CAPTURING GROWTH OPPORTUNITIES

ANNUAL REPORT 2016

ABOUT US

BGEO GROUP

BGEO Group PLC (BGEO or Group) is a UK incorporated holding company of a Georgia-focused investment platform. BGEO aims to deliver on a 4x20 strategy: At least 20% ROAE and at least 20% growth of retail loan book in Banking Business, and at least 20% IRR and up to 20% of the Group's profit contribution from Investment Business.

See page 14 for our business model and page 20 for our strategy.

BANKING BUSINESS

Our Banking Business comprises at least 80% of BGEO's profit and consists of Retail Banking and Corporate Investment Banking 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 overview of our Banking Business.

INVESTMENT BUSINESS

Our Investment Business comprises up to 20% of the Group's profit and consists of Georgia Healthcare Group PLC (Healthcare Business or GHG) – an LSE (London Stock Exchange PLC) Premium Segment listed company, m^2 Real Estate (Real Estate Business or m^2), Georgia Global Utilities (Utility and Energy Business or GGU) and Teliani Valley (Beverage Business). 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 5 for the overview of our Investment Business.

Find the digital version of this report on our corporate website at:
www.bgeo.com

CONTENT

Strategic report 02-73

Overview

Strategy

Performance

Governance 74-117

Financial statements 118-213

Additional information 214-218

20-31
Our strategy

75-77
Board of Directors

118-213
Financial statements

Please note that long forms of abbreviated terms can be found in the abbreviations section on page 214.

Read this report online.
Find the digital version of this report on our corporate website at:
www.bgeo.com

FINANCIAL HIGHLIGHTS

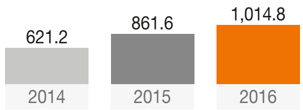
The effectiveness of our strategy is reflected in the record 2016 financial results highlighted below

REVENUE *(GEL million)*

BGEO

17.8% y-o-y

1,014.8

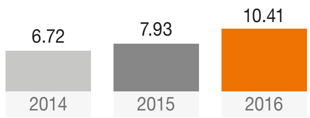


EARNINGS PER SHARE *(GEL)*

BGEO

31.3% y-o-y

10.41

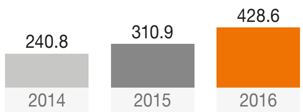


PROFIT *(GEL million)*

BGEO

+37.8% y-o-y

428.6

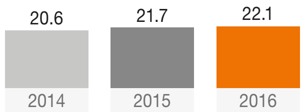


RETURN ON EQUITY

Banking Business

+0.4ppts y-o-y

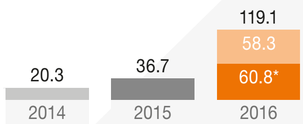
22.1%



INVESTMENT BUSINESS PROFIT *(GEL million)*

+65.9% y-o-y

60.8

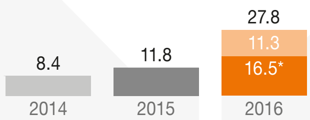


SHARE IN GROUP'S PROFIT

Investment Business

+4.7ppts y-o-y

16.5%

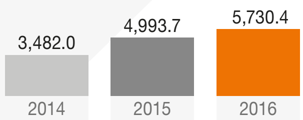


CLIENT DEPOSITS *(GEL million)*

Banking Business

+14.8% y-o-y

5,730.4

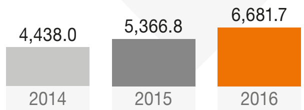


NET LOANS *(GEL million)*

Banking Business

+24.5% y-o-y

6,681.7

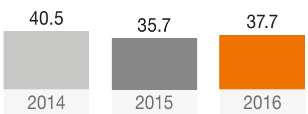


COST TO INCOME RATIO

Banking Business

+2.0ppts y-o-y

37.7%

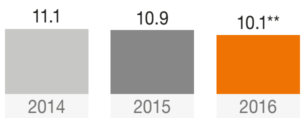


TIER 1 CAPITAL RATIO (NBG, BASEL 2/3)

Bank of Georgia

-0.8ppts y-o-y

10.1%



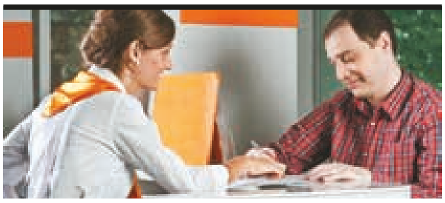
* 2016 profit excludes material one-offs from deferred tax adjustments, gain from the purchase of GGU and other net non-recurring items. Including these one-offs, profit from our Investment Business was 119.1 which contributed 27.8% to the Group's profit in 2016.

** Capital adequacy ratios include GEL 99.5 million distributed as dividend from the Bank to the holding level on 29 December 2016. These funds are earmarked for regular dividends to be paid from BGEO Group in respect of the 2016 financial year and will be payable in 2017, subject to shareholder approval. Including this payment, NBG (Basel 2/3) Tier I and Total CAR is 9.1% and 14.4%, respectively.

OPERATING HIGHLIGHTS

2016 operating highlights reflect the expanding footprint of our Banking and Investment Businesses in Georgia

**BANKING BUSINESS:
NUMBER OF RETAIL BANKING CLIENTS**



2,141,229

+141,360 (over 2015)

**BANKING BUSINESS:
NUMBER OF CARDS**

2,056,258

+97,881 (over 2015)

**BANKING BUSINESS:
BANKING BRANCHES**

278

+12 (over 2015)

**BANKING BUSINESS:
POS TERMINALS**

10,357

+2,254 (over 2015)

**BANKING BUSINESS:
EXPRESS PAY TERMINALS**

2,729

+140 (over 2015)

**BANKING BUSINESS:
ATMs**

801

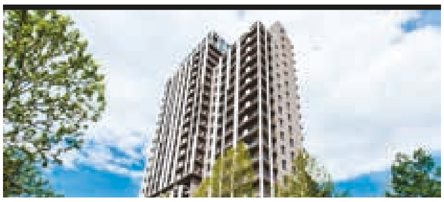
+55 (over 2015)

**HEALTHCARE BUSINESS:
NUMBER OF HEALTHCARE FACILITIES**

76

+34 (over 2015)

**REAL ESTATE BUSINESS:
NUMBER OF APARTMENTS SOLD**



407

+61 (over 2015)

**UTILITY AND ENERGY BUSINESS:
WATER BILLED TO CUSTOMERS, MILLION M³**

169

+7 (over 2015)

AT A GLANCE

RETAIL BANKING

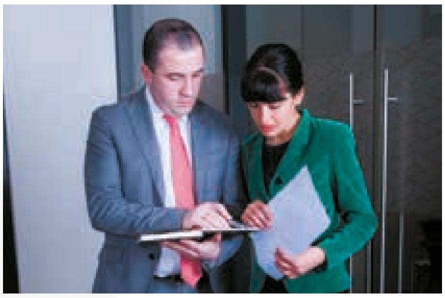
CLIENT-CENTRIC, MULTI-BRAND STRATEGY FOR OUR C.2.1 MILLION CLIENTS.

We are the leading retail banking player in Georgia, serving c.2.1 million customers through the widest network of 273 retail branches, 801 ATMs and 2,729 Express Pay (self-service) terminals, a sales force of more than 3,000 people, along with our diverse products and services. Our Retail Banking business, the prominent ingredient of our business, runs a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers through three well-established and recognised brands:

1. Express – designed to magnetise emerging retail customers with minimal incremental operational costs through cost-efficient distance channels such as our Express Pay terminals, internet and mobile banking and technology-intensive Express branches;
2. Bank of Georgia – providing the long-established traditional banking services to our mass retail clients; and
3. Solo – targeting mass affluent customers and providing a unique blend of banking and lifestyle products and services.

CORPORATE INVESTMENT BANKING

INTEGRATED SOLUTIONS FOR OUR CIB CLIENTS.



Our Bank is the leading corporate lender in the country with deep sector knowledge and local expertise. Our Corporate Banking business is characterised by outstanding flexibility in meeting our corporate clients' needs and offers the most comprehensive range of products and services in the country. We are proud to accommodate more than 3,000 businesses in Georgia and play our part in developing various sectors of the economy such as trade, energy, industry and tourism, among others. Corporate Banking additionally serves as the country's leading trade finance business and provides leasing services through the Group's wholly-owned subsidiary, Georgian Leasing Company (GLC).

We are at the forefront of capital markets development in Georgia. We aim to leverage our superior knowledge and capital markets capabilities in the Georgian and neighbouring markets both in terms of reach and the expertise that we have accumulated during the past several years through our corporate advisory, research and brokerage practices united under Galt & Taggart – a wholly-owned subsidiary of the Group. Our brokerage business, serves regional and international markets, including hard-to-reach frontier economies. Our Macro and Sectoral Research currently covers the Georgian and Azeri economies and publishes Georgian sector research (subscription to the research on www.galtandtaggart.com).

WEALTH MANAGEMENT

WE ARE AN ESTABLISHED LEADER OF INVESTMENT MANAGEMENT SERVICES IN GEORGIA.

Accommodating international clients from 68 countries, our Wealth Management business provides private banking services to our high-net worth individual clients and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. As Georgia has a pay-as-you-go pension system, the Bank believes that its wealth management franchise can benefit by focusing on the distribution of local debt.

P&C INSURANCE

THE LEADING PROPERTY AND CASUALTY INSURANCE BUSINESS.

Our Property & Casualty business (P&C or Aldagi) is a leading player in the Georgian P&C insurance market, with a market share of 34.9% in 2016. Covering more than 700,000 insured customers, the P&C insurance business is synergistic to the to the Bank's operations. Aldagi will be stepping-up cross-selling of its insurance products with the Bank's Retail Banking and Corporate Investment Banking products.

BNB

WELL CAPITALISED SME BANK IN BELARUS.

JSC Belarusky Narodny Bank (BNB) offers individual and business banking services principally to SMEs and middle-income retail banking customers in Belarus. BNB was one of the first privately-owned commercial banks in Belarus, established in 1992. The Group has recently increased its ownership of BNB from 80% to 95% while IFC now holds the remaining 5%. BNB is a non-core business and the Group aims to exit from it eventually.

GEORGIA HEALTHCARE GROUP (GHG)

THE LEADING INTEGRATED PLAYER IN THE GEORGIAN HEALTHCARE ECOSYSTEM OF GEL 3.4 BILLION VALUE.

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian health market. GHG offers by far the most comprehensive range of inpatient and outpatient services in Georgia. GHG targets the mass market segment through its vertically integrated network of 35 hospitals and ten ambulatory clusters, including 13 district ambulatory clinics and 28 express ambulatory clinics as at 31 December 2016. GHG is the single largest market participant, accounting for 23.4% of total hospital bed capacity in the country as at 31 December 2016.

GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, with approximately 29%* market share by revenue in 2016. GHG has approximately two million client interactions per month, with 0.5 million loyalty card members.

GHG is also the largest provider of medical insurance in Georgia, with a 35.1% market share based on net insurance premiums earned and has approximately 211,000 insurance customers as at 31 December 2016.

m^2 REAL ESTATE (m^2)

A FAST-GROWING, LEADING REAL ESTATE DEVELOPER AND ASSET MANAGER IN GEORGIA.

Our real estate business, the Group's wholly-owned subsidiary, m^2 Real Estate, develops and sells residential and commercial properties in Georgia. m^2 also manages yielding real estate asset portfolio, which it accumulated through its own developments as well as opportunistic investments in high street real estate. For the past couple of years m^2 has established itself as one of the most recognisable and trustworthy residential housing brands in the country. m^2 Real Estate outsources the construction and architecture works while focusing on project management and sales. m^2 Real Estate completed sales of 2,047 apartments worth US$ 172.9 million since 2011 with 97.2% of apartments sold in six successfully completed projects and 35.1% pre-sales in four ongoing projects. The number of apartments financed with BOG's mortgages in all m^2 Real Estate projects as of 31 December 2016 totalled 946, with an aggregate amount of GEL 110.7 million.

m^2 Real Estate has the exclusive right to develop Wyndham Ramada Anchor hotels in Georgia. Construction of one hotel has begun and work on two more is expected to start during 2017.

GEORGIA GLOBAL UTILITIES (GGU)

MAJOR UTILITY AND ENERGY COMPANY, WITH CLEAR GROWTH OPPORTUNITIES AND ROOM TO IMPROVE EFFICIENCY.

GGU has two main business lines – water utility and electric power generation. In its water utility business, GGU is a natural monopoly that supplies water and provides a wastewater service to 1.4 million people (approximately one-third of Georgia's population) in three cities: Tbilisi, Mtskheta and Rustavi. In the electric power business, GGU owns and operates four hydropower generation facilities with a total capacity of 149MW. Generated power is primarily used by GGU's water business, with the excess amount of generated capacity sold to third parties. GGU has a pipeline of developments in hydro power plants and wind and solar energy production. When BGEO acquired its initial stake in GGU in 2014, the Group put in place a strong management team. The team has been further strengthened since the acquisition of full control in 2016.

