 18.5% y-o-y to GEL 805.3 million notwithstanding a 190 bps decline in Cost of Client Deposits to 6.0% for the Investment Management segment.
- The growth in deposits was fuelled by strong growth of current accounts and demand deposits, which increased 40.8% y-o-y in spite of a 120 bps y-o-y decrease in cost of current accounts and demand deposits.
- The AUM of the Investment Management segment, which includes WM client deposits, Galt & Taggart brokerage client assets, Wealth Management clients' assets held at Bank of Georgia, Custody and Aldagi pension scheme assets, increased 21.4% y-o-y to GEL 1,027.1 million.
- Galt & Taggart had a particularly strong year in 2014 following high bond issuance activity on the local market, led by Galt & Taggart, as well as a successful M&A transaction during the year. As a result, net fee and commission income of the Investment Management business increased to GEL 8.8 million in 2014 from just GEL 1.2 million in 2013.
- Rebranded BG Capital to Galt and Taggart bringing corporate advisory, private equity and brokerage services with consistent branding under one roof.
- Galt & Taggart hosted the first investor conference dedicated to the equity and bond market development in the region. The conference brought together 60 institutional investors and analysts and more than 100 one-on-one meetings were held with Georgian and Azeri companies.
- As of 31 December 2014, the amount of the Bank's CDs issued to Investment Management clients reached GEL 460.6 million.
- Successfully placed US$8 million, EUR 8 million and GBP 5 million Euroclearable CDs.
- The Investment Management business served over 1,400 clients from 70 countries as of 31 December 2014. Client deposits attracted by Investment Management have grown at a compound annual growth rate (CAGR) of 37.6% over the last five-year period, to GEL 805.3 million as of 31 December 2014.
- Since its launch in June 2012, Galt & Taggart Research has initiated research coverage of the Georgian economy and Azeri economies, including a report analysing the impact of the Russia-Ukraine stand-off on the Georgian economy, the Georgian Retail Real Estate Market, the Georgian Wine Sector, Georgian Agricultural Sector, Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and has issued notes on the Georgian State Budget and the Tourism Sector.
- Within the Hydro Private Equity fund, actively moving forward with the detailed feasibility study on a hydropower plant in Georgia with the help of several specialised contractors. The feasibility study was carried out and financed jointly by Bank of Georgia Group and RP Global – the Bank's Austrian partners in Hydro development (total cost of feasibility was approximately US$1.3 million).

Wealth Management financial highlights

GEL thousands, unless otherwise noted	As at and for year ended 31 Dec 2014	31 Dec 2013	Change y-o-y
Client deposits, stand-alone	**805,266**	679,401	18.5%
Time deposits, stand-alone	**596,366**	531,021	12.3%
Current accounts and demand deposits, stand-alone	**208,900**	148,380	40.8%
Cost of deposits, stand-alone	**6.0%**	7.9%	-190 bps

* WM client deposits, Galt & Taggart brokerage client assets, WM clients' assets held at Bank of Georgia custody and Aldagi pension scheme assets.

Healthcare Business

Our healthcare services business, which operates 39 healthcare facilities and 2,140 hospital beds, reported profit that more than tripled y-o-y, increasing to GEL 14.0 million in 2014 (2013: GEL 4.4 million).

Revenue (GEL million)

189.7

+20.5% y-o-y

EBITDA (GEL million)

37.8

+8.5% y-o-y

Healthcare services

Our healthcare services business delivered record growth in 2014, driven by acquisitions that resulted in a much stronger market position, especially in Tbilisi, and by favourable Government policy that increased spending on healthcare

In 2014, the net healthcare services revenue, which includes revenue from hospitals and ambulatory clinics, increased 60.3% y-o-y to GEL 54.1 million, mainly driven by the following factors:

- Implementation of the expansion strategy that resulted in the acquisition of seven hospitals with a total of 850 beds during 2014, bringing the number of total healthcare facilities to 39 and hospital beds to 2,140, up from 32 and 1,329, respectively.
- Our increased footprint in Tbilisi, the capital city of Georgia, where our market share grew from 1.3% as of 31 December 2013 to 14.1% as of 31 December 2014 in terms of hospital beds.
- The introduction of UHC by the Government, as a result of which all Georgian citizens are eligible for the new Government-funded basic health coverage. Since the introduction of UHC in 2012, Government expenditures on healthcare have increased over 65% from GEL 414.5 million in 2012 to GEL 692.9 million in 2014 and are expected to be further increased to GEL 768.3 million in 2015 according to the state budget for 2015 announced by the Ministry of Finance of Georgia.

The increase in costs outpaced growth in net healthcare services revenue as a result of inefficiencies brought in through acquisition of the new hospitals. While the integration of the acquired healthcare facilities is ongoing and partially completed, including centralisation of some of the back-office functions, we expect significant further synergy gains to be made in 2015 as management shifts its focus from acquisition to integration mode.

Health insurance

High double-digit growth in our healthcare service revenues was partially offset by the anticipated decline in health insurance revenues, decreasing 32.2% to GEL 70.0 million, resulting from UHC implementation. In addition to providing basic healthcare coverage to all citizens of Georgia, the UHC also entails a structural shift of private insurers' revenues that had previously come from state to the UHC system, implying direct management by the Government.

However, our private health insurance has shown resilience notwithstanding challenges posed by the implementation of UHC. In spite of the competition from UHC, revenue from private medical insurance products grew by 3.9% y-o-y, with approximately 200,000 people holding our health insurance policies as at 31 December 2014.

Within the changed private insurance landscape that resulted from the introduction of UHC, our health insurance business strengthened its market share and accounted for 36.7% of the total health insurance sector of Georgia based on gross premiums revenue as of 30 September 2014, up from 28.9% as of 31 December 2013.

Income statement

GEL thousands, unless otherwise noted	31 Dec 2014 Healthcare services	Health insurance	Elimin-ations	Consolidated healthcare business	31 Dec 2013 Healthcare services	Health insurance	Elimin-ations	Consolidated healthcare business	Change, y-o-y Healthcare services	Health insurance	Consolidated healthcare business
Revenue	**138,473**	**70,010**	**(18,776)**	**189,707**	**85,213**	**103,220**	**(30,959)**	**157,474**	**62.5%**	**-32.2%**	**20.5%**
COGS, insurance claims expense	**(78,891)**	**(61,965)**	**18,465**	**(122,391)**	**(48,810)**	**(87,040)**	**30,732**	**(105,118)**	**61.6%**	**-28.8%**	**16.4%**
Gross profit	**59,582**	**8,045**	**(311)**	**67,316**	**36,403**	**16,180**	**(227)**	**52,356**	**63.7%**	**-50.3%**	**28.6%**
Selling, general and administrative	(23,776)	(7,125)	311	(30,590)	(12,220)	(8,719)	227	(20,712)	94.6%	-18.3%	47.7%
Other operating income	1,106	(14)	–	1,092	3,236	(5)	(6)	3,225	-65.8%	180.0%	-66.1%
EBITDA	**36,912**	**906**	**–**	**37,818**	**27,419**	**7,456**	**(6)**	**34,869**	**34.6%**	**-87.8%**	**8.5%**
Depreciation	(6,998)	(633)	–	(7,631)	(5,195)	(683)	–	(5,878)	34.7%	-7.3%	29.8%
Net interest (expense) income	(13,139)	332	–	(12,807)	(12,404)	2,723	–	(9,681)	5.9%	-87.8%	32.3%
(Losses) gains on currency exchange	(2,819)	326	–	(2,493)	(4,157)	442	–	(3,715)	-32.2%	-26.2%	-32.9%
Net non-recurring items	314	(186)	–	128	115	11	–	126	173.0%	NMF	1.6%
Profit before income tax	**14,270**	**745**	**–**	**15,015**	**5,778**	**9,949**	**(6)**	**15,721**	**147.0%**	**-92.5%**	**-4.5%**
Income tax expense	(1,143)	(137)	–	(1,280)	(455)	(1,681)	–	(2,136)	151.2%	-91.9%	-40.1%
Profit	**13,127**	**608**	**–**	**13,735**	**5,323**	**8,268**	**(6)**	**13,585**	**146.6%**	**-92.6%**	**1.1%**
Attributable to:											
– shareholders of the Company	9,807	608	–	10,415	1,370	8,268	(6)	9,632	NMF	-92.6%	8.1%
– minority interest	3,320	–	–	3,320	3,953	–	–	3,953	-16.0%	–	-16.0%

Highlights

- **Revenue from healthcare services increased 62.5% y-o-y to GEL 138.5 million in 2014, which is the result of acquisitions as well as organic growth.** Revenue from referral hospitals, which are the main source of revenue for the healthcare services business, grew by 105.2% y-o-y, driven by both acquisitions and organic growth.
- **High double-digit growth of our revenue from healthcare services was primarily driven by the revenues from Government-funded healthcare programmes, which more than quadrupled y-o-y to GEL 80.8 million, reflecting the implementation of UHC.** This was partially offset by an anticipated decline in revenues from private insurance companies, resulting in a 46.2% y-o-y decrease in these revenues to GEL 25.2 million in 2014.
- Notably, out-of-pocket payments by patients increased 74.3% to GEL 32.5 million. The UHC places coverage limits on medical treatments and has certain exclusions. Any charges in excess of the limit for services financed by UHC must be covered by patients out-of-pocket.
- **Margins improved, as a result of increasing utilisation and scale of our healthcare services business.**
- More than half of the growth in COGS comes from an increase in payroll costs, primarily attributed to recent acquisitions. Since 31 December 2013 the headcount of our healthcare services business increased by 1,342 employees and reached 7,658 full-time employees as of 31 December 2014.
- In 2014, gross profit of our healthcare services business increased 63.7% y-o-y to GEL 59.6 million, supported by the 61.6% growth in COGS on the back of a 62.5% increase in revenue during the same period.
- Gross margin (which is defined as gross profit divided by revenue) improved to 43.0%, up from 42.7% in 2013. The handover of the margin-dilutive ambulance and rural primary healthcare service to the Government also had a positive effect on margins.
- **Our healthcare services business grew significantly in 2014, which is reflected in its selling, general and administrative expenses, with additional efficiencies yet to be realised.** Primarily driven by recent acquisitions, SG&A expenses increased 94.6% y-o-y, with salaries and other employee benefits constituting c.60% of this growth resulting from increased headcount.
- Further cost synergies are expected mainly as a result of reducing inefficiencies in the acquired hospitals, as benchmarked against the previously managed healthcare facilities in the areas of procurement, process standardisation and payroll.
- Post-acquisition synergies are not yet fully reflected in the current financial results, as the integration process is still ongoing for a number of recent acquisitions.
- Our healthcare services business EBITDA reached GEL 36.9 million, up 34.6% y-o-y.
- Net interest expense of the healthcare services business grew by 5.9% y-o-y as a result of a 54.6% increase in borrowed funds raised for acquisitions as well as new project financing.
- The increase in depreciation costs by 34.7% was primarily driven by the acquisitions completed during the past year.
- Foreign exchange related losses have decreased 32.9% to GEL 2.5 million in 2014, primarily as a result of the Company's efforts during 2014 to decrease foreign currency risk exposure on foreign currency borrowings, as compared to previous reporting periods, as well as potential future exposure. The Company has converted most of the borrowings into local currency and the rest was hedged, thus the short position was closed.
- As a result, net income of our healthcare services business more than doubled on a y-o-y basis to GEL 13.1 million up from 5.3 million.

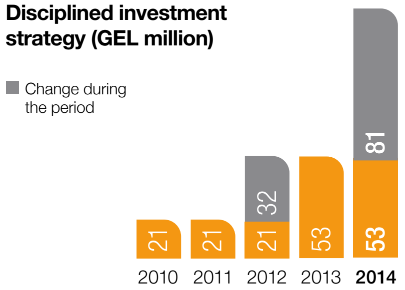
Georgia Healthcare Group
A unique investment story

- Largest healthcare service provider in Georgia with 22.0% of market share by bed capacity
- Over two-thirds of population covered
- Operating 33 hospitals and six ambulatory clinics
- 2,140 beds (85% of new beds)
- Leading health insurance business with 36.7% market share, insuring 192,000 people

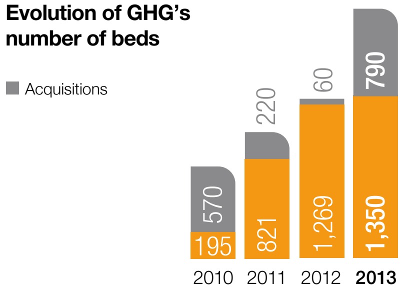
GHG – Value creation

Project initiation	– By the end of 2010, Bank of Georgia already had cumulative investment of GEL 20.7 million (US$11.7 million) in its insurance and healthcare business initiatives
Testing the market and potential for value creation	– 2012-2014 – Acknowledging the potential for growth and value creation of the GHG Group, Bank of Georgia additionally invested GEL 114 million (US$63 million)
Value creation	– GHG has turned into an undisputed leader in healthcare business in Georgia leveraging on its two pillars, EVEX and Imedi L

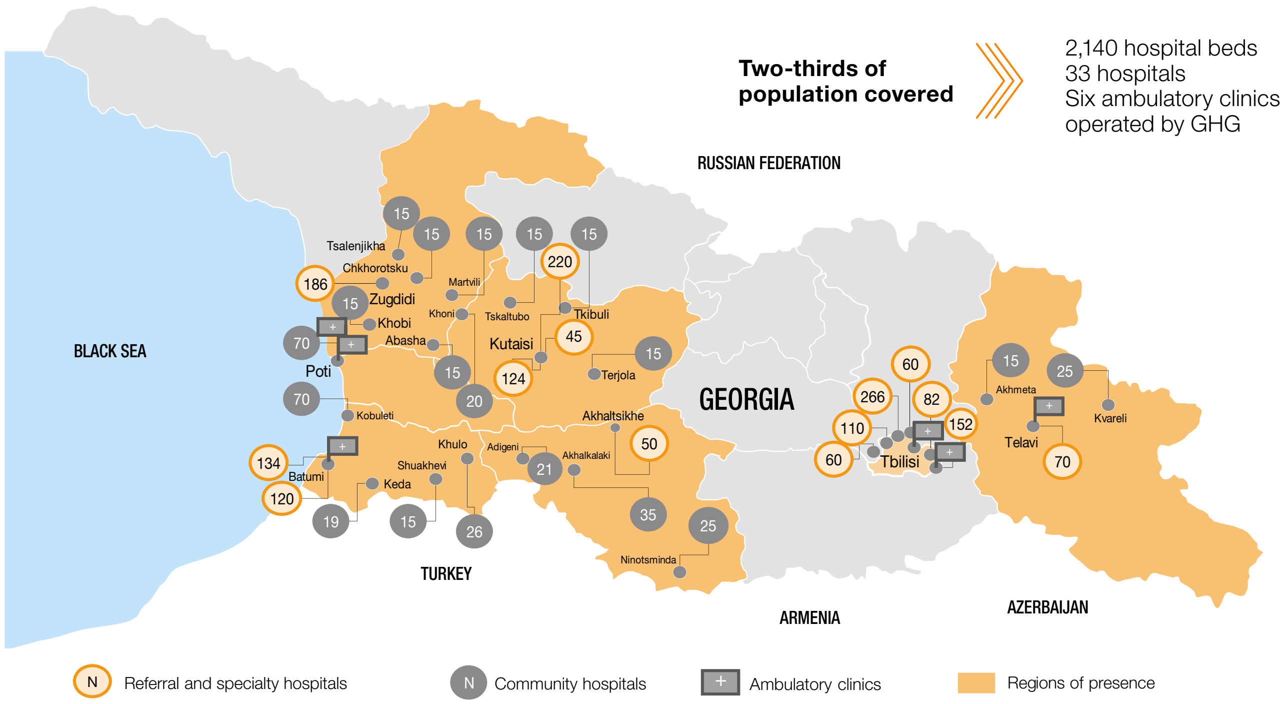
Disciplined investment strategy (GEL million)



Evolution of GHG's number of beds



Extensive geographic coverage
Network of healthcare facilities



GHG Healthcare facilities
Renewed infrastructure

Before

After

m² Real Estate

Sales in completed projects since 2011 (US$ million)

56.7

98.4% presale

Sales in ongoing projects since 2011 (US$ million)

54.5

65.9% presale

Kazbegi Street

Start: December 2013
Completion: October 2015

Our real estate business, the Bank's wholly-owned subsidiary m² Real Estate, develops residential property. m² Real Estate outsources the construction and architecture works while focusing on project management and sales. The Bank's real estate business is in place to meet the unsatisfied demand for housing through our well-established branch network and sales force, while stimulating our mortgage lending business.

Income statement

	31 Dec 2014			31 Dec 2013			Change, y-o-y		
GEL thousands, unless otherwise noted	**m²**	**Mortgages**	**Total**	m²	Mortgages	Total	m²	Mortgages	Total
Net interest (expenses) income	**(524)**	**2,005**	**1,481**	1,063	948	2,011	NMF	111.5%	-26.4%
Net fee and commission expenses	**–**	**–**	**–**	(27)	–	(27)	-100.0%	–	-100.0%
Net loss from foreign currencies	**(895)**	**–**	**(895)**	123	–	123	NMF	–	NMF
Other operating non-interest income	**13,751**	**–**	**13,751**	10,505	–	10,505	30.9%	–	30.9%
Revenue	**12,332**	**2,005**	**14,337**	11,664	948	12,612	5.7%	111.5%	13.7%
Operating expenses	**(5,468)**	**–**	**(5,468)**	(2,893)	–	(2,893)	89.0%	–	89.0%
Operating income before cost of credit risk	**6,864**	**2,005**	**8,869**	8,771	948	9,719	-21.7%	111.5%	-8.7%
Cost of credit risk	**(66)**	**(16)**	**(82)**	(185)	240	55	-64.3%	NMF	NMF
Net non-recurring items	**18**	**–**	**18**	(823)	(1)	(824)	NMF	-100.0%	NMF
Profit before income tax expense	**6,816**	**1,989**	**8,805**	7,763	1,187	8,950	-12.2%	67.6%	-1.6%
Income tax expense	**(1,022)**	**–**	**(1,022)**	(1,142)	–	(1,142)	-10.5%	–	-10.5%
Profit	**5,794**	**1,989**	**7,783**	6,621	1,187	7,808	-12.5%	67.6%	-0.3%

Highlights

- Total revenue reached GEL 14.3 million, up 13.7% y-o-y. Operating expenses increased to GEL 5.5 million in 2014, predominantly due to increased marketing activity and expansion of the m² Real Estate distribution network. As a result, profit for the period remained largely flat at GEL 7.8 million in 2014.
- **m² Real Estate enjoys strong demand, selling 574 apartments in 2014, which brings total apartments sold since 2010 to 1,327.**
- Strong sales performance enabled us to prepay our US$5 million IFC debt facility in full in December 2014.
- **99% of apartments sold in the second project that was completed in Q2 2014.** Completed four months ahead of the completion deadline, the project has an estimated IRR of the 40%. As of the date of this announcement, 516 or 99% of 522 apartments had been sold. The total sales from this project amounted to US$46.8 million.
- **Over 80% of apartments pre-sold at the two additional new projects launched in December 2013.** m² Real Estate launched its third and fourth projects: Kazbegi Avenue and Nutsubidze Street. As at the date of this announcement, m² Real Estate had sold 253 apartment or 86% of the total number of units in the Kazbegi Avenue project and 164 apartments or 74% of the total number of units in the Nutsubidze Street project. Sales totalled US$22.8 million and US$12.9 million, respectively, including mortgage financing of US$5.0 million and US$5.0 million, respectively.
- **59% of apartments pre-sold at the fifth project started in July 2014.** m² Real Estate launched its fifth project: Tamarashvili Avenue and sold 158 apartments or 59% of the total number of units. Sales amounted to US$14.5 million, including mortgage financing of US$7.6 million as of the date of this announcement.
- **47% of apartments pre-sold at the sixth project launched in September 2014.** m² Real Estate launched its sixth project within m² Real Estate's new low-cost apartment initiative this time on Moscow Avenue, which will offer an unprecedented affordable price of as low as US$29,000 for refurbished one-bedroom apartments. Sales amounted to US$4.3 million, including mortgage financing of US$3.6 million.
- Number of apartments financed with our mortgages in all m² Real Estate projects as of the date of this announcement totalled 583, with an aggregate amount of GEL 58.3 million.
- Completed two bond offerings in June 2014. A US$10 million one-year bond placement at par with a coupon rate of 8.42% and a US$5 million one-year bond with a coupon rate of 9.5%. The US$10 million bond was issued following exceptionally strong interest in the bonds for the US$5 million issue, which left a US$3 million demand unmet.

Tamarashvili Street

Start: May 2012
Completion: June 2014

Chubinashvili Street

Start: September 2010
Completion: August 2012

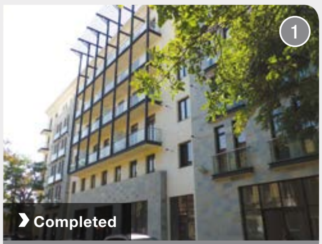
m² Real Estate
Leading real estate development company

Total sales of US$111.2 million since 2011

Tamarashvili Street
IRR: 46%
Start: May 2012
Completion: Jun 2014
Apartments sold: 512/522, 98%
Sales: US$46.8 million

Kazbegi Street
IRR: 165%
Start: Dec 2013
Completion: Oct 2015
Apartments sold: 242/295, 82%
Sales: US$22.8 million

Tamarashvili Street II
IRR: 71%
Start: Jul 2014
Completion: Apr 2016
Apartments sold: 158/270, 59%
Sales: US$14.5 million



Chubinashvili Street
IRR: 47%
Start: Sept 2010
Completion: Aug 2012
Apartments sold: 123/123, 100%
Sales: US$9.9 million

Nutsubidze Street
IRR: 58%
Start: Dec 2013
Completion: Aug 2015
Apartments sold: 164/221, 74%
Sales: US$12.9 million

Moscow Avenue
IRR: 31%
Start: Sep 2014
Completion: Mar 2016
Apartments sold: 111/238, 47%
Sales: US$4.3 million

Significant potential of the project from sales of US$29,000 priced apartments with a current IRR of c.31%

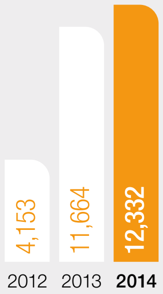
Completed projects
Ongoing projects

Project Sales (US$ million): 50, 40, 30, 20, 10
Projects: 0, 1, 2, 3, 4, 5, 6

Fast-growing company

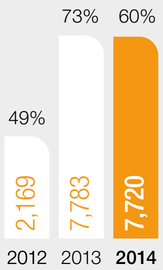
Revenue dynamics (GEL thousand)

12,332



EBITDA dynamics (GEL thousand)

7,720



Value creation

Project initiation

– 2010-2012 – Bank of Georgia made a cash investment of GEL 5.0 million (US$3 million) with an idea to develop problem land plots seized after 2008 into an opportunity

Testing the market and potential for value creation

– 2012-2014 – After successful completion of two projects and four ongoing projects, m² Real Estate has become a leading real estate company with significant potential for growth

Value creation

– The Group generates an IRR of more than 40%, leveraging on m² Real Estate's successful track record of completed projects

Kazbegi Street

Start: December 2013
Completion: October 2015

Committed to the highest standards of corporate governance

Neil Janin
Chairman

David Morrison
Senior Independent Non-Executive Director

Dear Shareholders,

Our Board is committed to excellence in corporate governance. We see robust corporate governance as fundamental to the effective management of the business and a principal contributor to the long-term success of the Group, creating trust and engagement between the Group and our stakeholders.

Through our governance practice we seek to create an environment in which transparency, honesty, integrity and fairness are valued and practiced by our employees every day. This inclusive environment helps us attract, retain and develop the best talent. The Group is committed to its customers and clients and works hard to act ethically and responsibly in all of its business dealings.

In this part of the Annual Report, we explain our governance structures and the measures that we have taken to ensure that the Group continues to apply high standards of corporate governance. Given the importance of the work of the Board Committees, each Committee presents a separate report, which can be found later in this section.

Among the key corporate governance actions taken during the year, we would like to highlight the following:

- We appointed an independent firm to conduct a formal evaluation of each Director's skills and contribution and that of the Board as a whole and its Committees. We were pleased with the results of the evaluation and are confident that the Board has the right balance of skills, experience and diversity of personality to continue to encourage open, transparent debate and challenge.
- We adopted a Diversity Policy which reflects the Davies Report's aspiration to promote greater female representation on listed company boards.
- We formed a Risk Committee, which has served to further enhance the Group's oversight of risk management and internal control.
- We hosted an investor day in Tbilisi, with 70 investors participating. With our full Board and management present, the investor day gave us further opportunity to engage with our investors.

As our strategy and the environment in which we operate evolve, we are committed to ensuring that our corporate governance adapts so that we remain aligned with best practice.

Neil Janin
Chairman
7 April 2015

David Morrison
Senior Independent Non-Executive Director
7 April 2015

Compliance statement

Throughout the year ended 31 December 2014 and to the date of this Annual Report, we applied the Main Principles and complied with the Provisions of the UK Corporate Governance Code 2012 (the Code) save for Section D.1.1, which recommends a three-year vesting period for all shares granted as part of remuneration. As described in the Directors' Remuneration Report and Remuneration Policy on pages 86 to 99, shares granted as discretionary compensation vest over a two-year period following the work year for which the discretionary compensation was earned. However, our overall remuneration package is weighted heavily to deferred share compensation and includes deferred salary shares which vest over a five-year period following the work year. As a result, the average vesting period for deferred share compensation exceeds the Code's recommended minimum of three years.

The Code and associated guidance is published by the Financial Reporting Council (FRC) and is available at www.frc.org.uk.

Set out on our website at www.bogh.co.uk/en/corporate-governance is the Board's assessment of its application of the Main Principles of the Code, as required by LR 9.8.6.

Relations with shareholders

Continuous engagement

The Code and the FRC's UK Stewardship Code require a dialogue with shareholders based on the mutual understanding of objectives, a responsibility that BGH takes very seriously.

The Board's primary contact with institutional shareholders is through the Chairman, Senior Independent Non-Executive Director, CEO and Head of Investor Relations, each of whom provide a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairmen also make themselves available to answer questions from investors.

We formally communicate with our shareholders via our AGM, Annual Report and Accounts, Half-Year Report and website on which we publish Interim Management Statements. These are supported by a combination of presentations, telephone briefings, one-to-one meetings and investor meetings in the United Kingdom, Europe, the United States, Singapore and South Africa.

As mentioned in our Directors' Remuneration Report on pages 86 to 94 of this Annual Report, in the first quarter of 2014, members of our Remuneration Committee met with BGH's significant shareholders as well as shareholder advisory groups to discuss and seek feedback on BGH's and the Bank's remuneration structure. Subsequent to the approval of our Remuneration Policy at the 2014 AGM, our Head of Investor Relations has continued to maintain dialogue with significant shareholders and the shareholder advisory groups in order to understand evolving expectations regarding remuneration.

In September 2014, BGH hosted an investor day at the Bank's headquarters in Tbilisi, which was open to all investors. This investor day provided the opportunity for investors to receive an update from the Board and executive management on strategy and performance as well as meet informally with the full Board and raise matters of interest. BGH was pleased to host 70 investors.

Prior to the announcement of our revised strategy in December 2014, we met with many of our institutional investors to discuss the strategy and obtain their feedback. We meet with our shareholders to discuss our performance and financial results on an ongoing basis.

With respect to our major debt holders, we also maintain dialogue to discuss our funding strategy.

The Chairman has overall responsibility for ensuring that the Board understands the views of major shareholders. The Board also receives a regular report from the Investor Relations team. Feedback from meetings held between executive management, or the Investor Relations team, and institutional shareholders or their representatives is also communicated to the Board.

Our website

All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about BGH at http://www.bogh.co.uk/en/corporate-governance.

Leadership

The role of the unitary Board

Our principal duty, collectively, is to promote the long-term success of the Group by directing management in creating and delivering sustainable shareholder value. We do this by setting the Group's strategy and overseeing its implementation by management. While our ultimate focus is long-term growth, the Group also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.

We are mindful of our wider obligations and consider the impact our decisions will have on the Group's various stakeholders, such as our employees, our shareholders, our customers and clients, the environment and our community as a whole. In setting and monitoring the execution of our strategy, we aim to ensure that we maintain an effective system of risk management and internal control, so that growth is delivered in a controlled and sustainable way.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board. A full formal schedule of matters specifically reserved for the Board can be found on our website, at http://www.bogh.co.uk/en/corporate-governance.

Clearly defined roles of the chairman, CEO and Non-Executive Directors

Each of the Chairman, CEO and Non-Executive Directors has clearly defined roles within our Board structure. A description of these roles can be found on our website, at http://www.bogh.co.uk/en/corporate-governance.

Operation of the Board

We schedule in person Board meetings at least four times a year, for a period of two to three days each time. We also hold meetings at our London offices, with Directors either attending in person or via teleconference. When the need arises, we will schedule additional meetings at short notice to discuss other matters relevant to the Board. In addition, in 2014, all Directors attended two dedicated strategy sessions and the annual investor day. In total, we met as a Board eleven times during the year.

At each regularly scheduled meeting, we receive reports from the Bank CEO and Deputy CEO (Finance) on the performance and results of the Group. The Deputy CEO of each of the business segments will regularly update the Board on the performance, strategic developments and initiatives in his respective segment throughout the year. The Bank's Chief Risk Officer, Group Deputy CEO (Legal) and Group Head of Investor Relations also regularly present to the full Board. The Board also receives updates from Group operating functions on internal control, compliance, human resources and corporate responsibility matters.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle.

The Chairman seeks input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any particular matters raised by Non-Executive Directors are on the agenda to be discussed at the meeting. In addition, the Chairman meets with the CEO after each meeting to agree the actions to be followed up and to discuss how effective the meeting was.

Board Committees

To assist the Board in carrying out its functions and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration as well as oversight and review of Board and executive succession planning, the Board has delegated certain responsibilities to Board Committees.

In 2014, the Board had four Committees, comprised of independent Non-Executive Directors: the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee. Each Board Committee has agreed Terms of Reference, which are approved by the Board and reviewed annually, and can be found on our website at http://www.bogh.co.uk/en/corporate-governance.

The Chairman of each Board Committee reports to the Board on the matters discussed at Board Committee meetings. You will find later in this section reports from the Chairman of each Board Committee on the Committee's activities in 2014 and priorities for 2015.

In addition, each Board Committee provides a standing invitation for any Non-Executive Director to attend Committee meetings (rather than just limiting attendance to Committee members).

2014 Committee membership

	Audit Committee	Risk Committee	Nomination Committee	Remuneration Committee
Neil Janin			Chairman	Member
David Morrison	Chairman		Member	Member
Al Breach		Member	Member	Chairman
Kim Bradley	Member	Chairman	Member	
Kaha Kiknavelidze	Member	Member	Member	
Tamaz Georgadze		Member	Member	
Bozidar Djelic		Member	Member	

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2014 are as follows:

Board attendance	Board meetings eligible to attend/ attended	Audit Committee meetings eligible to attend/ attended	Risk Committee meetings eligible to attend/ attended	Nomination Committee meetings eligible to attend/ attended	Remuneration Committee meetings eligible to attend/ attended
Neil Janin (Chairman)	11/11			2/2	2/2
Irakli Gilauri (Executive Director)	11/11				
Non-Executive Directors					
David Morrison	11/11	9/9		2/2	2/2
Alasdair Breach	11/11		4/4	2/2	2/2
Kim Bradley	11/11	9/9	4/4	2/2	
Kaha Kiknavelidze	11/11	9/9	4/4	2/2	
Tamaz Georgadze	11/11		4/4	2/2	
Bozidar Djelic	11/10		4/4	2/2	

Note that the Non-Executive members of the Board of BGH are identical to the members of the Supervisory Board of the Bank.

Board of Directors

1. Neil Janin
Non-Executive Chairman

2. Irakli Gilauri
Chief Executive Officer

3. David Morrison
Senior Independent
Non-Executive Director

4. Alasdair Breach
Independent
Non-Executive Director

5. Kakhaber Kiknavelidze
Independent
Non-Executive Director

6. Kim Bradley
Independent
Non-Executive Director

7. Tamaz Georgadze
Independent
Non-Executive Director

8. Bozidar Djelic
Independent
Non-Executive Director

1. Neil Janin
Non-Executive Chairman

Mr Janin was appointed Non-Executive Chairman on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Janin serves as Chairman of BGH's Board and Nomination Committee as well as a member of BGH's Remuneration Committee. Mr Janin also serves as Chairman of the Supervisory Board of the Bank and as a member of its Remuneration Committee, positions he has held since 2010. Upon completion of the restructuring, Mr Janin will resign as Chairman of the Bank Supervisory Board, but will continue to be a member of the Bank Supervisory Board. Mr Janin is also a member of the Supervisory Board of GHG.

Skills and experience:
Mr Janin serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. Prior to joining the Bank in 2010, Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. In 2009, while serving as a member of the French Institute of Directors, Mr Janin authored a position paper on the responsibilities of the Board of Directors with regards to the design and implementation of a company's strategy. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America.

Mr Janin is also a Director of Neil Janin LTD, a company through which he provides his ongoing consulting services.

Education:
Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

2. Irakli Gilauri
Chief Executive Officer

Irakli Gilauri was appointed as an Executive Director of BGH on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Gilauri has served as CEO of BGH since his appointment in 2011, and also serves as CEO of the Bank, a position he has held since May 2006. Mr Gilauri is also Chairman of the Supervisory Board of GHG, insurance company Aldagi and the Tree of Life Foundation and a member of the Supervisory Board of the following subsidiaries: Agron Group, BNB, Galt & Taggart Holdings and m^2 Real Estate. Mr Gilauri has also recently joined the Supervisory Board of GGU.

Upon completion of the restructuring, Mr Gilauri will resign from his position as CEO of the Bank and will assume the role of Chairman of the Bank Supervisory Board and CEO of the newly formed Georgian holding company.

Skills and experience:
Before his employment with the Bank, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies.

Education:
Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his MSc in Banking and International Finance.

3. David Morrison
Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director of BGH on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Morrison assumed the role of Chairman of the Audit Committee in December 2013, prior to which he served as a member of the Committee. Mr Morrison is also a member of BGH's Remuneration and Nomination Committees, and serves as Vice-Chairman of the Bank's Supervisory Board and as a member of the Bank's Audit and Remuneration Committees, positions he has held since 2010. Mr Morrison is also a member of the Supervisory Board of GHG.

Skills and experience:
Prior to joining the Bank Supervisory Board and Board of BGH, Mr Morrison worked for 28 years at Sullivan & Cromwell LLP, where he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, from capital raisings and IPOs to mergers and acquisitions. Key banking clients he advised include Banco Espirito Santo in Portugal and Germany's development bank, Kreditanstalt für Wiederaufbau (KfW). He also served on the Board of Directors of KfW's finance subsidiary for 20 years. Mr Morrison is the author of several publications on securities law-related topics, and has been recognised as a leading lawyer in Germany and France.

In 2008, Mr Morrison became the Founding CEO of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan, a position in which he continues to serve.

Education:
Mr Morrison received his undergraduate degree from Yale College, received his law degree from the University of California, Los Angeles, and was a Fulbright scholar at the University of Frankfurt.

4. Alasdair (Al) Breach
Independent Non-Executive Director

Al Breach was appointed as an Independent Non-Executive Director of BGH on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Breach serves as Chairman of BGH's Remuneration Committee and serves as a member of BGH's Nomination Committee and recently established Risk Committee. Mr Breach also serves as a member of the Bank's Supervisory Board and Chairman of the Bank's Remuneration Committee, positions he has held since 2010, and has also been appointed to the Bank's recently established Risk Committee.

Skills and experience:
In 2013, Mr Breach founded Gemsstock Ltd., a UK FCA-regulated fund manager, where he also serves as an executive Director. In 2010, Mr Breach founded Furka Advisors AG, a Swiss-based asset management firm and served as an executive Director until founding Gemsstock Ltd. Gemsstock Ltd. manages the Gemsstock Fund, which was previously called the Gemsstock Growth Fund and managed by Mr Breach at Furka Advisors AG. His previous career was in research in investment banks, principally in Russia. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and FSU (Former Soviet Union) economist at Goldman Sachs, based in Moscow. Mr Breach is also the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008.

Mr Breach serves as a director of Gemsstock Ltd., the Gemsstock Fund, The Browser and Furka Holdings AG, all of which are private entities. He is also an advisor to East Capital.

Education:
Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

5. Kakhaber (Kaha) Kiknavelidze
Independent Non-Executive Director

Kaha Kiknavelidze was appointed as an Independent Non-Executive Director of BGH on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Kiknavelidze also serves as a member of BGH's Audit and Nomination Committee and newly established Risk Committee. Mr Kiknavelidze also serves as a member of the Bank's Supervisory Board and Audit Committee, positions he has held since 2008, and has also been appointed to the Bank's recently established Risk Committee.

Skills and experience:
Mr Kiknavelidze is the founder and Managing Partner of Rioni Capital Partners LLP and an Executive Director of Rioni Capital Services Ltd, an investment management company he continues to operate from London. Mr Kiknavelidze has over 15 years' experience in the equity markets, including serving as Executive Director of UBS, where he supervised the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and, later, as Deputy Head of Research and Associate Partner, leading the oil and gas team. Mr Kiknavelidze began his career at the Bank as a Financial Manager in 1994.

Mr Kiknavelidze also serves as an Executive Director of Scholae Mundi Foundation, a charity, and as a Non-Executive Director of the Georgian Stock Exchange and OAS Zontik SICAV, a Luxembourg based fund.

Education:
Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University in Tbilisi, Georgia, and received his MBA from Emory University.

6. Kim Bradley
Independent Non-Executive Director

Kim Bradley was appointed as an Independent Non-Executive Director of BGH on 19 December 2013 and was elected by shareholders at the 2014 AGM. Mr Bradley serves as Chairman of the BGH Risk Committee and a member of BGH's Audit and Nomination Committees. Mr Bradley was also appointed to the Bank Supervisory Board in December 2013. He also serves as Chairman of the newly established Bank Risk Committee and a member the Bank's Audit Committee.