TELIANI VALLEY

CREATING A LEADING BEVERAGES PRODUCER AND DISTRIBUTOR IN CAUCASUS.

Teliani is a leading Georgian wine producer and beverage distributor with a wide distribution platform of a variety of imported beverages as well as own produced wine. Teliani sells over three million bottles of wine annually, with about 60% of sales coming from exports. Building on its existing franchise of distribution, Teliani is currently expanding into a new business line of beer and soft beverage production, with a ten-year exclusivity from Heineken to sell in three countries: Georgia, Armenia and Azerbaijan – a total population of 17 million people. The construction of the beer production facility has been completed during 2016 and Teliani aims to start brewing in the first half of 2017. With a strong management team and a proven track record, Teliani aims to become a leading beverages producer and distributor in the South Caucasus.

* Including ABC's market share acquired by GHG in January 2017.

CHAIRMAN'S STATEMENT

NEIL JANIN
CHAIRMAN

Dear Shareholders,

The business and political mood is upbeat in Georgia, and my coverage of the four topics of this letter reflects these positive conditions. I will start with the economic and political overview, followed by a discussion on our Group strategy, talent development, and then board development. The CEO letter that follows will go into more specific details on each of our businesses.

Economics and Politics: A few months ago, Georgia once again demonstrated its commitment to European standards and norms by ensuring the successful delivery of 2016's democratic parliamentary elections. As expected, the Georgian people overwhelmingly supported the incumbent government. The elections turned out to be open, clean, and transparent with a very clear mandate for the incoming government. Most of the population believe that economic development is the way to prosperity and progress and this national consensus is the key to political stability.

After the elections, Georgia's ruling Georgian Dream party introduced a package of legislative changes to support the implementation of the Government's four-pillar reform programme (introduced in February 2016) to boost growth and enhance the economy's resilience to external shocks. The programme includes new tax benefits, infrastructure schemes, governance reforms and the modernisation of the education system. Corporate tax reform was enacted and effective as of January 2017, undistributed profits are tax free, ensuring a significant potential boost to Georgia's investments and economic growth.

The country continues to be very business friendly. The World Bank ranks Georgia 16th out 189 economies in terms of ease of doing business, up from 23rd position a year ago. With its business-friendly environment, stable Government, developed infrastructure, stable energy supply, flexible labour legislation, stable and profitable banking sector, strategic geography and a Government committed to addressing structural improvements in the economy through its four-pillar reform programme, Georgia is well positioned to become a significant regional hub economy.

In fact, we expect GDP to grow 4.3% in 2017 compared to 2.7% in 2016. The number of visitors to Georgia increased at a 22.1% CAGR over 2007-2016 and tourism inflows stood at US$ 2.2 billion (15.1% of GDP) in 2016. The Government plans to enhance Georgia's positioning as a four season tourism location through improving the connectivity of different regions with an aim to enhance their untapped potential. Despite the fact that many countries faced reduced capital inflows during the recent economic turbulence, FDI into Georgia has remained relatively secure thanks to the business-friendly environment as well as strategic infrastructure projects. In 2016 FDI inflow to Georgia was up 5.2% y-o-y and totalled US$1.6 billion (11.5% of GDP).

International relations are on the right track. Georgia's accession to the visa free programme with the EU was a concrete benefit for all to see. Moreover, the Government continues to constructively manage its relation with Russia. Tourists from, and exports to, Russia have increased 12.0% to 1.0 million persons and 26.6% to US$ 206.2 million last year, respectively, while the share in Georgia's total still remains low at 16.3% for tourists and 9.8% for exports. On the regional front, Turkey's situation has had some effect on Georgian economy. In contrast, recovery in other regional economies, particularly in Russia through its positive spillovers on Georgia's major trading partners, is strengthening Georgia's growth outlook. To summarise the situation: Georgia is boringly tranquil, in a neighborhood in turmoil. This bodes well for Georgia's strategy to become a regional business hub.

Group strategy: Last year, we informed you of our new two-pronged strategy. Firstly, we would continue to make Bank of Georgia an excellent institution, and secondly, we would buy assets in Georgia cheaply, grow them, and then sell them to investors at a higher price.

We continue to view BGEO as a vehicle whose goal is to maximise the value of its assets for its shareholders. This means that we will continue to pursue our "buy low, sell high" asset strategy. GHG is a very good example of how we want to execute this strategy. Importantly, we don't consider any of our activities "core" anymore – including the Bank. This is why we call ourselves: *a Georgia Focused Investment Platform.*

Let me give you a review of our main strategic priorities, while Irakli, our CEO, will talk in more detail about the strategic goals for each of our businesses in his letter.

- The Bank has become an excellent institution both in terms of innovation and cost management. We aim to become the best in class when the transformation of our retail bank is completed. In addition, we believe that regional wealth management holds a potential that we have not yet exploited. We believe Galt and Taggart and the corporate bank have the best investment banking capabilities in the country. These capabilities should translate into a more dynamic and profitable corporate banking segment. Today, the banking market is a two-player market – a market we share with a good competitor.
- GHG has three main strategic priorities: launch new services at hospitals to grow revenue from planned treatments, grow market share in outpatient clinics – a market which is highly fragmented, and digitalise healthcare system to accomplish further efficiency and more importantly, better quality of care. We are leading the improvement of healthcare in the country, by establishing new standards and developing new operating models and procedures which don't exist in Georgia yet. Additionally, we have an open dialogue with the regulatory authorities to establish rules and regulations to reach significantly improved health care practice for the population of Georgia. Finally, we believe that our presence in hospitals, policlinics, pharmacies, and insurance holds enormous

- synergetic potential to serve our clients profitably, especially using digital technologies. GHG does not have the same market value as our Bank yet, but it holds much promise.
- In the utility and energy arena, we bought, at a good price, a water utility with many improvement opportunities. This year and next, we will be on the lookout for more acquisition opportunities in the areas of energy and utilities. Additionally, we aim to develop hydro, solar and wind energy production. Georgia could become a clean energy producer, and should become an electricity trading hub. We intend to be a major player in this emergent market. Again, we will follow our usual investment strategy, and seek to realise the value created through an IPO in a few years' time.

It should be clear that we are continuing to pursue and expand a strategy announced in the past. We believe Georgia is too small to attract private equity investment. This is where we can play a significant role, providing capital and management talent, our two traditional strengths. At BGEO, our new slogan, *Georgia Focused Investment Platform*, reflects this mindset.

Talent development: For many years, we have defined our key assets as access to capital and to Georgian talent. We have built the credibility to tap capital markets, having raised over US$ 1.4 billion up until now. Now we must make an even more concerted effort to develop talent. We need that talent to develop the "cheap" assets that we are acquiring. Our CEOs at GHG, m^2 and GGU, as well as many other top executives at the Group, came out of the Bank's management pool, but we need to accelerate the growth of this talent pool if we want to continue to grow and develop staff properly. We need to continue to align our talent strategy with our business objectives.

One of the key components of our talent or human resource development strategy has been our incentive system. Its intent is to incentivise management to create value on a long term basis: c.85% of management's compensation is in shares that vest over 3-5 year period – discouraging quick earnings temptations. The unvested shares are normally "clawed-back" if a manager is fired for cause which includes a broad range of misconduct and this fully aligns shareholders' and managements' interests in the long-term. This system also encourages teamwork. Shareholders' interests are perfectly aligned with those of top management.

Incentive systems are important but don't create talent. Until now, we have brought back talent who had trained abroad and developed others on the job. Today, we want our talent strategy to provide a supply of leader/managers to newly created positions. In effect, we need to build a pipeline of talent. We have named a new Chief Talent Officer, whose background is not personnel management, and given him this mission. He will ensure that BGEO further strengthens its culture of meritocracy, teamwork, and that it continues to develop a strong pipeline of capable managers ready to take the available positions.

The essence of a meritocracy is having employees feeling free to share their ideas and being evaluated and rewarded for their performance. This requires dialogue which we will promote by the spreading of the habit of coaching – up and down the hierarchy. We would like to see constructive feedback and frequent developmental discussions between managers and their direct reports. This is not an idle talk. Most of our top managers have chosen to be coached by external coaches in the past years. We believe that a coaching culture starts at the top. Our top managers are urged to coach their direct reports, and to encourage such behaviour to cascade down through the organisation.

This effort is reinforced by the development of a teamwork culture. This is a culture that is characterised within and across functions for the greater good of the institution. Our incentive system encourages that and we have started to implement a leadership development programme whose aim is to foster trust across horizontal managers.

We already see the results of these efforts in a few of our business units, namely, Bank of Georgia, m^2, GHG, and elsewhere. Our next step is to align our HR systems and integrate such habits throughout the organisation. We would like our leadership programmes to initially cover 60 of our top managers, followed by the next 400. We believe that no other private institution is as large or as professional in Georgia as BGEO. We must become the talent development engine of the country. Georgian institutions and corporates need managerial talent. If we don't lead, then who will?

The Board. Our board is constituted of capable individuals who are T shaped. They all were chosen for the quality of their analysis and their judgment, the horizontal T, and for their deep specialty, the vertical of the T. I described their talent in my letter to shareholders last year. As our businesses diversify across the industries in the Georgian economy, the talent pool to supervise them must adapt. In the case of GHG, we have built a separate board with the requisite talent and continue to enrich it.

We will also be adding two new board and/or committee members with IFRS experience – one to each of the BGEO and GHG boards. As we continue to refresh our Board, increasing female Board representation remains a priority. We were not successful in advancing that priority in 2016, but aim to make good on our promise this year and next.

Attracting talent to our boards remains key. We must build the capacity of the board to guide and supervise all our business entities. It is not economical at this stage to build full-fledged boards for the smaller ones, but in the fullness of time, we will need to do so. As Chairman, I am keenly aware that the Board's responsibilities and capabilities must evolve to adapt and support our strategy.

I would like to thank investors who have given us their confidence and money from early on. I speak on the boards' and managements' behalf when I assure you that we are committed aiming to offer you a good return on your investment. I would like to also underline that your investment continues to develop BGEO Group, the country of Georgia and its population through better healthcare, housing, utilities, banking services, and economic development in general. It is also providing strong support to the people employed by all our companies.

Neil Janin
Chairman
13 April 2017

CHIEF EXECUTIVE OFFICER'S STATEMENT

IRAKLI GILAURI
CHIEF EXECUTIVE OFFICER

Dear Shareholders,

Georgia continued to achieve consistent improvements in its macroeconomic performance and improved levels of business confidence, and the Group delivered another year of strong business performance with over 30% basic earnings per share growth, and improved returns in both the banking business and the investment businesses. With the economy seemingly on the rebound in 2017 as measured by levels of business confidence, a number of recent strategic initiatives and acquisitions are expected to continue to deliver excellent performance in 2017 and beyond. In this annual letter, I will therefore update you on our medium-term strategic goals.

The Group will continue to focus on capturing growth opportunities in the rapidly growing Georgian economy. Our '4x20' strategy will continue to be targeted over the medium-term to deliver:

- A return on average equity in the Banking Business of at least 20%
- Retail Banking customer lending growth of at least 20% per annum
- A minimum targeted Internal Rate of Return of 20% on investments in the Group's investment businesses, and
- A maximum 20% profit contribution, of the Group's profits, from our investment businesses

The Group will continue to aim to maintain a regular dividend payout ratio from the Banking Business profits in the 25%-40% range. Since the introduction of dividends in 2010, the Group has managed to grow its annual dividend per share by 51.6% CAGR. At the 2017 Annual General Meeting the Board intends to recommend an annual regular dividend for 2016 of GEL 2.6 per share payable in British Pounds Sterling at the prevailing rate. This is within the range of our regular dividend payout ratio target of 25-40% paid from the Banking Business profits, and represents an 8.3% increase over the 2015 dividend.

2016 marked the first ever issuance of Eurobonds at the holding company level, through which we raised US$ 350 million, with a coupon of 6.00%, due 2023. Overall, the Group's capital and funding position continues to be very strong, with capital being held both in the regulated banking business and at the holding company level. Within the bank, the NBG (Basel 2/3) Tier 1 Capital Adequacy ratio was 10.1%[1], comfortably ahead of the Bank's minimum capital requirement. In addition, as of 31 March 2017, GEL 335.2 million liquid assets were held at the Group level.

As a result of the Group's strong capital position, excess levels of liquidity and high level of internal capital generation, in November 2016 the Board approved a $50 million share buyback and cancellation programme, to be completed over a two year period, in addition to the regular annual dividend to be paid to shareholders. Over the last few months, the Group Employee Benefits Trust has also purchased shares in the market totalling approximately US$ 20 million.