Skills and experience:
Mr Bradley retired from Goldman Sachs in early 2013, following 15 years as a professional in the Real Estate Principal Investments and Realty Management divisions, where he focused on investment in both European real estate and distressed debt.

In addition to his investment activities, Mr Bradley led Goldman's asset management affiliates in France, Italy and Germany, where he was involved in financial and tax audits as well as management of internal audit activities. He has also served as President of Societa Gestione Crediti, a member of the Board of Directors of Capitalia Service Joint Venture in Italy and Chairman of the Shareholders' Board at Archon Capital Bank Deutschland in Germany. Prior to Goldman Sachs, he served as a Senior Executive at GE Capital for seven years in both the United States and Europe, where his activities included real estate workouts and restructuring, as well as acquisitions. Prior to GE Capital, Mr Bradley held senior executive positions at Manufacturers Hanover Trust (now part of JP Morgan) and Dollar Dry Dock Bank. He has also served as a Peace Corps volunteer and as a consultant with the US Agency for International Development in Cameroon.

Mr Bradley does not hold any other directorships.

Education:
Mr Bradley holds an MA in International Affairs from the Columbia University School of International Affairs and an undergraduate degree in English Literature from the University of Arizona.

7. Tamaz Georgadze
Independent Non-Executive Director

Tamaz Georgadze was appointed as an Independent Non-Executive Director of BGH on 19 December 2013 and was elected by shareholders at the 2014 AGM. Mr Georgadze serves as a member of BGH's Risk and Nomination Committees. Mr Georgadze was also appointed to the Bank Supervisory Board in December 2013. He also serves as a member of the Bank's newly established Risk Committee.

Skills and experience:
In 2013, Mr Georgadze founded SavingGlobal GmbH, a company which launched the first global deposit intermediation in Europe and he continues to serve as its Executive Director. Prior to founding this company, Mr Georgadze had a 10-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995.

Save for his role at SavingGlobal GmbH, Mr Georgadze does not hold any other directorships.

Education:
Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

8. Bozidar Djelic
Independent Non-Executive Director

Bozidar Djelic was appointed as an Independent Non-Executive Director of BGH on 19 December 2013 and was elected by shareholders at the 2014 AGM. Mr Djelic serves as a member of BGH's Risk and Nomination Committees. Mr Djelic was also appointed to the Bank Supervisory Board in December 2013. He also serves as a member of the Bank's newly established Risk Committee.

Skills and experience:
Since January 2014, Mr Djelic has served as Managing Director in the Sovereign Advisory Department of Lazard, based in Paris. Mr Djelic also currently serves as a member of EBRD's "Transition to Transition" Senior Advisory Group. Prior to this, he served as Deputy Prime Minister for European Integration and Minister of Science and Technological Development of Serbia from 2008 to 2011. From 2007 to 2008, Bozidar served as sole Deputy Prime Minister of Serbia, and as Governor of the World Bank Group and Deputy Governor of the EBRD. From 2005 to 2007, he was Crédit Agricole Group's Director for Eastern Europe and the FSU, leading the acquisition and management of several banks in the region. From 2001 to 2004, Mr Djelic served as Minister of Finance and Economy of Serbia, leading the country's macro and banking reform. From 1993 to 2000, he worked at McKinsey & Company in Paris and Silicon Valley, specialising in financial institutions, asset management and media. He has also held various advisory positions, including adviser to the Polish and Romanian Governments.

Mr Djelic does not hold any other directorships.

Education:
Mr Djelic holds an MBA from the Harvard Business School, an MPA from Harvard's J.F. Kennedy School of Government and an MA in Economics from the École de Hautes Études in Social Sciences.

Management of the Group

1. Irakli Gilauri
Chief Executive Officer

2. Murtaz Kikoria
Deputy CEO, Finance
(appointed 4 December 2014)
CEO, Georgia Healthcare Group
(until 4 December 2014)

3. Nikoloz Gamkrelidze
CEO, Georgia Healthcare Group
(appointed 4 December 2014)
Deputy CEO, Finance
(until 4 December 2014)

4. Mikheil Gomarteli
Deputy CEO, Retail Banking

5. Sulkhan Gvalia
Deputy CEO, Corporate Banking

6. Archil Gachechiladze
Deputy CEO, Investment Management

7. Irakli Burdiladze
Deputy CEO, Affordable Housing

8. Giorgi Chiladze
Deputy CEO, Chief Risk Officer

9. Avto Namicheishvili
Deputy CEO, Legal

1. Irakli Gilauri
Chief Executive Officer

See details on page 70.

2. Murtaz Kikoria
Deputy CFO, Finance

Mr Kikoria was appointed as Deputy CEO (Finance) on 4 December 2014, having previously served as the CEO of Georgia Healthcare Group since August 2014, following its split from Aldagi, where Mr Kikoria had served as the CEO since October 2012. Prior to this, Mr Kikoria served as Deputy CEO (Finance) of the Bank since June 2011. Prior to this appointment, Mr Kikoria served as acting CEO of BG Bank (currently Bank Pershyi) since June 2009. Mr Kikoria also serves as a member of the Supervisory Board of Bank Pershyi. Mr Kikoria joined the Bank as Deputy CEO (Compliance) in August 2008. From 2005 to 2007, Mr Kikoria served as a Senior Banker at EBRD. Prior to joining EBRD, Mr Kikoria served as Head of Banking Supervision and Regulation at the NBG from 2001 to 2005, having previously held various senior positions at United Georgian Bank and SilkRoad Bank. Mr Kikoria received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit.

Upon completion of the restructuring, Mr Kikoria will assume the role of CEO of the Bank.

3. Nikoloz Gamkrelidze
CEO, Georgia Healthcare Group

Mr Gamkrelidze was appointed as CEO of Georgia Healthcare Group on 4 December 2014, having previously served as Deputy CEO (Finance) since October 2012. Prior to this appointment, Mr Gamkrelidze served as CEO of Aldagi. Prior to joining Aldagi, Mr Gamkreldize served as CEO of joint stock company My Family Clinic from October 2005 to October 2007. Prior to joining My Family Clinic, Mr Gamkrelidze served as a consultant at Primary Healthcare Development Project (The World Bank Project) and worked on the development of pharmaceutical policy and regulation in Georgia. Prior to joining Primary Healthcare Development Project, he served at BCI Insurance Company as Head of the Personal Risks Insurance Department from 2002 to 2003. Mr Gamkrelidze started his career at the State Medical Insurance Company in 1998, where he worked for two years. He graduated from the Faculty of General Medicine of Tbilisi with distinctions, and holds an MA in International Healthcare Management from the Tanaka Business School of Imperial College London.

4. Mikheil Gomarteli
Deputy CEO, Retail Banking

Mr Gomarteli was appointed as Deputy CEO (Retail Banking) in February 2009. Mr Gomarteli has been with the Bank since December 1997. During his 17 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (from March 2007 to February 2009), Head of Business Development (from March 2005 to July 2005), Head of Strategy and Planning (from 2004 to 2005), Head of Branch Management and Sales Coordination (from 2003 to 2004), Head of Branch Management and Marketing (from 2002 to 2003) and Head of Banking Products and Marketing (from 2000 to 2002). Mr Gomarteli received an undergraduate degree in Economics from Tbilisi State University.

5. Sulkhan Gvalia
Deputy CEO, Corporate Banking

Mr Gvalia assumed the position of Deputy CEO (Corporate Banking) in May 2013, prior to which he served as Deputy CEO (Chief Risk Officer) since January 2005, following the Bank's acquisition of TUB, a mid-sized bank in Georgia co-founded by him in 1995. Mr Gvalia has 21 years of banking experience, holding management positions in risk, credit finance, strategy and treasury. Mr Gvalia received his undergraduate law degree from Tbilisi State University.

6. Archil Gachechiladze
Deputy CEO, Investment Management

Mr Gachechiladze assumed the role of Deputy CEO (Investment Management) responsibilities in May 2013, prior to which he served as Deputy CEO in charge of Corporate Banking. Prior to joining Bank of Georgia, Mr Gachechiladze served as deputy director in charge of Corporate Recovery at TBC Bank, Georgia, a position he held since August 2008. From 2006 to 2008, Mr Gachechiladze was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital Partners) in London. From 1998 to 2004, Mr Gachechiladze served as a Senior Associate at Salford Equity Partners, a Senior Analyst at EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Mr Gachechiladze received his undergraduate degree in economics and law from Tbilisi State University and his MBA with distinction from Cornell University. He is also CFA Charterholder and a member of the CFA Society in the United Kingdom.

Upon completion of the restructuring, Mr Gachechiladze will assume the role of Group CFO in addition to his current role.

7. Irakli Burdiladze
Deputy CEO, Affordable Housing

Mr Burdiladze was appointed as Deputy CEO (Affordable Housing) in 2010. He previously served as Chief Operating Officer of the Bank from March 2007 to June 2010, after spending a year as CFO. Prior to joining the Bank, Mr Burdiladze served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the Group's capital-raising efforts and transaction structuring. Mr Burdiladze received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from the Tbilisi State University.

8. Giorgi Chiladze
Deputy CEO, Chief Risk Officer

Mr Chiladze was appointed as Deputy CEO (Chief Risk Officer) in September 2013. He rejoined the Bank having already served as Deputy CEO (Finance) from 2008 to 2011. From 2011 to 2013, Mr Chiladze worked at the Partnership Fund in the capacity of Deputy CEO. Mr Chiladze served as General Director of BTA Bank (Georgia) from 2005 to 2011. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm, Altergroup Ltd. Mr Chiladze had previously worked in the US at the Program Trading Desk at Bear Stearns in New York City, prior to returning to Georgia in 2003. Mr Chiladze received a PhD in physics from Johns Hopkins University in Baltimore, Maryland and an undergraduate degree in physics from Tbilisi State University.

9. Avto Namicheishvili
Deputy CEO, Legal

Mr Namicheishvili has served as Deputy CEO (Legal) since July 2008, having previously been the Bank's General Counsel since March 2007. Before joining the Bank, Mr Namicheishvili was a Partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as the Bank's external legal adviser from 2004. Mr Namicheishvili received undergraduate degrees in law and international economic relations from Tbilisi State University and received a graduate degree (LLM) in International Business Law from Central European University, Hungary.

Upon completion of the restructuring, Mr Namicheishvili will assume the role of Group Deputy CEO (Legal) in addition to his current role.

Effectiveness

Board size, composition, tenure and independence

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business.

The Board and its Nomination Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

During 2014, our Board comprised eight members: the Chairman, the CEO and six independent Non-Executive Directors. We believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors as well as the key technical expertise and skills in banking, risk, finance, technology and international business the Directors bring to their duties. No individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual. The average tenure of our Non-Executive Directors is 3½ years.

We are committed to increasing the proportion of female representation on our Board. In 2013, when we refreshed our Board, female candidates were considered, but we were unable to find a female candidate with the right set of skills and expertise to assume a Non-Executive directorial role. We have adopted a Board Diversity Policy, details of which can be found in the Nomination Committee Report on page 77 of this Annual Report.

We have assessed the independence of each of the six Non-Executive Directors and are of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement. Each Non-Executive Director has an ongoing obligation to inform the Board of any circumstances which could impair his independence.

Details of the individual Directors and their biographies are set out on pages 70 and 71 of this Annual Report.

Evaluation of Board performance

The performance of the Board and its Committees is a fundamental component of BGH's success. In 2014, we engaged Lintstock, an external effectiveness evaluation specialist to conduct an evaluation of the Board; the Nomination, Audit and Remuneration Committees; the Chairman; and CEO.

The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary to set the context for the evaluation and to tailor the content of the surveys distributed to the Board. All Directors were requested to complete an online survey and interviews were then conducted with the Directors by two partners from Lintstock, to expand upon the issues raised in the questionnaires. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

Lintstock subsequently produced a report which addressed the following areas of Board performance:

- the composition of the Board, taking into account the Group's strategic goals and diversity priorities;
- the relationships between the members of the Board and between the Board and management, as well as the atmosphere in the boardroom;
- the management of time of the Board, including the annual number of meetings, cycle of work, the Board's agenda, as well as the content, format and timeliness of the Board packs;
- the support and training needs of the Directors;
- the clarity of the Group's strategy, the Board's testing and development of the strategy and the effectiveness with which the opinions of stakeholders are considered when drawing up the strategic plan;
- the risk appetite of the Board, the information provided to the Board to support its oversight of risk, and performance of the Board in identifying and managing the main risks facing the Group;
- the structure of the Group at senior levels, the succession planning for the CEO and key management positions beneath the Board;
- the Board's exposure to management and the ability of the Board to evaluate senior management; and
- the composition and performance of the Committees, the performance of the Chairman, the CEO and the individual performance of the Directors.

The results of the evaluations confirmed that the Board and the Committees were operating effectively. Excellent progress had been made in executing the Group's strategy, succession planning for executive management, the communication of our remuneration policy and the oversight of risk management. No significant changes to the commitments of the Chairman or Non-Executive Directors were identified.

As a result of the review, among other things, the Board agreed that the top priorities for 2015 were monitoring the execution of the new strategy, particularly in its investment businesses, continued focus on management structure and Board composition, especially the addition of two female Directors over the next two years, and the continued oversight of the risk management, including the continued integration of the Risk Committee.

It is envisaged that Lintstock will conduct a follow-up review next year, in order to build upon the issues raised in this year's process in greater depth. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented and that y-o-y progress is measured.

Succession planning and Board appointments

We believe that effective succession planning mitigates the risks associated with the departure or absence of well-qualified and experienced individuals. We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that continued tenure brings a depth of Group-specific knowledge that is important to retain.

The Board Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. More detail on the role and performance of the Nomination Committee is on pages 76 and 77 of this Annual Report.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are given a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25 to 35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. We are confident that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board. The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

Board induction, ongoing training and professional development

On appointment, each Director takes part in an induction programme, during which he meets members of senior management below the Board level, receives information about the role of the Board and individual directors, each Board Committee and the powers delegated to these Committees. He is also advised of the legal and other duties and obligations of a Director of a premium listed company. Our Directors appointed in December 2013 undertook induction training in February 2014.

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever-more-detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2014, which included briefings, site visits, development sessions and presentations by external speakers and professional advisors.

Nomination Committee Report

Neil Janin
Chairman of the Nomination Committee

Succession planning, gender diversity and an external valuation of our effectiveness were the key areas of focus of the work of the Nomination Committee during 2014.

In line with the Group's revised strategy announced in December 2014, the Committee recommended a Group and Bank management restructuring to best utilise the skills of management, in order to effectively implement our strategy.

Recognising the importance of diversity in all of its forms, our Board adopted a Board Diversity Policy in 2014, which reinforced the Board's commitment to increasing female representation on our Board.

During the year, the Committee also selected and recommended the appointment of an external effectiveness evaluation specialist to assist with the evaluation of our Board, the Audit, Nomination and Remuneration Committees, myself, as Chairman, and the CEO.

Neil Janin
Chairman of the Nomination Committee
7 April 2015

The role of the Nomination Committee

The role of the Nomination Committee is to assist in ensuring that the Board comprises individuals who are best able to discharge the responsibilities of Directors, having regard to the highest standards of governance, the strategic direction of the Group and diversity aspirations of the Board.

In summary, the Committee is responsible for:

- reviewing the composition of the Board and Board Committees to ensure they are appropriately constituted and balanced in terms of skills, experience, independence and knowledge;
- identifying suitable candidates for appointment to the Board based on clearly set criteria which takes into account the skills, experience and diversity required by the Board, and the attributes required of Directors;
- developing succession plans for the Chairman, CEO, Non-Executive Directors and key senior managerial roles;
- evaluating the suitability of Directors standing for re-election at the AGM;
- evaluating the independence of the Non-Executive Directors and time required from Non-Executive Directors;
- organising the process for the annual Board and Committee effectiveness reviews and implementing any plan required to address issues identified;
- reviewing and implementing the Group's corporate governance policies and practices; and
- preparing the report by the Committee to be included in the Annual Report.

The Committee's full Terms of Reference are available on our website, http://www.bogh.co.uk/en/corporate-governance.

Our key areas of focus during 2014 were the review of the composition and performance of the Board and in particular, the adoption of a Board Diversity Policy, which highlights our commitment to the appointment of female Non-Executive Directors as well as the development of a succession plan for key senior executives in line with the Group's revised strategy.

The composition of the Committee and the members' attendance during the year is listed on page 67 of this Annual Report.

Succession planning and appointment process

Our Board succession plan developed in 2012 was successfully implemented in 2013 and resulted in significant changes to our Board structure. In December 2013, we saw the retirement of two non-independent Directors and a Director who had served the Board for nearly nine years and the successful appointment of three new Non-Executive Directors to our Board, resulting in all Non-Executive Directors being independent.

With respect to succession planning for key managerial roles in line with revised Group strategy announced in December 2014, we recommended, and the Board approved, the following appointments:

- As at 4 December 2014:
  - Murtaz Kikoria, then CEO of Georgia Healthcare Group, to the role of CFO of the Bank;
  - Nikoloz Gamkrelidze, then CFO of the Bank, to the role of CEO of Georgia Healthcare Group; and
  - Ekaterina Shavgulidze, then Head of Investor Relations of Georgia Healthcare Group, to the role of Group Head of Investor Relations and Funding.

- Upon completion of the corporate restructuring to separate our banking and non-banking businesses, which is expected to complete later this year, the following appointments will become effective:
  - Irakli Gilauri as Group CEO;
  - Archil Gachechiladze as Group CFO (in addition to his current role as Deputy CEO (Investment Management) of the Bank);
  - Avto Namicheishvili as Group Deputy CEO (Legal) (in addition to his current role as Deputy CEO (Legal) of the Bank);
  - Murtaz Kikoria as Bank CEO; and
  - Levan Kulijanishvili, our head of Internal Control, Security and AML Compliance, as Bank CFO.

We believe these changes to the management structure will complement the new strategy as well as best utilise management talent.

In 2014, we continued to review the composition of our Board and spent a considerable amount of time discussing technical expertise, in light of non-core business growth, and gender diversity. I, as Chairman, also engaged with BGH's shareholders and sought the advice of shareholder advisory groups in respect of gender diversity. In light of this, the Committee recommended, and the Board approved the Board Diversity Policy, which is detailed directly below. It is the responsibility of the Committee to oversee the Board's implementation of the Policy.

The Board has a policy in place for the Board recruitment and appointment process.

In identifying suitable candidates, we may use open advertising or the services of external advisers to facilitate the search. Consideration will be given to candidates from a wide range of backgrounds, based on merit and against objective criteria, including taking care that appointees have enough time available to devote to the position, and with due regard for the benefits of diversity in all its forms on the Board.

Short-listed candidates selected by us will be seen in the first instance by the Chairman. If the selection process progresses further, the potential candidate(s) will be invited to meet other members of the Committee as a whole as well as members of management. We will then decide whether to recommend an appointment to the Board and the Board will decide whether to make the appointment.

Board Diversity Policy

The key statement and objectives of our Board Diversity Policy are as follows:

Statement

Our Board embraces diversity in all its forms. Diversity of skills, background, knowledge, technical expertise, and gender, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, any Board appointment will always be made based on merit.

Objectives

- The Board should ensure the appropriate mix of skills and experience to ensure an effective Board.
- The Board should ensure that it comprises Directors who are independent in character and judgement.
- The Board aims to increase the number of women on the Board to two within the next two years and further increase this number thereafter.

Progress

Although no new Director was ultimately appointed to the Board in 2014, female candidates, in addition to other candidates from a diverse range of backgrounds, were interviewed throughout the year.

Board effectiveness

It is the Committee's responsibility to organise the Board, Committee and individual Director performance reviews. In 2014, the Committee recommended, and the Board approved, the appointment of Lintstock, a specialist external evaluator. Details of the process, results and 2015 action plan can be found on pages 74 and 75 of this Annual Report.

Committee effectiveness review

Lintstock also performed the effectiveness review of the Committee in December 2014. The evaluation principally addressed how effectively the Committee reviews the composition of the Board and the Board Committees as well as develops and implements succession plans for both the Board and executive management. The evaluation concluded that the Committee continues to operate and perform effectively.

Looking ahead to 2015

For 2015, the Committee will continue to focus on the composition of the Board, succession planning for the Board, with particular focus on increasing gender diversity on the Board, and succession planning for key managerial positions within the Group.

Accountability

Directors' responsibilities

Statements explaining our responsibilities as Directors' for preparing the Annual Report and consolidated and stand-alone financial statements can be found on page 102 of this Annual Report.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 63 of this Annual Report. After making enquiries, we have a reasonable expectation that BGH and the Group, as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accompanying consolidated financial statements.

Risk management and internal control

The Board is ultimately responsible for maintaining the Group's risk management and internal control systems.

Our approach to risk is founded on a strong risk management culture. Managing risk is engrained in our everyday business activities and culture. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks and where business managers own the risks and risk management processes associated with their activities.

Our Board mandate includes determining the Group's risk appetite and monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. We also assess the effectiveness of the risk management and internal control systems and focus on the resolution of any internal control failures that may arise.

The Group's risk appetite is the amount and type of risk that we are prepared to seek, accept or tolerate. Through our senior management, we seek to embed the risk appetite we determine at the Board level in the policies and procedures implemented throughout the businesses of the Group. Our risk appetite evolves over time to reflect new risks and changes in external market developments and circumstances.

Our control framework is the foundation for the delivery of effective risk management. Our formal policies and procedures explain the way in which risks are systematically identified, assessed, quantified, managed and monitored. We clearly delegate authority levels and reporting lines throughout the management hierarchy and comprehensive reporting forms an integral part of our framework. With respect to internal control over financial reporting, our financial processes include a range of system, transactional and management oversight controls. Our businesses prepare detailed monthly management reports that include analysis of their results along with comparisons to relevant budgets, forecasts and prior results. These are presented to and reviewed by senior management. Each quarter, the CFO presents a consolidated financial report to the Board.

The Risk Committee and Audit Committee support the Board in overseeing the risk management framework, the internal control infrastructure, monitoring risk exposures and reviewing the effectiveness of our risk management and internal control systems. For a description of their work, please see their reports which can be found on pages 84 and 85 (Risk Committee) and 79 to 83 (Audit Committee) of this Annual Report.

On a day-to-day basis, management is responsible for ensuring that the Group's risk management and other internal control policies and procedures are embedded as part of the operations of each business. The systems in place are subject to regular review as circumstances change and new risks emerge. A robust internal reporting process is in place, which enables key risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Board.

The Committees and the Board regularly challenge management as to the effectiveness of the systems of risk management and internal control and promote their improvement.

In 2014, the Board reviewed the effectiveness of our risk management and internal control systems. Our internal control and risk management systems cover the Group's financial reporting process and the Group's process for preparation of the consolidated and stand-alone financial statements. For 2014, we were able to conclude with reasonable assurance that the appropriate internal control and risk management systems were maintained throughout the year. We also believe that the Group's risk management and internal control processes comply with the Code and the FRC's guidance on Risk Management and Internal Control and the guidance published by the Institute of Risk Management.

A detailed description of our risk management framework can be found on pages 36 to 43 of this Annual Report.

A description of the principal risks faced by the Group and an overview of recent trends and mitigation efforts can be found on pages 32 to 35 of this Annual Report.

Audit Committee Report

David Morrison
Chairman of the Audit Committee

The principal responsibilities of the Audit Committee remain the review of the Group's financial systems and controls in order to ensure that they are operating effectively and oversight of the preparation of the Group's financial statements, including significant judgements made that affect the reported results. We also oversee the work of the external auditors, approve their remuneration and recommend their appointment.

The Audit Committee is also responsible for assisting the Board in ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

In 2014, both the Group and the environment in which it operates continued to evolve. Loan loss allowances remained the area of our principal focus, but we also looked at risks arising from our systems and controls, in particular, our IT controls, as well as the strength of our external and internal audit processes. We worked closely with the newly formed Risk Committee to ensure that responsibility for risk oversight was divided appropriately between the two Committees.

We welcome the changes to the revised UK Corporate Governance Code, and the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published in September 2014. These changes will apply to BGH from its 2015 financial year and will allow us to further strengthen our role as a key independent oversight committee adding value to the Group.

The Audit Committee has delegated authority from the Board set out in its written terms of reference, available on the Company's website at http://www.bogh.co.uk/en/corporate-governance. Further details on how the Audit Committee discharged its responsibilities and concluded that it is effective are provided in this Committee report.

David Morrison
Chairman of the Audit Committee
7 April 2015

Key purpose and responsibilities

The purpose of the Audit Committee is to monitor and review the Group's financial reporting arrangements, the effectiveness of internal financial controls and the internal and external audit processes. It also has an important role in the Group's risk management framework. The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year.

The key responsibilities of the Committee are set out in the table below. The full list of Committee responsibilities are in its written terms of reference, available on the Company's website at http://www.bogh.co.uk/en/corporate-governance.

Key responsibilities

Financial reporting
- Monitors the integrity of the financial statements of the Group, reviews the appropriateness of the Group's accounting policies and the quality and consistency of the application of such accounting policies.
- Reviews and challenges, where necessary, the actions, estimates and judgements of management, in relation to the interim and annual financial statements.
- Reviews the content of the annual report and accounts and interim management statements and advises the Board on whether, taken as a whole, they are fair, balanced and understandable.
- Assesses and challenges the going concern assessment undertaken by management.

Internal audit
- Monitors the scope, extent and effectiveness of the Group's internal audit function and the internal audit programme.
- Reviews the adequacy of the Group internal audit's resources and standing within the Group.
- Reviews and approves the internal audit policy and annual internal audit plan, including methodology, as well as any proposed changes to the planned scope of work.
- Receives reports from internal audit on the control environment and considers the major findings of any significant internal audit, and management's response.
- Reviews internal audit's self-assessment of performance and assesses the effectiveness of the internal audit function.

Internal control and risk management
- Reviews the effectiveness of systems and processes for internal control and risk management related to financial reporting.
- Considers the major findings of any internal investigations into control weaknesses, fraud or misconduct and management's response.
- Monitors IT, cyber-security, compliance, corporate security and similar areas of operational risk.

Whistleblowing and conflicts of interest
- Reviews arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.
- Assesses actual and potential conflicts of interest and assists the Board in its review of the permissibility of such conflicts.

External audit
- Makes recommendations concerning the appointment, re-appointment and removal of the external auditor.
- Oversees the relationship with the external auditor, including the terms of engagement (including remuneration) and their effectiveness, independence and objectivity.
- Agrees the policy for and provision of non-audit services.
- Agrees the policy on the employment of former employees of the external auditor.
- Reviews the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process.
- Approves the annual audit plan, to ensure that it is consistent with the scope of the audit engagement and coordinated with the activities of Group's audit team.
- Reviews the findings of audits with the external auditor, considering management's responsiveness to the auditor's findings and recommendations.
- Monitors the performance, objectivity and effectiveness of the external audit by an annual assessment and also the results of any reviews published by the Financial Reporting Council's Audit Quality Review.

Composition of the Audit Committee and meetings

The composition of the Committee and the members' attendance during the year is listed on page 67 of this Annual Report. Our Committee is solely comprised of Independent Non-Executive Directors.

With respect to the Committee's qualifications and background, Mr Morrison is a trained securities lawyer who specialised in financial disclosure for over 25 years; Mr Kiknavelidze is a trained financial analyst skilled in financial statement analysis who manages his own investment fund; Mr Bradley served as a managing director at Goldman Sachs, where, immediately prior to joining the Company's Board and Audit Committee, he sat on various audit committees within the organisation and assessed internal audit functions and internal controls. Our Committee believes that each member has recent and relevant financial experience in satisfaction of the requirements of the Corporate Governance Code.

The biographies of the members of the Committee are set out on pages 70 and 71 of this Annual Report.

The Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference. Our meetings are regularly attended by the Bank CFO, head of Internal Audit, head of Internal Control, Security and AML Compliance and Risk departments, and occasionally by the Chief Risk Officer of the Bank and CEO. The external auditor also attends the regularly scheduled Committee meetings. We hold regular separate private sessions with the heads of Internal Audit and Internal Control, Security and AML Compliance departments and the external auditor. These sessions, which are not attended by management, allow us to discuss any issues of concern in more detail and directly with the audit teams. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into key issues and developments.

Meetings of the Committee take place prior to the Board meeting in order for the Committee to report its activities and matters of particular relevance to the Board.

Significant issues considered

With support and input from the external auditor, we considered the following primary areas of judgement:

Change in loan loss provisioning methodology and appropriateness of allowance for loan losses

As of 1 January 2014, the Bank introduced a new loan loss provisioning methodology. Developed in consultation with Deloitte, the new provisioning methodology is based on statistical assessment of probability of default and loss given default. The Committee has discussed the basis of the new methodology in detail with management and the external auditor and we believe that it is a refinement of the previous methodology and will allow better allocation of Cost of Risk.

In 2014, we continued to scrutinise the appropriateness of the allowance for loan losses. The main judgements arose around the timing of the recognition of any given impairment and the size of the loan loss. Throughout the year, management reported on the Bank's principal borrowers as well as on the largest impaired and non-performing loans. Management also reported to us on the methodologies for identifying assets at risk, categorising the loan portfolio and determining provisioning rates, as well as the assumptions applied in calculating the provisions for loan losses. In connection with these reports, we challenged the underlying assumptions made by management with respect to individually and collectively impaired loans and the system of controls to prevent and detect errors in the estimation for loan losses.

We were satisfied that the impairment provisions were appropriate. The disclosures relating to impairment provisions are set out in Note 10 of the consolidated financial statements.

Systems of internal control

As the quality of Group's financial statements are dependent on the effectiveness of our internal control systems, in 2014, we sought assurances on the design and operating effectiveness of these systems, with increased focus on the Group's IT controls. We received reports from management on the design and operation of the internal control framework and the testing of these controls. While we have concluded that the internal controls and systems in place are effective and that the data and reports produced by these systems ensure that the financial statements are prepared to a high quality, we have asked internal audit to conduct a review of the financial control framework in 2015. We will also be looking closely at our IT systems this year.

Cyber risks

Data security is critical to our business, as it is for all banks. Cyber risk is monitored under the Group's integrated control framework. Management reported on the frequency and impact of cyber attacks, and we determined that no material breaches of our firewalls occurred in 2014. We intend to focus even more carefully on cyber security risks in 2015.

Oversight of internal audit and external audit

Internal audit

In addition to receiving internal audit's input on the control environment, we monitor the scope, extent and effectiveness of the internal audit function and seek to ensure it is adequately resourced and focused on the correct issues. We also review and approve the annual internal audit plan which includes a discussion of risk assessment. We review the plan on a regular basis, including any changes proposed to the scope of work, as well as discuss and approve changes to internal audit methodology.

At each physical Audit Committee meeting in 2014, we received reports from internal audit on audit activities, progress of the internal audit plan, the results of any unsatisfactory audits and the action plans to address these issues and resource requirements of the Internal Audit Department. We also reviewed and monitored management's responsiveness to internal audit's findings.

We also reviewed internal audit's self-assessment of its performance and concluded that the internal audit function is effective and respected by management and conforms to the standards set by the Institute of Internal Auditors.

External audit

We are responsible for monitoring the performance, objectivity and effectiveness of the external auditor. We assessed this in the light of the requirements of the UK Code and FRC guidance. In doing this, we considered:

- the audit partner and the audit team, in particular the coordination between the EY London and Tbilisi teams;
- the audit planning approach and execution;
- the role of management and management feedback on the performance of EY;
- communication with the Audit Committee;
- support of the work of the Audit Committee;
- the quality of EY's insights and value-added assistance;
- independence and objectivity; and
- the content of formal reporting.

We also considered the FRC's inspection of EY's audit of BGH, the Audit Quality Inspection Report of EY for 2013/2014 as well as other FRC guidance related to the role and method of evaluating the external auditor.

Following this evaluation, we formed our own judgement (which was consistent with management's view) and reported to the Board that:

- the audit team was sound and reliable, providing high-quality execution and service;
- the quality of the audit work was of a high standard;
- EY's independence and objectivity were strongly affirmed;
- EY was in a strong position to challenge management on its approach to key judgements; and
- appropriate discussions were held with the Audit Committee during the audit planning process.

Each year, we consider the reappointment of the external auditor, including the rotation of the audit partner. The external auditor is required to rotate the audit partner responsible for the Group every five years. The current lead audit partner has been in place for three years. It is our responsibility to recommend to the Board the appointment or reappointment or removal of the external auditor.

We are cognisant of the current and emerging requirements governing the appointment of external auditors, notably the mandatory re-tendering requirements of the UK Corporate Governance Code and Competition Commission. EY was appointed as our Group statutory auditor by shareholders at our 2012 AGM, following a competitive tender process and subsequent Audit Committee and Board recommendation. Shareholders reapproved EY's appointment at the 2014 AGM. In light of the re-tendering requirements, we intend to carry out a review at an appropriate time between now and 2022.

We have sought assurance and are comfortable that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively.

In order to further ensure independence of the external auditor, the Group has in place a policy to govern the non-audit services that may be provided by the external auditor, which sets out the circumstances in which the external auditor may be permitted to undertake non-audit services. Allowable services are preapproved up to £100,000. Any permissible non-audit service that exceeds this threshold requires approval from the Audit Committee and must be robustly justified and, if appropriate, tendered, before it is approved.

The Audit Committee's policy on tax advisory services is to not use the external auditor unless there is a very strong case for not seeking an alternative supplier. If non-audit services are undertaken by the auditor, the Committee receives a quarterly report on such non-audit services so that it can monitor the types of services being provided and the fees incurred. On an annual basis, the Committee reviews the Group policy on the provision of non-audit services in order to ensure that the objectivity and the independence of the external auditor is safeguarded and the terms of the policy are complied with fully by EY.

The auditor did not receive any fees for non-audit work in 2014.

Further details of the non-audit services that are prohibited or allowed under our policy can be found on our website at http://www.bogh.co.uk/en/corporate-governance.

Review of the "fair, balanced and understandable" requirement in respect of Annual Reports

Having been tasked by the Board to advise it, we examined the 2014 Annual Report and Accounts to consider whether they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

We did this by satisfying ourselves that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency. In doing so, we directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period as well as the Board's re-formulation of the Group's strategy in November 2014. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness review

An externally facilitated review of the Committee was performed by Lintstock in December 2014. The evaluation principally addressed the composition of the Committee, the review and testing of the work of the internal and external auditors as well as the quality of financial reporting, the assessment of internal controls and risk management within the scope of the Committee's responsibilities as well as the division of responsibilities between the Committee and the Risk Committee. The effectiveness evaluation concluded that the Committee operates and performs effectively.

As mentioned above, our priorities for 2015 will be: the Group's internal financial control system; the Group's IT systems; and cyber-security. We will also continue to focus on provisions for loan losses and other areas where management judgement has a significant impact on our accounts.

Risk Committee Report

Kim Bradley
Chairman of the Risk Committee

The BGH Risk Committee was established as of 1 January 2014. Although both risk assessment and appropriate risk and return criteria are prevailing themes in BGH's Board discussions, the Board decided that the creation of a specific risk committee would help strengthen risk management processes and oversight in the Group, and also provide a dynamic forum where the Committee, other Board members and senior management could escalate both risk concerns and risk management strategy recommendations.

The Committee is comprised of five independent Non-Executive Directors.

Our initial focus in 2014 was to work closely with the Audit Committee to make sure that each Committee was clear about its primary risk coverage and where responsibilities overlap. As a result, we decided to schedule our Committee meetings back-to-back when possible given that some of our risk subjects require joint committee accountability and skill sets. The initial risk categories overseen by the Risk Committee include reputational, geopolitical, macro-economic and market, liquidity and capital, credit and certain operational risks within the Group. As to credit risk, our focus is principally on forward-looking matters.

As a key follow-up to our initial focus, the Committee and Audit Committee developed a risk matrix delineating the respective committee's coverage and overlap, as well as specific senior management responsibility for oversight and execution.

Finally, to make sure that we think about risk dynamically, we have stressed that risk concerns should not be limited to items identified on our risk matrix and have encouraged Committee members, other Board members and senior management to escalate concerns and issues for discussion.

The Risk Committee has authority delegated from the Board set out in its written terms of reference, available on the Company's website at http://www.bogh.co.uk/en/corporate-governance. Further details on how the Committee discharged its responsibilities are provided below.

Kim Bradley
Chairman of the Risk Committee
7 April 2015

Key purpose and responsibilities

The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk and to provide advice in relation to current and potential future risk exposures. This includes reviewing the Group's risk appetite and risk profile and assessing the effectiveness of the risk management framework in place to address such risk.

The Board's approach to the management of risk is set out on page 78 of this Annual Report and our risk management framework is discussed on pages 36 to 43 of this Annual Report. The principal risks the Group faces are set out on pages 32 to 35 of this Annual Report.

The key responsibilities of the Committee are to:

- support the Board to ensure that risk appetite and exposure are addressed as part of strategy;
- oversee the risk management infrastructure and process;
- oversee risk exposure and the implementation of our strategy to address risk;
- support the Board in monitoring risk exposure and the implementation of our strategy to address risk;
- oversee, support and evaluate the risk management roles of our senior management risk team;
- encourage and ensure open and broad discussion on perceived risk concerns and responsive efforts to mitigate when necessary;
- assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group; and
- review the effectiveness of the risk management framework.

The full list of Committee responsibilities are in its written terms of reference, available on the Company's website at http://www.bogh.co.uk/en/corporate-governance.

Composition of the Risk Committee and meetings

The composition of the Committee and the member's attendance during the year is listed on page 67 of this Annual Report. Our Committee is solely comprised of Independent Non-Executive Directors.

The biographies of the members of the Committee are set out on pages 70 and 71 of this Annual Report.

Our meetings are regularly attended by the Chairman of the Board, the Chairman of the Audit Committee, CEO, CFO, CRO and occasionally by our head of Internal Audit and our external auditor. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into key issues and developments. In addition, non-Committee Board members are also invited to attend. During 2014, the Committee held three joint meetings with the Audit Committee.

At each meeting, the Committee receives detailed reporting which provides an analysis of the Group's overall risk profile, key risks and management actions, performance against risk appetite and potential risks the Group may face. The quantitative models and risk analytics used in assessing risk are also discussed with the Committee.