A recent development in the Georgian Government's tax policy is now effective, and applies the profit tax (currently set at 15%) only to distributed profits. Undistributed profits will no longer be subject to the profits tax. As a result, approximately GEL 500-600 million equity will be left to profit-generating corporates that are expected to profitably reinvest this capital. This tax policy amendment took effect for most companies on 1 January 2017, and for certain financial companies (including banks and insurance companies) it is expected to take effect from 1 January 2019. This will reduce the effective tax rate of the Group's non-banking businesses in 2017, and the entire Group in 2019. In addition, the Bank expects to benefit from the general improved creditworthiness of its entire corporate portfolio. The impact of these changes has led to a number of deferred tax adjustments that increased profits in 2016 by GEL 63.8 million.

Despite some regional headwinds, the Georgian economy remained resilient during 2016, with estimated GDP growth of 2.7% for the year. Foreign Direct Investments were solid at 11.5% of GDP and tourist numbers – a significant driver of US Dollar inflows for the country – continued to rise throughout the year. Inflation remained well controlled at 1.8% at the end of 2016.

Turning to the business, let me talk about our two business lines – the Banking Business and the Investment Businesses – separately:

BANKING BUSINESS

The Bank delivered another very strong year in 2016, characterised by the expected strong growth in the retail bank, and a repositioning of the corporate bank to further reduce concentration risk. Customer lending increased by 24.5% during the year, with 39.5% growth in the retail bank and 8.3% growth in the corporate investment bank. The Return on Average Equity in the banking business increased from 21.7% in 2015, to 22.1% in 2016.

Over the next few years, Bank of Georgia aims to shift the mix of its customer lending to become 65% retail and 35% corporate (currently 61% retail; 39% corporate) with the product per client ratio in the mass retail banking targeted to increase to 3.0 products, from a current 1.7 products.

We are now running a client-centric, multi-brand strategy in our Retail Bank. Over the past decade, Retail Banking has delivered a stellar performance by reaching c.2.1 million clients, delivering exceptional loan book growth and achieving its ROAE targets. While we were targeting these milestones, the Bank was product-centric with an active client acquisition

1 Capital adequacy ratios include GEL 99.5mln distributed as dividend from the Bank to the holding level on 29 December 2016. These funds are earmarked for regular dividends to be paid from BGEO Group in respect of the 2016 financial year and will be payable in 2017, subject to shareholder approval. Including this payment, NBG (Basel 2/3) Tier I and Total CAR is 9.1% and 14.4%, respectively.

approach. Having over two million clients now, this phase is less prevalent and we target stronger growth through increasing the product to client ratio by introducing our client centric model while running a multi-brand strategy for different segments of population.

Our Express brand caters to the emerging retail segment and offers predominantly transactional banking services to clients through small-format, Express branches, ATMs and Express Pay Terminals. In this segment, the Bank will aim to double the number of transactions over the next 2-3 years.

Our Solo brand caters to the mass affluent segment and offers exclusive products and the finest lounge-style environment at our newly designed Solo lounges, together with new lifestyle opportunities, such as exclusive events and handpicked lifestyle products. Solo already has very encouraging early signs: we have invested only US$ 11.5 million in this new concept since its launch in April 2015 and we have almost doubled the annual net profit to GEL 25.3 million. In this segment, the Bank will aim to increase the number of Solo clients to 40,000 (19,267 as at 31 December 2016).

Our Bank of Georgia brand caters to the mass retail segment. This is our flagship brand and our most significant profit contributor. We are currently transforming our service delivery to mass retail clients from a product-centric to a customer-centric one. The client centric approach has also had very encouraging early signs and in 24 pilot branches, sales have increased threefold. Going forward, expanding express branches will be very important to move out transaction focused clients from flagship branches and allow our universal bankers to cross-sell and increase the product to client ratio. We will be launching the first fully transformed branch in April 2017.

The Bank will continue to reduce concentration risk in the corporate lending portfolio, with the support of the Investment Management business. The target is for the top ten borrowers to represent less than 10% of the total loan portfolio (currently 11.8%). Georgia is becoming the service hub of the region and Bank of Georgia is in a great position to capture wealth management clients from throughout the region. In 2016, we have attracted more than 150 clients from 68 countries and we plan to step up these efforts. The Bank's aim is to develop a significant regional private banking franchise to reach AUM of GEL 2.5 billion (currently GEL 1.6 billion). In this regard, we leverage superior knowledge and capital markets capabilities in the Georgian and neighbouring markets both in terms of reach and the expertise that we have accumulated during the past several years through our corporate advisory, research and brokerage practices united under Galt & Taggart – a wholly-owned subsidiary of the Group, which is at the forefront of capital markets development in the county.

At the end of 2016, we announced a number of appointments that further strengthened the management team of the Bank.

We appointed Kaha Kiknavelidze as CEO of the Bank. Kaha has been on the BGEO board for 8 years and knows the Group and management very well. At the same time he brings new perspectives to the executive team who have worked together for a very long time – the mix of old/new blood is important to bring new topics for discussion to the table. Kaha has over 15 years of experience in financial services in a number of roles at UBS and Troika Dialog. Prior to his current role, he was the founder and Managing Partner of Rioni Capital Partners LLP, a London-based investment management company.

We also have two new members in the executive management team of the Bank. David Tsiklauri was appointed to the position of Deputy CEO at the Bank, and leads the Bank's Corporate Investment Banking Department. David has extensive experience in banking as well as the corporate segment in Georgia, having worked as the Deputy CEO in charge of Corporate Banking at TBC Bank and as Vice President of the Capital Markets and Treasury Solutions team at Deutsche Bank. Ramaz Kukuladze was appointed Deputy CEO at the Bank, and leads the Bank's SME and Solo businesses. Ramaz has extensive experience in the financial services industry and wide experience with and a deep knowledge of the segments that he is leading. Prior to joining the Bank, Ramaz worked at Bank Republic Société Générale where he led the bank's corporate and retail business as Deputy CEO.

I am confident that the strengthened executive team of the Bank will deliver on the opportunity to build on the Bank's recent strong growth by further developing its presence and profitability in both the retail and corporate banking sectors in Georgia.

INVESTMENT BUSINESS

The Group's Investment Businesses continued to deliver very strong earnings performances in 2016, with strong organic growth supported by the impact of recent acquisitions – specifically (1) the addition to our healthcare business Georgia Healthcare Group (GHG) of the GPC pharmacy business following its acquisition during the second quarter, and (2) the second half consolidation of our utility and energy business Georgia Global Utilities, GGU, following the acquisition of the remaining 75% equity stake in GGU for a cash consideration of $70 million in July 2016. EBITDA from the investment businesses increased by 71.1% to GEL 132.6 million in 2016.

In the healthcare business, Georgia Healthcare Group, GHG, we are present in whole healthcare ecosystem, which in size is GEL 3.4bln, with a best in class management team and access to capital. We see three key opportunities in healthcare business: Firstly, continue the introduction of new services in our hospitals, which should further strengthen our leading market position. Secondly, expand in the outpatient segment where the market is highly fragmented. We see the same opportunity now in the fragmented outpatient sector that we saw in the hospital business number of years ago. Lastly, we see an opportunity in digitilisation of healthcare services by creating electronic patient records and advising our patients in maintaining a healthy lifestyle. Our scale is important to deliver on our targets of delivering good quality healthcare at affordable prices.

In m^2 Real Estate we are targeting an internal rate of return of c.40%+, whilst delivering a capital return to the Group of US$ 20-25 million in 2019/20. As we have previously declared, we are no longer buying land plots as our aim is to develop third party land. In essence our aim is to evolve m^2 from a real estate developer into a real estate asset manager.

In the beverage business, Teliani, we are launching beer production and will be opportunistically expanding the beverage business in order to penetrate the retail network by offering a diversified product base, as well as enlarging the business to achieve economies of scale and cost advantage. Our primary exit strategy is expected to be a trade sale.

In the utility and energy business, GGU, we aim to achieve EBITDA of more than GEL 80 million in 2018, whilst establishing a renewable energy platform, targeting 200MW operating, 57MW ready-to-build,150MW in the pipeline for the hydro power plants; and 20-20MW ready-to-build wind farms and solar photo-voltaic stations. All of this by 2019 with a targeted IRR in excess of 20%. GGU has a significant opportunity to increase its operational cash flow over the next few years from a combination of improving cash collection rates, increasing energy efficiency and reducing water loss rates, and by the development of renewable energy resources. We are aiming to prepare the combined utility and renewable energy business for an IPO in approximately 2-3 years.

As we start to prepare GGU for an IPO, we have further strengthened the GGU team and appointed Archil Gachechiladze as the CEO of GGU. Having been with the Group for almost 8 years in various roles, Archil has an outstanding execution track record with the Bank and, just as importantly, he is very passionate about the business of GGU having initiated our investment in the utility and energy business. We are also consolidating the Group's utilities and energy businesses under GGU, the two investments that the Group made separately.

Last but not least, I would like to reiterate our commitment to the highest level of corporate governance which is a foundation for accessing management and capital. A key focus for me – and my board – is to grow and develop talent. Coaching and a feedback culture has become part of BGEO. Helping each other to succeed is the core principle of our management team. We understand very clearly that we are in the same boat as our shareholders and our mandate is very clear: to create sustainable shareholder value.

Irakli Gilauri
Chief Executive Officer
13 April 2017

This Strategic Report as set out on pages 2 to 73 was approved by the Board of Directors on 13 April 2017 and signed on its behalf by

Irakli Gilauri
Chief Executive Officer
13 April 2017

INDUSTRY AND MARKET OVERVIEW

Resilient economy with a comprehensive reform agenda to boost growth

Georgia is an open and resilient emerging market with a realistic ambition to transform itself into a Regional Hub Economy. The Government's four-pillar reform programme and deepening economic integration with the EU is expected to boost the economy's productive capacity, support further economic diversification and attract foreign investments. Measures to sustain fiscal discipline and increase the usage of local currency are expected to insure macroeconomic stability, strengthen resilience to external headwinds and boost growth in 2017 and beyond.

EASE OF DOING BUSINESS RANKED GEORGIA IN 2017

In registering property

3rd

In protecting minority investors

7th

In starting a business

8th

Overall ranking

16th

Up from 23rd in 2016, ahead of Germany, Ireland and Austria.
Source: World Bank-IFC Doing Business.

ECONOMIC FREEDOM INDEX RANKED GEORGIA IN 2017

Up from 23rd in 2016, Ahead of the Netherlands, the United States and Sweden

13th

Source: Heritage Foundation.

GLOBAL CORRUPTION BAROMETER (% ADMITTING HAVING PAID A BRIBE IN 2015)

Ahead of the Czech Republic, the Slovak Republic and Latvia

7%

Source: Transparency International.

REFORMS-DRIVEN SUCCESS

Georgia carried out genuine economic and structural improvements which were institutionalised. As a result, corruption decreased, doing business became easier, productivity was enhanced and the economy diversified – enabling the country to withstand global financial crisis and recent shocks related to the commodity price slump with a relative strength. Georgia is consistently ranked as the top performer in governance and doing business indicators, in economic policy and institutional assessments as tracked by eminent international institutions. Georgia was named top performer globally over the past 12 years in the latest WB-IFC doing business report.

The economic Liberty Act, effective since January 2014, ensures the 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. To further liberalise tax policy, in 2016 Tax Code was amended and corporate income tax is now applicable to only distributed profits; undistributed profits, reinvested or retained, are exempted. Georgia has one of the world's friendliest tax regimes according to Forbes Misery Tax Index by slashing the number of taxes from 21 in 2004 to just six currently.

The country is ranked 16th out of 190 economies in the World Bank's 2017 Ease of Doing Business, 13th out of 180 countries by Index of Economic Freedom measured by Heritage Foundation in 2017 and 11th out of 197 countries in the Trace International's 2014 Matrix of Business Bribery Risk. Georgia is a positive exception to the trend of high bribery rates in regional economies and is on a par with EU member states with only 7% of people admitting having paid a bribe, according to the 2016 Global Corruption Barometer study by Transparency International.

The EU-Georgia Association Agreement that came into force in July 2016 and related Deep and Comprehensive Free Trade Agreement effective since September 2014 lay solid groundwork to improve governance, strengthen the rule of law and provide more economic opportunities by expanding the EU market to Georgian goods and services. A closer economic tie with the EU and related trust in prudent policy-making are also expected to attract foreign investments to Georgia. Visa-free travel to the EU, granted to Georgian passport holders since March 2017, is another major success in Georgia's foreign policy. While remaining committed to EU integration, Georgia has also managed to stabilise relations with Russia as the latter lifted its embargo on Georgian products in 2013. Tourism sector increasingly benefits from rising Russian arrivals, with Georgia being re-discovered by Russian as well as other visitors from regional countries.

Georgia once again demonstrated its commitment to European standards and norms by ensuring free and fair 2016 parliamentary elections. After the elections, Georgia's ruling Georgian Dream party introduced a package of legislative changes to support the implementation of the Government's four-pillar reform programme (introduced in February 2016) aimed to boost growth and enhance the economy's resilience to external shocks. The programme includes new tax benefits, infrastructure schemes, governance reforms and modernisation of the education system.