Comprehensive stress testing is also performed throughout the year and the underlying assumptions, methodology applied and results of such tests are reported to the Committee.

Meetings of the Committee take place prior to the Board meeting in order for the Committee to report its activities and matters of particular relevance to the Board.

Committee activities during 2014

Throughout the year, the Committee evaluated the design, completeness and effectiveness of the risk management framework focusing on the requirements of the Code, the FRC guidance in respect of risk management and the needs of our businesses.

In addition to the work noted above on establishing a clear risk matrix and responsibilities, the Committee recommended changes to the content of reporting by management, management responsibilities and reporting lines to the Committee, all of which were adopted.

The Committee received regular reports on key risk exposures, emerging and potential risks, the drivers of risk throughout the Group as well as analyses of stress testing scenarios. The Committee assessed and challenged the appropriateness of the Group's overall risk appetite and monitored the Group's exposure against these appetites. With respect to emerging and potential risks, additional stress testing scenarios were requested and evaluated.

Effectiveness

The Committee assessed its own effectiveness and concluded that it was operating effectively.

Priorities for 2015

Our priorities for this year will be: close monitoring of the US Dollar denominated loan book covered by Lari income; operational risks associated with IT and cyber security; the integration of Privatbank; and the implementation of investment business strategy.

Annual statement by the Chairman of the Remuneration Committee

Al Breach
Chairman of the Remuneration Committee

Our most important decision in implementing the Remuneration Policy this year was the approval of the discretionary compensation package of our CEO, Irakli Giluari. In addition, outside the scope of the Remuneration Policy, the Committee set the discretionary compensation of the other key senior officers with the results that we outline on the following pages.

Both the Committee and the Board measured Mr Gilauri's performance against both his objective and non-tangible KPIs. The Bank met or exceeded the core ambitions, the Group continued to successfully develop fields in which it can grow, and Mr Gilauri continued to foster an excellent team and working environment. Overall, 10 of 13 objective KPIs set for Mr Gilauri were fully or substantially met, and for the each of the three that were not fully met, this was the result of business and strategic decisions taken by the Board during the year. The Committee and the Board rated Mr Gilauri's overall performance in 2014 as excellent. In a normal year this would have meant a discretionary bonus award for Mr Gilauri at or near 50% of his total salary compensation (cash and salary shares) as per the Remuneration Policy.

However, Mr Gilauri suggested that his actual bonus should be notably less. The reasoning underlying his proposal is that 2015 may be considerably more difficult than last year, so as a demonstration to the Group of the need for cost discipline, Mr Gilauri felt that he and the group of senior officers he leads should take the lead by advocating a lower discretionary bonus. His suggestion, which was fully endorsed by the senior officers, makes us yet more confident that our compensation structure – the large majority of pay to the Group's key management coming in the form of long-vesting shares – is the right one: these executives are aligned and keen to work in the best interests of the Company rather than their short-term gain.

As a Committee and Board we applauded Mr Gilauri's proposal and backed it with enthusiasm: bonuses need to be not only about backward-looking results but also about the Group's prospects and the overall context in which it is operating – and senior management taking responsibility for that context. Ultimately, the Committee determined to award Mr Gilauri discretionary compensation of 25,000 shares, representing 27% of total salary and 55% of his maximum opportunity.

As mentioned last year, the Committee will review both the number of salary shares Mr Gilauri receives and the maximum discretionary compensation in relation to those shares for Mr Gilauri in 2016 when his contract expires. In the meantime we are convinced that the combination of the substantial number of deferred salary shares and the potential to earn discretionary shares of a significant value keeps Mr Gilauri highly motivated and aligned with shareholders.

Throughout 2014, we communicated regularly with our shareholders and shareholder advisory groups to discuss and seek feedback on our Remuneration Policy. In response to a concern raised by one shareholder advisory group, we clarified matters regarding the discretion reserved by the Committee in respect of remuneration offered to new Executive Directors.

Looking ahead, we will continue to engage with our shareholders. Our approach to executive remuneration will reward achievement based on the delivery of our strategy and y-o-y performance, while at all times aligning the interests of executive management with our shareholders in order to promote the long-term success of the Group.

Al Breach
Chairman of the Remuneration Committee
7 April 2015

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and 9.8.6R of the Listing Rules. This Annual Report on Remuneration ("Remuneration Report") will be put to an advisory shareholder vote at the 2015 AGM. The information provided in this section, where stated, has been audited by Ernst & Young LLP in accordance with statutory and regulatory requirements.

Our Remuneration Policy, which was approved by shareholders at the 2014 AGM, is summarised on pages 95 to 99 of this Annual Report.

1. The Remuneration Committee and its advisers

The Remuneration Committee considers matters relating to executive management remuneration and remuneration for other senior management. The Committee's full Terms of Reference are available from the corporate governance section of our website, http://www.bogh.co.uk/en/corporate-governance.

The composition of the Committee and the member's attendance during 2014 is listed on page 67 of this Annual Report.

In addition to the formal meetings held during the year, the Committee participated in various discussions by telephone outside of these meetings.

Other attendees at Committee meetings who provided advice or assistance to the Committee on remuneration matters from time to time include the CEO, Irakli Gilauri, the other Board members and Avto Namichieshvili, Deputy CEO (Legal) of the Bank. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Committee seeks advice from time to time from independent remuneration advisers. In 2014, we again engaged H2Glenfern to advise the Committee with respect to the remuneration policies for executive management. H2Glenfern voluntarily operates in accordance with the Code of Conduct of the Remuneration Consultants' Group in relation to executive remuneration consulting in the United Kingdom. H2Glenfern has confirmed that it has adhered to the Remuneration Consultant Group's Code of Conduct throughout the year for all remuneration services provided to BGH and the Committee has therefore satisfied itself that all advice provided by H2Glenfern was objective and independent. H2Glenfern was paid a fixed fee of £9,120 for its remuneration consultancy services and does not provide services to the Group other than remuneration advice.

The Committee also received advice from Freshfields Bruckhaus Deringer LLP, its legal advisors, on compliance and best practice.

2. Shareholder context

At our AGM on 28 May 2014, the Directors' Remuneration Report (including the Policy and the implementation report) received the following votes from shareholders. We were of course pleased with these outcomes.

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	26,121,743	91.91	2,300,144	8.09	28,421,887	128,908
Approval of the Directors' Remuneration Report	25,901,873	93.59	1,773,857	6.41	27,675,730	875,065

3. Directors' remuneration

3.1 Single total figure of remuneration for the sole Executive Director (audited)

The table below sets out the remuneration received by BGH's sole Executive Director, Irakli Gilauri, for 2014 and 2013 in respect of his employment with BGH and the Bank.

Mr Gilauri's February 2013 contract provides for cash and deferred share salary compensation fixed at 2013 levels. In addition, Mr Gilauri is entitled to discretionary deferred share compensation up to a maximum of 50% of total salary (including both the cash and deferred salary components). This figure was agreed in connection with the increase in the absolute market value of Mr Giauri's fixed compensation (cash and deferred share salary) in 2013. The overall compensation arrangements with Mr Gilauri will be reviewed again in 2016.

Over 83% of Mr Gilauri's compensation for 2014 as set forth in the table below is in the form of deferred shares for which the average vesting period exceeds three years.

	BGH and Bank cash salary (US$) (Note 1)	Bank deferred share salary (US$) (Note 2)	Total salary (US$)	Discretionary deferred share compensation (US$) (Note 3)	Taxable benefits (US$) (Note 4)	Pension benefits (US$) (Note 5)	Dividend equivalents (US$) (Note 6)	Total (US$)
2014	**437,500**	**1,954,157**	**2,391,657**	**654,250**	**961**	**1,785**	**93,368**	**3,142,021**
2013	437,500	1,954,157	2,391,657	994,664	130	1,799	100,213	3,488,463

Notes:
1) BGH and Bank cash salaries are expressed in US Dollars but paid in GBP and Lari, converted into the respective currency as described in Note 2 of the table in section 1 of the Directors' Remuneration Policy on page 95 of this Annual Report. Accordingly, there may be variations in the numbers above and those provided in the accounts.
2) Deferred share salary. The figures show the value of BGH shares underlying nil-cost options granted in respect of service in the relevant year. For both 2013 and 2014, the award was 90,000 BGH shares. The value is calculated by reference to the share price of US$21.71 (based on the official share price of £14.06 per share converted into US Dollars using an exchange rate of 1.5443, being the official exchange rate published by the Bank of England on 19 February 2013) as at 19 February 2013, the date the contract was signed. Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the year to which the award relates (the "work year") even though the number of deferred salary shares is fixed in the contract. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 1(a) of the Directors' Remuneration Policy on page 96 of this Annual Report.
3) Discretionary deferred share compensation. The figures show the value of BGH shares underlying nil-cost options granted in respect of bonus awards in the relevant year. The value is calculated by reference to the share price as of the date of the award. For 2014, options were awarded on 19 March 2015 over 25,000 BGH Shares. For 2013, options were awarded on 25 February 2014 over 25,000 BGH shares. The share price on 19 March 2015 was US$26.17 (based on the official share price of £17.77 per share converted into US Dollars using an exchange rate of 1.4727, being the official exchange rate published by the Bank of England on the same date; and the share price on 25 February 2014 was US$39.79 (based on the official share price of £23.85 per share converted into US Dollars using an exchange rate of 1.6682, being the official exchange rate published by the Bank of England on the same date). The discretionary compensation in respect of the relevant years is deferred and vests as to 50% in January of the year following work year and 50% in January of the next year, subject to the leaver provisions described in section 8 of the Directors' Remuneration Policy on page 98 of this Annual Report. The means of determining the number of shares underlying this compensation and the terms and conditions are described in section 1(b) of the Directors' Remuneration Policy on page 96 of this Annual Report. The basis for determining Mr Gilauri's 2014 discretionary awards is described in section 3.2 below.
4) Benefits. The figures show the gross taxable value of health and disability insurance and Directors' and Officers' liability insurance.
5) Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme.
6) Dividend equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in the relevant years.
7) Mr Gilauri was reimbursed for reasonable business expenses, on provision of valid receipts.
8) No money or other assets are received or receivable by Mr Gilauri in respect of a period of more than one financial year, where final vesting is determined by reference to achievement of performance measures or targets relating to the relevant period.

The following table sets out details of total remuneration for Mr Gilauri for the period from 1 January 2009 to 31 December 2014 and his discretionary compensation as a percentage of maximum opportunity. The Company does not have a LTIP and therefore the table does not include long-term incentive vesting rates against maximum opportunity.

	2009	2010	2011	2012	2013	**2014**
Single figure of total remuneration (US$)	1,982,622	1,707,425	1,827,674	2,002,386	3,488,463	**3,142,021**
Discretionary compensation as a percentage of maximum opportunity (%)	89.8%	31.7%	41.1%	94.9%	83.2%	**54.7%**

Notes:
1) Single figure of total remuneration for 2013 and 2014 has been calculated in accordance with the table above. In 2013 and 2014, the maximum opportunity for Mr Gilauri was 50% of salary.
2) In 2012, Mr Gilauri's cash salary was US$437,500 and the value of the salary deferred shares was calculated by reference to the global depositary receipt (GDR) price on 25 May 2010 of US$10.20 per GDR. The award of discretionary deferred shares was 30,000 BGH shares in respect of 2012. The value is calculated by reference to the share price on 15 February 2013 which was US$21.49 per share (based on the official share price of £13.84 per share converted into US Dollars using an exchange rate of 1.5525, being the official exchange rate published by the Bank of England on the same date). The maximum opportunity in 2012 was less than 50% of Mr Gilauri's total remuneration.
3) For 2011, Mr Gilauri's cash salary was US$375,000 and the value of the salary deferred shares was calculated on the same basis as 2012. The award of discretionary deferred shares was 34,000 BGH shares in respect of 2011. The value is calculated by reference to the share price on 6 March 2012 which was US$15.61 per share (based on the official share price of £9.92 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). The maximum opportunity in 2011 was 100% of Mr Gilauri's salary, being US$1,293,000.
4) For 2010, Mr Gilauri's cash salary was US$375,000 and the value of the salary deferred shares was calculated on the same basis as 2011 and 2012. The award of discretionary deferred shares was 20,000 GDRs in respect of 2010. The value is calculated by reference to the GDR price on 21 February 2011 which was US$20.50. The maximum opportunity in 2011 was 100% of Mr Gilauri's salary, being US$1,293,000.
5) For 2009, Mr Gilauri's salary of US$477,193 was paid solely in cash. The award of discretionary deferred shares was 150,000 GDRs in respect of 2009. The value is calculated by reference to the GDR price on 18 February 2010 which was US$10.00. The maximum opportunity in 2009 was 350% of Mr Gilauri's salary, being US$1,670,176.

3.2 Basis for determining Mr Gilauri's discretionary deferred share compensation in respect of 2014

Mr Gilauri's KPIs include both objective and non-tangible components. The objective elements largely track the Group's KPIs as he is expected to deliver on the Group's strategy, but the KPIs also include non-tangible factors such as leadership, strategy development and implementation as well as corporate and social responsibility.

The following table sets out the objective KPIs set for Mr Gilauri in respect of 2014 as well as Mr Gilauri's performance against them.

Key performance measure	2014 target	2014 performance	Committee evaluation
Return on Average Equity (ROAE)	c.20.0%	19.0%	Substantially met
Net loan book growth	c.20.0%	23.8%	Met
Client deposit growth	c.20.0%	6.6%	The KPI as written was not met. The target became irrelevant as corporate deposits were intentionally reduced during the year. Targets on attractive deposits were met, with a 24.2% and 18.5% growth increase in Retail Banking and Investment Management deposits, respectively.
Tier I Capital Adequacy ratio	c.20.0%	22.1%	Met
Operating leverage	Positive	-4.1%	This KPI was not met. This became impossible due to the Board's decision to significantly expand our healthcare business through strategic acquisitions of healthcare facilities in which the cost savings could not be fully realised during the year. Operating leverage at the Bank on a stand-alone basis was flat.
Cost to Income ratio	Continued improvement	42.8% in 2014 compared to 41.2% in 2013	Same comment as for operating leverage.
Net loans to customer funds and DFIs	100%	110.6%	This KPI was not met, but the Board is comfortable at this level and net interest income improved as a result of the reduction in excess liquidity.
Net Interest Margin	7.0-7.5%	7.4%	Met
Cost of Risk	<1.5%	1.2%	Met
Cost of Funding	Decrease	Decline from 5.9% in 2013 to 4.9% in 2014	Met
Express Banking roll-out	Delivery on strategy	A nearly 40% increase in Express Banking customers and doubling of the number of Express Pay terminals, exceeding expectations	Met
Revenue diversification and growth	Delivery on healthcare, investment management and real estate strategy	13.6% increase in net non-interest income, with Healthcare, Investment Management and Real Estate revenue both increasing substantially in 2014	Met
Dividend per share	Increase	Increase from GEL 2.0 per share in respect of 2013 to GEL 2.1 per share in respect of 2014	Met

In terms of objective KPIs, 10 of 13 objective KPIs set for Mr Gilauri were fully or substantially met, and for the each of the three that were not fully met, this was the result of business and strategic decisions taken by the Board during the year.

In terms of non-tangible factors, the Committee considered Mr Gilauri's performance particularly strong. Most notably, he developed for consideration and adoption by the Board the re-formulated strategy announced by the Board in November 2014, and subsequently began implementing that strategy with the successful completion of the capital raising and negotiation and execution of the acquisitions of Privatbank Georgia and Georgian Global Utilities (which closed at the beginning of this year). In addition, the Committee was impressed by Mr Gilauri's achievement in pursuing the Group's ambitious social and environmental responsibility agenda, which is described on pages 24 to 31 of this Annual Report.

For 2014 overall, the Committee found that Mr Gilauri's performance was excellent. He met or exceeded most of his KPIs as outlined above. In the end, the Committee determined that Mr Gilauri should be awarded discretionary deferred share compensation of 25,000 shares – the same as last year, which was also a year of excellent performance. However, with the share price having declined from last year's level, the value of the award, at US$654,250, is lower. It equates to 54.7% of his maximum opportunity. Our reasons for this reduction in the discretionary compensation value are explained in the Annual Statement by the Chairman of the Remuneration Committee. As described in our Policy, we do not utilise a strict weighting of performance measures.

For 2015, we plan to measure Mr Gilauri's performance against KPIs which reflect the separation of our banking and investment businesses as well as the strategy of the Group as a whole as outlined below.

Banking Business
- ROAE of 20%.
- Retail loan book growth of 20%.
- Positive operating leverage.

Investment Business
- GHG IPO.
- Delivering on investment business strategy.
- Effective oversight of investment companies.

Group-wide
- Implementation of the new Group management structure.
- Coaching and mentoring of the management team.
- Self-development.

3.3 Further details of fixed and discretionary contingent deferred share compensation granted during 2014 (audited)

The following table sets out details of the nil-cost options over BGH shares which have been granted to Mr Gilauri in 2014.

	Deferred share salary	Discretionary deferred share compensation
No. of underlying shares and basis on which award was made	90,000 granted on the basis described in the table in section 1 and section 1(a) of the Remuneration Policy.	25,000 granted on the basis described in the table in section 1 and section 1(b) of the Remuneration Policy.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group (as reflected in accounts)	US$1,954,157 (see Note 1)	US$994,664 (see Note 2)
Face value	US$1,954,157 (see Note 1) Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.	US$994,664 (see Note 2) Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.
% of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of the executive's salary for 2013 and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2013 performance (and is not a LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.	Nil. The options make up the entirety of the Executive Director's performance-based compensation and so no payment is required upon exercise.
Vesting period	Five (5) years, with full vesting in January 2018.	Two (2) years, with full vesting in January 2016.
Performance measures	None. See section 1(a) of the Remuneration Policy.	See section 3.2 above and section 1(b) of the Remuneration Policy.

Notes:
1) Figures calculated as described in Note 2 to the table in section 3.1.
2) Figures calculated as described in Note 3 to the table in section 3.1.

3.4 Percentage change in remuneration of CEO

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2013 and 2014, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2013 and 2014. See section 3.1 for an explanation of the increases in the salary and discretionary deferred compensation of Mr Gilauri.

	Percentage change for CEO between 2013 and 2014	Average percentage change for Group's employees as a whole (excluding Mr Gilauri) between 2013 and 2014
Total cash salary (combined BGH and Bank) (see Note 1)	0.0%	11.5%
Total deferred share salary (Bank) (see Note 2)	0.0.%	73.8%
Taxable benefits (see Note 3)	639.2%	7.1%
Total bonus (discretionary deferred share compensation, in the case of Mr Gilauri, and deferred discretionary share compensation plus cash bonus, in the case of other employees of the Group)	-34.2%	-8.2%

Notes:
1) Figures calculated as described in Note 1 to the table in section 3.1.
2) Figures calculated as described in Note 2 to the table in section 3.1.
3) The value of Mr Gilauri's taxable benefits increased from US$130 in 2013 to US$961 in 2014, as a result of an amendment to Mr Gilauri's medical insurance policy.

3.5 Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director in 2014 and 2013.

	BGH fees (US$)		Bank fees (US$)		Total fees (US$)	
	2013	**2014**	2013	**2014**	2013	**2014**
Neil Janin (Chairman)	107,500	**107,500**	107,500	**107,500**	215,000	**215,000**
David Morrison	79,500	**83,500**	72,500	**72,500**	152,000	**156,000**
Allan Hirst[1]	63,500	**N/A**	52,500	**N/A**	116,000	**N/A**
Al Breach	59,500	**67,000**	56,000	**56,000**	115,500	**123,000**
Kaha Kiknavelidze	59,500	**67,000**	56,000	**56,000**	115,500	**123,000**
Ian Hague[2]	Waived	**N/A**	Waived	**N/A**	Waived	**N/A**
Hanna Loikkanen[2]	Waived	**N/A**	Waived	**N/A**	Waived	**N/A**
Kim Bradley[3]	Waived	**70,500**	Waived	**59,500**	Waived	**130,000**
Bozidar Djelic[3]	Waived	**56,000**	Waived	**45,000**	Waived	**101,500**
Tamaz Georgadze[3]	Waived	**56,000**	Waived	**45,000**	Waived	**101,500**
Total	**369,500**	**507,500**	**344,500**	**441,500**	**714,000**	**950,000**

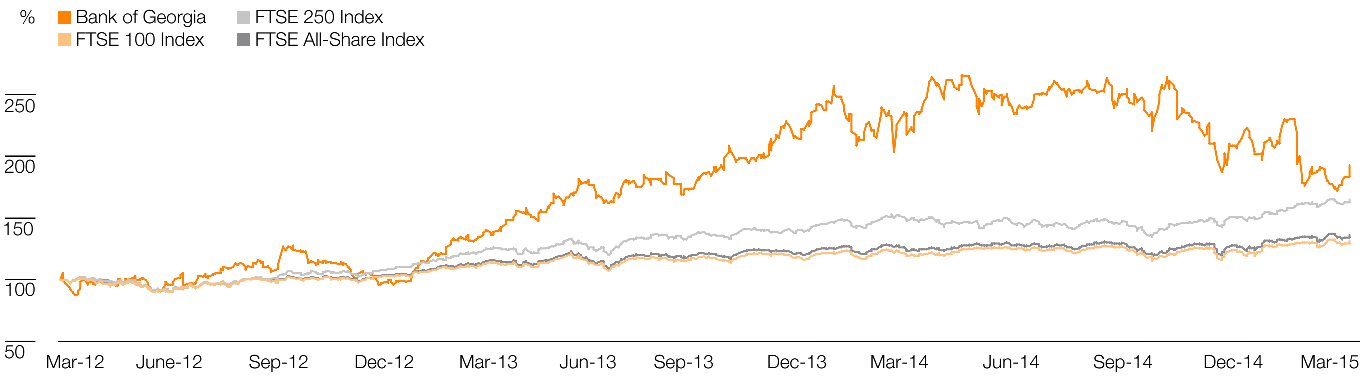
1. Allan Hirst resigned from the BGH Board and the Supervisory Board of the Bank on 19 December 2013.
2. Both Ian Hague and Hanna Loikkanen waived their entitlement to fees (which would have been US$48,500 each for BGH fees and US$37,500 each for Bank fees) in respect of 2013 as both were representatives of significant shareholders of BGH. Mr Hague and Ms Loikkanen also resigned from the BGH Board and the Supervisory Board of the Bank on 19 December 2013.
3. Kim Bradley, Bozidar Djelic and Tamaz Georgadze were each appointed to the BGH Board and the Supervisory Board of the Bank on 19 December 2013. Each agreed to waive his BGH and Bank remuneration until 1 January 2014.

In 2014, no payments were made to past Directors, nor were payments made for loss of office.

3.6 Total Shareholder Return

Bank of Georgia Holdings PLC TSR vs. the FTSE indices TSR

The following graph compares the Total Shareholder Return (TSR) of Bank of Georgia Holdings PLC with the companies comprising the FTSE All-Share Index, the FTSE 250 Index and FTSE 100 Index for the period since BGH's listing on the Premium Segment of the LSE on 28 February 2012 until 31 March 2015.



Source: Thomson Datastream

3.7 Relative importance of spend on pay
The following table shows the difference in remuneration paid to all employees of the Group between 2013 and 2014 as well as the difference in value of distributions paid to shareholders by way of dividends between 2013 and 2014.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Year ended 31 December 2013 (US$) (dividend for year 2012)	77,788,977	31,156,294
Year ended 31 December 2014 (US$) (dividend for year 2013)	82,532,004	38,437,970
Percentage change	+6.1%	+23.4%

3.8 Directors' interests in shares (audited)
The following table sets forth the respective holdings of BGH shares of each Director as at 31 December 2013 and 2014.

	As at 31 December 2013				**As at 31 December 2014**			
	Number of BGH shares held directly	Number of vested but unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BGH shares	**Number of BGH shares held directly**	**Number of vested but unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Number of unvested and unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Total number of interests in BGH shares**
Irakli Gilauri[1]	60,831	–	323,000	383,831	**161,131**	**–**	**322,000**	**483,131**
Neil Janin[2]	25,729	N/A	N/A	25,729	**35,729**	**N/A**	**N/A**	**35,729**
David Morrison	26,357	N/A	N/A	26,357	**26,357**	**N/A**	**N/A**	**26,357**
Al Breach[3]	14,279	N/A	N/A	14,279	**16,400**	**N/A**	**N/A**	**16,400**
Kaha Kiknavelidze	26,337	N/A	N/A	26,337	**26,337**	**N/A**	**N/A**	**26,337**
Kim Bradley	0	N/A	N/A	0	**1,250**	**N/A**	**N/A**	**1,250**
Tamaz Georgadze	0	N/A	N/A	0	**0**	**N/A**	**N/A**	**0**
Bozidar Djelic	0	N/A	N/A	0	**0**	**N/A**	**N/A**	**0**

1. In 2014, Mr Gilauri exercised options in respect of 116,000 BGH shares and acquired 7,500 BGH shares. As at the date of this Annual Report, Mr Gilauri's shareholding was as follows: 279,131 BGH shares held directly and 289,500 unvested and unexercised BGH shares held under option, resulting in a total number of interests in BGH shares of 568,631, representing 1.44% of the share capital of BGH.
2. At year-end 2014, NeilCo Ltd, a company wholly-owned by Mr Janin, held 10,000 BGH Shares.
3. At year-end 2014, Gemsstock Growth Fund, which Mr Breach manages, held 20,000 BGH Shares.

The Group's Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The long vesting periods, particularly, for deferred salary shares (five years), result in executive management having large holdings of unvested shares. Accordingly, the Group does not apply a shareholding guideline or impose a holding period on Mr Gilauri's or executive management's shares. The Policy naturally results in our executives holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Management Association.

As reflected in the table above, Mr Gilauri held 279,131 vested shares and 289,500 unvested shares as at the date of this Annual Report. The vesting period for the majority of unvested shares exceeds four years.

None of Mr Gilauri's connected persons have interests in any BGH shares.

The Group does not require Non-Executive Directors to hold a specified number of shares in BGH. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders.

3.9 Details of Non-Executive Directors' terms of appointment
Letters of appointment are entered into by BGH with each Non-Executive Director, generally for three-year terms. The letters of appointment require Non-Executive Directors to provide one-month notice prior to termination. New BGH letters of appointment for each Non-Executive Director were signed on 10 April 2014, with each Non-Executive Director subject to annual re-election at the AGM.

A succession plan adopted by the Board provides for a tenure of six years on the BGH and Bank Supervisory Boards. If the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Director on the Board beyond the relevant six-year period, the Board may offer the Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

The table below shows each Non-Executive Director's original date of appointment to the Board of BGH and the Supervisory Board of the Bank and the tenure of each individual at the Bank and BGH.

	Original date of appointment*	Six-year term-end based on original Bank appointment	Six-year term-end based on original BGH appointment
Neil Janin	December 2011 (BGH) June 2010 (Bank)	AGM 2016**	AGM 2016
David Morrison	December 2011 (BGH) June 2009 (Bank)	AGM 2015**	AGM 2016
Al Breach	December 2011 (BGH) June 2010 (Bank)	AGM 2016	AGM 2016
Kaha Kiknavelidze	December 2011 (BGH) February 2009 (Bank)	AGM 2015**	AGM 2016
Kim Bradley	December 2013 (BGH and Bank)	AGM 2020	AGM 2020
Bozidar Djelic	December 2013 (BGH and Bank)	AGM 2020	AGM 2020
Tamaz Georgadze	December 2013 (BGH and Bank)	AGM 2020	AGM 2020

* As mentioned above, new BGH letters of appointment for each Non-Executive Director were signed on 10 April 2014 and therefore the unexpired term for each Non-Executive Director pursuant to the current letter of appointment is two years.

** Neil Janin, David Morrison and Kaha Kiknavelidze have been offered extended letters of appointment in respect of their roles as members of the Supervisory Board of the Bank as their skills and experience continue to enhance the effectiveness of the Supervisory Board and their continued appointments are deemed to be in the best interests of the Bank.

4. Senior officer remuneration
In addition to the CEO of BGH and the Bank, in 2014, there were seven senior officers. These individuals include the Bank's "Deputy CEOs" responsible for the following directions: Finance, Retail Banking, Corporate Banking, Investment Management, Legal and Affordable Housing, as well as the CEO of Georgia Healthcare Group.

Key information regarding remuneration for senior officers is disclosed below in the interest of transparency, but the remuneration of senior officers is not subject to the Regulations or to the Directors' Remuneration Policy. The principles and remuneration structure described in the Directors' Remuneration Policy are currently applied in broadly the same way to senior officers. This means that, as for Mr Gilauri, senior officers receive remuneration based on two components:

- salary, which includes both a modest cash sum and deferred share compensation which vests over a five-year period; and
- a discretionary award, payable 100% in deferred share compensation vesting over a two-year period, which is dependent on both Group performance and the executive achieving his KPIs.

4.1 Single total figure of remuneration for senior officers

The table below sets out the remuneration received by each of the Bank's senior officers for 2013 and 2014 in respect of his employment with the Bank.

	2013						2014					
	Bank cash salary (US$) (Note 1)	Bank deferred share salary (US$) (Note 2)	Total salary (US$)	Discretionary deferred share com-pensation (US$) (Note 3 and Note 5)	Taxable benefits, pension and dividend equivalents (US$) (Note 4)	Total (US$)	**Bank cash salary (US$) (Note 1)**	**Bank deferred share salary (US$) (Note 2)**	**Total salary (US$)**	**Discretionary deferred share com-pensation (US$) (Note 3 and Note 5)**	**Taxable benefits, pension and dividend equivalents (US$) (Note 4)**	**Total (US$)**
Nikoloz Gamkrelidze	150,000	640,872	790,872	576,905	28,594	1,396,371	**150,000**	**640,872**	**790,872**	**497,230**	**24,669**	**1,312,771**
Murtaz Kikoria	150,000	534,060	684,060	716,158	30,444	1,430,662	**150,000**	**534,060**	**684,060**	**549,570**	**29,332**	**1,262,962**
Mikheil Gomarteli	150,000	534,060	684,060	616,692	42,670	1,343,422	**150,000**	**534,060**	**684,060**	**549,570**	**36,762**	**1,270,392**
Sulkhan Gvalia	150,000	534,060	684,060	616,692	34,354	1,335,106	**150,000**	**534,060**	**684,060**	**314,040**	**36,524**	**1,034,624**
Archil Gachechiladze	175,000	640,872	815,872	576,905	43,320	1,436,097	**175,000**	**640,872**	**815,872**	**497,230**	**40,461**	**1,353,563**
Avto Namichieshvili	150,000	640,872	790,872	576,905	44,444	1,412,221	**150,000**	**640,872**	**790,872**	**457,975**	**42,611**	**1,291,458**
Irakli Burdiladze	150,000	534,060	684,060	716,158	35,393	1,435,611	**150,000**	**534,060**	**684,060**	**497,230**	**29,820**	**1,211,110**

Notes:
1) Bank cash salary is expressed in US Dollars but paid in Lari.
2) Deferred share salary. The figures show the value of BGH shares underlying nil-cost options granted in respect of service in 2013 and 2014, as applicable. The value is calculated by reference to the share price as of US$21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date) as at 18 February 2013, the date of the service contracts. Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the work year even though the number of deferred salary shares is fixed in the contract. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 1(a) of the Directors' Remuneration Policy.
3) Discretionary deferred share compensation. The figures show the value of BGH shares underlying nil-cost options granted in respect of bonus awards in the relevant year. The value is calculated by reference to the share price as of the date of the award. For 2013, options were awarded on 25 February 2014. The share price on 25 February 2014 was US$39.79 per share (based on the official share price of £23.85 per share converted into US Dollars using an exchange rate of 1.6682, being the official exchange rate published by the Bank of England on the same date). For 2014, options were awarded on 19 March 2015. The share price on 19 March 2015 was US$26.17 per share (based on the official share price of £17.77 per share converted into US Dollars using an exchange rate of 1.4727, being the official exchange rate published by the Bank of England on the same date). The means of determining the number of shares underlying this compensation and the terms and conditions are described in section 1(b) of the Directors' Remuneration Policy.
4) See footnotes 4, 5 and 6 in the table provided in section 3.1.
5) The number of BGH shares granted to the senior officers in respect of discretionary share compensation in 2013 and 2014 is as follows: Nikoloz Gamkrelidze: 14,500 (2013) and 19,000 (2014); Murtaz Kikoria: 18,000 (2013) and 21,000 (2014); Mikheil Gomarteli: 15,500 (2013) and 21,000 (2014); Sulkhan Gvalia: 15,500 (2013) and 12,000 (2014); Archil Gachechiladze: 14,500 (2013) and 19,000 (2014); Avto Namicheishvili: 14,500 (2013) and 17,500 (2014); and Irakli Burdiladze: 18,000 (2013) and 19,000 (2014).

4.2 Shareholdings of senior officers

The following table sets forth the respective holdings of BGH shares of the senior officers as at 31 December 2013 and 2014.

	As at 31 December 2013			**As at 31 December 2014**		
	Number of vested BGH shares*	Number of unvested BGH shares	Total vested and unvested BGH shares	**Number of vested BGH shares**	**Number of unvested BGH shares**	**Total vested and unvested BGH shares**
Nikoloz Gamkrelidze	–	66,417	66,417	**1,082**	**83,542**	**84,624**
Mikheil Gomarteli	35,000	101,500	136,500	**30,851**	**99,000**	**129,851**
Sulkhan Gvalia	37,237	93,000	130,237	**42,022**	**96,500**	**138,522**
Archil Gachechiladze	–	115,000	115,000	**–**	**112,000**	**112,000**
Avto Namichieshvili	50,000	116,500	166,500	**61,664**	**112,000**	**173,664**
Irakli Burdiladze	–	88,500	88,500	**–**	**98,000**	**98,000**
Murtaz Kikoria	24,000	89,000	113,000	**5,000**	**98,000**	**103,000**

* Including shares held by Connected Persons.

5. Committee effectiveness review and priorities for 2015

An externally facilitated review of the Committee was performed by Lintstock in December 2014. The evaluation principally addressed the composition of the Committee, the structure and effectiveness of the Remuneration Policy and the performance evaluation process. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our priorities for this year will be: agreement of new contracts for those senior officers whose contracts expire in 2015; commencement of discussion regarding the terms of Mr Gilauri's 2016 service agreement; increase in the number of Committee meetings, with the implementation of a formal review cycle, focused first on setting executive management KPIs, then on their performance evaluations and finally determination of discretionary compensation; and improvement in the exchange of information with the full Board.

Directors' Remuneration Policy

The table below is a summary of the Group's Policy on the remuneration of Directors, as approved by the shareholders at the 2014 AGM. The approved Policy (which has not been amended) is valid for three years from the date of the 2014 AGM and will not be presented to shareholders for approval at the 2015 AGM. A short-term summary of the key provisions of the Policy has been included below to provide context to the discussion of the implementation of the Policy in the Director's Remuneration Report on pages 86 to 94 of this Annual Report. Please refer to the 2014 Annual Report for the full Policy which was approved by the shareholders and which is also available on our website, http://www.bogh.co.uk/en/corporate-governance. There will be no significant changes between the Policy and its implementation in 2015.

1. Executive Director remuneration policy

Component	Purpose and link to strategy	Operation and opportunity
Salary in the form of cash and deferred shares	Cash salary – Modest yet sufficient to cover reasonable living expenses and, when combined with the other elements of the package, competitive enough to attract, retain and develop high-calibre talent. – Reflective of the Executive Director's duties to each of BGH and the Bank, respectively. Deferred share salary – Fixed compensation in the form of nil-cost options over BGH shares which vest over a five-year period promotes the long-term success of the Group by closely aligning the Executive Director's and shareholders' interests.	Cash salary – Cash salary payable under the terms of the separate service contracts with BGH and the Bank (Note 2). The total amount payable under Mr Gilauri's current contracts is US$437,500. – Reviewed upon renewal of the service contract. – There is no provision for the recovery or withholding of cash salary. Deferred share salary – Awarded annually over the number of BGH shares under the terms of the service contract with the Bank (currently 90,000 per annum for Mr Gilauri under his contract with the Bank). – To be reviewed by the Remuneration Committee upon renewal of the service contract. The next review will be in 2016. – Awards are formally granted in January of the first year following the work year, and vest as to 20% in January of each of the second, third and fourth years following the work year, and as to 40% in January of the fifth year following the work year. – Dividends equivalent payments are made upon vesting (exercise of the nil-cost options) (Note 3). – Unvested deferred share salary lapses upon termination by BGH or the Bank "for cause" or by the Director other than for "good reason" or if the Director does not remain employed by the Group or serve as a Director of a subsidiary of the Group (each as defined in the relevant service contract). – There is no provision for the recovery or withholding of deferred share salary.
Discretionary deferred share compensation	– Annual performance-based compensation paid entirely in the form of nil-cost options over BGH shares which vest over a two-year period in lieu of a cash bonus or LTIP. – Promotes the Group's long-term success by closely aligning the Executive Director's and shareholders' interests.	– May be awarded annually from a pool of shares made available for such awards based on the performance of the Group and the Bank and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year. – For Mr Gilauri, the maximum value of an award in a given year for the remainder of his service contract with the Bank is capped at 50% of total salary. For an Executive Director other than Mr Gilauri, an award will not comprise more than 125% of total salary, save that the Remuneration Committee has the discretion to increase such award to a maximum 150% of total salary for performance that has resulted in outstanding benefits for shareholders. – Awards vest as to 50% in January of each of the second and third years following the work year. – Dividends equivalent payments are made upon vesting exercise of the nil-cost options (Note 3). – Unvested deferred share compensation lapses on the same terms as deferred share salary, save that the Board has reserved the right to permit unvested discretionary deferred shares to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group. – If at any time after awarding discretionary deferred share compensation, it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse.
Pension	The provision of retirement benefits helps to attract and retain high-calibre talent.	– The Bank operates a defined contribution pension scheme. – The Executive Director and the Bank each contribute a minimum of 1% of the Executive Director's gross monthly cash salary payable under his service contract with the Bank. – The Bank will match in additional contributions in a proportion of 0.2 to one, up to a maximum additional Bank contribution of 1% of gross monthly salary where the Director makes additional contributions up to 5% of gross monthly salary. – There is no provision for the recovery or withholding of pension payments.
Benefits	Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	– Benefits consist of health insurance, disability insurance and Directors' and officers' liability insurance, mobile phone (including contract charges and costs of calls made during business trips abroad) and personal security arrangements (if requested by the Executive Director). – A tax equalisation payment may be paid to a Director if any part of his remuneration becomes subject to double taxation. – There is no provision for the recovery or withholding of benefits.