Measures to further liberalise tax and customs procedures include the introduction of the Estonian model, which envisages the application of corporate income tax to only distributed profits; undistributed profits, reinvested or retained, are exempted starting 1 January 2017. Based on USAID assessment, this measure will add 1.5ppts to growth in the medium term. Other reform measures, amongst others, include creating a single window principle for the provision of Government services to legal persons, tailoring the education system offerings to labour market demands and speeding up the implementation of strategic infrastructure projects. Under new infrastructure schemes, the Government plans to implement the projects that would enhance the country's tourist and transit potential, support private sector investments and create new jobs.

In an effort to put fiscal accounts on a sustainable path faced with higher capital expenditures and lower corporate income tax revenues under the four-pillar reform programme, the Government introduced revenue generation as well as expenditure consolidation measures in its 2017 budget. Constrained by the Economic Liberty Act provisions and in order to achieve a better management of public sector recurrent spending, the Government plans to overhaul public finance management. In this context, the Government works to address shortcomings in employment benefit schemes, further cut non-essential expenditures, consolidate public sector institutions, make social and healthcare spending more targeted and increase capital expenditure efficiencies.

In order to enhance external sustainability, National Bank of Georgia introduced a ten-point de-dollarisation action plan, including reforms to expand the use of the local currency in the economy, address high dollarisation in the banking sector and support domestic savings in the economy through capital markets development. Moreover, a new US$ 285 million three-year IMF programme, which supports the Government's economic reform agenda and is subject to IMF board approval in April 2017, feeds trust in the continuity of prudent economic policies.

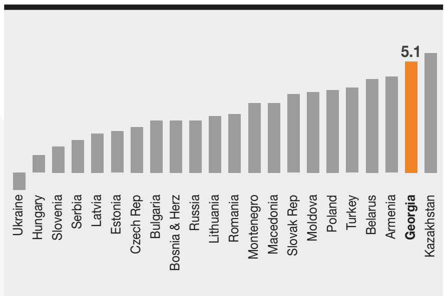
MEASURES TO STRENGTHEN GEORGIA'S POSITIONING TO BECOME THE REGIONAL HUB ECONOMY

With its business-friendly environment, stable Government, developed infrastructure, stable energy supply, flexible labour legislation, stable and profitable banking sector, strategic geography and a Government committed to addressing structural improvements in the economy through its four-pillar reform programme, Georgia is well positioned to become a regional hub economy.

A natural transport and logistics hub, connecting important regions and a market of 900 million customers without customs duties. Georgia's favourable geographic location (between land-locked energy-rich countries in the East and European markets in the West) and well-developed air, land and sea transport networks position the country to reap the benefits in transport, logistics and tourism. The Anaklia deep sea project is seen as a major scheme to enhance regional transit hub potential. The Port of Anaklia sits on the shortest route from China to Europe, the route that has become a major focal point for Chinese investments in infrastructure. Once completed, it will be the first Georgian port capable of accommodating Panamax size cargo vessels. Government infrastructure investments under the four-pillar reform programme and increased spending on roads, energy, tourism and municipal infrastructure will also reinforce the potential. To enhance Georgia's competitiveness Government continues to strengthen integration in existing international systems as well as new transit routes (e.g. Lapis Lazuli, Persian Gulf – Black Sea, Baltic Sea – Black Sea). Georgia is a regional energy corridor that accounts for approximately 1.6% of the world's oil and gas supply transit volumes. Georgia's existing free trade deals (with the EU, CIS, Turkey), enable it to access a market of 900 million customers. An imminent free trade agreement with China (negotiations completed in 2016) and ongoing free trade agreement negotiations with Hong Kong are expected to strengthen Georgia's positioning as a platform to trade with, produce for and service regional markets.

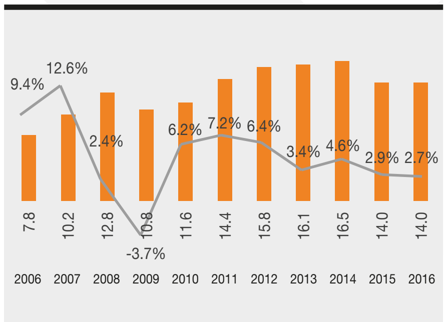
Established tourism destination. Georgia is already an established tourism destination. Travel inflows are a significant source of foreign currency for Georgia. The number of visitors to Georgia increased at a 22.1% compounded annual growth rate (CAGR) over 2007-2016 and tourism inflows stood at US$ 2.2 billion (15.1% of GDP) in 2016. The Government plans to enhance Georgia's positioning as a four season tourism location through improved connectivity of different regions with an aim to tap their potential.

COMPARATIVE REAL GDP GROWTH RATES (%), 2006-2015



Source: IMF, GeoStat.

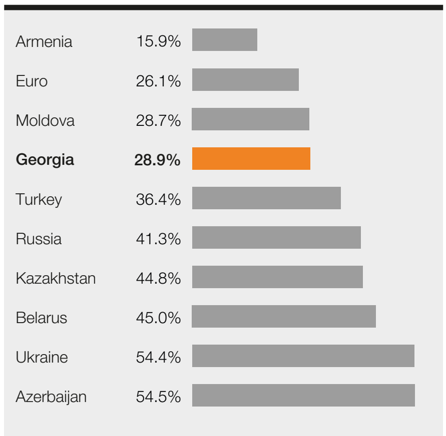
GROSS DOMESTIC PRODUCT (%)



- Nominal GDP, US$ billion
- Real GDP growth, y-o-y %

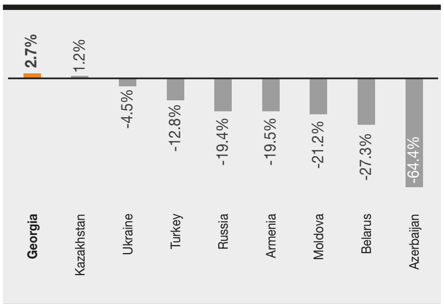
Source: GeoStat.

STRONGER DOLLAR, REGIONAL ECONOMIC PROBLEMS AND DOMESTIC EXPECTATIONS FED INTO GEL MOVES (%)



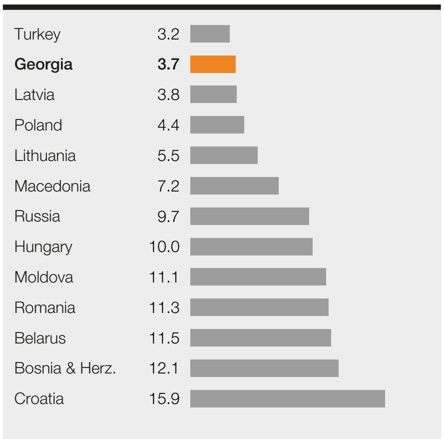
Source: Bloomberg.
Note: Dollar per unit of national currency; August 2014 to March 2017.

WHILE GEORGIA USED LESS RESERVE TO SUPPORT GEL COMPARED TO PEERS (RESERVE LOSS/GAIN, %)



Source: IMF.
Note: August 2014 to February 2017; Armenia's reserves exclude a US$ 500mln Eurobond issued in March 2015.

NPLS TO GROSS LOANS (%), 1H16



Source: IMF.

Stable energy supply and electricity transit hub potential. Georgia has a developed, stable and competitively priced energy sector. The country has overcome the chronic energy shortages of electricity and gas supply interruptions of a decade ago by renovating and building new hydropower plants, improving transmission infrastructure and increasingly diversifying its natural gas import partners. Georgia became a net electricity exporter in 2016 and in the years 2007-2011 (a net importer in 2012-2015 due to low precipitation and increased domestic demand), after being a net importer for more than a decade before 2007. Currently, only an estimated 20-25% of Georgia's hydro potential is utilised. The pipeline of investment projects in the energy sector is estimated at about US$ 5.4 billion in the next five to seven years, including US$ 2.5 billion for three large HPP projects: Nenskra, Khudoni and Tskhenistskali cascade. Currently, 52 power plants are in various stages of construction or development, with 66 more in feasibility study stage. A total installed capacity of 352MW was added to the grid in 2013-2016. Georgia's transmission capacity is poised to increase and accommodate an additional installed capacity of 3.5GW by 2027 to meet the export and domestic demand growth. Georgia is foreseen to be an electricity transit hub for neighbouring economies; in 2016, 850GWh of electricity was already transited through Georgia to neighbouring countries.

Attractive place for foreign investors. Georgia's business-friendly environment coupled with its sustainable growth prospects continues to attract foreign investments. Georgia's liberal economic reforms, favourable international rankings of business environment and low level of corruption supported substantial Foreign Direct Investment (FDI) over the past decade. These capital flows boosted productivity and accelerated growth. Public infrastructure projects were also instrumental in driving growth, as well as better realising the country's potential in logistics, transport and tourism. Faced with low domestic savings, FDI is an important source of financing growth in Georgia, as well as a reliable source of Georgia's persistently high current account deficit funding. Despite the fact that many countries faced reduced capital flows during recent economic turbulence, FDI into Georgia was relatively secure thanks to the business-friendly environment as well as strategic infrastructure projects – such as the BP gas pipeline construction project and the railway project connecting Azerbaijan-Georgia-Turkey. In 2016 FDI inflow to Georgia was up 5.2% y-o-y and amounted to US$ 1.6 billion (11.5% of GDP).

Georgia's exports – untapped potential. There have been significant changes in Georgia's export structure and destination markets in recent years; however, Georgia has not yet demonstrated success in tapping international markets, notwithstanding remarkable improvements in the business environment, progress in trade liberalisation, enhancement of trade-related infrastructure and streamlining of customs procedures. Another big change in Georgian exports has been a reorientation from the Russian market after the 2005 embargo, which caused the share of exports to Russia in total exports to decrease from 18% in 2005 to 8% in 2006 and 2% in 2008-2012. 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 products, but accounted for only six percentage points in the 22% total export growth in 2013. Despite these positive developments, the share of merchandise exports to GDP has not increased significantly over the past decade, while the share of services exports to GDP has almost doubled, driven by growth in tourism and transport receipts. Georgia's exports performance is explained by its commodity structure, dominated by used car re-exports and resource-based metals and minerals, while employment-generating processed product exports remained secondary. While recent regional economic troubles significantly weighed on car re-exports to Azerbaijan and Armenia, since 2013 Georgia's developed logistics and transport infrastructure has helped to shore up opportunities for new re-export commodities, including copper and pharmaceuticals. Given these trends, it is likely that re-exports will continue to fuel Georgia's export growth supported also by the Government policies aimed at further enhancing the platform for current and potential trade partners. The share of Georgia's exports to the EU has increased in recent years and averaged 28.0% in 2015-2016 and export flows to the EU remained relatively stable during recent shocks.

As noted above, Georgia's existing free trade deals (with the EU, CIS, Turkey), enable it to access a market of 900 million customers. An imminent free trade agreement with China (negotiations completed in 2016) and ongoing free trade agreement negotiations with Hong Kong are expected to strengthen Georgia's positioning as a platform to trade with, produce for and service regional markets and offer significant upside potential for Georgia's exports.

GEORGIAN ECONOMY – TOP PERFORMER IN THE REGION IN 2016

The Georgian economy has performed relatively well, notwithstanding long-lasting external shocks related to the oil price slump, currency depreciations, geopolitical tensions and related weakness in external markets. Growth remained stable at 2.7% despite the reduction in the exports and further depreciation against the Dollar. Capital flows and remittances have increased. Despite the growth below potential, some country-specific characteristics, stronger institutions and prudent policies have helped Georgia to weather shocks better than regional peers. Price pressures have been contained due to weak aggregate demand, low global oil and food prices and the last year's high base. Annual inflation came in at 1.8% in December 2016 – well below the NBG's target of 5.0%. The NBG has reacted to weak inflation and persistently low global commodity prices by gradually cutting its policy rate to 6.5% at the end of 2016 from 8.0% at the beginning of 2016.

Tourism drove the growth with the number of tourists visiting Georgia increasing 19.1% to 2.7 million tourists in 2016. Notably, export of services, fuelled by tourist inflows, have surpassed the export of goods for two years in a row and averaged 22.9% in 2015-2016, which is 1.7ppts higher than the same figure for the export of goods. Construction sector, the largest contributor to growth, increased 8.1% y-o-y despite a slowdown in the second half of 2016, which is explained by the high base last year. Importantly, growth was posted in the two largest sectors of the economy – manufacturing (+4.8% y-o-y) and trade (+1.8% y-o-y) – reflecting a recovery in both external and domestic demand, supported by increased remittances since June 2016. Robust tourist arrivals drove growth in hospitality sector which increased 9.9% y-o-y. Financial sector grew 9.3% y-o-y, and real estate was another fastest growing sector (+6.7% y-o-y) despite the uncertainties related to the GEL depreciation. Transport (-0.9% y-o-y) and communication (-0.2% y-o-y) were the only sectors in downturn, while growth in agriculture was flat. Increased capital and parliamentary elections related spending widened the fiscal deficit to 4.1% of GDP in 2016. The deficit, however, is expected to decrease in the medium term subject to ongoing reforms in public finance management. The Current account deficit widened to 13.3% of GDP in 2016 from 12.0% in 2015. However FDI, increasing 5.2% y-o-y to US$ 1.6 billion (11.5% of GDP) remained the main source of current account deficit funding, with net FDI financing 74.9% of the deficit. Prudent supervision as well as positive growth supported the stability in the banking sector with NPLs amounting to 3.4% in December 2016.

More uncertain global and regional financial markets, a stronger Dollar following the elections in the USA and domestic factors renewed pressure on the GEL in 4Q16, which regained some of its earlier losses in 1H16. This, coupled with slowly adjusting imports, resulted in GEL weakness. The Lari lost another 9% in 2016 against the Dollar after a 22% depreciation in 2015. Commitment to exchange rate flexibility helped Georgia again in 2016 to absorb most of the shocks through the exchange rate minimising potential negative impact on real sector as well as preserving FX reserves.

Comprehensive reform agenda strengthens growth outlook for 2017 and beyond.

2017 started strongly with the growth averaging 4.8% y-o-y in 2M17 reflecting recovery in external markets as well as improved consumer and business confidence locally due to appreciating GEL. The latter was affected by surge in export of goods, remittances and tourist arrivals in the first two months of 2017. The improving external environment due to the stabilisation of commodity prices and a moderate recovery in the economies of the partner countries is expected to positively impact the export of goods throughout the year. Moreover, significant growth is anticipated in tourism revenues, with Georgia being a cheap and popular tourist destination, as well as a solid level of FDI (US$ 1.7 billion expected) are other significant positive factors for growth. A projected 15% increase in remittances coupled with new job creation anticipated in the construction sector is expected to support increased retail spending. In 2017 the budget is more focused on capital spending, compared to previous years, and investments are expected to drive the growth. Corporate income tax benefits for companies has created further stimulus for domestic investments. Fresh reforms under the four-pillar reform programme aiming to boost the growth, together with the measures addressing high dollarisation of the Georgian economy to improve resilience to external headwinds, feed trust in Georgia's growth framework and macroeconomic stability. The IMF expects growth to be 4.0% y-o-y in 2017 and to average 5.0% annually in 2018-2021.

WELL CAPITALISED BANKING SECTOR WITH LOW NPLS

The Georgian banking sector has been one of the faster growing sectors of the Georgian economy. The banking sector assets' growth rate of 21.7% (ten-year CAGR) has far outstripped the nominal GDP growth rate for the same period. The banking sector is entirely privately-owned and quite concentrated, with the two largest banks accounting for 63% of total assets. Amidst multiple downgrades by global rating agencies in the face of the recent economic recession across the region, the Georgian banking sector has remained profitable and maintained its credit ratings with a stable outlook. Prudent regulation and conservative oversight by the central bank resulted in stability and resilience of the financial sector during different shocks to the economy. In 2016 the average capital adequacy ratio remained above 16%, the share of NPLs stood at 3.4% and the overall liquidity ratio remained high at close to 40%. Credit growth remained stable averaging 10% y-o-y. Although Lari depreciation spurred loan and deposit ratios to GDP, penetration rates still remain low with retail loans estimated at 27.7% of GDP and total loans at 53.4% of GDP as of 2016 (and 50.1% of GDP for deposits). Due to the Central Bank's conservative regulations, liquidity in the banking sector and capitalisation rates have been historically high. Nevertheless, profitability in banking sector has remained robust at 19% ROE over the past three years.

OUR BUSINESS MODEL

We believe that our business model is simple and purpose-built to capture growth opportunities in Georgia

We are a Georgia–focused investment platform. We have a successful track record of delivering profitable growth for more than a decade, growing our market capitalisation since 2004 by approximately 80 times to c.US$ 1.7 billion as at 7 April 2017.

Comprising at least 80% of the Group's profit, our Banking Business includes Retail Banking, Corporate Investment Banking, Wealth Management, P&C Insurance and banking operations in Belarus through BNB.

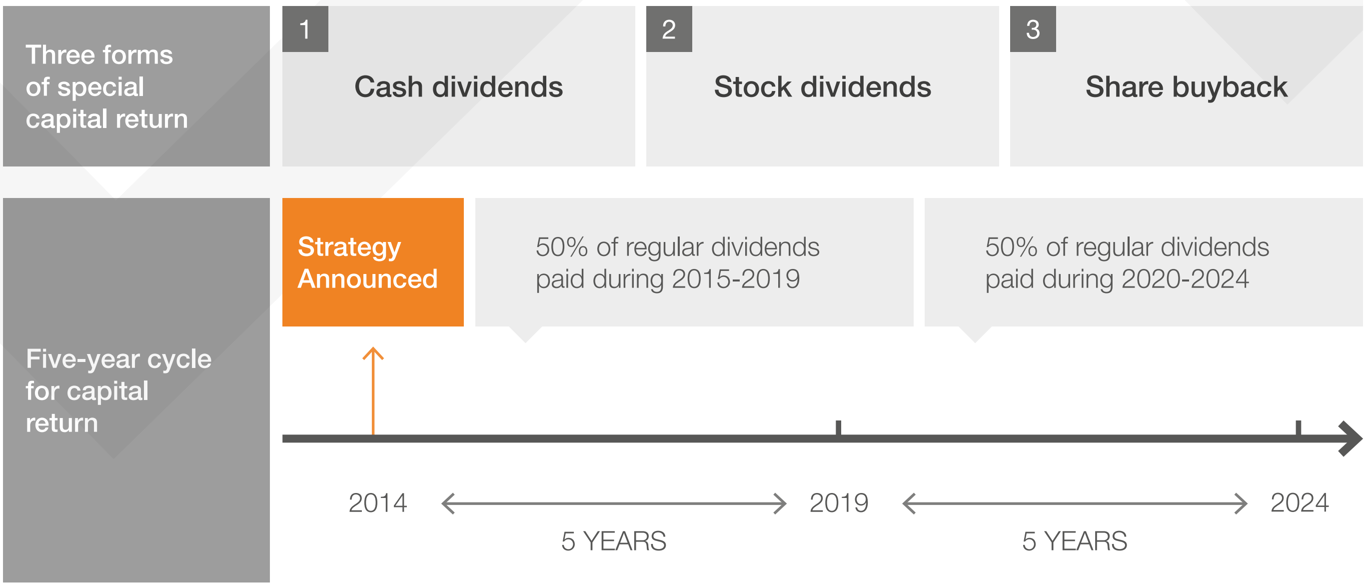
Comprising up to 20% of our profit, the Investment Business includes our healthcare business, real estate business, utility & energy business and beverage business. We believe that our Banking Business is the number one or two player on the market in all its major business lines and each of our investment businesses is number one in its market.

WE RUN TWO FORMS OF CAPITAL RETURN:

1. Ordinary Dividends paid by the Banking Business.
Ordinary dividends are linked to the recurring profit from our Banking Business, with an aim of a 25-40% dividend payout ratio. Bank of Georgia is by far the largest and most valuable asset in our Group, which provides a stable dividend flow to our shareholders. Implementing our strategy successfully should improve the quality of ordinary dividend generation capabilities of Bank of Georgia and make it more sustainable over a long period of time. For information on this year's dividend, see page 31.

2. Special Capital Returns (SCR), generated by our Investment Business.
We updated our strategy in December 2014 and introduced the Investment Business and the concept of Special Capital Returns (SCR). The Investment Business aims to deliver SCRs from divestments of our portfolio of companies. Our aim over a five-year period is to deliver SCRs of at least 50% in aggregate of the ordinary dividends delivered by the Banking Business over the 2015-2019 period. We view SCRs in three different forms: cash dividends, BGEO share buybacks and the potential distribution of shares in our listed portfolio company. We are also aiming to buyback shares for our management trust, rather than issue new ones – as we historically used to do. The aim is not to increase the Group's outstanding number of shares from the current 39.5 million level.

CAPITAL RETURNS: THREE FORMS, FIVE-YEAR CYCLE



THE WAY WE INVEST AND MANAGE THE COMPANIES

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.

OUR KEY PRINCIPLES AROUND INVESTING AND MANAGING THE COMPANIES AT BGEO:

1. BE OPPORTUNISTIC AND DISCIPLINED

The Georgian economy was born around ten 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 are 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 a natural self-discipline mechanism for our Investment Business, as explained on the previous page.

2. IN SCALE WE TRUST

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. GET OUR HANDS DIRTY

Similarly to the limited access to capital in this country, the availability of management is limited and by 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 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 KING

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.

BGEO INVESTMENT PHILOSOPHY

BGEO AS AN INVESTMENT PLATFORM

	BGEO BECOME GEORGIA INVESTMENT PLATFORM	PRIVATE EQUITY	CONGLOMERATE
Investment is not a primary mandate	✓	✗	✓
Platform to produce executive management	✓	✗	✓
Decentralised subsidiaries/investments	✓	✓	✗
Mandate to divest	✓ (within 6-years)	✓	✗
	Neither PE nor Conglomerate		

BGEO STRATEGIC FRAMEWORK

ROBUST CORPORATE GOVERNANCE

ACCESS TO CAPITAL

- Raised US$ 350 million 6.000% bond due 2023
  - 6.125% yield
  - Lowest coupon from Georgia
- Local currency funding of GEL 280 million raised at Bank of Georgia to support local currency lending
- Raising long-term debt of more than US$ 200 million at our Investment Businesses

ACCESS TO MANAGEMENT

- No cash bonus and heavily weighting salary to long term deferred share remuneration, with long-term vesting, for executive management*
  - Attractive for top talent to be part of what they are creating
  - Full alignment of interest between shareholders and management
- Developing our management through:
  - Helping each other to succeed
  - Coaching and feedback culture
  - Rotations and promotions
- BGEO as a talent producing engine
  - Further stepping up this machine to produce more senior and middle level managers

* The structure of the Directors' Remuneration Policy as it applies to our Executive Directors (set out on pages 100 to 106) will apply equally to executive management below the Board level, even though outside of the scope of the Policy.

ALL REASONS STILL IN PLACE AND OUR STRATEGY IS MORE RELEVANT

OPPORTUNITIES IN CORPORATE SECTOR IN GEORGIA	BGEO IS BEST POSITIONED TO CREATE VALUE
Big opportunities with small capital commitments	✔ **Leading investment platform with in-depth country knowledge**
Access to capital on capital markets or from institutional investors is limited in a small frontier economy such as Georgia	✔ **Strong management skills with proven track record**
Opportunities to add value through better management	✔ **Access to capital**
	✔ **Strong corporate governance**

Since December of 2014, the Group's strategy has been focused on enhancing BGEO's profitability by optimising capital allocation to the more attractive corporate segments and investment opportunities, capturing compelling opportunities in the Georgian corporate sector. This included the Group's 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%.

During this period, BGEO has made strong progress in delivering its 4x20 strategy through profitable growth in its Banking Businesses, as well as significant development and profitable growth of its Investment Businesses together with delivering the IPO of the healthcare business.

Georgia's economic development has remained robust and the Group 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. The Group expects to be at the forefront of that capital market development in the country, thereby producing value creation opportunities for its shareholders.

The Group's depth of management bench, ability to develop talent, management expertise and access to international capital markets combined with a limited buyer universe for large domestic acquisitions in Georgia positions it extremely well to acquire high quality assets at attractive valuation levels. BGEO's management has a proven track record of creating value through successful business development and investments.