Notes:
1) A discussion of how we implemented the Policy in 2014 is set out on pages 86 and 94 of this Annual Report.
2) BGH cash salary is converted from US Dollars to GBP at the exchange rate published by the Bank of England on each monthly payment date. Bank cash salary is converted from US Dollars to Lari at the exchange rate published by the National Bank of Georgia on each bi-weekly payment date.
3) At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Dividend equivalents are paid in Lari as at the date dividends were paid to other shareholders.
4) Work year refers to the year following the year to which the award relates.

(a) Salary
The deferred share salary comprises the most important element of the Executive Director's fixed annual remuneration and is commensurate with his role within the Group. By heavily weighting the base salary to deferred share compensation rather than cash, the Executive Director's day-to-day actions are geared towards sustained Group performance over the long term. The deferred share salary component is neither a bonus nor an LTIP: it is salary fixed at the outset of each three-year service contract and is therefore not subject to performance targets or measures. That salary, however, increases or declines in value depending on Group performance over the five-year vesting period, aligning the Executive Director's interests directly and naturally with those of shareholders.

(b) Discretionary deferred share compensation
The Group does not operate an LTIP because it believes there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share compensation. No cash bonuses are paid to Executive Directors. Instead, individual and Group performance is rewarded through an award of discretionary deferred share compensation that vests over the two years following the work year. As discretionary deferred share compensation is awarded to reward past performance over the work year, it is not subject to any performance measures over the period from award to vesting.

The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Director and all other members of executive management is determined annually by the Remuneration Committee in its discretion, based on a number of factors including:

- financial objectives (e.g. ROAE, operating leverage and Cost to Income ratio);
- business growth objectives (e.g. net loan book growth and deposit growth and fee and commission generation);
- risk management objectives (e.g. capital strength, liquidity management and cost of credit risk);
- the performance of the Bank relative to its competitors in Georgia and in the light of overall global market conditions; and
- (the market value of the shares at the time the discretionary share award is determined.

The number of shares over which an individual Executive Director's discretionary deferred share compensation will be granted is determined by the Remuneration Committee by reference to the performance of the Group and the Executive Director's KPIs, which are set for the Executive Director by the Remuneration Committee at the start of the financial year and which reflect the Executive Director's required contribution to the Group's overall key strategic and financial objectives for the financial year. A description of the KPIs set for Mr Gilauri in respect of 2014 and his performance against these targets can be found on pages 89 and 90 of the Directors' Remuneration Report.

While the Remuneration Committee has defined the set of factors to determine the aggregate pool of discretionary shares and evaluate an Executive Director's performance, it seeks to steer away from defining a series of narrow objectives for its Executive Directors and does not utilise strict weighting of performance measures. A high level of discretion is intentionally maintained when determining the quantum of discretionary deferred shares awarded to each Executive Director. Even in a "good" year for an Executive Director (e.g. achievement of most of his KPIs), in a "bad" year for the Group (e.g. poor financial performance by it) the Executive Director could receive little or no discretionary share compensation.

As mentioned in the Policy table above, the maximum value of discretionary deferred share remuneration that Mr Gilauri may be awarded in a given year for the remainder of his service contract with the Bank is capped at 50% of his total salary.

(c) Equity compensation trust and dilution limits
An equity compensation trust has been established for the purposes of satisfying deferred share compensation awarded to Executive Directors and members of the Executive Management Team. The trust was originally established in 2010 and shares committed to the trust in 2010 will partially satisfy awards in respect of the 2014 work year. BGH will need to issue new shares or repurchase shares, or a combination of both, in order to ensure that there are a sufficient number of shares committed to the trust in order to satisfy awards. However, the Group has committed to shareholders that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the Premium Segment of the LSE will not exceed 10% of BGH's ordinary share capital over any 10-year period.

(d) Business expenses
Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts.

2. Legacy arrangements
It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

3. Consideration of shareholder views
The Remuneration Committee considers shareholder feedback received on our remuneration structure each year as well as guidance from shareholder representative bodies, as we view shareholder input as key when shaping remuneration policy. In 2014 and the first quarter of 2015, we met with a number of our significant shareholders to discuss our remuneration structure and engaged directly with several shareholder advisory groups. The feedback we received was positive and our shareholders were widely supportive of our executive remuneration structure, understanding that although it varies from a typical UK remuneration structure in that we do not operate an LTIP or give cash bonuses, the absence of cash bonuses and the dominance of deferred share compensation in the overall remuneration package creates a direct and natural alignment of shareholder and executive management interests.

4. Consideration of employment conditions elsewhere in the Group
The Remuneration Committee considers the pay and employment conditions of executive management (other than Directors) when determining an Executive Director's remuneration as well as changes in pay and employment conditions across the Group as a whole in relation to the proposed pay for Directors. The Remuneration Committee consults with the Human Relations department, Executive Management and other employees during the year to seek feedback on the executive remuneration structure and takes such views into account when analysing its Policy. In 2014, the employees consulted confirmed that they were satisfied with the manner in which they were compensated. In taking this information into account in determining an Executive Director's remuneration, the Remuneration Committee relies on its judgement, particularly given that international comparisons are the most relevant for senior management and the Georgian labour market is more relevant for other employees.

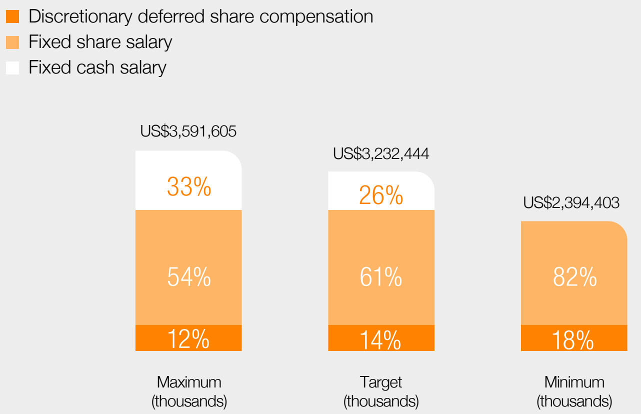
5. Comparison with Remuneration Policy for employees generally
The components of the remuneration package for Executive Directors (as provided for by the Policy) are broadly the same as those for non-Board members of the Executive Management Team. Other members of senior management and middle management receive their entire salary in cash and do not receive a deferred share salary. Their bonuses may be either in the form of cash

and/or shares which vest over a three-year period following the award. All other employees within the Group receive a cash salary and may be eligible to receive cash bonuses, portions of which may be deferred until the publication of the audited annual results for the work year and/or based on continuous employment with the Group. The deferred portion of the cash bonus may also be reduced if it is revealed, upon completion of the annual audit, that the annual results published by the department where the employee works were incorrect in any material respect. All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on the same terms as applicable to Executive Directors.

6. Total remuneration opportunity for our sole Executive Director

The chart below shows the remuneration which Mr Gilauri, our sole Executive Director, could receive in respect of 2015 under the Policy at three different performance levels. It should be noted that, at the maximum level, over 87% of Mr Gilauri's 2015 compensation will be in the form of deferred shares for which the average vesting period exceeds three years. At the minimum level, over 82% of Mr Gilauri's 2015 compensation will be in the form of deferred shares for which the average vesting is just under four years.

Total remuneration opportunity for our sole Executive Director (%)



Notes:
1) Salary is comprised of cash, deferred share salary, benefits and pension contributions. Mr Gilauri's total cash salary in 2015 in respect of both his service contract with BGH and the Bank will be US$437,500. The value of the deferred share salary payable for 2015 is calculated by reference to the share price as at the date Mr Gilauri's service contract at the Bank was signed, being US$21.71 per share (the official share price of £14.06 per share as at 19 February 2013 converted into US Dollars using an exchange rate of 1.5503, being the official exchange rate published by the Bank of England on the same date), which is the value at which the shares were committed to the trust and underlies the determination of compensation expense in the Group's income statement for the year. Deferred share salary in respect of 2015 will be formally granted in January and will vest from January 2017 to January 2020. For the purposes of this graph, we have used the value of pension and benefits for 2014 as we assume that pension and benefits in 2015 will be substantially the same.
2) The means of determining the number of shares underlying the discretionary deferred share compensation and terms and conditions applying to this compensation are described in section 1(b) above. Discretionary deferred shares in respect of 2015 will be formally granted in January 2016 and will vest in January 2017 and 2018.
3) Minimum opportunity reflects a scenario whereby Mr Gilauri receives only fixed remuneration, comprised of cash salary, deferred share salary, pension contributions and benefits and the Remuneration Committee considers that the Group's and/or the Director's performance in 2015 does not warrant any award of discretionary deferred share compensation.
4) On target opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described above) and assumes a discretionary deferred share compensation award at 70% of the maximum opportunity for Group and individual performance which is in line with the Group's expectation, which is excellent performance.
5) Maximum opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described above) and a discretionary deferred share compensation award of 50% of total salary (i.e. the Remuneration Committee considers that the Group's and the individual's performance in 2015 warrant the highest possible level of discretionary deferred share compensation).
6) The value of deferred shares does not take into account any increase or decrease in share price over the vesting period or any dividend equivalents payable on vesting (upon exercise of the nil-cost options).

7. Non-Executive Director Remuneration Policy

In 2014, each member of the Board of BGH, with the exception of Mr Gilauri, served as a member of the Supervisory Board of the Bank. Fees for Non-Executive Directors on both the Board of BGH and the Supervisory Board of the Bank are paid solely in cash. Each member received a base fee and was further remunerated for membership on the Audit Committee, Remuneration Committee and/or Nomination Committee, if applicable.

The Policy provides for a Non-Executive Director's remuneration package to be comprised of the following elements:

Component	Purpose and link to strategy	Operation and opportunity
Base cash fee	– Combined BGH and Bank base cash fee is competitive enough to attract and retain experienced individuals. – The Chairman and Senior Independent Non-Executive Director receive higher base fees which reflect increased responsibilities and time commitment.	– Cash payment on a quarterly basis. – Reviewed every three years by the Remuneration Committee. The next review will be in 2017. – The combined BGH and Bank base cash fee currently payable to Non-Executive Directors and Supervisory Board members is US$75,000 per year (US$37,500 for each of BGH and the Bank). – The Remuneration Committee reserves the right, in its sole discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. – The maximum aggregate BGH fees for all Non-Executive Directors which may be paid under BGH's Articles of Association is £750,000.
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging Committee duties for BGH and the Bank.	– Cash payment on a quarterly basis. – Reviewed every three years by the Remuneration Committee. The next review will be in 2017. – Fees for committee membership range from US$7,500 to US$15,000 per Committee, depending on the Committee and whether the Non-Executive Director is a Committee chairman or member.

Notes:
1) Non-Executive Directors do not receive any deferred share salary or discretionary deferred share compensation, pensions, benefits or any variable or performance-linked remuneration or incentives.
2) Non-Executive Directors are reimbursed for reasonable business expenses, including travel expenses, incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.
3) Non-Executive Directors who are appointed to the Board and/or to the Supervisory Board of the Bank by shareholders of BGH are required to waive any entitlements to fees which would otherwise be payable to them under the Policy for so long as they are appointees of a shareholder.

8. Policy on payments for loss of office of the current Directors

The following paragraphs (a) to (c) describe the Group's policy for payments on termination of Mr Gilauri's service contracts with BGH and the Bank. In 2014 and as of the date of this Annual Report, Mr Gilauri is the sole Executive Director on the BGH Board. The Group's policy for payments for loss of office for Non-Executive Directors is described in paragraph (d) below and its approach to payments for loss of office for future executive and Non-Executive Directors is described in section 9 below.

The Directors' service contracts and letters of appointment are kept for inspection by shareholders at BGH's registered office.

(a) Termination of BGH service contract dated 15 December 2011

Mr Gilauri's service contract with BGH is for an indefinite term (subject to annual re-election at the AGM) and is terminable by either party on four months' written notice. Where the service contract is terminated on notice, BGH may put Mr Gilauri on garden leave for some or all of the notice period and continue to pay his cash salary under the BGH service contract, provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period.

BGH may terminate Mr Gilauri's employment early with immediate effect and without notice and pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, conviction of an offence (other than traffic-related) or becoming of unsound mind. BGH may also terminate the agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be solely in respect of cash salary due under the BGH service contract as at the date of termination of employment.

(b) Termination of Bank service contract dated 19 February 2013

Mr Gilauri's service contract with the Bank is for an initial term of three years expiring on 1 May 2016, which may be renewed by agreement between the parties or terminated prior to the expiry of the term by either Mr Gilauri or the Bank. The Bank may terminate the service contract immediately without notice (subject to the terms set out below), whereas Mr Gilauri may terminate the contract upon three months' written notice or such shorter period as is agreed with the Supervisory Board of the Bank.

Separation payments

In the circumstances listed below where Mr Gilauri's service contract is terminated, he is entitled only to accrued and unpaid cash salary, accrued but not yet paid dividend equivalents, benefits, holiday pay and reimbursement of business expenses:

- termination by the Bank for "cause" (cause being defined as gross and wilful misconduct, material repeated failure to perform his duties or breach of his obligations or conviction of a felony, among other circumstances);
- termination by reason of death or disability (in which case he receives life or disability insurance benefits); or
- termination by Mr Gilauri other than for "good reason" (good reason meaning uncorrected material breach of the service contract by the Bank which is not cured within 45 days upon the executive serving notice of breach or material and unremedied illegal or unethical behaviour by Bank employees which has been notified to the Board by the executive and the Board fails to react and cooperate with the executive in addressing the behaviour).

If Mr Gilauri's service contract is terminated for any other reason, or is not renewed on substantially similar terms on expiry of the terms of the service contract, he is entitled to a separation payment equal to 12 months' cash salary under the service contract plus any accrued and outstanding cash salary, holiday pay and reimbursement of business expenses. He will not be entitled to any additional severance or leaving allowance, reimbursements, pay in lieu of notice, benefits, compensation for sick leave or other similar payments other than in respect of his deferred share salary and discretionary deferred share compensation (as described below).

The Bank may restrict Mr Gilauri from being employed in the financial industry and/or providing consulting or similar services to a competing financial institution for a period of up to six months following the termination of his employment, and will continue to pay him his full cash salary under the Bank service contract as compensation for his unemployment for the first four months of this period. In addition, the Bank may impose a two-year non-compete period in exchange for accelerated vesting of his deferred share compensation (as described below).

Deferred share compensation on termination

Mr Gilauri will be entitled to a pro-rata award of his deferred share salary in respect of any incomplete calendar year which he has worked, and may also be awarded discretionary deferred share compensation in respect of such incomplete calendar year if:

- his service contract expires and is not renewed upon substantially similar terms and he is not offered, or is offered and accepts, continued membership of the BGH and/or Bank Board; or
- his service contract is terminated before its expiry date but he continues as a member of the BGH and/or Bank Board.

Mr Gilauri will not be entitled to any deferred share salary for calendar years covered by the contract period during which he has not worked.

Vesting and lapse of existing awards

If Mr Gilauri's service contract is terminated for cause or by him other than for good reason, his unvested deferred share compensation will, unless otherwise agreed with the Board, lapse on the termination date.

Any unvested deferred share compensation of Mr Gilauri will vest immediately if:

- his service contract is terminated by the Bank other than for cause; is terminated by him for good reason; or expires and neither a renewed agreement nor Board membership is offered; or
- he ceases to be an Executive Director by reason of death, disability, injury, redundancy or retirement at normal retirement age; or
- there is a change of control of the Bank or BGH.

If Mr Gilauri's service contract expires and he is offered but refuses membership of the board of a company within the Group, 50% of his unvested deferred share compensation will vest immediately and the remaining 50% will, at his discretion, either continue to vest as normal or he may acquire some or all of the underlying shares for a specified price based on the price of the shares on grant in accordance with the terms of the service contract plus a 10% annual increase from the respective grant date until the date of acquisition. In consideration for this vesting treatment, Mr Gilauri will be bound by a two-year non-compete period during which he may not be employed by, provide consultancy services to or otherwise found or be a partner or associate of a commercial bank in Georgia (save that he may hold less than 5% of shares of a publicly listed bank).

If Mr Gilauri's service contract expires and is not renewed upon substantially similar terms but he is offered and accepts continued or renewed membership of the BGH and/or Bank Board, 50% of his unvested shares vest immediately and the remaining 50% shall continue to vest as normal.

If he subsequently ceases to be a member of the Bank and/or BGH Board, at Mr Gilauri's discretion, unvested shares either continue to vest as normal or he may acquire some or all of the underlying shares for the specified price as described above.

Mr Gilauri will be paid cash payments equivalent to the dividends accrued on his deferred share compensation. Such payments will be made on the vesting date in respect of dividends paid from the date the award was made to the vesting date. Such cash payments shall accrue and be payable on any vested shares, even if Mr Gilauri's service contract with the Bank has been terminated prior to vesting. The Bank will not pay any cash equivalent in respect of dividends on any deferred share compensation that has lapsed.

(c) Previous service contract with the Bank dated 25 May 2010

Any unvested awards granted under Mr Gilauri's previous service contract with the Bank (for the period from 25 May 2010 until and including 30 April 2013) shall vest immediately on termination of his current service contract for any reason, except that (i) if his current agreement is terminated by the Bank for cause, any unvested awards shall (unless the Board determines otherwise) lapse, and (ii) if it is terminated by Mr Gilauri for any reason other than for good reason (and unless the Board determines otherwise to his advantage), 50% of the unvested awards will vest immediately and the remaining 50% will, at his discretion, either continue to vest as normal or the underlying shares may be acquired for the specified price as above.

(d) Termination of Non-Executive Directors' appointments

The letters of appointment for Non-Executive Directors provide for a one-month notice period although BGH may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to BGH, is guilty of fraud or dishonesty, brings BGH or him/herself into disrepute or is disqualified as acting as a Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

9. Policy on the appointment of external hires and internal appointments

Any arrangement specifically established to recruit a new Executive Director would take the form of deferred shares. The value of these deferred shares would be capped to be no higher, on recruitment, than the awards which the individual had to surrender in order to be recruited and the vesting period of such deferred shares would be a similar timeframe to the awards being bought out. The application of performance conditions and/or clawback provisions may also be considered, where appropriate.

The remuneration package offered to any new Executive Director would comprise the components described in section 1 above. A new Executive Director would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience but such package would be capped at the annual total monetary value or the total number of shares currently awarded to executives at the equivalent level of seniority pursuant to existing contractual arrangements. The terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

Relocation support for an incoming Executive Director and, where relevant, his or her family may be provided depending on the individual's circumstances. BGH has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.

Any payment upon termination of a new Executive Director's service contract would not exceed 12 months' cash salary under the relevant service contract, plus any accrued and unpaid cash salary, benefits and holiday pay and reimbursement of any business expenses. The Group may also continue to pay a former Executive Director his full cash salary for any period following the termination of his appointment during which he is prohibited from competing with the Group.

It is expected that the following vesting provisions will apply to deferred share compensation in the case of termination of a new Executive Director's service contract:

- Unvested deferred share compensation would lapse upon termination of the service contract by BGH or the Bank for cause, termination by the Executive Director other than for good reason or if the Executive Director's employment is terminated for any other reason and he is not offered continued membership of the Board or the Bank's Supervisory Board.
- Unvested deferred share compensation would continue to vest in the normal way during the respective vesting period(s) upon termination by BGH or the Bank without cause, if the Executive Director's service contract expires and he is not offered a new service contract on substantially similar terms on expiration or if the Executive Director ceases to be an Executive Director by reason of injury, disability, redundancy or retirement (at normal retirement age).
- Unvested deferred share compensation would vest immediately upon death of the Executive Director, termination of the service contract by the Executive Director for good reason or a change of control.

Notwithstanding the above, the Board reserves the right to permit unvested deferred share compensation to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group.

If an existing employee of the Group is appointed as an Executive or Non-Executive Director, any obligation or commitment entered into with that individual prior to his appointment will be honoured by the Group in accordance with the terms of those obligations or commitments, even where they differ from the terms of the Policy.

Management report

This Directors' Report together with the Strategic Report on pages 2 to 63 form the Management Report for the purposes of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be part of this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future Developments	Pages 2 to 63
Directors' Governance statement	Page 64
The Board of Directors	Pages 70 and 71
Nomination Committee Report	Pages 76 and 77
Share capital	Note 22 on pages 162 and 163
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and financial instruments	Notes 30 and 31 on pages 169 to 184

Articles of Association

BGH's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The BGH Articles of Association are available on BGH's website: www.bogh.co.uk/en/corporate-governance.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 22 to the consolidated financial statements on pages 162 and 163 of this Annual Report.

In 2014, BGH did not buy back any shares or sell any treasury shares.

On 31 March 2015, there was a single class of 39,500,320 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to BGH's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and BGH's Articles of Association, to:

- have shareholder documents made available to them;
- including notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

Voting rights and restrictions on transfer of shares

None of the ordinary shares carry any special rights with regard to control of BGH.

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Group Share Dealing Code, whereby the Directors and designated employees require approval to deal in BGH's shares; and
- where a person with an interest in BGH's shares has been served with a disclosure notice and has failed to provide BGH with information concerning interests in those shares.

There are no restrictions on exercising voting rights save in situations where BGH is legally entitled to impose such a restriction (for example under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to BGH). BGH is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Results and dividends

BGH may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by BGH's Directors. The Directors may also pay interim dividends as appear to be justified by the profits of BGH available for distribution.

As BGH is a holding company, BGH relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividend to its shareholders.

As a result of the Bank's strong financial performance and condition, the BGH Board intends to recommend an annual dividend of GEL 2.1 payable in British Pounds Sterling, which is subject to shareholders' approval at the 2015 AGM. If approved, the dividend will be paid on 16 June 2015 to shareholders on the UK register of members at the close of business in the UK (6:00 pm London time) on 5 June 2015.

Powers of Directors
The Directors may exercise all powers of BGH subject to applicable legislation and regulation and BGH's Articles of Association.

Conflicts of interest
In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2014. BGH's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his duty under company law.

Directors' remuneration
Directors' fees are determined by the Board from time to time. Directors' fees (as distinct from any salary, remuneration or other amount payable to a Director pursuant to other provisions of the Articles of Association or otherwise) may not exceed £750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of BGH. The fees paid to the Non-Executive Directors pursuant to their letters of appointment are shown on page 91 of this Annual Report.

Directors' interests
The Directors' beneficial interests in ordinary shares of BGH as at 31 December 2014 are shown on page 92 of this Annual Report.

Re-election of Directors
At the next Annual General Meeting, each Director will be put forward for re-election.

Indemnity
Subject to applicable legislation, every current and former Director or other officer of BGH (other than any person engaged by the Company as auditor) shall be indemnified by BGH against any liability in relation to BGH, other than (broadly) any liability to BGH or a member of the Group, or any criminal or regulatory fine.

Related party transactions
Details of related party transactions are set out in Note 33 to the consolidated financial statements on pages 188 to 190 of this Annual Report.

Significant contracts and agreements
At no time during 2014 did any Director hold a material interest in any contracts of significance with BGH or any subsidiary of the Group. BGH is not party to any significant agreements that would take effect, alter or terminate following a change of control of BGH.

Political donations
The Group did not make any political donations or expenditures during 2014.

Code of Conduct and ethics
The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct is available on our website: www.bogh.co.uk/en/corporate-governance.

Independent auditors
A resolution to reappoint Ernst & Young LLP as auditors of BGH will be put to shareholders at the upcoming AGM.

Major interests in shares
The table below lists shareholders with voting rights of more than 3% as of 31 March 2015 and their respective holdings as of 31 December 2014.

	As of 31 March 2015		As of 31 December 2014	
Shareholder	**Number of voting rights**	**% of voting rights**	Number of voting rights	% of voting rights
Schroders Investment Management	4,577,357	11.59	4,920,177	12.46
Harding Loevner Management LP	1,989,257	5.04	1,705,475	4.32
Westwood International Advisors	1,591,053	4.03	1,296,971	3.28
Artemis Investment Management	1,426,692	3.61	1,266,435	3.21
Firebird Management LLC	1,295,121	3.28	1,332,961	3.37
Others	28,620,840	72.45	28,978,301	73.36
Total	**39,500,320**	**100**	**39,500,320**	**100**

Source: Georgeson, Computershare

The respective regulatory filings by shareholders are available on the BGH website: www.bogh.co.uk/en/announcements/bank-of-georgia-holdings-plc/press-releases and the London Stock Exchange website: www.londonstockexchange.com/news/news/finance.htm.

Annual General Meeting

Our AGM will be held at 10:00 am (London time) on Thursday, 21 May 2015 at Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS. Details of the business to be conducted at the AGM are contained in the Notice of AGM.

Statement of Directors' responsibilities

We are responsible for preparing the Annual Report, the Director's Remuneration Report and the accompanying consolidated and stand-alone financial statements in accordance with applicable law and regulations. Company law requires us to prepare financial statements for each financial year. Under the law, we have elected to prepare the accompanying consolidated and stand-alone financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law.

Under company law, we must not approve the accompanying consolidated and stand-alone financial statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and BGH and of the profit or loss of the Group and BGH for that period.

In preparing the accompanying consolidated and stand-alone financial statements, we are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that BGH will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain BGH's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of BGH and the Group, and to enable us to ensure that the consolidated and stand-alone financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and stand-alone financial statements, Article 4 of the IAS Regulation.

We have further responsibility for safeguarding the assets of BGH and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

We are also responsible for the maintenance and integrity of BGH's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to the auditor

We confirm that, so far as we are aware, there is no relevant audit information of which BGH's auditors are unaware and we have taken all steps that we reasonably should have taken as Directors in order to make ourselves aware of any relevant audit information and to establish that BGH's statutory auditors are aware of such information.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the consolidated and stand-alone financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of BGH and the Group taken as a whole;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of BGH and Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report (which includes the accounts), taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BGH's performance, business model and strategy.

In arriving at this position the Board was assisted by a number of processes that form part of its internal control and risk management systems, including the following:

- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Head of Investor Relations to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by the CEO and other senior executive management;
- an advanced draft is considered and reviewed by BGH's legal advisers; and
- the final draft is reviewed by the Audit Committee and Risk Committee prior to consideration by the Board.

By order of the Board

Kate Bennett Rea
on behalf of KB Rea Ltd
Company Secretary
7 April 2015

Independent Auditor's Report to the members of Bank of Georgia Holdings PLC

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended.
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the financial statements of Bank of Georgia Holdings PLC for the year ended 31 December 2014 which comprise:

- the consolidated and stand-alone statements of financial position;
- the consolidated income statement and consolidated statement of comprehensive income;
- the consolidated and stand-alone statements of cash flow;
- the consolidated and stand-alone statements of changes in equity; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 102, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our assessment of risks of material misstatement and our response to those risks

We identified the following risks that have had the greatest effect on the overall audit strategy; on the allocation of resources in the audit; and on directing the efforts of the engagement team:

Risk area and rationale: Monitoring of credit quality and the appropriateness of the allowance for loan losses

Refer to the significant accounting judgements and estimates in Note 4 of the financial statements, the Audit Committee Report on pages 79 to 83 and the disclosures of credit risk within Note 30 of the financial statements.

The impairment of loans to customers is estimated by the Directors through the application of judgement and use of highly subjective assumptions. Due to the significance of loans to customers (representing 57% of total assets) and the corresponding uncertainty inherent in such an estimate, this is considered a significant audit risk.

Audit response

We documented and tested the Group's process and controls for assessing and recording loans and determining the allowance. In particular, we tested loan exposures on a sample basis to ensure all loans which had suffered an incurred loss event had been included in the specific provisioning process. This is an inherently judgemental process. As a result, we examined the Group's documented borrower assessments and tested selected controls, which addressed aspects such as the classification of borrowers into their respective risk grades, calculation of days past due, and the recalculation of the loan loss allowance, including the valuation of collateral. In addition, we reviewed and challenged assumptions around future cash flow projections and the valuation of collateral held.

The loan portfolio is also subject to a collective provisioning approach. The Group implemented a new provisioning methodology this year, which introduced additional statistical analysis for determining the probability of default and loss given default. In response, we critically assessed the appropriateness of this methodology as well as the assumptions and data inputs into the model, which included engaging internal experts to support the audit team. In assessing the model and assumptions, we independently recalculated the model output and examined the results of management's review of key assumptions.

In addition we selected a sample of restructured loans, and reviewed the Group's documented assessment to provide assurance that any loans that have been subject to forbearance have been appropriately classified and reported.

Risk area and rationale: The integrity of the Group's financial statements is dependent on the effectiveness of the internal control systems, of which the adequacy of the IT security and change controls is a substantial component

Refer to the Audit Committee Report on pages 79 to 83.

Audit response

We evaluated the design and operating effectiveness of the IT systems that are relevant to financial reporting. We examined controls over program development and changes, access to programs and data and IT operations in respect of those IT systems, and embedded application controls. We engaged IT specialists in our audit team to perform sufficient audit procedures to enable us to place reliance on the IT applications and relevant controls identified as having a material impact on the financial reporting process. Where exceptions were observed in our testing, we identified compensating controls and tested those to address the identified risk.

Risk area and rationale: The reasonableness of the fair value of investment properties and premises

Refer to the significant accounting judgements and estimates in Note 4 of the financial statements and the disclosure of the significant unobservable inputs that affect the valuation of the properties in Note 31 to the financial statements.

Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's properties are located primarily in Georgia, where the secondary market is relatively illiquid. Although the valuations are performed by a combination of internal and external, appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued.

Audit response

We engaged internal valuations specialists to work with the audit team to evaluate the appropriateness of the Group's valuations. Their assessment included evaluating the competence and objectivity of the valuers, challenging the methods and assumptions used and testing the data provided by the valuers.

Our application of materiality

We apply the concept of materiality in both planning and performing the audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be GEL 13,830,000, which is approximately 5% of profit before tax. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timings and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely GEL 6,915,000. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

Audit work at individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. In the current year the range of performance materiality allocated to the components was GEL 1,383,000 to GEL 6,915,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of GEL 691,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, our audit scope focused on two components, which represent the principal business units within the Group and account for 83% of the Group's total revenue and 90% of the Group's profit before tax. One component was subject to a full scope audit (77% of revenue and 85% of profit before tax), while the other was subject to a specific scope audit (6% of revenue and 5% of profit before tax) where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at that location. These components were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the remaining components, we performed other procedures such as discussions with management and analytical procedures to confirm that there were no significant risks of material misstatement in the Group financial statements.

The senior statutory auditor is based in the UK but, since Group management and operations reside in Georgia, the Group audit team operates as an integrated primary team including members from the UK, Georgia and Russia. The senior statutory auditor visited Georgia five times during the current year's audit and there was regular interaction between team members in each jurisdiction. During his visits, the senior statutory auditor:

- attended meetings with senior management and the Audit Committee to discuss the key audit risk areas;
- attended meetings with local regulators;
- reviewed the audit planning work in respect of the two components that are in scope; and
- reviewed the test of controls and year-end substantive audit procedures in respect of the key audit risk areas.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect, based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 102, in relation to going concern; and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

A J McIntyre (senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
7 April 2015

Notes:
1. The maintenance and integrity of the Bank of Georgia Holdings PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Stand-alone statement of financial position
As at 31 December 2014
(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Assets				
Cash and cash equivalents		**88,005**	4,628	12,309
Amounts due from credit institutions		**46,368**	–	–
Investments in subsidiaries	2	**896,253**	858,205	799,389
Other assets		**49,250**	550	38
Total assets		**1,079,876**	**863,383**	**811,736**
Liabilities				
Other liabilities		**11,151**	8,441	14,019
Total liabilities		**11,151**	**8,441**	**14,019**
Equity				
Share capital		**1,143**	1,028	957
Additional paid-in capital		**206,884**	–	–
Other reserves		**(328)**	4,943	416
Retained earnings		**861,026**	848,971	796,344
Total equity		**1,068,725**	**854,942**	**797,717**
Total liabilities and equity		**1,079,876**	**863,383**	**811,736**

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

Irakli Gilauri
Chief Executive Officer
7 April 2015

Stand-alone statement of changes in equity
As at 31 December 2014
(Thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
31 December 2011	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	–	–	–	22,476	22,476
Conversion of shares following the Tender Offer	565,120	–	221,553	–	786,673
Capital reduction (Note 22)	(560,844)	–	(220,243)	781,087	–
GBP-GEL translation effect	(3,319)	–	(894)	16,399	12,186
Dividends to shareholders of the Group (Note 22)	–	–	–	(23,618)	(23,618)
31 December 2012	**957**	**–**	**416**	**796,344**	**797,717**
Total comprehensive income	–	–	–	49,865	49,865
GBP-GEL translation effect	71	–	4,527	53,997	58,595
Dividends to shareholders of the Group (Note 22)	–	–	–	(51,235)	(51,235)
31 December 2013	**1,028**	**–**	**4,943**	**848,971**	**854,942**
Total comprehensive income	–	–	–	64,685	64,685
Issue of share capital	108	218,921	–	–	219,029
Transactions costs recognised directly in equity	–	(3,370)	–	–	(3,370)
GBP-GEL translation effect	7	(8,667)	(5,271)	16,481	2,550
Dividends to shareholders of the Group (Note 22)	–	–	–	(69,111)	(69,111)
31 December 2014	**1,143**	**206,884**	**(328)**	**861,026**	**1,068,725**

Stand-alone statement of cash flows

As at 31 December 2014
(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Cash flows from operating activities				
Fees and commissions paid		**(498)**	(217)	(581)
Salaries and other employee benefits paid		**(1,492)**	(1,382)	(1,064)
General and administrative expenses paid		**(2,250)**	(3,513)	(600)
Cash flows from operating activities before changes in operating assets and liabilities		**(4,240)**	**(5,112)**	**(2,245)**
Net (decrease) increase in other liabilities		**(46,857)**	(4,935)	13,033
Net cash flows from operating activities		**(51,097)**	**(10,047)**	**10,788**
Cash flow from investing activities				
Purchase of investments in associates	12	**(45,567)**	–	–
Increase of investments in subsidiaries		**(28,549)**	–	–
Dividends received		**69,856**	54,589	25,669
Cash flow from investing activities		**(4,260)**	**54,589**	**25,669**
Cash flow used in financing activities				
Proceeds from issue of share capital		**215,659**	–	–
Dividends paid		**(69,111)**	(51,235)	(23,618)
Net cash used in financing activities		**146,548**	**(51,235)**	**(23,618)**
Effect of exchange rates changes on cash and cash equivalents		**(7,814)**	(988)	(530)
Net increase (decrease) in cash and cash equivalents		**83,377**	**(7,681)**	**12,309**
Cash and cash equivalents, beginning		**4,628**	**12,309**	**–**
Cash and cash equivalents, ending		**88,005**	**4,628**	**12,309**

Consolidated statement of financial position

As at 31 December 2014
(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Assets				
Cash and cash equivalents	7	**710,144**	1,053,671	762,827
Amounts due from credit institutions	8	**418,281**	347,261	396,559
Investment securities available-for-sale	9	**769,712**	519,623	463,960
Loans to customers	10	**4,322,186**	3,477,309	3,020,634
Finance lease receivables	11	**38,519**	45,606	71,686
Investments in associates	12	**48,659**	–	2,441
Investment properties	13	**190,860**	157,707	160,353
Property and equipment	14	**588,513**	470,669	430,877
Intangible assets		**34,432**	26,434	23,078
Goodwill	15	**49,633**	48,720	45,657
Current income tax assets		**4,215**	4,552	944
Deferred income tax assets		**18,530**	14,544	14,352
Prepayments		**33,774**	25,534	41,147
Other assets	17	**351,687**	329,339	221,080
Total assets		**7,579,145**	**6,520,969**	**5,655,595**
Liabilities				
Amounts due to customers	18	**3,338,725**	3,117,732	2,693,025
Amounts due to credit institutions	19	**1,409,214**	1,157,979	1,236,313
Debt securities issued	20	**856,695**	728,117	420,849
Current income tax liabilities		**11,093**	2,928	13,818
Deferred income tax liabilities		**86,471**	66,100	46,184
Provisions	21	**4,732**	481	683
Other liabilities	17	**238,122**	206,578	185,211
Total liabilities		**5,945,052**	**5,279,915**	**4,596,083**
Equity	22			
Share capital		**1,143**	1,028	957
Additional paid-in capital		**245,305**	23,843	14,767
Treasury shares		**(46)**	(56)	(69)
Other reserves		**(22,574)**	(16,399)	14,097
Retained earnings		**1,350,258**	1,174,124	981,322
Total equity attributable to shareholders of the Group		**1,574,086**	**1,182,540**	**1,011,074**
Non-controlling interests		**60,007**	58,514	48,438
Total equity		**1,634,093**	**1,241,054**	**1,059,512**
Total liabilities and equity		**7,579,145**	**6,520,969**	**5,655,595**