BGEO'S CAPACITY TO ACCESS CAPITAL

ACCESS TO CAPITAL MARKETS

BGEO has superior access to both equity and debt capital, which provides flexibility with liability management and is our key competitive advantage in realising our ambition to capture attractive investment opportunities in Georgia. We have completed:

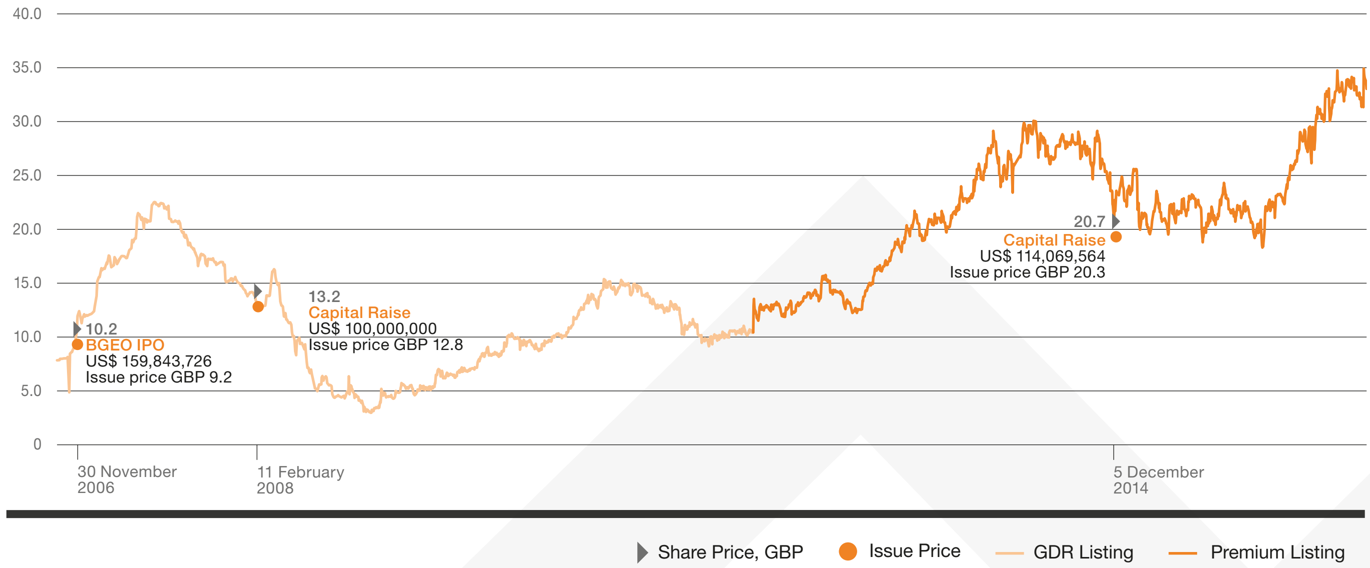
- IPO on the LSE in 2006 (first from Georgia and second from the CIS)
- US$ 200 million Eurobond issue in 2007 (first from Georgia)
- US$ 100 million capital raised in 2008
- Premium listing on the LSE in 2012 (first from Georgia)
- US$ 250 million Eurobond issued in 2012
- US$ 114 million capital raised in 2014
- US$ 150 million Eurobond issue in 2013
- IPO on the LSE in 2015 of our healthcare subsidiary – GHG
- US$ 350 million Eurobond issued in 2016

We are the undisputed leader in the local capital market industry through Galt & Taggart and Bank of Georgia custody:

- GEL 618.5 million local corporate bonds placed by Galt & Taggart since 2014
- The only international sub-custodian in the region through State Street, Citi and Clearstream Bank Luxembourg

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 and Notes 3.8% in 2016 down from 7.5% in 2010
- Cost of Funds 4.7% in 2016 down from 8.2% in 2010



Mid-1990s
EBRD, IFC, DEG and other IFIs
provide credit lines to fund growth

Oct 2004
Firebird & East Capital
become shareholders

Sep 2005
Issues Bonds
GEL 2,000,000
11% callable two-year local bonds

Nov 2006
IPO
US$ 159,843,723
Issue price GBP 9.2
GDR listing on LSE

Dec 2008
OPIC
US$ 29,000,000
ten-year senior mortgage facility

Dec 2010
ADB
US$ 50,000,000
five-year maturity loan for SMEs

Jul 2012
Issues Eurobonds
US$ 250,000,000
7.75% five-year Eurobond

1995

1998
EBRD becomes a shareholder

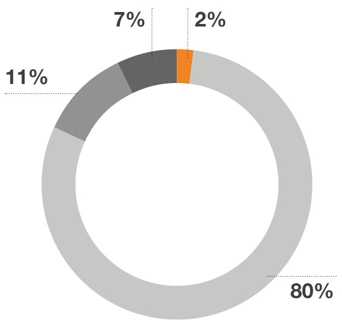
Jan 2007
FMO
US$ 12,500,000
to finance SME loan portfolio

Feb 2007
Issues Eurobonds
US$ 200,000,000
9% five-year Eurobond

Feb 2012
Premium listing
on London Stock Exchange

ISSUANCE OF US$ 350 MILLION & LIABILITY MANAGEMENT OF US$ 400 MILLION

ALLOCATION BY INVESTOR TYPE



- Insurance
- Asset Managers
- Bank & PBs
- Hedge Funds

NEW ISSUE:

- On July 19, 2016, JSC BGEO Group (BGEO) successfully priced a US$ 350 million 6.000% Rule 144A/Reg S bond due 2023:
  - Lowest coupon achieved by a borrower from Georgia
  - Longest maturity from Georgia
  - First bank transaction from the CIS in 2016
  - Lowest coupon achieved by a private bank from the CIS with a seven-year maturity
- Marketing: covered over 35 investors in London, Zurich, Geneva, New York and Boston:
  - 62.9% (US$ 228.2 million) of tendering accounts requested allocation codes for the new transaction
  - Existing holders accounted for 43% of the total order book
- Launched a "US$ 300 million expected" seven year with "low to mid 6%" guidance on price
- Order book rapidly built to over US$ 750 million from 90 high quality accounts and we released an official price guidance of "6.25% area"
- Upsized to US$ 350 million and priced at the yield of 6.125%, or a spread of MS+489bps, curve adjusted spread of 130bps over Georgia

KEY NEW ISSUE TERMS

Issuer	JSC BGEO Group
Rating	B1 by Moody's and BB- by Fitch
Issue format	Reg S/Rile 144A.
Status	Senior Unsecured
Issue size	US$ 350 million
Settlement date	26 July 2016
Maturity date	26 July 2023
Coupon	6.000%
Re-offer yield	6.125%
Re-offer price	99.297%
Benchmark	UST 1.375% due June 2023
Spread over mid-swaps	489.0bps
Spread to UST	475.7bps
Listing/Law	Irish Stock Exchange/English Law
CEMBI eligibility	Yes

LIABILITY MANAGEMENT:

- In parallel to the new issue by BGEO, BOG completed an any and all cash tender and exit consent of its US$ 400 million due 2017 note
- Early bird incentive offer expired on July 14th, offering investors a tender price of 105.75% (versus 102.75% at final expiry on July 28th)
- Participation ratio of 78.5% as of early participation deadline (US$ 313.9 million notional), surpassing the necessary majority for the exit consent to pass

TENDER OFFER DETAILS

Tender Type	Any-and-all cash tender offer
Announcement date	June 30, 2016
Total consideration	105.750%
Early tender premium	3.000%
Tender offer consideration	102.750%
Total tendered	US$ 313.9 million (78.5%)
Early participation deadline	July 14, 2016
Expiration date	July 28, 2016

Nov 2013
Issues Eurobonds
US$ 150,000,000 7.75% Eurobond consolidated with US$ 250 million 2012 bonds

Jun 2014
EFSE
EUR 18,500,000 for SME and micro businesses

Dec 2014
US$ 114 million capital raise
Share price GBP 20.25
Raised capital to purchase Privatbank and support further acquisitions

Apr 2015
European Investment Bank
EUR 40,000,000 financing for SME and micro businesses with seven-year maturity

May 2015
IFC
US$ 90,000,000 subordinated debt

Sep 2015
Citibank
US$ 40,000,000 financing for SME

Nov 2015
GHG IPO
Proceeds of GBP 70,697,598 from premium listing on London Stock Exchange

May 2016
EBRD
GEL 220,000,000 for M/SME financing, with five-year maturity

Jul 2016
Issues Eurobonds
US$ 350,000,000 6% seven-year Eurobond

2016
EBRD, IFC, EFSE, BSTDB, DEG, FMO, Proparco, responsAbility
Around US$ 230,000,000 senior loans for Banking and Investment Businesses

2016

OUR STRATEGY – delivering on our 4x20 strategy

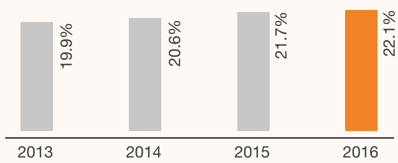
4x20 strategy – Georgia-focused investment platform – reflects our competitive strengths and opportunities in the market

During 2016, our 4x20 strategy entailed a 20% metric for our ROAE, retail loan growth, minimum IRR for investment business and its profit contribution to the Group's profit. This strategy is built to allow us to capture compelling investment opportunities in Georgia's corporate sector, on top of our continued commitment to growing our strong Banking Business.

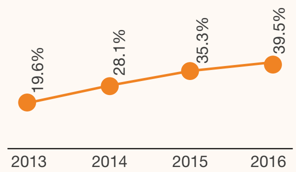
PERFORMANCE AGAINST STRATEGY IN 2016

BANKING BUSINESS

1 **ROAE 20%+**



2 **Retail loan book growth 20%+**

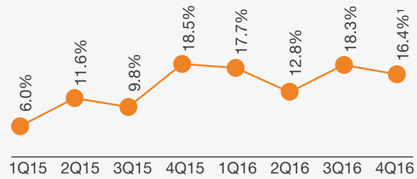


INVESTMENT BUSINESS

3 **Min. IRR of 20%**

121% IRR from GHG IPO
78% IRR from m^2 Real Estate projects

4 **Profit up to 20%**



1 Excluding deferred tax adjustments, gain from bargain purchase of GGU and other net non-recurring items. Including the deferred tax adjustments and other net non-recurring items, Investment Business contributed GEL 13.4 million or 15.1% to the Group's profit in 4Q16 and GEL 119.1 million or 27.8% to the Group's profits in 2016.

STRATEGIC TARGET		2016 PERFORMANCE
Banking Business	20%+ Return on Equity in the Banking Business	**Record profitability:** • Revenue up 6.8% y-o-y to GEL 802.5 million in 2016 • Profit up 12.8% y-o-y to GEL 309.4 million in 2016 • Non-interest income up 3.1% y-o-y to GEL 245.7 million in 2016 • NIM stood at 7.5% • ROAE stood at 22.1% in 2016 **Operational efficiency and scale:** • Cost to Income ratio at 37.7% in 2016 **Prudent risk management:** • Cost of Risk of 2.7% in 2016
	20%+ Retail loan book growth	• Net retail banking loan book grew 39.5% y-o-y to GEL 3,902.3 million, while client deposits increased 28.4% y-o-y to GEL 2,413.6 million. Growth on constant currency basis was 31.5% and 19.2% for retail net loan book and retail deposits, respectively • Retail Banking Loan Yield was 16.8% in 2016 compared to 17.6% in 2015, Retail Banking Cost of Client Deposits decreased to 3.3% in 2016 from 3.9% in 2015
Investment Business	Internal rate of return of minimum 20% for each of the individual future investments of the Group	• Achieved 121% IRR and 3.9x-money on our investment in GHG at IPO in November 2015 • 78% IRR from m^2 Real Estate projects
	Profit up to 20% of BGEO Group profit	• Investment Business generated a profit of GEL 119.1 million, 27.8% of the Group's profit • 2016 profit includes material one-offs from deferred tax adjustments, gain from the purchase of GGU and other net non-recurring items. Excluding these one-offs, profit from our Investment Business was GEL 60.8 million, or 16.5% of the Group's profit • Furthermore, if we exclude our publicly listed subsidiary, GHG, from this figure, then our Investment Business profit was GEL 26.0 million or 7.8% of the Group's profit
Dividend Payout	Dividend payout ratio of 25-40% from Banking Business	• At the 2017 AGM the Board intends to recommend an annual dividend of GEL 2.6 per share payable in Sterling at the prevailing rate, representing 32.4% payout ratio. This represents an increase of 8.3%, compared to the annual dividend of GEL 2.4 per share last year
	Capital return from investment	• In addition, at least three capital returns over the next five years will be targeted in the light of potential divestments, with the objective of ensuring that these three capital returns total at least 50% of the regular dividends from the Banking Business. These capital returns could take the form of either special dividends, share buybacks and/or stock dividends • As part of this commitment, in 2016, the Board has approved a US$ 50 million share buyback and cancellation programme over a two-year period. In addition, the Group has instructed the administrators of the Group Employee Benefits Trust to purchase shares in the market totaling approximately US$ 20 million, which was completed at the beginning of 2017 • As of February 2017, we completed GEL 98.2 million worth of market purchases of BGEO shares for the Employee Benefit Trust since 2015

OUR STRATEGY – going forward

4x20 strategy going forward

At the end of 2016, the Board approved to keep our 4x20 strategy, as declared at the end of 2015, unchanged. Our key goal is to continue producing high returns in the long run for our shareholders.

BANKING BUSINESS	INVESTMENT BUSINESS
1 **ROAE 20%+**	3 **Min. IRR of 20%**
2 **Retail loan book growth 20%+**	4 **Profit up to 20%**

DIVIDENDS

- **Ordinary dividends:** linked to recurring profit from the Banking Business. Aiming at a 25-40% dividend payout ratio
- **Capital return:** aiming for at least three capital returns within five years (2015-2019 period)
- Aiming for Capital Return to represent at least 50% of regular dividend paid from Banking Business within 2015-2019 period

1 AT LEAST 20% RETURN ON EQUITY IN THE BANKING BUSINESS

Profitability is expected to be driven by further growth in both the Retail and Corporate Investment Banking businesses with an increased focus on the significantly more profitable retail franchise, as we aim to increase our share in retail loans.

2 AT LEAST 20% RETAIL LOAN BOOK GROWTH

Our retail net loan book has grown at a CAGR of 26.1% from 2010 to 2016 and we remain committed to at least 20% growth in our retail customer lending. Our focus persists on increasing the retail loan portfolio to 65%, from its current 61%, over the next two years. Specifically, we are looking to continue to further grow our Express (self-service) Banking network as well as our payments business, while benefiting from our transformed retail mass market operations, through the customer-centric Bank of Georgia brand and significantly increase our market share in the mass affluent segment with our premium brand Solo.

3 INTERNAL RATE OF RETURN OF MINIMUM 20% FOR EACH OF THE INDIVIDUAL FUTURE INVESTMENTS OF THE GROUP

We will target investments with a minimum of 20% IRR and partial or full exit in a maximum of six years. 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 three to four years post-acquisition with a view to potential future exits, including by way of stock market listings or trade sale.

4 A MAXIMUM 20% PROFIT CONTRIBUTION, OF THE GROUP'S PROFITS, FROM OUR INVESTMENTS IN NON-BANKING BUSINESSES

We aim to remain primarily a banking group, with an investment arm. No matter how well our non-banking companies do in terms of operating results, we want to see their exit to unlock the value and with the generated profit return capital to our shareholders and pursue new opportunities – in the event that we see them.

Dividends: Our future dividend policy is expected to comprise recurring ordinary 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 provide capital returns upon the realisation of our financial investments and are targeting at least three capital returns in the next five years. We aim for capital returns to represent at least 50% of regular dividends paid from the Banking Business within 2015-2019. Some of the profits may be reinvested if further attractive investment opportunities arise. This statement should be read alongside our business model and projected returns on page 15 and our proposed dividend payment this year to be approved at our Annual General Meeting.

HOW WE ARE GOING TO ACHIEVE OUR TARGETS OVER THE NEXT TWO TO THREE YEARS

Banking Business – crown jewel in our Group and the key driver of profitability

Two key metrics we measure our Banking Business performance against are Return on Average Equity (ROAE) and retail loan book growth, each targeted at the 20% level. To further improve profitability, in 2015 we set a three-year target to increase the share of Retail Banking lending in the overall loan book, from then 55% to a targeted 65% level. Bank of Georgia is also well positioned in terms of both capital and liquidity to deliver on its growth strategy.

We have two segments in the Bank, of which Retail Banking will drive most of our Banking Business growth and Corporate Investment Banking will improve our ROAE, with the latter also contributing an increasing share of our fee and commission income. Wealth Management, under Corporate Investment Banking, will focus on further strengthening our regional private banking franchise.

The Bank's strategic targets are:

- Over the next one to two years, the Bank of Georgia aims to shift the mix of its customer lending to become 65% retail and 35% corporate (currently 61% retail; 39% corporate). In the Retail Banking segment, the Bank aims at increasing mass retail product per client ratio from the current 1.7 to 3.0 in the next three years
- In the Express Banking segment, the Bank will aim to double the number of transactions over the next two to three years
- In Solo Banking, the Bank will aim to increase the number of Solo clients to 40,000 (19,267 as at 31 December)
- The Bank will continue to reduce concentration risk in the corporate lending portfolio with a target for the top ten borrowers to represent less than 10% of the total loan portfolio (currently 11.8%)
- The Bank will aim to develop a significant regional private banking franchise to reach AUM of GEL 2.5 billion (currently GEL 1.6 billion)

In addition, over the medium-to-long term:

- The net interest margin is expected to be in the 7.25-7.75% range (currently 7.5%)
- The Bank aims to manage to a cost/income ratio of around 35% (currently 38%)
- The Bank will continue to enhance its already prudent risk management practice, and will aim to maintain its Non-Performing Loans coverage ratio in the range of 80-120% through the economic cycle (currently 86.7%) – with a normalised 100% ratio. Through the long-term economic cycle, the Bank's cost of risk ratio is expected to be c.2.0% per annum

TWO STRATEGIC TARGETS

1 ROAE

Target: 20%+
2016: 22.1%

2 RETAIL BANKING GROWTH

Target: 20%+
2016: 39.5%

Ordinary dividends:
linked to recurring profit from Banking Business. Aiming at a 25-40% dividend payout ratio

FIVE STRATEGIC PRIORITIES FOR THE NEXT THREE YEARS

1 INCREASE PRODUCT TO CLIENT RATIO FROM 1.7 IN 2015 TO 3.0

- Client-Centric Model
- Express
- Digital Banking

2 GROW SOLO & SME

3 DECONCENTRATE CIB

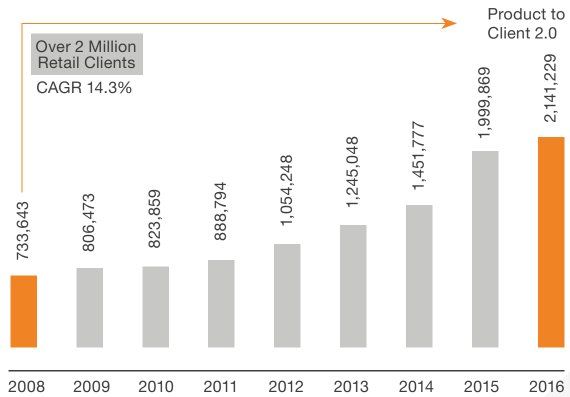
4 GROW FEE INCOME

5 REGIONAL PRIVATE BANKING HUB

Over two million retail clients

Over the past decade, Retail Banking delivered a stellar performance by reaching c.2.1 million clients, delivering loan book growth and ROAE targets. While we were targeting this milestone, the Bank was product-centric with an aggressive client acquisition approach. Having over two million clients now, this phase is over and we target growth through increasing product to client ratio.

NUMBER OF RETAIL BANKING CLIENTS



In order to better connect with the various segments of the retail client base, Bank of Georgia operates a multi-brand strategy.

We began implementing our Express Banking strategy in 2012 by rolling out small-format, Express branches offering predominantly transactional banking services to clients through ATMs and Express Pay terminals.

Under the Bank of Georgia brand we target the mass retail segment. This is our flagship brand and the most significant profit contributor. We are currently transforming our service delivery to mass retail clients from a product-centric to a customer-centric one.

In April 2015, we launched Solo – a fundamentally different approach to premium banking. As part of the new strategy, the Bank's Solo clients are given access to exclusive products and the finest concierge-style environment at our newly designed Solo lounges and are provided with new lifestyle opportunities, such as exclusive events and handpicked lifestyle products.

RETAIL BANKING SEGMENTS

Two- to three-year targets and priorities

Segments	EXPRESS BANK	ᲡᲐᲥᲐᲠᲗᲕᲔᲚᲝᲡ ᲑᲐᲜᲙᲘ BANK OF GEORGIA	SOLO	MSME Micro, Small and Medium **Business**
	Emerging Retail	Mass Retail	Mass Affluent	
Strategic Focus	Double number of transactions	Product/client ratio growth to 3.0 from 1.7 (in 2016)	Client growth to 40,000 from 8,507 (in April 2015)	Increase number of clients
Clients	472.0k	1,523.1k	19.3k	126.9k
Full year profit	GEL 34.2mln +107% y-o-y	GEL 104.8mln +23% y-o-y	GEL 25.3mln +95% y-o-y	GEL 46.1mln +63% y-o-y
Profit per client	GEL 77.4	GEL 64.9	GEL 1,691.9	GEL 387.2
P/C ratio	3.1	1.7	6.9	1.2
Branches	128	134	11	n/a

RETAIL BANKING – CLIENT-CENTRIC, MULTI-BRAND STRATEGY

EXPRESS – CAPTURING EMERGING RETAIL BANKING CLIENTS

Our Express Bank brand is aimed at the emerging bankable population. Express serves as a platform for bringing the currently under-banked population into banking and its main focus is to enable its client base to transact in a fast and easy way.

In 2016, we installed 140 new Express Pay terminals, resulting in 2,729 total Express Pay terminals as of the end of the year. We are now leaders in Georgia in the payment systems market. We have combined our travel card for the Tbilisi bus and metro (of which we are the sole provider) and our contactless card with a loyalty programme linked to the customer's current account to create an "Express card" and issued 566,394 such cards in 2016. At the end of the year we had 1,279,113 Express cards outstanding. We also sell only a limited number of banking products to our Express banking clients. Currently, 85 out of a total of 128 Express branches are located in Tbilisi and going forward we would like to roll out Express branches in regions to reach a wider population. The all-in cost of opening a new Express branch is just US$ 50,000.

Nowadays, Express is the major growth driver in our fee and commission income from the Retail Banking segment and a strong franchise attracting the unbanked population to the Bank, eventually growing them into mass retail customers.

BANK OF GEORGIA – UNPARALLELED MASS RETAIL BANKING FRANCHISE

Under the Bank of Georgia brand, we serve mass retail clients. However, we now have a relationship with c.2.1 million clients and our challenge by 2018, as declared in 2015, was to increase the product to client ratio from a low 1.7 at the end of 2015, to 3.0 in 2018. To this end, we are shifting our business model from product to client-centric. During 2016, we worked on three main areas to achieve our goal of higher product to client ratio in this segment.

We recognise that our current service model and branches are built around products and they are not convenient to our clients. We have product specialist bankers and separate corners for various products and clients must navigate the branch space to get all the services they need. To address this, we have trained our bankers to become universal product bankers and also freed up their time from processes that do not involve client interaction, by moving those processes to the back office. We also redesigned the branches to build them around the client and make their experience comfortable. In 2016, we moved to a focused service model in 15 branches, so called live-labs, where clients have a single touchpoint to acquire products and receive consultation. In the medium term, we intend to convert the Bank of Georgia brand into a single touchpoint front office organisation. We are launching our first client-centric branch in April 2017 and are aiming to complete the redesign of most of the branches by the end of 2017.

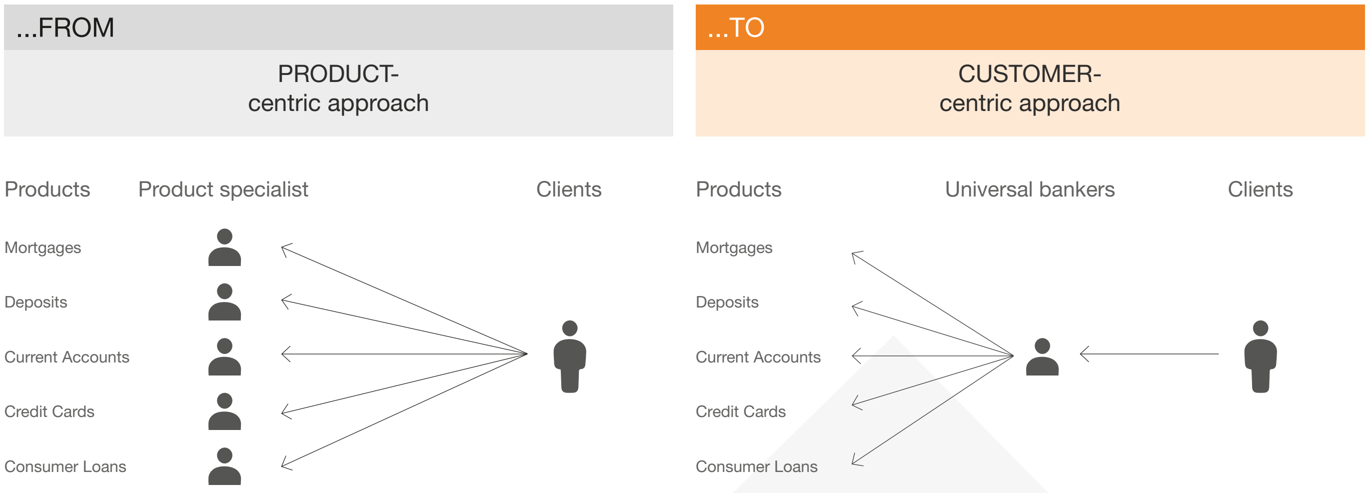
SOLO – A FUNDAMENTALLY DIFFERENT APPROACH TO PREMIUM BANKING

The Solo brand is used for servicing the emerging mass affluent segment. Our new Solo model was introduced in 2015. It is a fundamentally different approach to premium banking. As a part of the new strategy, the Bank's Solo clients are given access to exclusive products and the finest concierge-style environment at our newly designed Solo lounges and are provided with new lifestyle opportunities, such as exclusive events and handpicked lifestyle products.