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

Irakli Gilauri
Chief Executive Officer
7 April 2015

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December 2014
(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Interest income				
Loans to customers		**539,983**	522,847	509,339
Investment securities – available-for-sale		**39,988**	35,371	33,950
Amounts due from credit institutions		**6,581**	8,423	15,813
Finance lease receivables		**8,370**	7,466	8,701
		594,922	**574,107**	**567,803**
Interest expense				
Amounts due to customers		**(133,865)**	(159,028)	(202,484)
Amounts due to credit institutions		**(62,560)**	(65,161)	(63,483)
Debt securities issued		**(54,436)**	(35,424)	(16,009)
		(250,861)	**(259,613)**	**(281,976)**
Net interest income before net loss from interest rate swaps		**344,061**	**314,494**	**285,827**
Net loss from interest rate swaps		**–**	(398)	(1,710)
Net interest income		**344,061**	**314,096**	**284,117**
Fee and commission income		**132,455**	115,106	109,278
Fee and commission expense		**(32,793)**	(28,210)	(22,791)
Net fee and commission income	23	**99,662**	**86,896**	**86,487**
Net insurance premiums earned		**95,850**	129,993	91,176
Net insurance claims incurred		**(66,421)**	(84,660)	(57,038)
Net insurance revenue	24	**29,429**	**45,333**	**34,138**
Healthcare revenue		**125,720**	60,013	54,376
Cost of healthcare services		**(78,836)**	(37,644)	(31,030)
Net healthcare revenue	25	**46,884**	**22,369**	**23,346**
Net real estate revenue	26	**15,782**	5,898	7,467
Net gain from trading securities and investment securities available-for-sale		**376**	3,097	2,308
Net gain from revaluation of investment properties	13	**1,909**	9,788	–
Net gain (loss) from foreign currencies:				
– dealing		**44,169**	46,330	33,389
– translation differences		**5,415**	(2,818)	16,182
Other operating income		**17,891**	13,267	10,093
Other operating non-interest income		**85,542**	**75,562**	**69,439**
Revenue		**605,578**	**544,256**	**497,527**
Salaries and other employee benefits	27	**(153,807)**	(135,065)	(122,556)
General and administrative expenses	27	**(73,185)**	(60,364)	(67,041)
Depreciation and amortisation		**(28,207)**	(26,572)	(28,606)
Other operating expenses		**(3,750)**	(2,366)	(2,221)
Operating expenses		**(258,949)**	**(224,367)**	**(220,424)**
Operating income before cost of credit risk		**346,629**	**319,889**	**277,103**

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

	Notes	2014	2013	2012
Operating income before cost of credit risk		**346,629**	**319,889**	**277,103**
Impairment charge on loans to customers	10	**(45,088)**	(41,499)	(39,186)
Impairment charge on finance lease receivables	11	**(476)**	(2,809)	(495)
Impairment charge on other assets and provisions		**(13,456)**	(17,494)	(5,036)
Cost of credit risk		**(59,020)**	**(61,802)**	**(44,717)**
Net operating income before non-recurring items		**287,609**	**258,087**	**232,386**
Net non-recurring expense/loss	28	**(11,017)**	(12,831)	(19,634)
Profit before income tax expense		**276,592**	**245,256**	**212,752**
Income tax expense	16	**(35,825)**	(35,913)	(33,200)
Profit for the year		**240,767**	**209,343**	**179,552**
Attributable to:				
– shareholders of the Group		**232,509**	201,490	174,437
– non-controlling interests		**8,258**	7,853	5,115
		240,767	**209,343**	**179,552**
Earnings per share:	22			
– basic earnings per share		**6.7228**	5.9291	5.2218
– diluted earnings per share		**6.7228**	5.9291	5.1737

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2014
(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Profit for the year		**240,767**	**209,343**	**179,552**
Other comprehensive income (loss)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
– Unrealised revaluation of available-for-sale securities		**(4,079)**	4,611	960
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		**(83)**	(2,858)	(2,075)
– Gain from currency translation differences		**20,157**	8,922	172
Income tax effect	16	**(124)**	(872)	690
Net other comprehensive income(loss) to be reclassified to profit or loss in subsequent periods		**15,871**	**9,803**	**(253)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	14	**–**	1,591	–
Income tax effect	16	**–**	(223)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	**1,368**	**–**
Other comprehensive income (loss) for the year, net of tax		**15,871**	**11,171**	**(253)**
Total comprehensive income for the year		**256,638**	**220,514**	**179,299**
Attributable to:				
– shareholders of the Group		**250,571**	213,597	174,304
– non-controlling interests		**6,067**	6,917	4,995
		256,638	**220,514**	**179,299**

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended December 2014
(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 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**
Total comprehensive income	–	–	–	(465)	174,769	174,304	4,995	179,299
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(622)	622	–	–	–
Increase in share capital arising from share-based payments	–	30,213	602	–	–	30,815	–	30,815
Issue of share capital (Note 22)	3,635	70,313	–	–	–	73,948	–	73,948
Conversion of shares following the Tender Offer	(35,570)	23,983	2,507	(497)	(4,589)	(14,166)	14,166	–
Capital reduction (Note 22)	–	(582,388)	–	–	582,388	–	–	–
GBP-GEL translation effect	14	2,828	(4)	–	(2,838)	–	–	–
Transactions costs recognised directly in equity	–	(3,325)	–	–	–	(3,325)	–	(3,325)
Dividends to shareholders of the Group (Note 22)	–	–	–	–	(23,618)	(23,618)	–	(23,618)
Dilution of interests in subsidiaries	–	–	–	15	–	15	128	143
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	(86)	–	(86)	749	663
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	1,274	–	1,274	(11,673)	(10,399)
Sale of treasury shares	–	89	5	–	–	94	–	94
Purchase of treasury shares	–	(678)	(33)	–	–	(711)	–	(711)
31 December 2012	**957**	**14,767**	**(69)**	**14,097**	**981,322**	**1,011,074**	**48,438**	**1,059,512**
Total comprehensive income	–	–	–	(29,069)	242,666	213,597	6,917	220,514
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(1,797)	1,797	–	–	–
Increase in share capital arising from share-based payments	–	13,906	19	–	–	13,925	–	13,925
GBP-GEL translation effect	71	–	(3)	358	(426)	–	–	–
Dividends to shareholders of the Group (Note 22)	–	–	–	–	(51,235)	(51,235)	–	(51,235)
Dilution of interests in subsidiaries	–	–	–	–	–	–	150	150
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	12	–	12	2,958	2,970
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	51	51
Purchase of treasury shares	–	(4,830)	(3)	–	–	(4,833)	–	(4,833)
31 December 2013	**1,028**	**23,843**	**(56)**	**(16,399)**	**1,174,124**	**1,182,540**	**58,514**	**1,241,054**
Total comprehensive income	–	–	–	11,359	239,212	250,571	6,067	256,638
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(446)	446	–	–	–
Increase in share capital arising from share-based payments	–	19,094	13	–	–	19,107	–	19,107
Issue of share capital (Note 22)	108	218,921	–	–	–	219,029	–	219,029
GBP-GEL translation effect	7	(8,667)	–	551	8,109	–	–	–
Transactions costs recognised directly in equity (Note 22)	–	(3,370)	–	–	–	(3,370)	–	(3,370)
Dividends to shareholders of the Group (Note 22)	–	–	–	–	(71,633)	(71,633)	–	(71,633)
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(17,639)	–	(17,639)	(15,516)	(33,155)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	10,942	10,942
Purchase of treasury shares	–	(4,516)	(3)	–	–	(4,519)	–	(4,519)
31 December 2014	**1,143**	**245,305**	**(46)**	**(22,574)**	**1,350,258**	**1,574,086**	**60,007**	**1,634,093**

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2014
(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Cash flows from operating activities				
Interest received		**588,978**	559,604	553,090
Interest paid		**(270,942)**	(239,544)	(270,691)
Fees and commissions received		**133,948**	104,099	109,278
Fees and commissions paid		**(33,006)**	(28,211)	(22,791)
Insurance premiums received		**95,859**	126,640	79,007
Insurance claims paid		**(66,385)**	(88,161)	(55,197)
Healthcare revenue received		**95,865**	57,953	54,376
Cost of healthcare services paid		**(70,308)**	(33,661)	(31,030)
Net cash inflow from real estate		**24,396**	7,682	7,229
Net realised gains from trading securities		**407**	61	375
Net realised gains from investment securities available-for-sale		**83**	2,858	2,075
Net realised gains from foreign currencies		**44,169**	46,330	33,389
Recoveries of loans to customers previously written off	10	**28,706**	27,479	29,979
Other income received (expenses paid)		**3,236**	(21,673)	9,385
Salaries and other employee benefits paid		**(129,793)**	(109,626)	(110,639)
General and administrative and operating expenses paid		**(63,038)**	(62,916)	(68,340)
Cash flows from operating activities before changes in operating assets and liabilities		**382,175**	**348,914**	**319,495**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		**(71,099)**	49,297	(99,925)
Loans to customers		**(935,313)**	(534,365)	(562,345)
Finance lease receivables		**6,115**	(6,777)	(9,262)
Prepayments and other assets		**9,897**	5,744	(59,339)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		**243,021**	(79,766)	425,748
Debt securities issued		**128,364**	283,908	335,419
Amounts due to customers		**236,794**	425,641	(52,871)
Other liabilities		**(2,419)**	(2,662)	(28,243)
Net cash flows from operating activities before income tax		**(2,465)**	**489,934**	**268,677**
Income tax paid		**(15,990)**	(29,834)	(3,282)
Net cash flows from operating activities		**(18,455)**	**460,100**	**265,395**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	**(22,177)**	(7,810)	(9,008)
Purchase of investment securities available-for-sale		**(255,710)**	(48,033)	(43,347)
Proceeds from sale of investments in associates		**300**	–	170
Purchase of investments in associates	12	**(45,567)**	–	–
Proceeds from sale of investment properties	13	**7,383**	10,748	15,622
Purchase of investment property	13	**(49,348)**	–	–
Proceeds from sale of property and equipment and intangible assets	14	**2,648**	5,317	–
Purchase of property and equipment and intangible assets		**(80,459)**	(70,592)	(60,880)
Net cash flows used in investing activities		**(442,930)**	**(110,370)**	**(97,443)**

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

	Notes	2014	2013	2012
Cash flows (used in) from financing activities				
Proceeds from issue of share capital		**215,659**	–	–
Dividends paid		**(69,725)**	(51,235)	(23,618)
Purchase of treasury shares		**(4,519)**	(4,833)	(711)
Sale of treasury shares		**–**	–	94
Proceeds from sale of non-controlling interest in existing subsidiary		**–**	–	663
Purchase of additional interests in existing subsidiaries, net of cash acquired		**(28,972)**	–	(10,399)
Net cash used in financing activities		**112,443**	**(56,068)**	**(33,971)**
Effect of exchange rates changes on cash and cash equivalents		**5,415**	(2,818)	115
Net increase in cash and cash equivalents		**(343,527)**	**290,844**	**134,096**
Cash and cash equivalents, beginning	7	**1,053,671**	**762,827**	**628,731**
Cash and cash equivalents, ending	7	**710,144**	**1,053,671**	**762,827**

The accompanying notes on pages 116 to 191 are an integral part of these consolidated financial statements.

Notes to consolidated financial statements
(Thousands of Georgian Lari)

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 2014 the Bank has 219 operating outlets in all major cities of Georgia (31 December 2013: 202, 31 December 2012: 194). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Bank is the parent of a group of companies mainly incorporated in Georgia and Belarus. Primary business activities include providing banking, leasing, insurance, real estate, healthcare, brokerage and investment management services, to corporate and individual customers.

In December 2011, Bank of Georgia Holdings PLC ("BGH"), a public limited liability company newly incorporated in England and Wales, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 28 February 2012 and subsequent acquisitions of the Bank's remaining shares held by non-controlling shareholders by the Bank, BGH holds 99.63% of the share capital of the Bank as at 31 December 2014, representing the Bank's ultimate parent company. Together with the Bank's subsidiaries, BGH makes up a group of companies (the "Group"). The list of the companies included in the Group is provided in Note 2. The shares of BGH ("BGH Shares") 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 (the "Admission", Note 22). The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Bank of Georgia Holdings PLC's registered legal address is 84 Brook Street, London, United Kingdom W1IK 5EH.

The treasury shares kept by the Bank for the purposes of its future employee share-based compensation as of the Tender Offer expiration date have been fully converted into the BGH newly issued shares.

As at 31 December 2014, 31 December 2013 and 31 December 2012, the following shareholders owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	**31 December 2014**	31 December 2013	31 December 2012
Schroders Investment Management	**12.46%**	3.06%	1.73%
Royal Bank of Canada	**3.42%**	4.87%	6.72%
Firebird Management LLC	**3.37%**	3.82%	7.94%
Franklin Templeton Investments	**2.45%**	7.21%	5.04%
International Finance Corporation	**–**	5.06%	5.06%
European Bank for Reconstruction & Development	**–**	5.06%	5.06%
East Capital Financial Institutions*	**–**	0.04%	17.62%
Others	**78.30%**	70.88%	50.83%
Total**	**100.00%**	**100.00%**	**100.00%**

* Includes shares held by East Capital Private Equity AB and East Capital Asset Management AB.
** For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Bank.

As at 31 December 2014, the members of the Supervisory Board and Management Board owned 508,541 shares or 1.3% (31 December 2013: 413,932 shares or 1.2%, 31 December 2012: 540,987 shares or 1.5%) of the Group. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	**31 December 2014, shares held**	31 December 2013, shares held	31 December 2012, shares held
Irakli Gilauri	**161,131**	60,831	206,431
Giorgi Chiladze[1]	**101,800**	82,000	–
Avto Namicheishvili	**61,664**	50,000	84,488
Sulkhan Gvalia	**42,022**	37,237	54,304
Neil Janin	**35,729**	25,729	25,729
Mikheil Gomarteli	**30,851**	35,000	38,867
David Morrison	**26,357**	26,357	26,357
Kaha Kiknavelidze	**26,337**	26,337	26,337
Al Breach	**16,400**	14,279	10,279
Murtaz Kikoria[2]	**5,000**	–	–
Kim Bradley[3]	**1,250**	–	–
Allan Hirst[4]	**–**	48,434	60,434
Ian Hague[4]	**–**	5,112	5,112
Hanna Loikkanen[4]	**–**	2,616	2,616
Nikoloz Gamkrelidze[5]	**–**	–	33
Total	**508,541**	**413,932**	**540,987**

1. Giorgi Chiladze rejoined the Management Board of the Bank in September 2013, after having previously served as Deputy CEO, Finance, until stepping down in March 2012. As at 31 December 2012 Giorgi Chiladze held 70,500 shares.
2. Joined the Management Board upon his appointment as Deputy CEO, Finance in December 2014.
3. Joined the Board of Directors in December 2013.
4. Stepped down from the Board of Directors of the BGH and the Supervisory Board of the Bank in December 2013.
5. Left the Management Board upon his appointment as CEO of Georgia Healthcare Group, effective December 2014.

2. Basis of preparation

General

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the stand-alone income statement of BGH is not presented as part of these accounts.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2014 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 BGH and 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 liabilities held for trading, available-for-sale securities, derivative financial assets and liabilities, investment properties, and revalued property and equipment. No interest income or expense arose in relation to financial assets or liabilities at fair value through profit or loss.

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

Going concern

The BGH's Board of Directors 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 the foreseeable future. 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. Therefore, the financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries and associates

BGH holds a 99.63% stake in the Bank as at 31 December 2014. The consolidated financial statements as at 31 December 2014, 31 December 2013 and 31 December 2012 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	**31 December 2014**	31 December 2013	31 December 2012	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Bank of Georgia	**99.63%**	99.62%	99.62%	Georgia	Banking	21/10/1994	–
Premium Compliance Advisory, LLC (formerly known as Georgia Investments, LLC)	**100.00%**	100.00%	100.00%	Georgia	Various	17/2/2012	–
JSC Galt & Taggart (formerly known as JSC BG Capital (Georgia))	**100.00%**	100.00%	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
Galt and Taggart Holdings Limited	**100.00%**	100.00%	100.00%	Cyprus	Investments	3/7/2006	–
Benderlock Investments Limited	**100.00%**	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
BG Trading Limited	**–**	(b)	100.00%	Cyprus	Investments	26/3/2007	–
BG Capital (Belarus), LLC	**100.00%**	100.00%	100.00%	Belarus	Brokerage	19/2/2008	–
Brooksby Investments Limited	**–**	(c)	100.00%	Cyprus	Investments	4/3/2008	18/6/2008
JSC Belarusky Narodny Bank	**79.99%**	79.99%	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
JSC Geohydro	**85.00%**	85.00%	–	Georgia	Renewable energy	11/10/2013	–
JSC Svaneti Hydro	**100.00%**	100.00%	–	Georgia	Renewable energy	6/12/2013	–
JSC Insurance Company Imedi L (formerly known as JSC Insurance Company Aldagi BCI) (a)	**100.00%**	100.00%	100.00%	Georgia	Insurance	22/6/2007	–
Biznes Centri Kazbegze, LLC	**100.00%**	100.00%	100.00%	Georgia	Various	22/6/2010	10/1/2011
Imedi L Dent, LLC	**–**	(d)	100.00%	Georgia	Medical services	17/1/2005	5/1/2012
JSC Medical Corporation EVEX	**100.00%**	–	–	Georgia	Healthcare	31/7/2014	–
JSC My Family Clinic	**100.00%**	51.00%	51.00%	Georgia	Healthcare	3/10/2005	–
JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (formerly known as JSC Kutaisi St. Nicholas Surgery Hospital)	**92.90%**	81.00%	71.87%	Georgia	Medical services	3/11/2000	20/5/2008
Kutaisi Regional Clinical Hospital, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	19/7/2010	10/1/2010
JSC Zugdidi Multi-profile Clinical Hospital "Republic"	**100.00%**	100.00%	100.00%	Georgia	Medical services	11/6/1998	29/11/2011
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	**66.70%**	66.70%	66.70%	Georgia	Medical services	5/5/2003	29/11/2011
JSC Chkhorotskhu Regional Central Hospital	**100.00%**	100.00%	100.00%	Georgia	Medical services	30/11/1999	29/11/2011
Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia, LLC	**66.70%**	66.70%	66.70%	Georgia	Medical services	15/10/2004	12/9/2011
E.K. Pipia Central Hospital of Tsalenjikha, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	1/9/1999	12/9/2011
Martvili Multi-profile Hospital, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	17/3/2000	12/9/2011
Abasha Outpatient-Polyclinic Union, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	16/3/2000	12/9/2011
Tskaltubo Regional Hospital, LLC	**66.70%**	66.70%	66.70%	Georgia	Medical services	29/9/1999	12/9/2011
Khobi Central Regional Hospital, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	13/7/2000	12/9/2011
EVEX Learning Centre (formerly known as Kutaisi Training Centre, NPO)	**100.00%**	100.00%	–	Georgia	Education	20/12/2013	–

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2014	31 December 2013	31 December 2012	Country of incorporation	Industry	Date of incorporation	Date of acquisition
Unimed Achara, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	29/6/2010	5/1/2012
Unimedi Samtskhe, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	29/6/2010	5/1/2012
Unimedi Kakheti, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	29/6/2010	5/1/2012
LLC Caraps Medline	**100.00%**	100.00%	–	Georgia	Medical services	26/8/1998	26/12/2013
LLC Medline +	**(e)**	100.00%	–	Georgia	Medical services	13/12/2007	30/12/2013
Avante Hospital Management Group, LLC	**100.00%**	–	–	Georgia	Medical services	5/8/2011	19/2/2014
M. Iashvili Children's Central Hospital, LLC	**66.70%**	–	–	Georgia	Medical services	3/5/2011	19/2/2014
Children's New Hospital, LLC	**75.00%**	–	–	Georgia	Medical services	18/7/2011	19/2/2014
New Life, LLC	**100.00%**	–	–	Georgia	Medical services	21/9/1999	19/2/2014
Batumi Regional Healthcare Centre for Mothers and Children, LLC	**100.00%**	–	–	Georgia	Medical services	19/11/2004	19/2/2014
Sunstone Medical, LLC	**100.00%**	–	–	Georgia	Medical services	9/11/2012	21/5/2014
Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	**100.00%**	–	–	Georgia	Medical services	6/3/2000	19/2/2014
Traumatologist, LLC	**100.00%**	–	–	Georgia	Medical services	20/7/2011	30/9/2014
Referral Centre of Pathology, LLC	**100.00%**	–	–	Georgia	Medical services	29/12/2014	–
JSC Insurance Company Aldagi	**100.00%**	–	–	Georgia	Insurance	31/7/2014	–
Aliance, LLC	**100.00%**	100.00%	100.00%	Georgia	Various	3/1/2000	5/1/2012
Green Way, LLC	**100.00%**	100.00%	100.00%	Georgia	Various	9/8/2008	5/1/2012
Centromed, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	9/7/2010	5/1/2012
Georgian Leasing Company, LLC	**100.00%**	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
JSC Express Technologies (formerly known as JSC Global Express)	**100.00%**	100.00%	100.00%	Georgia	Investments	29/10/2007	–
JSC Georgian Card	**98.23%**	56.20%	56.20%	Georgia	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	**100.00%**	100.00%	100.00%	Georgia	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Centre (formerly known as MetroNet, LLC)	**100.00%**	100.00%	100.00%	Georgia	Communication services	23/4/2007	–
Metro Service +, LLC	**100.00%**	100.00%	100.00%	Georgia	Business servicing	10/5/2006	–
Express Technologies CEE, LLC	**100.00%**	–	–	Hungary	Other financial service activities	5/3/2014	N/A
JSC Liberty Consumer	**70.12%**	67.51%	67.49%	Georgia	Investments	24/5/2006	–
JSC Teliani Valley	**50.92%**	50.88%	51.23%	Georgia	Winery	30/6/2000	28/2/2007
Teliani Trading (Georgia), LLC	**100.00%**	100.00%	100.00%	Georgia	Distribution	10/1/2006	27/3/2007
Teliani Trading (Ukraine), LLC	**100.00%**	100.00%	100.00%	Ukraine	Distribution	3/10/2006	31/12/2007
Le Caucase, LLC	**100.00%**	100.00%	100.00%	Georgia	Cognac production	23/9/2006	20/3/2007
Kupa, LLC	**70.00%**	70.00%	70.00%	Georgia	Oak barrel production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	**100.00%**	–	–	Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
JSC Intertour	**99.94%**	99.94%	99.94%	Georgia	Travel agency	29/3/1996	25/4/2006
JSC Prime Fitness	**100.00%**	100.00%	100.00%	Georgia	Fitness centre	7/3/2006	–

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held: 31 December 2014	31 December 2013	31 December 2012	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC m² Real Estate (formerly known as JSC SB Real Estate)	**100.00%**	100.00%	100.00%	Georgia	Real estate	27/9/2006	–
Tamarashvili 13, LLC	**100.00%**	100.00%	100.00%	Georgia	Real estate	3/11/2011	–
m² at Kazbegi, LLC	**100.00%**	100.00%	–	Georgia	Real estate	21/5/2013	–
m² at Tamarashvili, LLC	**100.00%**	100.00%	–	Georgia	Real estate	21/5/2013	–
m² at Nutsubidze, LLC	**100.00%**	100.00%	–	Georgia	Real estate	21/5/2013	–
JSC Galt and Taggart Holdings (Georgia)	**100.00%**	100.00%	100.00%	Georgia	Investments	4/11/2008	–
Caucasus Autohause, LLC	**100.00%**	100.00%	100.00%	Georgia	Real estate	29/3/2011	–
Bank of Georgia Representative Office UK Limited	**100.00%**	100.00%	100.00%	United Kingdom	Information sharing and market research	17/8/2010	–
Professional Basketball Club Dinamo Tbilisi, LLC	**100.00%**	100.00%	100.00%	Georgia	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	**100.00%**	100.00%	–	Georgia	Education	15/10/2013	–
JSC United Securities Registrar of Georgia	**100.00%**	100.00%	100.00%	Georgia	Registrar	29/5/2006	–
JSC m²	**100.00%**	–	–	Georgia	Real estate	12/2/2014	–
Optima ISANI, LLC	**100.00%**	–	–	Georgia	Real estate	25/7/2014	–
Land, LLC	**100.00%**	–	–	Georgia	Real estate	3/10/2014	–
Bank of Georgia Representative Office Hungary	**100.00%**	100.00%	100.00%	Hungary	Representative office	18/6/2012	–
Georgia Financial Investments, LLC	**100.00%**	100.00%	100.00%	Israel	Information sharing and market research	9/2/2009	–
Representative Office of JSC Bank of Georgia in Turkey	**100.00%**	–	–	Turkey	Representative office	25/12/2013	–
Branch Office of "BG Kapital" JSC in Azerbaijan	**100.00%**	–	–	Azerbaijan	Representative office	28/12/2013	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	**100.00%**	100.00%	–	Georgia	Charitable activities	25/8/2008	–
JSC Agron Group	**100.00%**	–	–	Georgia	Agro trade	3/11/2014	–
Agron Centre, LLC	**100.00%**	–	–	Georgia	Agro trade	11/11/2014	–

Associates	Proportion of voting rights and ordinary share capital held 31 December 2014	31 December 2013	31 December 2012	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC N Tour	**30.00%**	30.00%	30.00%	Georgia	Travel services	11/1/2001	29/5/2008
JSC Hotels and Restaurants Management Group – m/Group	**(f)**	10.00%	10.00%	Georgia	Food retail	30/5/2005	29/5/2008
JSC iCall	**27.00%**	27.00%	27.00%	Georgia	Call centre	22/3/2005	22/11/2006
Georgian Global Utilities, LLC	**25.00%**	–	–	British Virgin Islands	Utilities	16/08/2007	31/12/2014
Georgian Water and Power, LLC	**100.00%**	–	–	Georgia	Utilities	25/06/1997	31/12/2014
Rustavi Water, LLC	**100.00%**	–	–	Georgia	Utilities	31/08/1999	31/12/2014
Gardabani Sewage Treatment, LLC	**100.00%**	–	–	Georgia	Utilities	20/12/1999	31/12/2014
Mtskheta Water, LLC	**100.00%**	–	–	Georgia	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	**100.00%**	–	–	Georgia	Utilities	20/03/2011	31/12/2014
JSC Saguramo Energy	**100.00%**	–	–	Georgia	Utilities	11/12/2008	31/12/2014
Style +, LLC	**32.50%**	32.50%	32.50%	Georgia	Advertising	8/1/2005	8/7/2008

(a) On 31 July 2014 a new holding company – JSC Medical Corporation EVEX – was created to hold the Group's healthcare subsidiaries. Also, the Group's insurance operations were split between two legal entities – the newly incorporated JSC Insurance Company Aldagi to operate the Group's property and casualty insurance business and the former JSC Insurance Company Aldagi BCI that was renamed to JSC Insurance Company Imedi L to operate the Group's health insurance business.
(b) Merged with Galt and Taggart Holdings Limited LLC in 2013.
(c) Liquidated in 2013.
(d) No longer Group subsidiary due to sale in 2013.
(e) Merged with LLC Caraps Medline in 2014.
(f) No longer Group associate due to sale in 2014.

3. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

No new or revised IFRS during the year had an impact on the Group's financial position or performance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. 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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- 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.

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

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

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

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

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.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 31.

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 categorised 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; and
- 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 categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

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

Date of recognition

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

Loans and receivables

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

Available-for-sale financial assets

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

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.

3. Summary of significant accounting policies (continued)

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.

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

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.

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

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

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

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

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

Amounts due from credit institutions, loans to customers and finance lease receivables
For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

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

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

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

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

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

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

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

Renegotiated loans
Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:
- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for the modification of financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In cases where the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Investment properties

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

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 qualification and who have recent experience in valuation of property of similar location and category.

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

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

Property and equipment

Property and equipment, except for office buildings and service centres, 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. Office buildings and service centres are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

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

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

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

Depreciation of an asset, including assets under construction, 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	Up to 100
Hospitals and clinics	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.

Leasehold improvements are amortised over the life of the related leased asset.

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:
- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

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

Intangible assets

The Group's intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

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

Insurance and reinsurance receivables

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

3. Summary of significant accounting policies (continued)

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Provisions

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

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

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions of 2% of full-time employees' salaries, of which 1% is deducted from their salaries and the other 1% paid in addition by the Group. When an employee reaches pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. Respective pension benefit obligations are recorded within other liabilities, Note 17.

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

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

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

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

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

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

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

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

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

Insurance premium income
For property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims
General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Healthcare revenue
Healthcare 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 on an accruals basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalent transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Revenue from sale of goods
Revenue from sale of goods comprises revenue from sale of developed real estate property and other finished goods.

Revenue from sale of developed real estate property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when the buyer cannot transfer the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Reclassifications

Due to the increased material size of real estate related revenues, a separate line was added to the income statement within other operating non-interest income with the sum of these revenues. The following reclassification was made to the years ended 31 December 2013 and 31 December 2012 income statements to conform to the year ended 31 December 2014 presentation requirements:

Year ended	Consolidated income statement	As previously reported	Reclassification	As reclassified
31 December 2013	Revenue from sale of goods	42,252	(42,252)	–
31 December 2013	Cost of sales	(29,760)	29,760	–
31 December 2013	Net real estate revenue	–	5,898	5,898
31 December 2013	Other operating income	7,871	5,396	13,267
31 December 2013	Other operating expenses	(3,564)	1,198	(2,366)
31 December 2012	Revenue from sale of goods	41,533	(41,533)	–
31 December 2012	Cost of sales	(30,868)	30,868	–
31 December 2012	Net real estate revenue	–	7,467	7,467
31 December 2012	Other operating income	7,623	2,470	10,093
31 December 2012	Other operating expenses	(2,949)	728	(2,221)

Due to the increased number of different debt securities issued in 2014, a separate line was added to the statement of financial position with the aggregated amount of such instruments. Respective changes were made to the income statement, where a separate line was added with the total amount of interest expenses on such instruments. The following reclassifications were made to the years ended 31 December 2013 and 31 December 2012 income statements and 31 December 2013 and 31 December 2012 statements of financial position to conform to the 31 December 2014 presentation requirements:

Year ended	Consolidated statement of financial position	As previously reported	Reclassification	As reclassified
31 December 2013	Amounts due to credit institutions	1,886,096	(728,117)	1,157,979
31 December 2013	Debt securities issued	–	728,117	728,117
31 December 2012	Amounts due to credit institutions	1,657,162	(420,849)	1,236,313
31 December 2012	Debt securities issued	–	420,849	420,849

Year ended	Consolidated income statement	As previously reported	Reclassification	As reclassified
31 December 2013	Interest expense on amounts due to credit institutions	(100,585)	35,424	(65,161)
31 December 2013	Interest expense on debt securities issued	–	(35,424)	(35,424)
31 December 2012	Interest expense on amounts due to credit institutions	(79,492)	16,009	(63,483)
31 December 2012	Interest expense on debt securities issued	–	(16,009)	(16,009)

Deriving from the above-mentioned reclassifications in the income statement and the statement of financial position the following reclassifications were made to the years ended 31 December 2013 and 31 December 2012 statements of cash flows, to conform to the year ended 31 December 2014 presentation requirements:

Year ended	Consolidated statement of cash flows	As previously reported	Reclassification	As reclassified
31 December 2013	Revenue received from sale of goods	75,591	(75,591)	–
31 December 2013	Cost of sales of goods	(72,759)	72,759	–
31 December 2013	Net cash inflow from real estate	–	7,682	7,682
31 December 2013	Other operating income received (expenses paid)	(23,035)	1,362	(21,673)
31 December 2013	Net (increase) decrease in operating assets from prepayments and other assets	11,956	(6,212)	5,744
31 December 2013	Net increase (decrease) in operating liabilities from amounts due to credit institutions	204,142	(283,908)	(79,766)
31 December 2013	Net increase (decrease) in operating liabilities from debt securities issued	–	283,908	283,908
31 December 2012	Revenue received from sale of goods	41,533	(41,533)	–
31 December 2012	Cost of sales of goods	(30,868)	30,868	–
31 December 2012	Net cash inflow from real estate	–	7,229	7,229
31 December 2012	Other operating income received (expenses paid)	5,949	3,436	9,385
31 December 2012	Net increase (decrease) in operating liabilities from amounts due to credit institutions	761,167	(335,419)	425,748
31 December 2012	Net increase (decrease) in operating liabilities from debt securities issued	–	335,419	335,419

Functional, reporting currencies and foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2014, 31 December 2013 and 31 December 2012 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to UAH (10)	Lari to BYR (10,000)
31 December 2014	2.8932	1.8636	2.2656	1.1818	1.5727
31 December 2013	2.8614	1.7363	2.3891	2.1723	1.8258
31 December 2012	2.6653	1.6567	2.1825	2.0727	1.9331

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Hyperinflation accounting

With effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank ("BNB") and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six-year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion factors
2006	106.6	529.3
2007	112.1	472.2
2008	113.3	416.7
2009	110.1	378.5
2010	109.9	344.4
2011	208.7	165.0
2012	121.8	135.5
2013	116.6	116.2
2014	**116.2**	**100.0**

All income and expenses, profits and losses are recalculated by applying the relevant adjustment factors. Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at the reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at the reporting date) are recalculated by applying the relevant index. The effect of inflation on BNB's net non-monetary position is included in the income statement in net non-recurring expenses.

Standards and interpretations that are issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13
This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

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

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
- joint arrangements, not just joint ventures, are outside the scope of IFRS 3; and
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

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

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

Meaning of effective IFRSs – Amendments to IFRS 1
The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Annual improvements 2012-2014 Cycle
These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts
IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements
In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3. Summary of significant accounting policies (continued)

IAS 19 Employee Benefits – regional market issue regarding discount rate
The amendment to IAS 19 clarifies that market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, Government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information "elsewhere in the interim financial report"
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

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.

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and office buildings and service centres included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The estimates described above are subject to change as new transaction data and market evidence become available.

Allowance for impairment of loans and receivables and finance lease receivables

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

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

In order to exclude post 2008 Georgia–Russia war and global financial crisis extraordinary trends from the assessment of the collective impairment of loans, the Bank amended its approach in 2012. Namely, the historical loss rates that are applied for collective impairment are now calculated based on a three-year history of net losses (including reversals) as opposed to a five to seven-year history of net losses under the previous approach. The impact of this change on profit from continuing operations before income tax expense for the year ended 31 December 2012 is GEL 20.1 million.

On 1 January 2014 the Bank introduced a new loan loss provisioning methodology. Management considers this to be a change in significant accounting estimate. The new methodology is more granular than the previous methodology and introduces additional statistical analysis for determining the inputs. As at 1 January 2014 the Bank's allowance for loan impairment under the new methodology was GEL 114,552, a difference of GEL 3,843 as compared to the allowance for loan impairment if calculated based on the previous methodology (which represents less than 2.5% of the allowance). The allowance for loan impairment under the previous methodology would have been GEL 118,395 as at 1 January 2014. After 1 January 2014 it was impracticable for management to continue to estimate the allowance for loan impairment under the old methodology.

5. Business combinations

Avante Hospital Management Group LLC

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

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

	Fair value recognised on acquisition
Cash and cash equivalents	1,223
Accounts receivable[1]	6,361
Property and equipment	50,630
Intangible assets	7
Current income tax assets	156
Other assets	944
	59,321
Accounts payable	2,562
Amounts due to credit institutions	10,734
Current income tax liabilities	1,679
Deferred income tax liabilities	4,000
Accruals and deferred income	1,794
Other liabilities	1,914
	22,683
Total identifiable net assets	**36,638**
Non-controlling interest	10,857
Negative goodwill arising on business combination[2]	(1,003)
Consideration given[3]	**24,778**

The net cash outflow on acquisition was as follows:

	2014
Cash paid	**18,291**
Cash acquired with the subsidiary	**(1,223)**
Net cash outflow	**17,068**

1. The fair value of the accounts receivables amounted to GEL 6,361. The gross amount of receivable is GEL 13,881. GEL 7,520 of the accounts receivable has been impaired;
2. Prior to acquisition, owners of Avante Group encountered certain financial difficulties which resulted in a lower acquisition cost causing a negative goodwill, recognised as gain;
3. Consideration comprised of GEL 24,778, which consists of GEL 18,291 cash payment and GEL 7,624 fair value of a holdback amount, less GEL 1,137 pre-existing payables to Avante Hospital Management Group LLC.

The Group decided to increase their presence and investment in Tbilisi healthcare market, by acquiring the given group, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have a positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 522,104 and GEL 213,379 of revenue and profit, respectively. In the same period, GEL 16,203 and GEL 8,594 of revenue and profit, respectively comes from the acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 626,875 and GEL 249,807 of revenue and profit respectively.

(Thousands of Georgian Lari)

5. Business combinations (continued)

Traumatology LLC

On 30 September 2014 JSC EVEX Medical Corporation ("Acquirer") acquired from individuals 100% of the shares in Traumatology LLC ("Acquiree"), a healthcare company operating in Georgia.

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

	Provisional fair value recognised on acquisition
Cash and cash equivalents	253
Accounts receivable[1]	1,272
Property and equipment	8,322
Current income tax assets	100
Other assets	137
	10,084
Accounts payable	650
Amounts due to credit institutions	1,975
Current income tax liabilities	13
Deferred income tax liabilities	929
Accruals and deferred income	806
Other liabilities	316
	4,689
Total identifiable net assets	5,395
Goodwill arising on business combination	913
Consideration given[2]	6,308

The net cash outflow on acquisition was as follows:

	2014
Cash paid	**5,362**
Cash acquired with the subsidiary	**(253)**
Net cash outflow	**5,109**

1. The fair value of the accounts receivables amounted to GEL 1,272. The gross amount of receivables is GEL 2,102. GEL 830 of the accounts receivables have been impaired;
2. Consideration comprised of GEL 6,308 which consists of a GEL 5,362 cash payment and GEL 946 fair value of a holdback amount.

The Group decided to increase their presence and investment in Tbilisi healthcare market, by acquiring the given company, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have a positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 168,702 and GEL 66,477 of revenue and profit, respectively. In the same period, GEL 828 and GEL 400 of revenue and profit, respectively comes from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 614,725 and GEL 241,553 of revenue and profit respectively.

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

Since Traumatology LLC was acquired close to the issue date, the Group had limited time to review, analyse and perform valuation of the respective net asset. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the issue date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3).

6. Segment information

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

Retail Banking (excluding Retail Banking of BNB)	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 and medium enterprises and micro businesses.
Corporate Banking (excluding Corporate Banking of BNB)	Principally providing loans and other credit facilities to high net worth individuals as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, 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 as well as non-resident wealthy individuals as well as their direct family members by ensuring 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.
Corporate Centre	Principally providing back office services to all operating segments of the Group as well as holding all principal investments in subsidiaries.
P&C Insurance	Principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals.
GHG	Georgian Healthcare Group – providing wide-scale health insurance and healthcare services to corporate clients and individuals.
Affordable Housing	Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.
BNB	Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.
Liberty Consumer	Principally holding private equity investments in several non-core business enterprises, such as a winery, a fitness centre, travel agencies, an outdoor or indoor advertising company, a regional car dealership, a hotels and restaurants management chain and other smaller investments, all designated for disposal.
Other	Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For the purposes of further consolidation of these operating segments and for a more comprehensive presentation in these consolidated financial statements, Management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2014, 2013 or 2012.

(Thousands of Georgian Lari)

6. Segment information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2014:

	Strategic			
	Corporate Banking	Retail Banking	Investment Management	Corporate Centre
Net interest income (expense)	105,223	213,790	13,919	–
Net fees and commission income (expense)	24,810	58,867	8,760	(498)
Net insurance revenue	–	–	–	–
Net healthcare revenue	–	–	–	–
Real estate income	2,560	3,296	41	–
Net gains (losses) from foreign currencies	27,386	20,274	1,404	(865)
Other revenues	4,093	354	437	(1)
Revenue	164,072	296,581	24,561	(1,364)
Operating expenses	(49,060)	(128,972)	(10,837)	(3,807)
Operating income (expense) before cost of credit risk	115,012	167,609	13,724	(5,171)
Cost of credit risk	(41,176)	(9,226)	47	–
Net operating income (loss) before non-recurring items	73,836	158,383	13,771	(5,171)
Net non-recurring (expense/loss) income/gain	(2,672)	(5,795)	(295)	–
Profit (loss) before income tax (expense) benefit	71,164	152,588	13,476	(5,171)
Income tax (expense) benefit	(9,528)	(19,325)	(2,011)	3,509
Profit (loss) for the year	61,636	133,263	11,465	(1,662)
Assets and liabilities				
Total assets	3,329,853	3,225,230	39,426	183,683
Total liabilities	2,412,767	2,316,680	842,300	3,542
Other segment information				
Property and equipment	2,629	19,540	3,894	–
Intangible assets	1,121	6,503	130	–
Capital expenditure	3,750	26,043	4,024	–
Depreciation	(3,174)	(17,094)	(368)	–
Amortisation	(639)	(3,385)	(44)	–
Impairment	(4,259)	(3,315)	(138)	–

Synergistic			Non-Core				
P&C	GHG	Affordable Housing	BNB	Liberty Consumer	Other	Intersegment transactions and balances	Total
506	(12,815)	1,481	22,410	(890)	(1,702)	2,139	344,061
312	(186)	–	9,443	(80)	–	(1,766)	99,662
17,752	14,986	–	–	–	–	(3,309)	29,429
–	46,884	–	–	–	–	–	46,884
34	64	11,760	482	1	45	(2,501)	15,782
(2,085)	(1,511)	(895)	9,932	(675)	(3,381)	–	49,584
481	501	1,991	22	12,450	304	(456)	20,176
17,000	47,923	14,337	42,289	10,806	(4,734)	(5,893)	605,578
(9,402)	(29,555)	(5,468)	(18,390)	(7,669)	(1,682)	5,893	(258,949)
7,598	18,368	8,869	23,899	3,137	(6,416)	–	346,629
(601)	(2,872)	(82)	(4,187)	(350)	–	(573)	(59,020)
6,997	15,496	8,787	19,712	2,787	(6,416)	(573)	287,609
–	505	18	(3,073)	297	(2)	–	(11,017)
6,997	16,001	8,805	16,639	3,084	(6,418)	(573)	276,592
(1,083)	(1,346)	(1,022)	(4,471)	(1,115)	567	–	(35,825)
5,914	14,655	7,783	12,168	1,969	(5,851)	(573)	240,767
86,746	409,945	236,179	403,764	41,632	22,726	(400,039)	7,579,145
58,695	237,565	112,407	319,308	18,907	23,778	(400,897)	5,945,052
1,477	38,503	368	2,101	1,761	313	–	70,586
232	1,519	27	304	30	7	–	9,873
1,709	40,022	395	2,405	1,791	320	–	80,459
(382)	(7,852)	(295)	(1,218)	(1,098)	(4)	–	(31,485)
(188)	(205)	(37)	(100)	(20)	–	–	(4,618)
–	–	–	–	–	–	–	(7,712)

(Thousands of Georgian Lari)

6. Segment information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2013:

	Strategic			
	Corporate Banking	Retail Banking	Investment Management	Corporate Centre
Net interest income (expense)	103,967	191,851	8,692	–
Net fees and commission income (expense)	27,318	54,025	1,238	(217)
Net insurance revenue	–	–	–	–
Net healthcare revenue	–	–	–	–
Real estate income	2,884	1,928	13	–
Net gains (losses) from foreign currencies	24,774	16,308	1,371	–
Other revenues	3,087	2,609	261	–
Revenue	**162,030**	**266,721**	**11,575**	**(217)**
Operating expenses	(43,833)	(119,963)	(7,261)	(3,740)
Operating income (expense) before cost of credit risk	**118,197**	**146,758**	**4,314**	**(3,957)**
Cost of credit risk	(31,054)	(29,172)	10	–
Net operating income (loss) before non-recurring items	**87,143**	**117,586**	**4,324**	**(3,957)**
Net non-recurring expense/loss	(2,690)	(2,200)	(2,507)	–
Profit (loss) before income tax (expense) benefit	**84,453**	**115,386**	**1,817**	**(3,957)**
Income tax (expense) benefit	(11,164)	(14,468)	(1,366)	–
Profit (loss) for the year	**73,289**	**100,918**	**451**	**(3,957)**
Assets and liabilities				
Total assets	3,085,647	2,689,011	30,749	5,178
Total liabilities	2,344,860	1,830,958	683,569	342
Other segment information				
Property and equipment	2,853	20,921	302	–
Intangible assets	972	5,666	78	–
Capital expenditure	**3,825**	**26,587**	**380**	**–**
Depreciation	(2,945)	(16,086)	(312)	–
Amortisation	(514)	(3,007)	(41)	–
(Impairment) reversal	(713)	(641)	(5)	–

Synergistic			Non-Core				
P&C	GHG	Affordable Housing	BNB	Liberty Consumer	Other	Intersegment transactions and balances	Total
(177)	(9,681)	2,011	18,565	(629)	(2,869)	2,366	314,096
248	(242)	(27)	6,350	(45)	–	(1,752)	86,896
20,785	27,248	–	–	–	–	(2,700)	45,333
–	22,369	–	–	–	–	–	22,369
36	723	2,537	(149)	8	103	(2,185)	5,898
101	(4,697)	123	5,875	(270)	(73)	–	43,512
509	746	7,968	22	11,273	1,337	(1,660)	26,152
21,502	**36,466**	**12,612**	**30,663**	**10,337**	**(1,502)**	**(5,931)**	**544,256**
(8,049)	(20,577)	(2,893)	(15,201)	(6,614)	(2,167)	5,931	(224,367)
13,453	**15,889**	**9,719**	**15,462**	**3,723**	**(3,669)**	**–**	**319,889**
(272)	(747)	55	(563)	–	(1)	(58)	(61,802)
13,181	**15,142**	**9,774**	**14,899**	**3,723**	**(3,670)**	**(58)**	**258,087**
–	(1)	(824)	(399)	(3,803)	(407)	–	(12,831)
13,181	**15,141**	**8,950**	**14,500**	**(80)**	**(4,077)**	**(58)**	**245,256**
(2,100)	(2,049)	(1,142)	(3,514)	(623)	513	–	(35,913)
11,081	**13,092**	**7,808**	**10,986**	**(703)**	**(3,564)**	**(58)**	**209,343**
70,477	275,197	135,994	326,465	41,498	22,501	(161,748)	6,520,969
50,576	176,118	59,021	254,451	18,926	24,277	(163,183)	5,279,915
503	35,136	463	466	1,422	136	–	62,202
522	832	47	249	11	13	–	8,390
1,025	**35,968**	**510**	**715**	**1,433**	**149**	**–**	**70,592**
(373)	(5,646)	(73)	(1,523)	(1,034)	(50)	–	(28,042)
(179)	(228)	(2)	(106)	(1)	(2)	–	(4,080)
–	–	–	1,295	(1,107)	–	–	(1,171)

(Thousands of Georgian Lari)

6. Segment information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2012:

	Strategic			
	Corporate Banking	Retail Banking	Investment Management	Corporate Centre
Net interest income (expense)	92,276	174,360	13,134	–
Net fees and commission income (expense)	28,701	53,563	980	(581)
Net insurance revenue	–	–	–	–
Net healthcare revenue	–	–	–	–
Real estate income	1,679	2,112	36	–
Net gains (losses) from foreign currencies	29,819	14,985	622	–
Other revenues	1,966	899	267	–
Revenue	**154,441**	**245,919**	**15,039**	**(581)**
Operating expenses	(50,972)	(108,687)	(5,117)	(2,613)
Operating income (expense) before cost of credit risk	**103,469**	**137,232**	**9,922**	**(3,194)**
Cost of credit risk	(29,490)	(12,482)	727	–
Net operating income (loss) before non-recurring items	**73,979**	**124,750**	**10,649**	**(3,194)**
Net non-recurring (expense/loss) income/gain	(8,415)	(6,828)	(305)	–
Profit (loss) before income tax (expense) benefit	**65,564**	**117,922**	**10,344**	**(3,194)**
Income tax (expense) benefit	(9,936)	(16,392)	(1,434)	–
Profit (loss) for the year	**55,628**	**101,530**	**8,910**	**(3,194)**
Assets and liabilities				
Total assets	2,573,498	2,474,052	64,208	18,716
Total liabilities	1,974,163	1,708,617	615,791	2,335
Other segment information				
Property and equipment	5,886	20,593	635	–
Intangible assets	906	3,678	53	–
Capital expenditure	**6,792**	**24,271**	**688**	**–**
Depreciation	(4,160)	(14,412)	(331)	–
Amortisation	(667)	(2,643)	(43)	–
Impairment	–	(15)	–	–
Investments in associates	–	–	–	–
Share of loss of associates	–	–	–	–

Synergistic			Non-Core				
P&C	GHG	Affordable Housing	BNB	Liberty Consumer	Other	Intersegment transactions and balances	Total
(258)	(4,398)	147	12,074	(578)	(2,640)	–	284,117
112	(220)	196	3,809	(61)	(12)	–	86,487
11,935	24,148	–	–	–	–	(1,945)	34,138
–	23,346	–	–	–	–	–	23,346
38	552	4,267	55	15	357	(1,644)	7,467
54	(907)	(145)	5,306	(153)	(10)	–	49,571
614	(170)	111	13	7,932	1,274	(505)	12,401
12,495	**42,351**	**4,576**	**21,257**	**7,155**	**(1,031)**	**(4,094)**	**497,527**
(7,250)	(27,879)	(2,381)	(10,327)	(5,936)	(4,130)	4,868	(220,424)
5,245	**14,472**	**2,195**	**10,930**	**1,219**	**(5,161)**	**774**	**277,103**
(738)	(1,566)	(219)	(1,306)	(136)	–	493	(44,717)
4,507	**12,906**	**1,976**	**9,624**	**1,083**	**(5,161)**	**1,267**	**232,386**
–	440	282	(443)	(4,365)	–	–	(19,634)
4,507	**13,346**	**2,258**	**9,181**	**(3,282)**	**(5,161)**	**1,267**	**212,752**
(665)	(1,645)	(307)	(2,367)	(889)	435	–	(33,200)
3,842	**11,701**	**1,951**	**6,814**	**(4,171)**	**(4,726)**	**1,267**	**179,552**
72,418	253,559	105,899	185,859	37,924	23,305	(153,843)	5,655,595
63,533	169,802	42,838	139,356	12,114	22,871	(155,337)	4,596,083
1,344	28,006	203	340	1,616	1,563	–	60,186
106	485	20	186	266	1	–	5,701
1,450	**28,491**	**223**	**526**	**1,882**	**1,564**	**–**	**65,887**
(314)	(3,727)	(121)	(910)	(940)	(112)	–	(25,027)
(19)	(82)	–	(116)	(6)	(3)	–	(3,579)
–	–	–	–	(939)	–	–	(954)
–	–	–	–	2,441	–	–	2,441
–	–	–	–	(149)	–	–	(149)

(Thousands of Georgian Lari)

7. Cash and cash equivalents

	2014	2013	2012
Cash on hand	**393,315**	384,410	302,956
Current accounts with central banks, excluding obligatory reserves	**152,647**	132,219	111,998
Current accounts with other credit institutions	**138,243**	357,447	204,486
Time deposits with credit institutions with maturity of up to 90 days	**25,939**	179,595	143,387
Cash and cash equivalents	**710,144**	**1,053,671**	**762,827**

As at 31 December 2014 GEL 136,559 (2013: GEL 485,740, 2012: GEL 285,947) 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 1.30% interest per annum on these deposits (2013: up to 6.92%, 2012: up to 5.25%).

8. Amounts due from credit institutions

	2014	2013	2012
Obligatory reserves with central banks	**382,963**	330,319	323,099
Time deposits with maturity of more than 90 days	**33,832**	9,623	67,284
Inter-bank loan receivables	**1,486**	7,319	6,176
Amounts due from credit institutions	**418,281**	**347,261**	**396,559**

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 a cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned nil interest on obligatory reserves with NBG for the years ended 31 December 2014 and 31 December 2013, up to 0.25% annual interest for the year ended 31 December 2012. The Group earned nil interest on obligatory reserves with NBRB.

As at 31 December 2014 inter-bank loan receivables include GEL 1,486 (2013: GEL 4,685, 2012: GEL 4,448) placed with non-OECD banks.

9. Investment securities available-for-sale

	2014	2013	2012
Georgian Ministry of Finance treasury bonds[1]	**459,400**	391,486	188,967
Georgian Ministry of Finance treasury bills[2]	**169,796**	63,606	9,648
Certificates of deposit of central banks[3]	**92,547**	59,265	259,402
Other debt instruments[4]	**46,557**	–	–
Corporate shares	**1,412**	5,266	5,943
Investment securities available-for-sale	**769,712**	**519,623**	**463,960**

1. GEL 341,681 was pledged for short-term loans from the National Bank of Georgia (2013: GEL 200,065, 2012: GEL 106,637).
2. GEL 60,889 was pledged for short-term loans from the National Bank of Georgia (2013: GEL 19,773, 2012: GEL 7,663).
3. No certificates of deposit of central banks were pledged for short-term loans from the National Bank of Georgia (2013: GEL 30,328, 2012: GEL 215,603).
4. GEL 25,069 was pledged for short-term loans from the National Bank of Georgia.

Other debt instruments as at 31 December 2014 comprises GEL denominated bonds issued by the European Bank for Reconstruction and Development of GEL 25,069, US Dollar denominated treasury bonds issued by the Ministry of Finance of Azerbaijan of GEL 5,615, and US Dollar and Azerbaijani Manat denominated corporate bonds of GEL 15,873.

10. Loans to customers

	2014	2013	2012
Commercial loans	**2,194,281**	1,862,667	1,664,591
Consumer loans	**801,474**	660,220	591,968
Micro and SME loans	**772,283**	566,273	400,553
Residential mortgage loans	**604,143**	447,063	398,114
Gold – pawn loans	**53,785**	61,871	75,445
Loans to customers, gross	**4,425,966**	**3,598,094**	**3,130,671**
Less – Allowance for loan impairment	**(103,780)**	(120,785)	(110,037)
Loans to customers, net	**4,322,186**	**3,477,309**	**3,020,634**

Allowance for loan impairment

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

	Commercial loans 2014	Consumer loans 2014	Residential mortgage loans 2014	Micro and SME loans 2014	Total 2014
At 1 January	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Charge (reversal)	**34,617**	**14,147**	**(2,280)**	**(1,396)**	**45,088**
Recoveries	**3,104**	**14,730**	**5,661**	**5,211**	**28,706**
Write-offs	**(41,894)**	**(22,556)**	**(2,777)**	**(4,748)**	**(71,975)**
Accrued interest on written-off loans	**(13,581)**	**(3,341)**	**(704)**	**(348)**	**(17,974)**
Currency translation differences	**(310)**	**(104)**	**–**	**(436)**	**(850)**
At 31 December	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Individual impairment	**63,816**	**1,403**	**2,525**	**3,637**	**71,381**
Collective impairment	**9,069**	**22,245**	**468**	**617**	**32,399**
	72,885	**23,648**	**2,993**	**4,254**	**103,780**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**243,825**	**1,924**	**7,944**	**10,594**	**264,287**

	Commercial loans 2013	Consumer loans 2013	Residential mortgage loans 2013	Micro and SME loans 2013	Total 2013
At 1 January	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Charge (reversal)	13,671	27,550	(5,388)	5,666	41,499
Recoveries	4,693	14,363	4,958	3,465	27,479
Write-offs	(4,404)	(35,866)	(4,974)	(4,707)	(49,951)
Accrued interest on written-off loans	(1,153)	(5,509)	(1,216)	(344)	(8,222)
Currency translation differences	(56)	(15)	–	14	(57)
At 31 December	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Individual impairment	76,009	8,221	2,861	4,708	91,799
Collective impairment	14,940	12,551	232	1,263	28,986
	90,949	**20,772**	**3,093**	**5,971**	**120,785**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**144,020**	**14,817**	**6,792**	**10,925**	**176,554**

(Thousands of Georgian Lari)

10. Loans to customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2012	Consumer loans 2012	Residential mortgage loans 2012	Micro and SME loans 2012	Total 2012
At 1 January	**70,106**	**28,997**	**10,027**	**5,567**	**114,697**
Charge (reversal)	27,420	13,054	(1,142)	(146)	39,186
Recoveries	7,589	11,064	7,814	3,512	29,979
Write-offs	(25,174)	(30,196)	(5,720)	(6,475)	(67,565)
Accrued interest on written-off loans	(1,901)	(2,662)	(1,266)	(581)	(6,410)
Currency translation differences	158	(8)	–	–	150
At 31 December	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Individual impairment	66,566	11,230	3,499	1,877	83,172
Collective impairment	11,632	9,019	6,214	–	26,865
	78,198	**20,249**	**9,713**	**1,877**	**110,037**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**152,268**	**23,683**	**10,719**	**5,620**	**192,290**

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2014 comprised GEL 17,021 (2013: GEL 18,170, 2012: GEL 13,844).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:
- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third-party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third-party corporate guarantees.

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

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

Concentration of loans to customers

As at 31 December 2014, the concentration of loans granted by the Group to the 10 largest third-party borrowers comprised GEL 711,647 accounting for 16% of the gross loan portfolio of the Group (2013: GEL 610,916 and 17% respectively, 2012: GEL 544,466 and 17% respectively). An allowance of GEL 4,034 (2013: GEL 22,740, 2012: GEL 20,702) was established against these loans.

As at 31 December 2014, the concentration of loans granted by the Group to the 10 largest third-party groups of borrowers comprised GEL 1,094,084 accounting for 25% of the gross loan portfolio of the Group (2013: GEL 912,106 and 25% respectively, 2011: GEL 791,529 and 25% respectively). An allowance of GEL 18,324 (2013: GEL 9,345, 2012: GEL 7,118) was established against these loans.

As at 31 December 2014, 31 December 2013 and 31 December 2012 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2014	2013	2012
Individuals	1,831,479	1,411,958	1,233,614
Manufacturing	719,003	659,527	407,315
Trade	647,858	560,389	434,956
Real estate	400,533	374,858	434,817
Hospitality	166,214	106,997	164,006
Transport and communication	151,715	148,849	89,413
Electricity, gas and water supply	124,772	63,378	46,373
Construction	114,891	132,477	121,883
Financial intermediation	109,201	14,758	6,976
Other	160,300	124,903	191,318
Loans to customers, gross	**4,425,966**	**3,598,094**	**3,130,671**
Less – allowance for loan impairment	(103,780)	(120,785)	(110,037)
Loans to customers, net	**4,322,186**	**3,477,309**	**3,020,634**

Loans have been extended to the following types of customers:

	2014	2013	2012
Private companies	2,544,543	2,081,192	1,783,083
Individuals	1,831,479	1,411,958	1,233,614
State-owned entities	49,944	104,944	113,974
Loans to customers, gross	**4,425,966**	**3,598,094**	**3,130,671**
Less – allowance for loan impairment	(103,780)	(120,785)	(110,037)
Loans to customers, net	**4,322,186**	**3,477,309**	**3,020,634**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2014, 31 December 2013 and 31 December 2012:

	2014			2013			2012		
	Individual impairment 2014	Collective impairment 2014	Total 2014	Individual impairment 2013	Collective impairment 2013	Total 2013	Individual impairment 2012	Collective impairment 2012	Total 2012
At 1 January	**91,799**	**28,986**	**120,785**	**83,172**	**26,865**	**110,037**	**76,170**	**38,527**	**114,697**
Charge for the year	34,088	11,000	45,088	19,395	22,104	41,499	27,606	11,580	39,186
Recoveries	12,897	15,809	28,706	10,828	16,651	27,479	21,296	8,683	29,979
Write-offs	(51,774)	(20,201)	(71,975)	(17,269)	(32,682)	(49,951)	(38,200)	(29,365)	(67,565)
Interest accrued on impaired loans to customers	(14,846)	(3,128)	(17,974)	(4,273)	(3,949)	(8,222)	(3,853)	(2,557)	(6,410)
Currency translation differences	(783)	(67)	(850)	(54)	(3)	(57)	153	(3)	150
At 31 December	**71,381**	**32,399**	**103,780**	**91,799**	**28,986**	**120,785**	**83,172**	**26,865**	**110,037**

(Thousands of Georgian Lari)

11. Finance lease receivables

	2014	2013	2012
Minimum lease payments receivable	**47,047**	56,124	88,416
Less – Unearned finance lease income	**(7,799)**	(9,875)	(16,223)
	39,248	**46,249**	**72,193**
Less – Allowance for impairment	**(729)**	(643)	(507)
Finance lease receivables, net	**38,519**	**45,606**	**71,686**

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 2014, the concentration of investment in the five largest lease receivables comprised GEL 10,160 or 26% of total finance lease receivables (2013: GEL 5,766 or 12%, 2012: GEL 44,641 or 62%) and finance income received from it for the year ended 31 December 2014 comprised GEL 909 or 11% of total finance income from lease (2013: GEL 429 or 6%, 2012: GEL 3,588 or 41%).

Future minimum lease payments to be received after 31 December 2014, 31 December 2013 and 31 December 2012 are as follows:

	2014	2013	2012
Within one year	**29,901**	35,472	25,425
From one to five years	**17,146**	18,880	50,982
More than five years	**–**	1,772	12,009
Minimum lease payment receivables	**47,047**	**56,124**	**88,416**

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

	Finance lease receivables 2014	Finance lease receivables 2013	Finance lease receivables 2012
At 1 January	**643**	**507**	**440**
Charge	**476**	2,809	495
Amounts written-off	**(435)**	(2,639)	(428)
Currency translation differences	**45**	(34)	–
At 31 December	**729**	**643**	**507**
Individual impairment	**243**	100	102
Collective impairment	**486**	543	405
	729	**643**	**507**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,487**	**870**	**1,008**

12. Investments in associates

On 23 December 2014 the Group acquired a 25% interest in Georgian Global Utilities LLC (the "GGU"), a holding company with wholly owned subsidiaries that supply water and provide wastewater services, as well as owns and operates three hydropower generation facilities in Georgia.

Total consideration paid for the acquisition of 25% interest in GGU was GEL 48,659, which comprised of GEL 45,567 cash payment and GEL 3,092 fair value of a holdback amount (Note 17).

GGU is a private entity that is not listed on any public exchange. The Group's interest in GGU is accounted for using the equity method in the consolidated financial statements.

The Group also acquired an option to purchase an additional 24.9% interest in GGU, exercisable until October 2015 for US$26 million (GEL 48 million), plus interest at 20% per annum accrued on the US$26 million from 23 December 2014 until the option exercise date, less any dividends distributed through the call option period.

GGU requires the parent's consent to distribute its profits, but also needs the Group's consent on such distributions if they exceed 50% of the associate's profit in accordance with IFRS for the previous year.

In 2008 GGU was sold to a group of private investors. As part of the privatisation process GGU undertook capital expenditure commitment of US$220 million (GEL 410 million) to refurbish and to rehabilitate the water supply and wastewater management infrastructure. The management of GGU believes that as of 31 December 2014 out of that amount, GGU has already fulfilled commitments of US$103 million (GEL 192 million). As of 31 December 2014 GGU is in the process of reconciliation of already fulfilled and outstanding commitments with relevant government authorities.

13. Investment properties

	2014	2013	2012
At 1 January	**157,707**	**160,353**	**101,686**
Additions*	**58,449**	20,051	62,138
Disposals	**(7,383)**	(10,748)	(15,622)
Net gains from revaluation of investment property	**1,909**	9,788	–
Hyperinflation effect	**394**	–	–
Transfers from (to) property and equipment and other assets**	**(31,025)**	(21,737)	12,151
Currency translation differences	**10,809**	–	–
At 31 December	**190,860**	**157,707**	**160,353**

* GEL 49,348 paid in 2014 for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2014 and full additions of 2013 and 2012 comprise foreclosed properties. No cash transactions were involved.

** Comprised of GEL 6,389 transfer to property and equipment (2013 and 2012: transfers from property and equipment GEL 4,979 and GEL 12,151 respectively), GEL 25,132 transfer to other assets – inventories (2013: 14,089, 2012: GEL nil) and GEL 496 transfer from finance lease receivables (2013: transfer to finance lease receivable GEL 12,627 and 2012: nil).

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. The date of latest revaluation is 31 December 2013. As at 31 December 2014 the Group analysed market prices for its investment properties and concluded that the market price of investment properties was not materially different from their carrying value. As at 31 December 2014 the Group analysed market prices for its investment properties and concluded that the market price of investment properties was not materially different from their carrying value. Refer to Note 31 for details on fair value measurements of investment properties.

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

(Thousands of Georgian Lari)

14. Property and equipment

The movements in property and equipment during the year ended 31 December 2014 were as follows:

	Land and buildings	Hospitals and clinics	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2013	209,639	128,491	129,769	101,563	6,728	10,771	8,942	595,903
Additions	1,417	26,478	8,492	21,020	2,665	3,258	7,256	70,586
Business combination, Note 5	2	51,839	588	6,076	306	–	141	58,952
Disposals	(44)	(38)	(623)	(1,084)	(1,089)	(2,675)	(93)	(5,646)
Transfers	5,040	268	(1,856)	3,005	(1,150)	1,139	(6,446)	–
Transfers from investment properties	6,389	–	–	–	–	–	–	6,389
Transfers from (to) other assets	478	–	(216)	(511)	–	–	(61)	(310)
Effect of hyperinflation	3,225	–	228	438	52	67	58	4,068
Currency translation differences	4,230	–	3,748	303	54	191	(198)	8,328
31 December 2014	230,376	207,038	140,130	130,810	7,566	12,751	9,599	738,270
Accumulated impairment								
31 December 2013	3,611	–	40	109	6	–	–	3,766
Effect of hyperinflation	187	–	7	19	3	–	–	216
Currency translation differences	(177)	–	4	(8)	4	9	9	(159)
31 December 2014	3,621	–	51	120	13	9	9	3,823
Accumulated depreciation								
31 December 2013	553	1,526	65,442	44,414	4,317	5,216	–	121,468
Depreciation charge	3,009	1,141	12,471	11,828	1,187	1,849	–	31,485
Effect of hyperinflation	134	–	102	238	38	66	–	578
Currency translation differences	(261)	–	(1,333)	(1,129)	(233)	(298)	–	(3,254)
Transfers (to) from other assets	(352)	–	(499)	(494)	–	–	–	(1,345)
Disposals	125	(21)	(653)	545	(1,286)	(1,708)	–	(2,998)
31 December 2014	3,208	2,646	75,530	55,402	4,023	5,125	–	145,934
Net book value:								
31 December 2013	205,475	126,965	64,287	57,040	2,405	5,555	8,942	470,669
31 December 2014	223,547	204,392	64,549	75,288	3,530	7,617	9,590	588,513

The movements in property and equipment during the year ended 31 December 2013 were as follows:

	Land and buildings	Hospitals and clinics	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Additions	684	12,833	13,760	21,405	1,453	1,378	10,689	62,202
Business combination	1	4,889	345	162	–	526	82	6,005
Disposals	(1,645)	(425)	(207)	(2,306)	(4,514)	(434)	(4)	(9,535)
Transfers	6,088	32,622	1,123	112	–	1,335	(41,280)	–
Transfers from (to) investment properties	(7,300)	–	–	40	–	–	2,055	(5,205)
Transfers to other assets	–	–	(316)	(1,187)	–	–	–	(1,503)
Revaluation	(5,620)	–	–	(289)	–	–	106	(5,803)
Effect of hyperinflation	2,864	–	207	376	48	61	72	3,628
Currency translation differences	4,385	–	1,871	519	125	66	(45)	6,921
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Accumulated impairment								
31 December 2012	**2,189**	**–**	**36**	**99**	**6**	**–**	**–**	**2,330**
Impairment charge	1,171	–	–	–	–	–	–	1,171
Effect of hyperinflation	364	–	6	16	1	–	–	387
Currency translation differences	(113)	–	(2)	(6)	(1)	–	–	(122)
31 December 2013	**3,611**	**–**	**40**	**109**	**6**	**–**	**–**	**3,766**
Accumulated depreciation								
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**–**	**105,986**
Depreciation charge	3,010	1,032	11,162	9,913	1,328	1,597	–	28,042
Effect of hyperinflation	364	–	6	16	1	–	–	387
Currency translation differences	(239)	–	44	81	21	32	–	(61)
Transfers to investment properties	(226)	–	–	–	–	–	–	(226)
Transfers from (to) other assets	–	–	(86)	(962)	–	–	–	(1,048)
Revaluation	(7,047)	–	–	(347)	–	–	–	(7,394)
Disposals	–	(14)	(90)	(557)	(3,419)	(138)	–	(4,218)
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**–**	**121,468**
Net book value:								
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**

(Thousands of Georgian Lari)

14. Property and equipment (continued)

The movements in property and equipment during the year ended 31 December 2012 were as follows:

	Land and buildings	Hospitals and clinics	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2011	**192,865**	**40,441**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Additions	4,518	2,836	8,756	16,458	3,230	306	24,082	60,186
Business combination	6,228	30,131	–	3,302	–	–	15,799	55,460
Disposals	(2,123)	(103)	(2,272)	(448)	(2,105)	(1,266)	–	(8,317)
Disposals through sale of subsidiaries	–	–	(6)	–	(46)	–	–	(52)
Transfers	8,327	5,266	–	–	–	864	(14,457)	–
Transfers to investment properties	(1,520)	–	–	–	–	–	(10,631)	(12,151)
Transfers from (to) other assets	9	1	(14)	6,636	4	–	1,785	8,421
Effect of hyperinflation	3,086	–	210	347	48	60	76	3,827
Currency translation differences	(1,208)	–	(1,272)	(223)	(33)	(78)	(81)	(2,895)
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Accumulated impairment								
31 December 2011	**2,626**	**–**	**37**	**106**	**6**	**–**	**–**	**2,775**
Impairment charge	–	–	14	59	–	–	–	73
Disposals through sale of subsidiaries	–	–	(15)	(7)	–	–	–	(22)
Effect of hyperinflation	–	–	–	123	–	–	–	123
Currency translation differences	(437)	–	–	(182)	–	–	–	(619)
31 December 2012	**2,189**	**–**	**36**	**99**	**6**	**–**	**–**	**2,330**
Accumulated depreciation								
31 December 2011	**1,720**	**26**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Depreciation charge	2,545	481	11,288	7,536	1,768	1,409	–	25,027
Effect of hyperinflation	450	–	8	22	1	–	–	481
Currency translation differences	(25)	–	19	71	9	52	–	126
Transfers to other assets	–	–	(8)	(122)	–	–	–	(130)
Disposals	1	1	(373)	(150)	(1,834)	(966)	–	(3,321)
Disposals through sale of subsidiaries	–	–	(4)	–	(22)	–	–	(26)
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**–**	**105,986**
Net book value:								
31 December 2011	**188,519**	**40,415**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2013. As at 31 December 2014 the Group analysed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value. Refer to Note 31 for details on fair value measurements of the Group's premises.

If the office buildings and service centres had been measured using the cost model, the carrying amounts of the office buildings and service centres as at 31 December 2014, 31 December 2013 and 31 December 2012 would have been as follows:

	2014	2013	2012
Cost	**166,839**	146,104	141,023
Accumulated depreciation and impairment	**(16,896)**	(14,023)	(10,888)
Net carrying amount	**149,943**	**132,081**	**130,135**

15. Goodwill

Movements in goodwill during the years ended 31 December 2014, 31 December 2013 and 31 December 2012, were as follows:

	2014	2013	2012
Cost			
1 January	**77,170**	**74,107**	**74,645**
Business combinations, Note 5	**913**	3,063	482
Disposals through sale of subsidiaries	**–**	–	(1,020)
At 31 December	**78,083**	**77,170**	**74,107**
Accumulated impairment			
1 January	**28,450**	**28,450**	**28,450**
Impairment charge	**–**	–	655
Disposals through sale of subsidiaries	**–**	–	(655)
At 31 December	**28,450**	**28,450**	**28,450**
Net book value:			
1 January	**48,720**	**45,657**	**46,195**
At 31 December	**49,633**	**48,720**	**45,657**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to five individual cash-generating units, which are also reportable segments, for impairment testing: Corporate Banking, Retail Banking, Property & Casualty Insurance, Health Insurance, Healthcare and Liberty Consumer.

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

	2014	2013	2012
P&C Insurance	**16,139**	16,139	16,139
Retail Banking	**12,433**	12,433	12,433
Corporate Banking	**9,965**	9,965	9,965
Healthcare	**4,195**	3,282	220
Health Insurance	**3,462**	3,462	3,462
Liberty Consumer	**3,439**	3,439	3,438
Total	**49,633**	**48,720**	**45,657**

(Thousands of Georgian Lari)

15. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the cash-generating units 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 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating units.

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

	Corporate Banking			Retail Banking		
	2014 %	2013 %	2012 %	**2014 %**	2013 %	2012 %
Discount rate	**6.2%**	8.5%	8.5%	**6.5%**	8.5%	8.5%

The following rates were used by the Group for P&C Insurance and Health Insurance:

	P&C Insurance			Health Insurance		
	2014 %	2013 %	2012 %	**2014 %**	2013 %	2012 %
Discount rate	**10.9%**	13.3%	13.3%	**11.3%**	14.5%	14.5%

The following rates were used by the Group for Healthcare and Liberty Consumer:

	Healthcare			Liberty Consumer		
	2014 %	2013 %	2012 %	**2014 %**	2013 %	2012 %
Discount rate	**10.5%**	14.5%	14.5%	**9.0%**	14.5%	14.5%

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) 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 WACC.

For the Healthcare CGU the following additional assumptions were made over the first two-year period of the business plan:
- further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage; and
- growth of other healthcare business lines through an increased market demand and economic growth.

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; and
- further expansion of the express banking businesses bringing more stable margins to retail banking.

Sensitivity to changes in assumptions

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

16. Taxation

The corporate income tax (expense) benefit comprises:

	2014	2013	2012
Current income expense	**(24,493)**	(17,284)	(23,469)
Deferred income tax expense	**(11,332)**	(18,629)	(9,731)
Income tax expense	**(35,825)**	**(35,913)**	**(33,200)**
Deferred income tax (expense) benefit in other comprehensive income (loss)	**(124)**	**(1,095)**	**690**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2014, 2013 and 2012 was as follows:

	2014	2013	2012
Currency translation differences	**(124)**	(873)	654
Net losses on investment securities available-for-sale	**–**	1	36
Revaluation of buildings	**–**	(223)	–
Income tax (expense) benefit in other comprehensive income	**(124)**	**(1,095)**	**690**

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 26.5% (2013: from 15% to 24%, 2012: from 15% to 23%).

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2014, 31 December 2013 and 31 December 2012 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2014	2013	2012
Profit before income tax expense	**276,592**	**245,256**	**212,752**
Average tax rate	**15%**	15%	15%
Theoretical income tax expense at average tax rate	**(41,489)**	**(36,788)**	**(31,913)**
Tax at the domestic rates applicable to profits in each country	**193**	(1,155)	(1,417)
Change in unrecognised deferred tax assets	**6,100**	–	–
Correction of prior year declarations	**(298)**	2,402	–
Effect of changes in tax rate	**(502)**	–	–
Non-deductible expenses	**(697)**	(486)	–
Other	**868**	114	130
Income tax expense	**(35,825)**	**(35,913)**	**(33,200)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

16. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2014, 31 December 2013 and 31 December 2012 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences		
	2011	In the income statement	In other comprehensive income	Disposal of subsidiary
Tax effect of deductible temporary differences:				
Amounts due to credit institutions	1,264	(1,209)	–	–
Investment securities: available-for-sale	737	(749)	19	–
Investment properties	–	–	–	–
Insurance premiums receivables	1,697	(373)	–	–
Allowances for impairment and provisions for other losses	1,342	(283)	–	–
Tax losses carried forward	12,332	(2,417)	(746)	(24)
Property and equipment	2,178	(1,238)	(7)	–
Other assets and liabilities	3,687	(629)	(302)	(26)
Deferred tax assets	**23,237**	**(6,898)**	**(1,036)**	**(50)**
Tax effect of taxable temporary differences:				
Amounts due to credit institutions	1,734	(1,662)	–	–
Amounts due to customers	510	(510)	–	–
Loans to customers	9,022	(14)	–	–
Other insurance liabilities and pension fund obligations	404	446	–	–
Property and equipment	26,163	3,309	310	–
Investment properties	615	(152)	(2)	–
Intangible assets	4,316	571	–	–
Other assets and liabilities	1,863	845	(654)	(29)
Deferred tax liabilities	**44,627**	**2,833**	**(346)**	**(29)**
Net deferred tax liabilities	**(21,390)**	**(9,731)**	**(690)**	**(21)**

	2012	Origination and reversal of temporary differences: In the income statement	Origination and reversal of temporary differences: In other comprehensive income	2013	Origination and reversal of temporary differences: In the income statement	Origination and reversal of temporary differences: Business combination	Origination and reversal of temporary differences: In other comprehensive income	**2014**
	55	1,125	–	1,180	(175)	–	–	**1,005**
	7	1,188	1	1,196	(1)	–	–	**1,195**
	–	2,479	–	2,479	–	–	(1,499)	**980**
	1,324	(438)	–	886	624	–	–	**1,510**
	1,059	(604)	–	455	(257)	–	–	**198**
	9,145	(974)	620	8,791	2,650	–	855	**12,296**
	933	9	–	942	(6)	–	–	**936**
	2,730	439	–	3,169	751	–	(51)	**3,869**
	15,253	**3,224**	**621**	**19,098**	**3,586**	**–**	**(695)**	**21,989**
	72	28	(48)	52	(5)	–	(3)	**44**
	–	1,325	–	1,325	–	–	–	**1,325**
	9,008	12,831	–	21,839	8,562	–	(165)	**30,236**
	850	106	–	956	426	–	–	**1,382**
	29,782	1,650	1,179	32,611	4,473	4,929	(330)	**41,683**
	461	1,711	(2,170)	2	69	–	(7)	**64**
	4,887	688	–	5,575	965	–	(8)	**6,532**
	2,025	3,514	2,755	8,294	428	–	(58)	**8,664**
	47,085	**21,853**	**1,716**	**70,654**	**14,918**	**4,929**	**(571)**	**89,930**
	(31,832)	**(18,629)**	**(1,095)**	**(51,556)**	**(11,332)**	**(4,929)**	**(124)**	**(67,941)**

(Thousands of Georgian Lari)

17. Other assets and other liabilities

Other assets comprise:

	2014	2013	2012
Inventory	**101,807**	88,209	44,380
Accounts receivable	**60,674**	32,474	25,559
Foreclosed assets*	**49,090**	43,924	900
Derivative financial assets	**45,733**	39,431	36,784
Insurance premiums receivable	**36,028**	64,988	68,947
Reinsurance assets	**11,289**	9,471	8,279
Operating tax assets	**10,934**	15,626	9,883
Assets purchased for finance lease purposes	**6,841**	3,649	1,654
Receivables from money transfers	**4,080**	4,054	4,619
Settlements on operations	**2,869**	10,461	10,970
Trading securities owned	**1,034**	1,149	971
Operating lease receivables	**474**	489	547
Receivables from sale of assets	**214**	692	872
Receivables from documentary operations	**43**	14,562	2,990
Other	**30,850**	18,449	18,100
	361,960	**347,628**	**235,455**
Less – Allowance for impairment of other assets	**(10,273)**	(18,289)	(14,375)
Other assets	**351,687**	**329,339**	**221,080**

* Foreclosed assets represent movable repossessed assets. The increase in 2013 is attributable to premature termination of one large finance lease receivable that in 2012 made up 62% of total finance lease receivables, Note 11.

Inventories mainly comprises GEL 48,316 affordable housing apartments under construction (2013: GEL 65,019, 2012: GEL 32,458), GEL 7,000 medical supplies held by the healthcare segment (2013: GEL 4,622, 2012: GEL 5,698) and GEL 11,448 of winery business related materials and finished goods (2013: GEL 8,183, 2012: GEL 5,618).

Other liabilities comprise:

	2014	2013	2012
Deferred income and other accruals*	**82,938**	61,275	32,167
Insurance contracts liabilities	**46,586**	73,719	79,839
Accruals for employee compensation	**25,685**	20,830	14,093
Amounts payable for share acquisitions**	**16,786**	–	–
Accounts payable	**15,995**	11,220	14,350
Pension benefit obligations	**11,201**	9,540	8,758
Creditors	**10,436**	7,855	9,911
Derivative financial liabilities	**7,505**	1,513	4,867
Other insurance liabilities	**7,395**	7,360	10,861
Other taxes payable	**4,258**	1,505	1,930
Dividends payable	**2,419**	511	393
Other	**6,918**	11,250	8,042
Other liabilities	**238,122**	**206,578**	**185,211**

* Deferred income and other accruals as at 31 December 2014 is primarily made up of deferred income on sale of developed real estate properties of the Group's real estate subsidiaries – GEL 67,957 or 81.9% (2013: GEL 53,639 or 87.5%, 2012: GEL 23,432 or 72.8%).

** Amounts payable for share acquisitions comprise GEL 13,694 payable for healthcare business acquisitions and GEL 3,092 payable for acquisition of Georgian Global Utilities LLC.

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.

	2014		
	Notional amount	Fair value Asset	Fair value Liability
Foreign exchange contracts			
Forwards and swaps – domestic	**49,648**	**247**	**1,242**
Forwards and swaps – foreign	**494,206**	**45,486**	**6,263**
Total derivative assets/liabilities	**543,854**	**45,733**	**7,505**

	2013			2012		
	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability
Interest rate contracts						
Forwards and swaps – foreign	97,566	–	1,453	148,137	–	4,783
Foreign exchange contracts						
Forwards and swaps – domestic	66,640	332	50	41,693	542	–
Forwards and swaps – foreign	100,465	39,076	10	120,493	35,976	84
Equity/commodity contracts						
Call options – foreign	1,166	23	–	3,313	266	–
Total derivative assets/liabilities	**265,837**	**39,431**	**1,513**	**313,636**	**36,784**	**4,867**

18. Amounts due to customers

The amounts due to customers include the following:

	2014	2013	2012
Time deposits	**1,867,925**	1,593,171	1,325,544
Current accounts	**1,445,790**	1,514,038	1,297,367
Promissory notes issued	**25,010**	10,523	70,114
Amounts due to customers	**3,338,725**	**3,117,732**	**2,693,025**
Held as security against letters of credit and guarantees (Note 21)	**53,393**	**53,903**	**31,439**

As at 31 December 2014, 31 December 2013 and 31 December 2012, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was one month (2013: 12 months, 2012: three months).

At 31 December 2014, amounts due to customers of GEL 424,103 (13%) were due to the 10 largest customers (2013: GEL 436,694 (14%), 2012: GEL 462,815 (17%).

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

	2014	2013	2012
Individuals	**1,868,762**	1,511,452	1,262,178
Private enterprises	**1,284,955**	1,435,900	1,276,438
State and state-owned entities	**185,008**	170,380	154,409
Amounts due to customers	**3,338,725**	**3,117,732**	**2,693,025**

18. Amounts due to customers (continued)

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

	2014	2013	2012
Individuals	**1,868,762**	1,511,452	1,262,178
Real estate	**329,246**	420,183	323,244
Trade	**277,792**	360,378	281,013
Construction	**220,234**	241,271	151,826
Transport and communication	**173,591**	143,681	154,202
Government services	**128,046**	50,481	52,097
Financial intermediation	**110,759**	69,239	126,859
Manufacturing	**107,813**	85,673	102,239
Hospitality	**33,503**	35,049	26,578
Electricity, gas and water supply	**21,275**	78,537	79,178
Other	**67,704**	121,788	133,611
Amounts due to customers	**3,338,725**	**3,117,732**	**2,693,025**

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2014	2013	2012
Borrowings from international credit institutions	**574,240**	504,943	596,700
Short-term loans from the National Bank of Georgia	**400,772**	250,138	310,178
Time deposits and inter-bank loans	**261,551**	221,267	113,222
Correspondent accounts	**32,606**	12,921	7,969
Subtotal	**1,269,169**	**989,269**	**1,028,069**
Non-convertible subordinated debt	**140,045**	168,710	208,244
Amounts due to credit institutions	**1,409,214**	**1,157,979**	**1,236,313**

During the years ended 31 December 2014, 31 December 2013 and 31 December 2012 the Group received short-term funds from Georgian banks in different currencies.

During the year ended 31 December 2014 the Group paid up to 6.77% on USD borrowings from international credit institutions (2013: up to 6.23%, 2012: up to 9.65%). During the year ended 31 December 2014 the Group paid up to 10.40% on US Dollar subordinated debt (2013: up to 11.33% and 2012: up to 11.65%).

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 2014, 31 December 2013 and 31 December 2012 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

20. Debt securities issued

Debt securities issued comprise:

	2014	2013	2012
Eurobonds	**779,445**	728,117	420,849
Georgian local bonds	**46,217**	–	–
Certificates of deposit	**31,033**	–	–
Debt securities issued	**856,695**	**728,117**	**420,849**

In September 2014, the Group's leasing subsidiary Georgian Leasing Company LLC completed the issuance of three-year local bonds of US$10 million (GEL 18 million). The bonds were issued at par with an annual coupon rate of 8.75% payable semi-annually with 5% withholding tax applying to individuals.

In April 2014 and June 2014, the Group's real estate subsidiary JSC m^2 completed the issuances of one-year local bonds of US$5 million (GEL 9 million) and US$10 million (GEL 18 million) respectively. The bonds were issued at par with 9.5% and 8.42% respectively payable upon maturity with 5% withholding tax applying to individuals.

In January 2014, the Bank issued US$3 million (GEL 5 million) and EUR 4.2 million (GEL 10 million) certificates of deposit with a fixed 5.25% semi-annual coupon. The certificates of deposit were issued pursuant to the applicable regulations of International Securities Market Advisory Group ("ISMAG") and with regard to any registration, filing or similar requirement of the international clearing systems Euroclear and Clearstream. Certificates of Deposit may be freely resold or otherwise assigned to any third party without prior notification of the Bank.

On 6 November 2013, the Bank completed the issuance of its US$150 million (GEL 251 million) 7.75% notes due 2017, consolidated and forming a single series with the US$250 million 7.75% notes due 2017 issued on 5 July 2012. The Regulation S/Rule 144A senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 105.249% of their principal amount. J.P. Morgan Securities plc and Merrill Lynch International acted as Joint Lead Managers for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The Notes are rated BB- (Fitch)/Ba3 (Moody's)/BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and have been admitted to trading on the London Stock Exchange's Regulated Market.

On 5 July 2012 the Bank completed the issuance of its US$250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S/Rule 144A five-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of principal amount. Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd and Merrill Lynch International acted as Joint Lead Managers and Bookrunners for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The notes are rated BB- (Fitch)/Ba3 (Moody's)/BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and have been admitted to trading on the London Stock Exchange's Regulated Market.

21. Commitments and contingencies

Legal

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

Financial commitments and contingencies

As at 31 December 2014, 31 December 2013 and 31 December 2012 the Group's financial commitments and contingencies comprised the following:

	2014	2013	2012
Credit-related commitments			
Guarantees issued	**465,527**	478,247	502,511
Undrawn loan facilities	**144,634**	147,273	140,003
Letters of credit	**95,669**	55,608	100,023
	705,830	**681,128**	**742,537**
Operating lease commitments			
Not later than one year	**12,382**	7,978	5,666
Later than one year but not later than five years	**21,943**	12,844	11,722
Later than five years	**3,178**	1,693	2,172
	37,503	**22,515**	**19,560**
Capital expenditure commitments	**10,035**	**11,463**	**3,069**
Less – Cash held as security against letters of credit and guarantees (Note 18)	**(53,393)**	(53,903)	(31,439)
Less – Provisions	**(4,732)**	(481)	(683)
Financial commitments and contingencies, net	**695,243**	**660,722**	**733,044**

As at 31 December 2014 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 9,810 and software and other intangible assets of GEL 225. As at 31 December 2013 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 8,796 and software and other intangible assets of GEL 2,667. As at 31 December 2012 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121.

(Thousands of Georgian Lari)

22. Equity

Share capital

As at 31 December 2014, issued share capital comprised 39,500,320 common shares, of which 39,500,320 were fully paid (31 December 2013: 35,909,383 issued share capital, of which 35,909,383 were fully paid, 31 December 2012: 35,909,383 issued share capital, of which 35,909,383 were fully paid). Each share has a nominal value of one (1) British pence (31 December 2013: one (1) British pence, 31 December 2012: one (1) British pence). Shares issued and outstanding as at 31 December 2014 are described below:

	Number of shares Ordinary	Amount of shares Ordinary
31 December 2011	**32,877,547**	**32,878**
Issue of share capital*	3,635,006	3,635
Conversion of shares following the Tender Offer**	(603,170)	(36,513)
Share capital adjustment for new nominal value***	–	943
Effect of translation of equity components to presentation currency	–	14
31 December 2012	**35,909,383**	**957**
Effect of translation of equity components to presentation currency	–	71
31 December 2013	**35,909,383**	**1,028**
Issue of share capital	3,590,937	108
Effect of translation of equity components to presentation currency	–	7
31 December 2014	**39,500,320**	**1,143**

* Conversion of US$49,903 convertible borrowings by EBRD and IFC into the Bank's 3,635,006 shares.
** 603,170 is the number of JSC Bank of Georgia shares that were not converted into Bank of Georgia Holdings Plc shares during the Tender Offer.
** GEL 943 is the nominal value of 35,909,383 Bank of Georgia Holdings Plc shares translated in GEL with the share conversion date official exchange rate.

On 4 December 2014, a total of 3,590,937 ordinary shares of one British pence each in the capital of BGH (the "Placing Shares") have been placed by Citigroup Global Markets Limited ("Citi"), Numis Securities Limited ("Numis") and RBC Capital Markets ("RBC") at a price of 2.025 British pence per Placing Share, raising GEL 215,659 in net proceeds. The Placing Shares issued represented 9.99% of the issued ordinary shares of BGH prior to the Placing. On 10 December 2014 the Placing Shares were admitted to the premium listing segment of the Official List of the UK Listing Authority and to the London Stock Exchange. The Placing Shares are credited as fully paid and rank pari passu in all respects with the existing ordinary shares of one British pence each in the capital of the Group, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue of the Placing Shares. Citi acted as Global Coordinator in respect of the Placing and together with Numis and RBC as Joint Bookrunners in respect of the Placing.

On 28 February 2012 the Group completed the Tender Offer under which 35,909,383 of the Bank's shares then outstanding (or 98.35 per cent) were converted into 35,909,383 shares of BGH (Note 1).

On 24 February 2012 EBRD and IFC utilised the convertibility feature and converted US$49,903 of their loans to the Bank into the Bank's shares (Note 19). The total number of ordinary shares issued under this transaction comprised 3,635,006.

Capital reduction

Following the Admission (Note 1), the Directors of BGH undertook a reduction of capital in order to create distributable reserves for BGH. The original difference between the nominal value of BGH's shares and the fair value of the Bank's shares was credited to the merger reserve created in connection with the Tender Offer. It was the intention of BGH's Directors that the maximum amount of distributable reserves should be created and therefore any merger reserve created in connection with the Tender Offer was capitalised into Class A shares. The Class A shares were allotted pro rata to holders of BGH shares. BGH Directors implemented a Court approved reduction of capital which reduced the original (Tender Offer) nominal value of BGH shares and cancelled all the Class A shares in issue resulting from the capitalisation of the merger reserve.

BGH shares had an original (Tender Offer) nominal value of GBP 6.00 per share. Following the reduction of capital the nominal value of BGH shares was reduced to GBP 0.01. Reduction of the capital created a new reserve on the statement of financial position of BGH (comprising the reduction of the original nominal value from GBP 6.00 to GBP 0.01 per share plus the aggregate nominal amount of all of the Class A shares which were cancelled). The reduction of capital is a legal and accounting adjustment and did not, of itself, have any direct impact on the market value of BGH shares.

As a result of the capital reduction in BGH, the Group's total additional paid-in capital outstanding at the time became distributable to the shareholders and was fully reclassified to retained earnings.

Treasury shares

Treasury shares are held by the Group solely for the employee's future share-based compensation purposes.

The number of treasury shares held by the Group as at 31 December 2014 comprised 1,522,185 (31 December 2013: 1,973,376, 31 December 2012: 2,576,747).

Treasury shares of GEL 46 as at 31 December 2014 comprise the Group's shares owned by the Group (31 December 2013: GEL 56, 31 December 2012: GEL 69).

Dividends

Shareholders are entitled to dividends in British Pounds.

On 28 May 2014, the Directors of Bank of Georgia Holdings PLC declared 2013 interim dividends comprising GEL 2.0 per share. The currency conversion date was set at 9 June 2014, with the official GEL/GBP exchange rate of 2.9815, resulting in a GBP denominated interim dividend of 0.6708 per share. Payment of the total GEL 71,633 interim dividends was received by shareholders on 18 June 2014.

On 23 May 2013, the Directors of Bank of Georgia Holdings PLC declared an interim dividend for 2013 of GEL 1.5 per share. The currency conversion date was set at 10 June 2013, with the official GEL/GBP exchange rate of 2.6051, resulting in a GBP denominated interim dividend of 0.5758 per share. Payment of the total GEL 51,235 interim dividends was received by shareholders on 19 June 2013.

On 7 June 2012, the Directors of Bank of Georgia Holdings PLC declared an interim dividend for 2012 of GEL 0.7 per share. The currency conversion date was set at 25 June 2012, with the official GEL/GBP exchange rate of 2.5626, resulting in a GBP-denominated interim dividend of 0.2732 per share. Payment of the total GEL 23,618 interim dividends was received by shareholders on 2 July 2012.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on investments available-for-sale.

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 2014, 31 December 2013 and 31 December 2012 are presented in the statements of other comprehensive income.

(Thousands of Georgian Lari)

22. Equity (continued)

Earnings per share

	2014	2013	2012
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	**232,509**	201,490	174,437
Weighted average number of ordinary shares outstanding during the year	**34,584,751**	33,983,014	33,405,181
Basic earnings per share	**6.7228**	5.9291	5.2218
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	**–**	–	1,116
Number of dilutive potential ordinary shares	**–**	–	526,381
Diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	**232,509**	201,490	175,553
Weighted average number of diluted ordinary shares outstanding during the year	**34,584,751**	33,983,014	33,931,562
Diluted earnings per share	**6.7228**	5.9291	5.1737

During the year ended 31 December 2012 dilutive potential ordinary shares were accounted for by convertible loans granted by EBRD and IFC.

On 24 February 2012 the Bank converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Bank. Their conversion decreased earnings per share from continuing operations. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group.

23. Net fee and commission income

	2014	2013	2012
Settlements operations	**87,096**	76,542	69,208
Guarantees and letters of credit	**21,504**	23,781	26,846
Cash operations	**9,664**	9,049	8,826
Brokerage service fees	**7,669**	803	911
Currency conversion operations	**3,204**	2,653	1,802
Advisory	**–**	272	–
Other	**3,318**	2,006	1,685
Fee and commission income	**132,455**	**115,106**	**109,278**
Settlements operations	**(21,730)**	(18,893)	(15,234)
Guarantees and letters of credit	**(4,004)**	(3,968)	(4,046)
Cash operations	**(3,784)**	(2,707)	(1,510)
Insurance brokerage service fees	**(849)**	(871)	(910)
Currency conversion operations	**(185)**	(95)	(73)
Other	**(2,241)**	(1,676)	(1,018)
Fee and commission expense	**(32,793)**	**(28,210)**	**(22,791)**
Net fee and commission income	**99,662**	**86,896**	**86,487**

24. Net insurance revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 comprised:

	2014	2013	2012
Life insurance contracts premium written	**5,381**	3,610	4,069
General insurance contracts premium written	**81,691**	135,635	113,810
Total premiums written	**87,072**	**139,245**	**117,879**
Gross change in life provision	**70**	881	(98)
Gross change in general insurance contracts unearned premium provision	**26,621**	2,913	(14,931)
Total gross premiums earned on insurance contracts	**113,763**	**143,039**	**102,850**
Reinsurers' share of life insurance contracts premium written	**(53)**	(505)	(658)
Reinsurers' share of general insurance contracts premium written	**(18,328)**	(14,660)	(8,925)
Reinsurers' share of change in life provision	**(32)**	5	(65)
Reinsurers' share of change in general insurance contracts unearned premium provision	**500**	2,114	(2,026)
Total reinsurers' share of gross earned premiums on insurance contracts	**(17,913)**	**(13,046)**	**(11,674)**
Net insurance premiums earned	**95,850**	**129,993**	**91,176**
Life insurance claims paid	**(1,364)**	(954)	(539)
General insurance claims paid	**(68,827)**	(86,425)	(60,323)
Total insurance claims paid	**(70,191)**	**(87,379)**	**(60,862)**
Reinsurers' share of life insurance claims paid	**120**	441	84
Reinsurers' share of general insurance claims paid	**1,858**	1,036	1,282
Gross change in total reserves for claims	**443**	2,325	1,742
Reinsurers' share of change in total reserves for claims	**1,349**	(1,083)	716
Net insurance claims incurred	**(66,421)**	**(84,660)**	**(57,038)**
Net insurance revenue	**29,429**	**45,333**	**34,138**

25. Net healthcare revenue

	2014	2013	2012
Revenue from Government programmes	**78,967**	19,810	13,184
Revenue from free flow (non-insured retail individuals)	**33,854**	17,677	21,133
Revenue from insurance companies	**11,562**	22,418	16,937
Other revenue from medical services	**1,337**	108	3,122
Healthcare revenue	**125,720**	**60,013**	**54,376**
Direct salary expenses	**(39,022)**	(20,182)	(21,980)
Direct materials	**(17,304)**	(13,569)	(6,799)
Expenses on medical service providers	**(12,042)**	(1,885)	(2,081)
Other direct expenses	**(10,468)**	(2,008)	(170)
Cost of healthcare services	**(78,836)**	**(37,644)**	**(31,030)**
Net healthcare revenue	**46,884**	**22,369**	**23,346**

(Thousands of Georgian Lari)

26. Net real estate revenue

	2014	2013	2012
Revenue from affordable housing	**56,993**	7,151	12,044
Income from operating lease	**4,163**	3,168	2,987
Gain from sale of real estate properties	**1,842**	2,706	2,272
Real estate revenue	**62,998**	**13,025**	**17,303**
Cost of affordable housing properties	**(46,810)**	(5,929)	(9,108)
Loss on real estate property sale	**(406)**	(1,198)	(728)
Net real estate revenue	**15,782**	**5,898**	**7,467**

27. Salaries and other employee benefits, and general and administrative expenses

	2014	2013	2012
Salaries and bonuses	**(150,889)**	(132,758)	(121,046)
Social security costs	**(2,918)**	(2,307)	(1,510)
Salaries and other employee benefits	**(153,807)**	**(135,065)**	**(122,556)**

The average number of staff employed by the Group for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 comprised:

	2014	2013	2012
The Bank	**3,622**	3,686	3,523
Insurance companies**	**597**	589	459
BNB	**433**	362	290
Other	**840**	807	750
Average number of staff employed excluding healthcare*	**5,492**	**5,444**	**5,022**
Healthcare companies***	**7,242**	6,046	4,288
Average total number of staff employed	**12,734**	**11,490**	**9,310**

* Salary expenses on staff employed in the healthcare segment are included in cost of healthcare services.
** JSC Insurance Company Imedi L and JSC Insurance Company Aldagi.
*** JSC Medical Corporation EVEX and its subsidiaries.

Salaries and bonuses include GEL 27,193, GEL 18,702 and GEL 17,122 of the Equity Compensation Plan costs for the years ended 31 December 2014, 31 December 2013 and 31 December 2012, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 29 and 33).

	2014	2013	2012
Occupancy and rent	**(11,351)**	(9,783)	(9,644)
Marketing and advertising	**(10,901)**	(9,467)	(9,644)
Legal and other professional services	**(9,742)**	(8,399)	(10,055)
Repairs and maintenance	**(9,065)**	(7,482)	(11,164)
Office supplies	**(6,246)**	(6,119)	(8,358)
Communication	**(5,107)**	(4,750)	(4,601)
Operating taxes	**(5,074)**	(4,567)	(4,824)
Corporate hospitality and entertainment	**(4,139)**	(3,233)	(2,669)
Security	**(2,577)**	(2,149)	(1,964)
Personnel training and recruitment	**(1,697)**	(1,212)	(854)
Travel expenses	**(1,621)**	(1,441)	(1,407)
Insurance	**(443)**	(520)	(419)
Banking services	**(48)**	(196)	(62)
Penalties	**(55)**	(75)	(318)
Other	**(5,119)**	(971)	(1,058)
General and administrative expenses	**(73,185)**	**(60,364)**	**(67,041)**

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

	Audit/ review	Audit related	Other services	Total
2014				
Audit of the Group's annual accounts	**1,784**	**–**	**–**	**1,784**
Review of the Group's interim accounts	**124**	**–**	**–**	**124**
Other assurance services	**627**	**46**	**263**	**936**
Total auditors' remuneration	**2,535**	**46**	**263**	**2,844**
2013				
Audit of the Group's annual accounts	1,430	–	–	1,430
Review of the Group's interim accounts	226	–	–	226
Other assurance services	58	40	260	358
Total auditors' remuneration	**1,714**	**40**	**260**	**2,014**
2012				
Audit of the Group's annual accounts	1,445	–	–	1,445
Review of the Group's interim accounts	302	–	–	302
Other assurance services	–	50	424	474
Total auditors' remuneration	**1,747**	**50**	**424**	**2,221**

The figures shown in the above table relate to fees paid to Ernst & Young LLP and its associates. Fees paid to other auditors not associated with Ernst & Young LLP in respect of the audit of the Group's subsidiaries were GEL 17 (2013: GEL 145, 2012: GEL 85) and in respect of other services of the Group were GEL 327 (2013: GEL 634, 2012: GEL 225).

28. Net non-recurring expenses

	2014	2013	2012
Negative goodwill on business combination	**1,003**	–	–
Gain from building transferred to healthcare segment from the Government	**524**	–	–
Gain from penalties on unfulfilled obligations by contractors	**–**	201	149
Other non-recurring income/gain	**277**	515	694
Total non-recurring income/gain	**1,804**	**716**	**843**
Impairment of investment securities available-for-sale	**(3,837)**	–	(2,078)
Loss from Belarus Hyperinflation	**(3,073)**	(1,694)	(443)
Loss from early repayments of borrowings from international credit institutions	**(2,503)**	–	–
Charity expenses	**(210)**	(240)	–
Impairment of receivables from sale of BG Bank	**–**	(3,100)	(3,903)
Impairment of investment in associate	**–**	(2,441)	–
Impairment of property and equipment, and intangible assets	**–**	(1,171)	(299)
Management leave compensation expense	**–**	(577)	(786)
Loss from damaged physical assets	**–**	(531)	–
Unforeseen loss on Affordable Housing pilot project	**–**	(389)	–
Premium listing related expenses	**–**	–	(6,191)
Write-off of prepayments for an intangible asset	**–**	–	(2,432)
Impairment of goodwill	**–**	–	(655)
Other	**(3,198)**	(3,404)	(3,690)
Total non-recurring expense/loss	**(12,821)**	**(13,547)**	**(20,477)**
Net non-recurring expense/loss	**(11,017)**	**(12,831)**	**(19,634)**

(Thousands of Georgian Lari)

29. Share-based payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

In February 2014 the Bank's Supervisory Board resolved to award 135,500 ordinary shares of BGH to the members of the Management Board and 88,775 ordinary shares of BGH to the Group's 27 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 27 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was GEL 67.90 per share.

In February 2013 the Bank's Supervisory Board resolved to award 200,000 ordinary shares of BGH to the members of the Management Board and 137,850 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was GEL 35.56 per share.

In March 2012 the Bank's Supervisory Board resolved to award 220,000 ordinary shares of BGH to the members of the Management Board and 199,358 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was GEL 26.07 per share.

Additionally, in February 2013 the CEO of the Bank and the deputies signed new three-year fixed contingent share-based compensation agreements with the Bank for the total of 840,000 ordinary shares of BGH. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was GEL 35.45.

The Bank grants share compensation to its mid-management employees too. In February 2014, in February 2013 and in March 2012, the Supervisory Board of the Bank resolved to award 42,745, 68,850 and 42,600 ordinary shares to its mid-management employees, respectively. All these awards are subject to three-year vesting, with continuous employment being the only vesting condition for all awards. The Group considers 24 February 2014, 15 February 2013 and 6 March 2012 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 24 February 2014, 15 February 2013 and 6 March 2012 were GEL 67.90, 35.56 and 26.07 per share, respectively.

Summary

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

The weighted average fair value of share-based awards at the grant date comprised GEL 67.90 per share in the year ended 31 December 2014 (31 December 2013: GEL 35.48 per share, 31 December 2012: GEL 26.07 per share).

The Group's total share-based payment expenses for the year ended 31 December 2014 comprised GEL 27,193 (31 December 2013: GEL 18,702, 31 December 2012: GEL 17,122) and are included in "salaries and other employee benefits" as "salaries and bonuses".

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

	2014	2013	2012
Total number of equity instruments awarded*	**267,020**	1,246,700	461,958
– Among them, to top management and Board of Directors**	**135,500**	300,000	34,000
Weighted average value at grant date, per share (GEL in full amount)	**67.90**	35.48	26.07
Value at grant date, total (GEL)	**18,132**	**44,238**	**12,044**
Total expense recognised during the year (GEL)	**(27,193)**	**(18,702)**	**(17,122)**

* 2013 award includes fixed contingent share-based compensation of 840,000 ordinary shares per new employment agreements of CEO and deputies, signed in February 2013 for the subsequent consecutive three-year period.

During 2014 total gain from exercise of the share options by BGH Directors amounted to GEL 7,437 (2013: GEL 2,558).

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

Risk Committee

The Risk Committee was established in 2014. It has the responsibility to ensure that the Group's risk appetite and exposure are addressed as part of strategy and advise the Board on the appropriateness of this risk strategy and appetite; oversee and advise the Board on the current and emerging risk exposures of the Group; oversee and monitor the implementation of the risk strategy by senior management to address the risk exposures of the Group; review the effectiveness of the Group's risk management framework and internal control systems (other than internal financial control systems which is the responsibility of the BGH Audit Committee); assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group; ensure that risk is properly considered in setting the Group's remuneration policy; oversee the communication regarding risk management through entire management structure; review and approve the Group's risk management policy.

Management Board

The Management Board has the responsibility to monitor and manage the entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Asset and Liability Management Committee

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

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

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

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

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

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

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

(Thousands of Georgian Lari)

30. Risk management (continued)

Risk mitigation

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

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

Excessive risk concentration

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

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

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for 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.

Derivative financial instruments

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

Credit-related commitments risks

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

Credit quality per class of financial assets

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

		Neither past due nor impaired				
31 December 2014	Notes	**High grade**	**Standard grade**	**Sub-standard grade**	**Past due or individually impaired**	**Total**
Amounts due from credit institutions	8	**418,281**	**–**	**–**	**–**	**418,281**
Debt investment securities available-for-sale	9	**768,300**	**–**	**–**	**–**	**768,300**
Loans to customers:	10					
Commercial loans		**1,648,561**	**138,115**	**159,074**	**248,531**	**2,194,281**
Consumer loans		**739,767**	**22,293**	**1,541**	**37,873**	**801,474**
Micro and SME loans		**663,388**	**83,413**	**7,799**	**17,683**	**772,283**
Residential mortgage loans		**570,879**	**16,565**	**2,009**	**14,690**	**604,143**
Gold – pawn loans		**53,785**	**–**	**–**	**–**	**53,785**
		3,676,380	**260,386**	**170,423**	**318,777**	**4,425,966**
Finance lease receivables	11	**19,437**	**4,684**	**2,150**	**12,977**	**39,248**
Total		**4,882,398**	**265,070**	**172,573**	**331,754**	**5,651,795**

31 December 2013	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	347,261	–	–	–	347,261
Debt investment securities available-for-sale	9	514,357	–	–	–	514,357
Loans to customers:	10					
Commercial loans		1,469,635	114,248	110,791	167,993	1,862,667
Consumer loans		607,344	19,849	1,475	31,552	660,220
Micro and SME loans		486,536	63,501	4,198	12,038	566,273
Residential mortgage loans		411,291	21,359	2,303	12,110	447,063
Gold – pawn loans		61,871	–	–	–	61,871
		3,036,677	**218,957**	**118,767**	**223,693**	**3,598,094**
Finance lease receivables	11	30,325	4,020	1,918	9,986	46,249
Total		**3,928,620**	**222,977**	**120,685**	**233,679**	**4,505,961**

31 December 2012	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	396,559	–	–	–	396,559
Debt investment securities available-for-sale	9	458,017	–	–	–	458,017
Loans to customers:	10					
Commercial loans		1,359,856	62,048	73,681	169,006	1,664,591
Consumer loans		530,333	18,945	1,181	41,509	591,968
Micro and SME loans		376,940	14,789	1,842	6,982	400,553
Residential mortgage loans		358,742	18,692	3,305	17,375	398,114
Gold – pawn loans		75,445	–	–	–	75,445
		2,701,316	**114,474**	**80,009**	**234,872**	**3,130,671**
Finance lease receivables	11	19,153	1,770	440	50,830	72,193
Total		**3,575,045**	**116,244**	**80,449**	**285,702**	**4,057,440**

Past due loans to customers, analysed by age below, include those that are past due by not more than a few days. These loans are not impaired.

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

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

- a financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- a financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade; and
- 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 the 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.

(Thousands of Georgian Lari)

30. Risk management (continued)

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

31 December 2014	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	**19,266**	**4,758**	**2,703**	**9,222**	**35,949**
Micro and SME loans	**2,926**	**3,307**	**259**	**598**	**7,090**
Residential mortgage loans	**3,822**	**788**	**304**	**1,832**	**6,746**
Commercial loans	**2,673**	**528**	**342**	**1,162**	**4,705**
Finance lease receivables	**1,977**	**9,154**	**156**	**203**	**11,490**
Total	**30,664**	**18,535**	**3,764**	**13,017**	**65,980**

31 December 2013	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Commercial loans	9,118	2,422	847	11,584	23,971
Consumer loans	16,735	–	–	1	16,736
Residential mortgage loans	4,201	547	288	283	5,319
Micro and SME loans	843	18	200	52	1,113
Finance lease receivables	5,839	3,081	88	108	9,116
Total	**36,736**	**6,068**	**1,423**	**12,028**	**56,255**

31 December 2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	17,803	13	5	5	17,826
Commercial loans	634	1,534	7,891	6,679	16,738
Residential mortgage loans	3,453	1,605	650	948	6,656
Micro and SME loans	1,099	–	–	263	1,362
Finance lease receivables	4,144	535	44,850	293	49,822
Total	**27,133**	**3,687**	**53,396**	**8,188**	**92,404**

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

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 118,131, GEL 123,975 and GEL 82,524 as at 31 December 2014, 31 December 2013 and 31 December 2012, respectively.

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

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

	2014	2013	2012
Loans to customers:			
Commercial loans	**115,155**	44,559	86,910
Micro and SME loans	**8,734**	5,147	2,754
Residential mortgage loans	**3,446**	9,418	7,312
Consumer loans	**617**	1,031	1,573
Finance lease receivables	**4,957**	1,533	1,170
Total	**132,909**	**61,688**	**99,719**

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

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

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

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

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

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

	2014			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	475,858	136,559	97,727	710,144
Amounts due from credit institutions	393,975	1,686	22,620	418,281
Investment securities available-for-sale	726,880	25,069	17,763	769,712
Loans to customers	4,068,261	–	253,925	4,322,186
Finance lease receivables	26,491	–	12,028	38,519
All other assets	1,254,050	10,069	56,184	1,320,303
	6,945,515	173,383	460,247	7,579,145
Liabilities:				
Amounts due to customers	2,163,559	515,879	659,287	3,338,725
Amounts due to credit institutions	582,906	770,838	55,470	1,409,214
Debt securities issued	46,216	810,479	–	856,695
All other liabilities	324,846	3,709	11,863	340,418
	3,117,527	2,100,905	726,620	5,945,052
Net balance sheet position	3,827,988	(1,927,522)	(266,373)	1,634,093

(Thousands of Georgian Lari)

30. Risk management (continued)

	2013				2012			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	480,651	485,740	87,280	1,053,671	430,523	285,947	46,357	762,827
Amounts due from credit institutions	293,163	3,638	50,460	347,261	340,177	23,659	32,723	396,559
Investment securities available-for-sale	515,774	–	3,849	519,623	460,102	–	3,858	463,960
Loans to customers	3,287,532	–	189,777	3,477,309	2,908,489	–	112,145	3,020,634
Finance lease receivables	36,075	–	9,531	45,606	66,487	–	5,199	71,686
All other assets	996,491	4,556	76,452	1,077,499	810,823	16,123	112,983	939,929
	5,609,686	**493,934**	**417,349**	**6,520,969**	**5,016,601**	**325,729**	**313,265**	**5,655,595**
Liabilities:								
Amounts due to customers	2,165,890	243,697	708,145	3,117,732	1,854,152	265,838	573,035	2,693,025
Amounts due to credit institutions	359,374	705,177	93,428	1,157,979	393,345	760,140	82,828	1,236,313
Debt securities issued	–	728,117	–	728,117	–	420,849	–	420,849
All other liabilities	258,963	7,532	9,592	276,087	225,640	12,500	7,756	245,896
	2,784,227	**1,684,523**	**811,165**	**5,279,915**	**2,473,137**	**1,459,327**	**663,619**	**4,596,083**
Net balance sheet position	**2,825,459**	**(1,190,589)**	**(393,816)**	**1,241,054**	**2,543,464**	**(1,133,598)**	**(350,354)**	**1,059,512**

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. As at 31 December 2014, 31 December 2013 and 31 December 2012 these ratios were as follows:

	2014 %	2013 %	2012 %
Average liquidity ratio	**39.3%**	42.3%	40.0%
Maximum liquidity ratio	**46.8%**	48.1%	49.1%
Minimum liquidity ratio	**31.7%**	35.5%	31.1%

The average liquidity ratio is calculated on a stand-alone 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 collateralised by cash covers 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.

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 stand-alone 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 2014	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to customers	**891,081**	**2,076,523**	**461,975**	**22,098**	**3,451,677**
Amounts due to credit institutions	**616,480**	**225,911**	**535,643**	**189,493**	**1,567,527**
Debt securities issued	**45,941**	**73,767**	**879,653**	**–**	**999,361**
Other liabilities	**37,183**	**37,004**	**17,422**	**–**	**91,609**
Total undiscounted financial liabilities	**1,590,685**	**2,413,205**	**1,894,693**	**211,591**	**6,110,174**

Financial liabilities As at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	828,938	2,061,435	476,370	32,099	3,398,842
Amounts due to credit institutions	437,600	207,191	539,324	141,842	1,325,957
Debt securities issued	27,822	26,913	855,086	–	909,821
Other liabilities	20,866	70,713	14,242	3	105,824
Total undiscounted financial liabilities	**1,315,226**	**2,366,252**	**1,885,022**	**173,944**	**5,740,444**

Financial liabilities As at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	1,759,707	638,935	371,691	33,548	2,803,881
Amounts due to credit institutions	449,947	205,584	571,841	177,950	1,405,322
Debt securities issued	15,429	15,876	536,710	–	568,015
Other liabilities	28,359	76,982	9,356	–	114,697
Total undiscounted financial liabilities	**2,253,442**	**937,377**	**1,489,598**	**211,498**	**4,891,915**

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 2014	**320,945**	**257,065**	**162,858**	**12,500**	**753,368**
31 December 2013	272,385	244,987	181,044	16,690	715,106
31 December 2012	337,465	177,907	236,948	12,846	765,166

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 Georgian legislation, the Bank is obliged to repay such deposits upon the demand of a depositor (Note 18).

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.

(Thousands of Georgian Lari)

30. Risk management (continued)

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 2014. During the year ended 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	Increase in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of other comprehensive income 2014
GEL	**0.07%**	**198**	–
EUR	**0.01%**	**(6)**	–
USD	**0.01%**	**84**	–

Currency	Decrease in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of other comprehensive income 2014
GEL	**0.07%**	**(198)**	–
EUR	**0.01%**	**6**	–
USD	**0.01%**	**(84)**	–

Currency	Increase in basis points 2013	Sensitivity of net interest income 2013	Sensitivity of other comprehensive income 2013
GEL	0.14%	34	–
USD	0.01%	29	–

Currency	Decrease in basis points 2013	Sensitivity of net interest income 2013	Sensitivity of other comprehensive income 2013
GEL	0.14%	(34)	–
USD	0.01%	(29)	–

Currency	Increase in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of other comprehensive income 2012
GEL	0.17%	(40)	–
USD	0.01%	(49)	–

Currency	Decrease in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of other comprehensive income 2012
GEL	0.17%	40	–
USD	0.01%	49	–

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 2014 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). 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 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

	To 2014		To 2013		To 2012	
Currency	**Expected change in currency rate in %**	**Effect on profit before tax**	Expected change in currency rate in %	Effect on profit before tax	Expected change in currency rate in %	Effect on profit before tax
EUR	**14.3%**	**11**	1.9%	(7)	2.6%	(2,079)
GBP	**22.9%**	**(6)**	2.1%	(0)	1.8%	(19)
USD	**23.4%**	**(4,745)**	0.8%	(1)	0.8%	(2,331)

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 profit and equity of the Group for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 is as follows:

	Effect on net interest income
2014	**(16,744)**
2013	(5,944)
2012	(3,971)

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

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

(Thousands of Georgian Lari)

31. 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 2014	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	190,860	190,860
Land	–	–	92,285	92,285
Residential properties	–	–	31,632	31,632
Non-residential properties	–	–	66,943	66,943
Investment securities available-for-sale	–	768,300	1,412	769,712
Other assets – derivative financial assets	–	45,733	–	45,733
Other assets – trading securities owned	1,034	–	–	1,034
Total revalued property	–	–	223,547	223,547
Office buildings	–	–	112,082	112,082
Service centres	–	–	111,465	111,465
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	710,144	710,144
Amounts due from credit institutions	–	–	418,281	418,281
Loans to customers	–	–	4,422,313	4,422,313
Finance lease receivables	–	–	38,519	38,519
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	7,505	–	7,505
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	3,366,109	3,366,109
Amounts due to credit institutions	–	–	1,409,214	1,409,214
Debt securities issued	–	–	856,695	856,695

31 December 2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	157,707	157,707
Land	–	–	26,749	26,749
Residential properties	–	–	42,954	42,954
Non-residential properties	–	–	88,004	88,004
Investment securities available-for-sale	–	514,401	5,222	519,623
Other assets – derivative financial assets	–	39,431	–	39,431
Other assets – trading securities owned	1,149	–	–	1,149
Total revalued property	–	–	205,475	205,475
Office buildings	–	–	85,400	85,400
Service centres	–	–	120,075	120,075
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	1,053,671	1,053,671
Amounts due from credit institutions	–	–	347,261	347,261
Loans to customers	–	–	3,592,147	3,592,147
Finance lease receivables	–	–	45,606	45,606
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	1,513	–	1,513
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	3,159,482	3,159,482
Amounts due to credit institutions	–	–	1,157,979	1,157,979
Debt securities issued	–	–	728,117	728,117

31 December 2012	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Investment properties	–	–	160,353	160,353
Investment securities available-for-sale	47	458,025	5,888	463,960
Other assets – derivative financial assets	–	36,784	–	36,784
Other assets – trading securities owned	971	–	–	971
Revalued property	–	–	203,302	203,302
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	762,827	762,827
Amounts due from credit institutions	–	–	396,559	396,559
Loans to customers	–	–	2,995,632	2,995,632
Finance lease receivables	–	–	71,686	71,686
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	4,867	–	4,867
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	2,707,231	2,707,231
Amounts due to credit institutions	–	–	1,236,313	1,236,313
Debt securities issued	–	–	420,849	420,849

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

(Thousands of Georgian Lari)

31. Fair value measurements (continued)

Derivative financial instruments

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

Trading securities and investment securities available-for-sale

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

Movements in level 3 financial instruments measured at fair value

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

	31 December 2011	Sale of AFS securities	Transfers from level 2	At 31 December 2012	Sale of AFS securities	At 31 December 2013	Impairment of Investment in BG Bank	Transfers from level 2	**At 31 December 2014**
Level 3 financial assets									
Equity investment securities available-for-sale	4,034	(1,983)	3,837	5,888	(666)	5,222	(3,837)	27	**1,412**

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

All investment properties and revalued properties of property and equipment are of level 3. Reconciliations of their opening and closing amounts are provided in Notes 13 and 14 respectively.

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:

	2014		2013		2012	
	Carrying amount	**Effect of reasonably possible alternative assumptions**	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities available-for-sale	**1,412**	**+/- 212**	5,222	+/- 786	5,888	+/- 886

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.

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:

	2014	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**190,860**						
Land	**92,285**	Market approach	Price per square metre	1–870 (361)	Square metres, land	57–100,000 (24,501)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 1,800
Residential properties	**31,632**						
	29,747	Market approach	Price per square metre	5–13,750 (2,135)	Square metres, land	257–20,000 (679)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 2,786
					Square metres, building	9–2,892 (860)	
	1,885	Cost approach	Replacement cost per square metre	12–703 (307)	Square metres, building	45–2,475 (828)	10% increase (decrease) in the replacement cost per square metre would result in an increase (decrease) in fair value by 108
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in an increase (decrease) in fair value by 11
			Land price per square metre	1–574 (58)	Square metres, land	54–8,808 (3,536)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 70
Non-residential properties	**66,943**						
	40,642	Market approach	Price per square metre	17–5,545 (2,128)	Square metres, land	59–18,487 (1,241)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 3,422
					Square metres, building	8–4,337 (2,147)	
	26,301	Cost approach	Replacement cost per square metre	8–3,403 (1,634)	Square metres, building	12–14,520 (5,092)	10% increase (decrease) in the replacement cost per square metre would result in an increase (decrease) in fair value by 1,496
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in an increase (decrease) in fair value by 150
			Land price per square metre	1–459 (84)	Square metres, land	171–230,398 (87,094)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 889

(Thousands of Georgian Lari)

31. Fair value measurements (continued)

	2014	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Property and equipment	**223,547**						
Office buildings	**112,082**						
	58,060	Market approach	Price per square metre	689–5,975 (4,812)	Square metres, land	57–100,000 (24,501)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 3,576
					Square metres, building	40–4,787 (2,869)	
	54,022	Cost approach	Replacement cost per square metre	574–990 (845)	Square metres, building	557–8,594 (7,003)	10% increase (decrease) in the replacement cost per square metre would result in an increase (decrease) in fair value by 690
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in an increase (decrease) in fair value by 85
			Land price per square metre	16–3,033 (2,413)	Square metres, land	877–13,900 (12,849)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 3,172
Service centres	**111,465**						
	90,168	Market approach	Price per square metre	40–14,681 (4,336)	Square metres, land	113–3,164 (490)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 7,054
					Square metres, building	15–1,589 (585)	
	21,297	Cost approach	Replacement cost per square metre	72–2,079 (1,149)	Square metres, building	149–6,461 (1,789)	10% increase (decrease) in the replacement cost per square metre would result in an increase (decrease) in fair value by 1,155
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in an increase (decrease) in fair value by 113
			Land price per square metre	4–582 (202)	Square metres, land	124–34,672 (11,102)	10% increase (decrease) in the price per square metre would result in an increase (decrease) in fair value by 383

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 2014, 31 December 2013 and 31 December 2012:

	31 December 2014		
	Loans and receivables	Available-for-sale	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	418,281	–	–
Loans to customers	4,322,186	–	–
Finance lease receivables	38,519	–	–
Trade and other receivables (in other assets)	62,164	–	–
Equity instruments	–	1,412	41
Debt instruments	–	768,300	993
Foreign currency derivative financial instruments	–	–	45,733
Total	**4,841,150**	**769,712**	**46,767**
Financial liabilities			
Amounts owed to customers	3,338,725	–	–
Amounts owed to credit institutions	1,409,214	–	–
Debt securities issued	856,695	–	–
Trade and other payables (in other liabilities)	82,980	–	–
Foreign currency derivative financial instruments	–	–	7,505
Total	**5,687,614**	**–**	**7,505**

	31 December 2013			31 December 2012		
	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	347,261	–	–	396,559	–	–
Loans to customers	3,477,309	–	–	3,020,634	–	–
Finance lease receivables	45,606	–	–	71,686	–	–
Trade and other receivables (in other assets)	52,171	–	–	100,893	–	–
Equity instruments	–	5,266	58	–	5,943	211
Debt instruments	–	514,357	1,091	–	458,018	760
Foreign currency derivative financial instruments	–	–	39,408	–	–	36,518
Commodity options	–	–	23	–	–	266
Total	**3,922,347**	**519,623**	**40,580**	**3,589,772**	**463,961**	**37,755**
Financial liabilities						
Amounts owed to customers	3,117,732	–	–	2,693,025	–	–
Amounts owed to credit institutions	1,157,979	–	–	1,236,313	–	–
Debt securities issued	728,117	–	–	420,849	–	–
Trade and other payables (in other liabilities)	49,287	–	–	59,980	–	–
Foreign currency derivative financial instruments	–	–	60	–	–	84
Interest rate swaps	–	–	1,453	–	–	4,783
Total	**5,053,115**	**–**	**1,513**	**4,410,167**	**–**	**4,867**

(Thousands of Georgian Lari)

31. Fair value measurements (continued)

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

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

	Carrying value 2014	Fair value 2014	Unrecognised gain (loss) 2014
Financial assets			
Cash and cash equivalents	**710,144**	**710,144**	**–**
Amounts due from credit institutions	**418,281**	**418,281**	**–**
Loans to customers	**4,322,186**	**4,422,313**	**100,127**
Finance lease receivables	**38,519**	**38,519**	**–**
Financial liabilities			
Amounts due to customers	**3,338,725**	**3,366,109**	**(27,384)**
Amounts due to credit institutions	**1,409,214**	**1,409,214**	**–**
Debt securities issued	**856,695**	**856,695**	**–**
Total unrecognised change in unrealised fair value			**72,743**

	Carrying value 2013	Fair value 2013	Unrecognised loss 2013	Carrying value 2012	Fair value 2012	Unrecognised loss 2012
Financial assets						
Cash and cash equivalents	1,053,671	1,053,671	–	762,827	762,827	–
Amounts due from credit institutions	347,261	347,261	–	396,559	396,559	–
Loans to customers	3,477,309	3,592,147	114,838	3,020,634	2,995,632	(25,002)
Finance lease receivables	45,606	45,606	–	71,686	71,686	–
Financial liabilities						
Amounts due to customers	3,117,732	3,159,482	(41,750)	2,693,025	2,707,231	(14,206)
Amounts due to credit institutions	1,157,979	1,157,979	–	1,236,313	1,236,313	–
Debt securities issued	728,117	728,117	–	420,849	420,849	–
Total unrecognised change in unrealised fair value			**73,088**			**(39,208)**

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.

32. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 30 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2014							
	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	**691,573**	**18,571**	**–**	**–**	**–**	**–**	**–**	**710,144**
Amounts due from credit institutions	**382,714**	**808**	**3,974**	**26,324**	**2,486**	**–**	**1,975**	**418,281**
Investment securities available-for-sale	**327,846**	**383,657**	**7,361**	**9,698**	**34,008**	**1,966**	**5,176**	**769,712**
Loans to customers	**–**	**682,747**	**505,604**	**728,739**	**1,275,465**	**629,311**	**500,320**	**4,322,186**
Finance lease receivables	**–**	**17,900**	**5,466**	**5,791**	**8,687**	**675**	**–**	**38,519**
Total	**1,402,133**	**1,103,683**	**522,405**	**770,552**	**1,320,646**	**631,952**	**507,471**	**6,258,842**
Financial liabilities								
Amounts due to customers	**272,235**	**603,510**	**366,000**	**1,686,080**	**355,892**	**39,995**	**15,013**	**3,338,725**
Amounts due to credit institutions	**32,951**	**582,882**	**63,704**	**153,848**	**314,313**	**152,742**	**108,774**	**1,409,214**
Debt securities issued	**–**	**45,864**	**28,930**	**43,425**	**738,476**	**–**	**–**	**856,695**
Total	**305,186**	**1,232,256**	**458,634**	**1,883,353**	**1,408,681**	**192,737**	**123,787**	**5,604,634**
Net	**1,096,947**	**(128,573)**	**63,771**	**(1,112,801)**	**(88,035)**	**439,215**	**383,684**	**654,208**
Accumulated gap	**1,096,947**	**968,374**	**1,032,145**	**(80,656)**	**(168,691)**	**270,524**	**654,208**	

	2013							
	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	884,728	168,943	–	–	–	–	–	1,053,671
Amounts due from credit institutions	289,926	7,438	7,296	29,199	8,953	4,449	–	347,261
Investment securities available-for-sale	256,140	254,202	3,518	1,697	2,915	823	328	519,623
Loans to customers	–	657,902	402,551	696,307	1,051,950	427,194	241,405	3,477,309
Finance lease receivables	–	16,056	5,713	10,184	10,885	1,923	845	45,606
Total	**1,430,794**	**1,104,541**	**419,078**	**737,387**	**1,074,703**	**434,389**	**242,578**	**5,443,470**
Financial liabilities								
Amounts due to customers	284,099	525,229	460,880	1,542,062	251,091	43,228	11,143	3,117,732
Amounts due to credit institutions	13,620	401,781	61,071	137,223	272,072	182,508	89,704	1,157,979
Debt securities issued	–	26,886	–	25,938	94,848	580,445	–	728,117
Total	**297,719**	**953,896**	**521,951**	**1,705,223**	**618,011**	**806,181**	**100,847**	**5,003,828**
Net	**1,133,075**	**150,645**	**(102,873)**	**(967,836)**	**456,692**	**(371,792)**	**141,731**	**439,642**
Accumulated gap	**1,133,075**	**1,283,720**	**1,180,847**	**213,011**	**669,703**	**297,911**	**439,642**	

(Thousands of Georgian Lari)

32. Maturity analysis of financial assets and liabilities (continued)

	2012							
	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	586,852	175,975	–	–	–	–	–	762,827
Amounts due from credit institutions	322,871	48,143	5,790	4,557	9,136	4,448	1,614	396,559
Investment securities available-for-sale	5,200	168,670	114,920	41,159	76,185	51,777	6,049	463,960
Loans to customers	–	605,509	312,302	624,819	923,503	361,248	193,253	3,020,634
Finance lease receivables	–	9,058	5,716	10,353	25,886	13,049	7,624	71,686
Total	**914,923**	**1,007,355**	**438,728**	**680,888**	**1,034,710**	**430,522**	**208,540**	**4,715,666**
Financial liabilities								
Amounts due to customers	355,835	453,796	214,743	1,337,512	283,000	39,694	8,445	2,693,025
Amounts due to credit institutions	40,321	420,742	49,362	148,883	285,822	189,484	101,699	1,236,313
Debt securities issued	–	15,413	–	15,254	55,357	334,825	–	420,849
Total	**396,156**	**889,951**	**264,105**	**1,501,649**	**624,179**	**564,003**	**110,144**	**4,350,187**
Net	**518,767**	**117,404**	**174,623**	**(820,761)**	**410,531**	**(133,481)**	**98,396**	**365,479**
Accumulated gap	**518,767**	**636,171**	**810,794**	**(9,967)**	**400,564**	**267,083**	**365,479**	

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 one year category in the table above. The remaining current accounts are included in the on demand category.

The Group's principal sources of liquidity are as follows:
- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreement;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2014 amounts due to customers amounted to GEL 3,338,725 (2013: GEL 3,117,732, 2012: GEL 2,693,025) and represented 56% (2013: 59%, 2012: 59%) 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 2014 amounts owed to credit institutions amounted to GEL 1,409,214 (2013: GEL 1,157,979, 2012: GEL 1,236,313) and represented 24% (2013: 22%, 2012: 27%) of total liabilities. As at 31 December 2014 debt securities issued amounted to GEL 856,695 (2013: GEL 728,117, 2012: GEL 420,849) and represented 14% (2013: 14%, 2012: 9%) 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 2014		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	710,144	–	710,144
Amounts due from credit institutions	413,820	4,461	418,281
Investment securities available-for-sale	728,562	41,150	769,712
Loans to customers	1,917,090	2,405,096	4,322,186
Finance lease receivables	29,157	9,362	38,519
Investments in associates	–	48,659	48,659
Investment properties	–	190,860	190,860
Property and equipment	–	588,513	588,513
Intangible assets	–	34,432	34,432
Goodwill	–	49,633	49,633
Current income tax assets	4,215	–	4,215
Deferred income tax assets	–	18,530	18,530
Prepayments	17,848	15,926	33,774
Other assets	211,176	140,511	351,687
Total assets	4,032,012	3,547,133	7,579,145
Amounts due to customers	2,927,825	410,900	3,338,725
Amounts due to credit institutions	833,385	575,829	1,409,214
Debt securities issued	118,219	738,476	856,695
Current income tax liabilities	11,093	–	11,093
Deferred income tax liabilities	–	86,471	86,471
Provisions	3,934	798	4,732
Other liabilities	124,895	113,227	238,122
Total liabilities	4,019,351	1,925,701	5,945,052
Net	12,661	1,621,432	1,634,093

(Thousands of Georgian Lari)

32. Maturity analysis of financial assets and liabilities (continued)

	31 December 2013			31 December 2012		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,053,671	–	1,053,671	762,827	–	762,827
Amounts due from credit institutions	333,859	13,402	347,261	381,361	15,198	396,559
Investment securities available-for-sale	515,557	4,066	519,623	329,949	134,011	463,960
Loans to customers	1,756,760	1,720,549	3,477,309	1,542,630	1,478,004	3,020,634
Finance lease receivables	31,953	13,653	45,606	25,127	46,559	71,686
Investments in associates	–	–	–	–	2,441	2,441
Investment properties	–	157,707	157,707	–	160,353	160,353
Property and equipment	–	470,669	470,669	–	430,877	430,877
Intangible assets	–	26,434	26,434	–	23,078	23,078
Goodwill	–	48,720	48,720	–	45,657	45,657
Current income tax assets	4,552	–	4,552	944	–	944
Deferred income tax assets	–	14,544	14,544	–	14,352	14,352
Prepayments	14,802	10,732	25,534	12,833	28,314	41,147
Other assets	221,640	107,699	329,339	138,014	83,066	221,080
Total assets	**3,932,794**	**2,588,175**	**6,520,969**	**3,193,685**	**2,461,910**	**5,655,595**
Amounts due to customers	2,812,270	305,462	3,117,732	2,361,886	331,139	2,693,025
Amounts due to credit institutions	613,695	544,284	1,157,979	659,308	577,005	1,236,313
Debt securities issued	52,824	675,293	728,117	30,667	390,182	420,849
Current income tax liabilities	2,928	–	2,928	13,818	–	13,818
Deferred income tax liabilities	–	66,100	66,100	–	46,184	46,184
Provisions	481	–	481	683	–	683
Other liabilities	185,353	21,225	206,578	125,063	60,148	185,211
Total liabilities	**3,667,551**	**1,612,364**	**5,279,915**	**3,191,425**	**1,404,658**	**4,596,083**
Net	**265,243**	**975,811**	**1,241,054**	**2,260**	**1,057,252**	**1,059,512**

33. 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:

	2014			2013			2012		
	Share-holders	**Associates**	**Key management personnel***	Share-holders	Associates	Key management personnel*	Share-holders	Associates	Key management personnel*
Loans outstanding at 1 January, gross	**–**	**–**	**1,484**	**–**	**–**	**5,136**	**–**	**304**	**6,558**
Loans issued during the year	**–**	**85,933**	**4,853**	–	–	2,871	–	–	7,457
Loan repayments during the year	**–**	**(16,376)**	**(4,474)**	–	–	(2,319)	–	(259)	(8,389)
Other movements	**–**	**9,035**	**185**	–	–	(4,204)	–	(45)	(490)
Loans outstanding at 31 December, gross	**–**	**78,592**	**2,048**	–	**–**	**1,484**	**–**	**–**	**5,136**
Less: allowance for impairment at 31 December	**–**	**(743)**	**(1)**	–	–	(20)	–	–	(76)
Loans outstanding at 31 December, net	**–**	**77,849**	**2,047**	**–**	**–**	**1,464**	**–**	**–**	**5,060**
Interest income on loans	**–**	**1,767**	**86**	–	–	66	–	14	640
Loan impairment charge	**–**	**(743)**	**–**	–	–	(14)	–	–	(1)
Deposits at 1 January	**–**	**50**	**11,455**	**11,636**	**17**	**9,681**	**36,730**	**171**	**5,903**
Deposits received during the year	**–**	**132,087**	**33,646**	–	168	20,444	5,373	11,040	28,561
Deposits repaid during the year	**–**	**(128,859)**	**(31,225)**	–	(119)	(15,018)	(29,494)	(11,191)	(25,264)
Other movements	**–**	**1,697**	**3,624**	(11,636)	(16)	(3,652)	(973)	(3)	481
Deposits at 31 December	**–**	**4,975**	**17,500**	**–**	**50**	**11,455**	**11,636**	**17**	**9,681**
Interest expense on deposits	**–**	**(2)**	**(513)**	(488)	–	(425)	(1,738)	(26)	(612)
Other income	**–**	**2**	**92**	–	–	86	–	–	121
Borrowings at 1 January	**233,209**	**–**	**–**	**233,441**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible subordinated debts**	**–**	**–**	**–**	–	–	–	264,481	–	–
Borrowings received during the year	**–**	**–**	**–**	61,224	–	–	16,470	–	–
Borrowings repaid during the year	**1,453**	**–**	**–**	(68,135)	–	–	(56,506)	–	–
Other movements**	**(234,662)**	**–**	**–**	6,679	–	–	8,996	–	–
Borrowings at 31 December	**–**	**–**	**–**	**233,209**	**–**	**–**	**233,441**	**–**	**–**
Interest expense on borrowings	**(6,750)**	**–**	**–**	(16,569)	–	–	(16,589)	–	–
Interest rate swaps* at 1 January**	**1,453**	**–**	**–**	**4,783**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible subordinated debts**	**–**	**–**	**–**	–	–	–	6,882	–	–
Payments during the year	**(1,453)**	**–**	**–**	(3,728)	–	–	(3,040)	–	–
Other movements	**–**	**–**	**–**	398	–	–	941	–	–
Interest rate swaps at 31 December	**–**	**–**	**–**	**1,453**	**–**	**–**	**4,783**	**–**	**–**
Net loss from interest rate swaps	**–**	**–**	**–**	(398)	–	–	(942)	–	–

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

** On 24 February 2012 the EBRD and IFC utilised the equity conversion feature of subordinated convertible loans, becoming shareholders of the Group and sold their shares in 2014.

*** Interest rate swap agreements with IFC.

(Thousands of Georgian Lari)

33. Related party disclosures (continued)

Compensation of key management personnel comprised the following:

	2014	2013	2012
Salaries and other benefits	4,143	3,688	2,656
Share-based payments compensation	14,763	12,309	8,048
Social security costs	43	28	24
Total key management compensation	**18,949**	**16,025**	**10,728**

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 29). The number of key management personnel at 31 December 2014 was 16 (31 December 2013: 15, 31 December 2012: 15).

34. Capital adequacy

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

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

During the year ended 31 December 2014, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

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

NBG Capital Adequacy ratio

The NBG requires banks to maintain a minimum Capital Adequacy ratio of 12% of risk-weighted assets, computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2014, 31 December 2013 and 31 December 2012, the Bank's Capital Adequacy ratio on this basis was as follows:

	2014	2013	2012
Core capital	895,318	810,545	739,880
Supplementary capital	398,598	313,220	389,685
Less: Deductions from capital	(365,487)	(256,471)	(262,616)
Total regulatory capital	**928,429**	**867,294**	**866,949**
Risk-weighted assets	**6,719,169**	**5,638,556**	**5,352,187**
Total Capital Adequacy ratio	**13.8%**	**15.4%**	**16.2%**

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

New NBG (Basel II/III) Capital Adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total Capital Adequacy ratio of 12.5% 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 2014 the Bank's Capital Adequacy ratio on this basis was as follows:

	2014
Tier 1 Capital	1,128,004
Less: Deductions from capital	(327,539)
Tier 2 Capital	217,100
Total capital	**1,017,565**
Risk-weighted assets	**7,204,080**
Total Capital ratio	14.1%
Tier 1 Capital ratio	11.1%
Minimum Capital Adequacy ratio	**8.0%**

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.

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 2014, 31 December 2013 and 31 December 2012, was as follows:

	2014	2013	2012
Tier 1 Capital	1,431,399	1,170,104	1,006,756
Less: Deductions goodwill	(49,633)	–	–
Tier 2 Capital	249,419	256,224	284,677
Less: Deductions from capital	(1,522)	(51,147)	(48,697)
Total capital	**1,629,663**	**1,375,181**	**1,242,736**
Risk-weighted assets	**6,252,992**	**5,080,827**	**4,749,484**
Total Capital ratio	26.1%	27.1%	26.2%
Tier 1 Capital ratio	22.1%	23.0%	21.2%
Minimum Capital Adequacy ratio	**8.0%**	**8.0%**	**8.0%**

35. Event after the reporting period

Acquisition of JSC Privatbank

In January 2015 the Bank completed the acquisition of shares in JSC Privatbank, a bank operating in Georgia with a focus on retail banking. Total consideration given for the acquisition was GEL 92,483.

Initial purchase accounting is currently in progress and not all of the asset valuations and accounting estimates are formally finalised. Therefore, management considers a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2015 half-yearly financial statements.

Abbreviations

ADB	Asian Development Bank
AFS	Available-for-sale
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
AML	Anti-money laundering
ATMs	Automated Teller Machines
WM	Wealth Management
BGH	Bank of Georgia Holdings PLC
BIS	Bank for International Settlement
BKNP	Borjomi-Kharagauli National Park
BNB	Belarusky Narodny Bank
BYR	Belarusian Rouble, national currency of the Republic of Belarus
CAGR	Compounded annual growth rate
CAR	Capital Adequacy ratio
CD	Certificate of Deposit
CEO	Chief Executive Officer
CPI	Consumer price index
CRM	Customer relationship management
CRO	Chief Risk Officer
DCFTA	Deep and Comprehensive Free Trade Agreement
DFI	Development Finance Institutions
EBRD	European Bank for Reconstruction and Development
EECP	Executives' Equity Compensation Plan
EPS	Earnings per share
ESMS	Environmental and Social Risk Management Procedures
EUR	Euro
EY	Ernst & Young
FDI	Foreign direct investment

FMO	Financierings-Maatschappij voor Ontwikkelingslanden
FMS	Financial Monitoring Services
FRC	Financial Reporting Council
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GDRs	Global Depositary Receipts
GEL	Georgian Lari or Lari, national currency of Georgia
GHG	Georgia Healthcare Group
GLC	Georgian Leasing Company
GPW	Gross Premiums Written
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRR	Internal Rate of Return
IT	Information Technology
JSC	Joint stock company
KfW	Kreditanstalt für Wiederaufbau
KPIs	Key performance indicators
LCR	Liquidity Coverage ratio
LSE	London Stock Exchange
MFC	My Family Clinic
MOH	Ministry of Labour, Health and Social Affairs
MPA	Motor personal accident
MSME	Micro small and medium enterprise

MTPL	Motor third-party liability insurance
NBG	National Bank of Georgia
NBRB	National Bank of the Republic of Belarus
NGO	Non-governmental organisation
NIM	Net Interest Margin
NMF	Not meaningful to present
NPLs	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
PA	Personal accident
P&C	Property & Casualty
PFFIs	Participating foreign financial institutions
PLC	Public limited company
POS	Point of Sale
PPP	Purchasing power parity
ROAA	Return on Average Assets
ROAE	Return on Average Equity
ROCE	Return on Capital Employed
SBRE	SB Real Estate
SMEs	Small and medium size enterprises
TNS	Taylor Nelson Sofres
TSR	Total Shareholder Return
TUB	Tbiluniversal Bank, Georgia
UAH	Ukrainian Hryvna, national currency of Ukraine
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US Dollar, national currency of the United States of America
VAR	Value at Risk
WACC	Weighted Average Cost of Capital

Glossary

Asset and Liability Committee (ALCO)	The core risk-management body that establishes policies and guidelines with respect to various aspects of risk-management strategy
Asian Development Bank (ADB) of countries in Asia	A regional development bank established to facilitate economic development
Average Interest Earning Assets	Interest-earning assets include: fixed income investment and trading securities, amounts due from credit institutions and loans to customers and finance lease receivables
Basic EPS	Profit for the period from operations attributable to shareholders of the Group divided by the weighted average number of outstanding ordinary shares over the same period
Belarusky Narodny Bank (BNB)	Belarusian banking subsidiary of Bank of Georgia Group
BIS Tier I Capital Adequacy ratio	Tier I Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of Basel Accord I
BIS Total Capital Adequacy ratio	Total Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of Basel Accord I
Book value per share	Total equity attributable to shareholders of the Group divided by ordinary shares outstanding at period end; net ordinary shares outstanding equals total number of ordinary shares outstanding at period end less number of treasury shares at period end
Cost of Funding	Interest expense of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by monthly average interest-bearing liabilities; interest-bearing liabilities include: amounts due to credit institutions, amounts due to customers, debt securities issued and interest rate derivatives
Cost to Income ratio	Operating expenses divided by revenue
Development Finance Institutions (DFIs)	Development finance institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, the EBRD, IFC, ADB, etc
East-West Highway	The main highway in Georgia
Environmental and Social Policy	A policy adopted by the BGH Board of Directors in 2012
EVEX	JSC Medical Corporation EVEX holds the Group's healthcare subsidiaries
Express banking	A wide array of services and products including Express branches, Express cards and Express Pay terminals, aimed at attracting mass-market customers
Express branch	A small-format branch offering predominantly transactional banking services through ATMs and Express Pay terminals
Express card	A contactless card with a loyalty programme linked to the customer's current account, which can also be used for transport payments
Express Metro branches	Express branches in metro stations in Tbilisi
Express Pay (self-service) terminal	A payment terminal enabling customers to make various payments remotely including utility bill payments and loan repayments at a wide variety of locations
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank
Galt & Taggart	Former BG Capital
Georgian Leasing Company (GLC)	The Bank's wholly-owned subsidiary through which it provides finance leasing services
Geostat	National Statistics Office of Georgia
Global Depositary Receipt (GDR)	A certificate issued by a depositary bank, which represents ownership of an underlying number of shares
Gross loans	In all sections of the Annual Report, except for the consolidated financial statements, gross loans are defined as gross loans to customers and gross finance lease receivables
International Finance Corporation (IFC)	A member of the World Bank Group, the largest global development institution focused exclusively on the private sector in developing countries
Kreditanstalt für Wiederaufbau (KfW)	German Government-owned development bank
Liberty Consumer	A Georgia-focused investment company in which the Group holds a 70% stake
Loan Yield	Interest income from loans to customers and finance lease receivables divided by average gross loans to customers and finance lease receivables
m^2 Real Estate	Real Estate business of the Group, formerly known as SB Real Estate

Market share(s)	Market share data is based on the information provided by the National Bank of Georgia. For Bank of Georgia, market share represents market share based on total assets as of 31 December 2014 (unless noted otherwise) on a stand-alone basis. For Aldagi, market share is provided based on the gross insurance premium revenue as of 31 December 2014
Net Interest Margin (NIM)	Net interest income of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by average interest-earning assets for the same period
Net loans	In all sections of the Annual Report, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for impairment
Non-performing loans (NPLs)	The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management
Operating cost	Equals operating expenses
Operating leverage	Percentage change in revenue less percentage change in operating expenses
Reserve for loan losses to gross loans	Allowance for impairment of loans and finance lease receivables divided by gross loans and finance lease receivables
Return on Average Total Assets (ROAA)	Profit for the period divided by monthly Average Total Assets for the same period
Return on Average Total Equity (ROAE)	Profit for the period attributable to shareholders of the Group divided by monthly average equity attributable to shareholders of the Bank for the same period
Tender Offer	BGH, a public limited liability company, launched the Tender Offer to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank in December 2011. The Tender Offer was successfully completed in February 2012
Weighted average number of ordinary shares	Average of daily outstanding number of shares less daily outstanding number of treasury shares
Weighted average diluted number of ordinary shares	Weighted average number of ordinary shares plus weighted average dilutive number of shares known to the management during the same period

Shareholder information

Annual General Meeting
The Annual General Meeting of BGH (the AGM) will be held at 10:00 am (London time) on Thursday, 21 May 2015 at Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS. Details of the business to be conducted at the AGM are contained in the Notice of AGM which will be mailed to shareholders on or about 28 April 2015 and will be available on the BGH's website: www.bogh.co.uk.

Shareholder Enquiries
BGH's share register is maintained by Computershare Investor Services PLC.

Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: www.investorcentre.co.uk.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZY
United Kingdom
+44 (0)870 873 5866

Dividends
On 20 February 2015, the Directors of BGH declared their intention to recommend an annual dividend in the amount of GEL 2.1 per share (payable in British Pounds Sterling at the prevailing rate), subject to approval by the shareholders at BGH's AGM. As a holding company whose principal assets are the shares of its subsidiaries, BGH relies primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries, principally the Bank, to generate reserves necessary to pay dividends to its shareholders.

If the annual dividend is approved at BGH's AGM on 21 May 2015, BGH envisions the following dividend timetable:

Ex-Dividend Date: 4 June 2015
Record Date: 5 June 2015
Currency Conversion Date: 8 June 2015
Payment Date: 16 June 2015

BANK OF GEORGIA HOLDINGS PLC

Bank of Georgia Holdings PLC
84 Brook Street
London W1K 5EH
United Kingdom

www.bogh.co.uk

Share price information
BGH shareholders can access both the latest and historical prices via our website, www.bogh.co.uk, as well as listings in the *Financial Times*.

Forward-looking statements
Where this Annual Report contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of important factors, including those in this Annual Report, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under "Principal Risks and Uncertainties" on pages 32 to 35 of this Annual Report.

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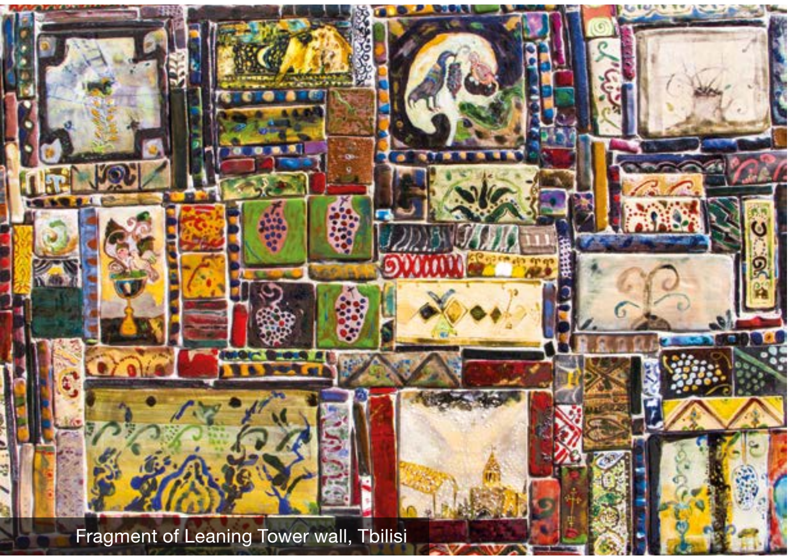
Doll Museum, Tbilisi


Street lighting, Tbilisi


Presidential Palace, Tbilisi


Fragment of Leaning Tower wall, Tbilisi


Marionette Tower, Tbilisi


Old town, Tbilisi


Georgian wine


Georgian wine


Traditional dish “Khachapuri” (cheese-filled bread)


Public Hall, Tbilisi


Old town, Tbilisi


Old town, Tbilisi

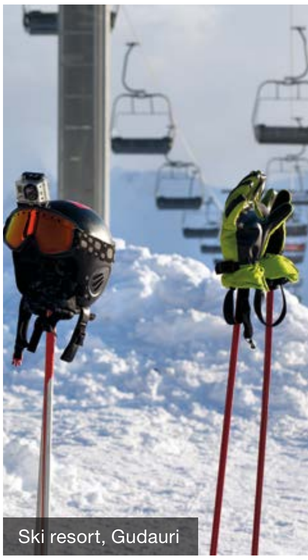

Old town view from restaurant Kopala, Tbilisi


Old town, Tbilisi


Mineral water spring, Borjomi


Georgian orthodox monastery wall painting, Kutaisi


Traditional Georgian carpet


Ski resort, Gudauri


Old town, Tbilisi


Old town, Tbilisi