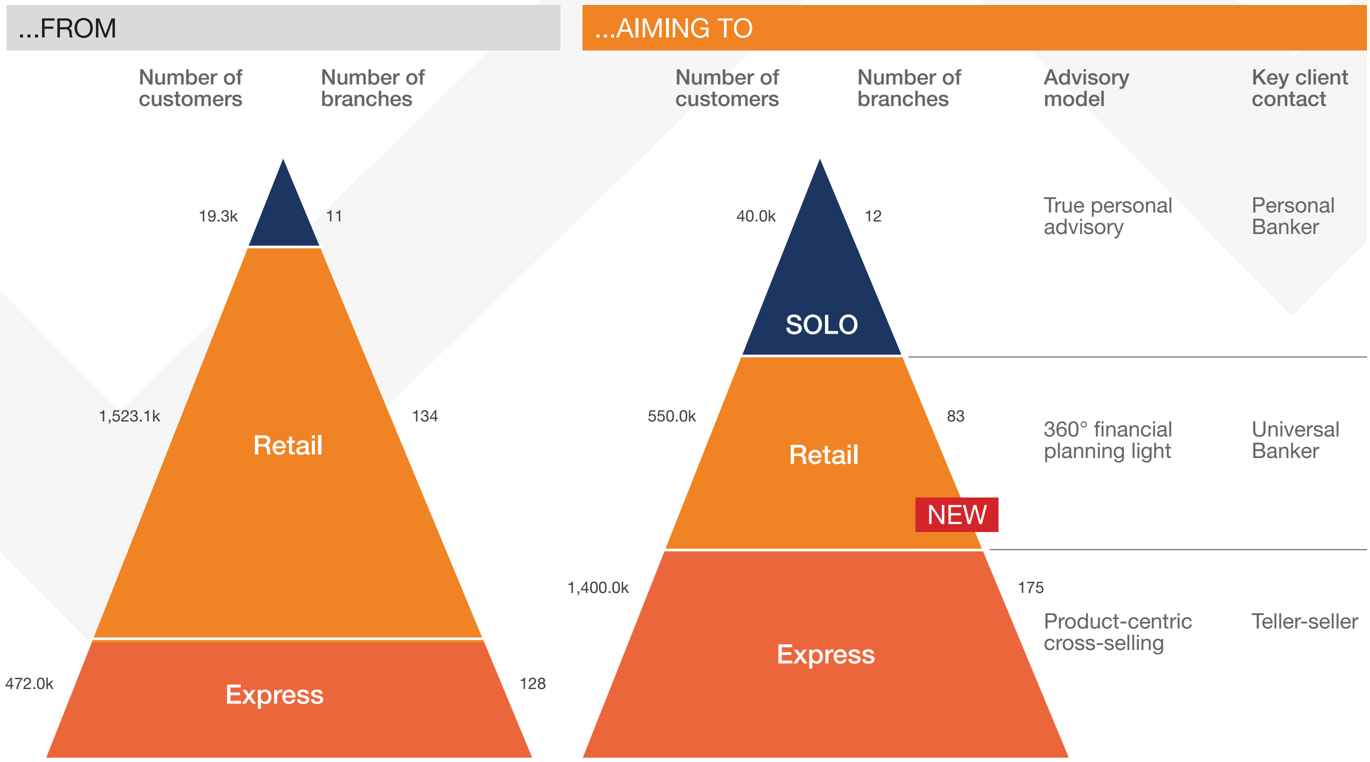
To qualify for Solo services one needs to have an income of GEL 3,000 per month. At Solo lounges, clients are served by personal bankers and, in addition to the banking products, are offered luxury goods at cost and other lifestyle offers including a travel magazine and entertainment. In 2016 Solo organised the concerts with the world famous artists. The events were limited to Solo clients only, which created further interest in the Solo franchise. We intend to grow the number of Solo clients to 40,000 by the end of 2018, from the current 19,267 level. Net profit per Solo client stood at GEL 1,692 in 2016, over 26 times what we have in the mass retail segment under the Bank of Georgia brand.

NEW SERVICE MODEL

New way of thinking: CUSTOMER FIRST!



CUSTOMER SEGMENTATION



GHG – LEADING IN ALL SEGMENTS OF GEORGIAN HEALTHCARE ECOSYSTEM

GHG will continue to focus on building its presence throughout the Georgian healthcare ecosystem, while also focusing on enhancing its margins and achieving higher intergroup synergies through various cross-selling initiatives. GHG's strategic priorities are set out below:

In the hospitals and ambulatory clinics business GHG's aim is to:

- At least double 2015 hospital and ambulatory revenues in 2018, with an EBITDA margin of 30%
- Launch two hospitals with a total of c.650 hospital beds in 2017, achieve a 25% market share of hospital revenues by 2018, and a market share of 28% in the medium-to-long-term (currently 20% share of revenues and 23% share of hospital beds)
- Roll out a network of ambulatory clinics to achieve a 5% market share of revenues in 2018 and a 15%+ market share of revenues in the medium-to-long term (currently 1.5%)
- The key strategic focus in the hospital business over the next few years will be to enhance the Group's footprint in Tbilisi, continue to fill the current gaps in medical services in Georgia and strengthen and expand services in elective care
- In the ambulatory business, the key focus will be on developing and achieving significant sales growth through a wide variety of distribution channels – including pharmacies, insurance, corporates and state programmes

In the pharmaceuticals business GHG's aim is to:

- Complete the planned integration of GPC and ABC businesses, and capture the significant synergy potential
- Achieve a 30%+ market share in 2018, whilst increasing the EBITDA margin to 8.0%+
- Continue to decrease the cost of goods sold/services, by consolidating GHG's pharmacy and hospital purchases of pharmaceuticals and medical disposables
- Enhance the retail margin by launching private label and contract manufacturing initiatives, increasing the number of loyalty programme users and expanding sales to hospitals
- Extract revenue synergies with ambulatory clinics by increasingly redirecting patients from pharmacies to ambulatory clinics through various cross-selling initiatives

In the medical insurance business GHG's aim is to:

- Reduce the combined ratio to less than 97% over the next few years (currently 104.7%)
- Improve Group synergies by seeking to retain more than 50% of medical insurance claims costs within the Group (currently 23%)

GHG HAS FULL PRESENCE IN GEORGIAN HEALTHCARE ECOSYSTEM

SEGMENT		HOSPITALS	AMBULATORIES	PHARMACY	INSURANCE
MARKET (2015)		GEL 1.2bln	GEL 0.9bln	GEL 1.3bln	GEL 0.17bln
		By Revenue | Beds	By Revenue	By Revenue	By Revenue
MARKET SHARES	In 2015	18% | 27%	<1%	–	38%
	2016	20% | 23%	1.5%	15%	35%
TARGET MARKET SHARES	YE2018	25% | 28%	5%	30%+	30%+
	Long-term	30%+	15%+	30%+	30%+
Progress toward strategic goals in 2016		• Renovations at Deka & Sunstone (budgets on track; slight delay at Deka) • Launched 64 new services with target annual revenue of GEL 18.6mln	• Launched six clusters	• Entered pharmacy segment by purchasing third & fourth players • Successful GPC integration: synergies above initial guidance	• Increased claims retained within the group from 16.1% to 23.3% • Turning the corner in profitability

m^2 – A FAST-GROWING, LEADING REAL ESTATE DEVELOPER AND ASSET MANAGER IN GEORGIA

Over the past several years, m^2 Real Estate has established itself as one of the most recognisable and trustworthy residential housing brands in the country. For the next three years, the main priority for m^2 Real Estate will be to target an internal rate of return of 40%+, whilst delivering a capital return to the Group of US$ 20-25 million in 2020 by:

Developing remaining residential land bank. The total value we are aiming to unlock from the remaining residential land bank is US$ 26.3 million with 5,126 apartments (in addition to 827 remaining apartments to be sold in the existing seven projects, both completed and ongoing).

Franchising real estate development in Georgia. m^2 will focus on franchising its brand to develop third-party land plots and generate a fee income by capitalising on its:

- *Strong brand name.* m^2 enjoys 92% customer brand awareness among real estate developers in Georgia
- *Pricing power.* Under m^2, apartments can sell at a higher price than under other brands. m^2 has development expertise that the company uses to achieve efficiency in planning and design stages which drives revenues as well as margins
- *Sales.* m^2 is distinguished by its ability to accomplish strong sales performance through dedicated sales personnel and access to finance. Pre-sale reduces equity needed to finance the projects. The top two banks provide mortgages under m^2 completion guarantee
- *Execution.* m^2 has an excellent track record for the projects completed on time and budget. The company manages the entire process from feasibility through apartment handover and property management. m^2 has discounts from the contractors and can do development at much lower costs. The company can do turnkey projects as well

Growing yielding business. m^2 will continue growing its yielding asset portfolio through:

- *Commercial space:* retaining commercial real estate on ground floors in m^2 developed projects, opportunistic purchases of the yielding real estate in prime locations, high street, industrial and office space real estate assets
- three-star hotel development: m^2 obtained Ramada Encore exclusivity for seven years and aims to develop three hotels (three-star, select service mixed-use hotels) in the next seven years in Tbilisi and Kutaisi with minimum room-count of 370 in total, catering to budget travellers. When hotels are in a mixed-use development, m^2 finances the equity needs of the hotel from the profits and land value unlocked through the sale of the apartments in the development. Construction of a three-star hotel in Kutaisi and a mixed-use hotel in Tbilisi will start in 2017 and complete in 2018

TARGETS AND PRIORITIES FOR THE NEXT TWO TO THREE YEARS

1 **Unlocking land value by developing housing projects. Buy land opportunistically**

2 **Start developing third-party lands**

3 **Accumulate yielding assets from own-developed projects:**

- Mainly retain commercial real estate in residential buildings
- Develop hotels and apartments (mixed-use) to increase yielding business

As at 31 December, 2016:

- NAV (Net Asset Value) – US$ 52.8 million
- Land bank – US$ 27.5 million
- Yielding assets currently – US$ 18.7 million
- Deferred revenue – US$ 36.1 million (inc. VAT)

- Capital management discipline – aim to pay US$ 20-25 million dividends to BGEO in 2019
- Possibility to establish m^2 as a REIT in the local market

GGU – NATURAL MONOPOLY IN WATER BUSINESS, WITH UPSIDE IN ELECTRICITY GENERATION AND SALES

In July 2016, the Group acquired the remaining 75% equity stake we did not own of GGU, our water utility and energy business, for a cash consideration of US$ 70 million and GGU is fully consolidated in the accounts of BGEO from the acquisition date. The Group has a significant opportunity to increase GGU's operational cash flow over the next few years from a combination of improving cash collection rates, increasing energy efficiency and reducing water loss rates, and by the development of additional revenue streams.

GGU is an established business, targeting further EBITDA growth as a result of its strategy, which implies strong cash flow generation post-prudent capital expenditures. GGU aims to achieve EBITDA of more than GEL 80 million in 2018, whilst establishing a renewable energy platform targeting 200MW operating,57MW ready-to-build and 150MW pipeline for hydro power plants, and 20-20MW ready-to-build wind farms and solar photo-voltaic stations by 2019, with an IRR in excess of 20%. We are aiming to prepare the combined utility and renewable energy business for an IPO in approximately two to three years.

Key measures to increasing operational cash flow are outlined below:

- **Stable cash collection rate.** The Georgian water utility sector has low, but improving collection rates among households. The latest available data (from 2005), shows average collection rates at only 65% in major cities. The average collection rate from households throughout Georgia was only 45%. GGU's collection rate was around 95% in 2016
- **Increasing energy efficiency and reducing water loss rates.** The Georgian water utility sector is also characterised by the existing high level of water delivery losses of an average 50%, which is about four to five times higher than that in Western Europe, creating an opportunity for efficiency gains. Reducing water delivery losses to 30%, from the current 50% level, would result in a significant cost reduction. There is a dual-effect from water delivery loss reduction, as freed-up energy can be sold to third parties
- **Generation of additional income streams.** This will require the utilisation of GGU's existing infrastructure and the development of hydropower plants to increase electricity sales to third parties and installing turbinators to achieve more efficient water supply

Steering GGU towards an eventual IPO is another key project for us – similar to the GHG IPO we completed in 2015. In preparing for its IPO, GGU will be making its water utility more efficient and, if opportunities arise, will make bolt-on acquisitions in the sector. At the same time we will be developing untapped hydro, wind and solar energy resources. In 2017 Archil Gachechiladze, a long-time professional at BGEO Group, was appointed as a CEO of GGU to lead the company on its road to an eventual IPO, aimed for in two to three years' time.

TARGETS AND PRIORITIES FOR THE NEXT TWO TO THREE YEARS

ACQUISITION	Purchased remaining 75% of GGU at 4.2x EV/EBITDA 2016E Recognised GEL 31.8 million negative goodwill from the acquisition	
BUSINESS	1 UTILITY WATER UTILITY	2 ENERGY HYDRO & other renewables
CURRENT STANDING	**REVENUE 2016:** GEL 127.4 million **EBITDA 2016:** GEL 68.1 million 70% water losses	**HYDROs:** 149MW operating 50MW ready to build 57MW pipeline
MEDIUM TERM GOAL	**EBITDA 2018:** GEL 80 million+ 50% water losses	**HYDROs:** 200MW operating 57MW ready to build 150MW pipeline **WIND & SOLAR:** 20-20MW ready to build
TARGETING	OPPORTUNISTIC DIVIDENDS	VALUE CREATION UPSIDE
	Aim to IPO in two to three years' time	

CASE STUDY – GGU ACQUISITION

The purchase of the remaining 75% stake in Georgian Global Utilities

In June 2016 the Group announced its agreement to acquire the 75% equity stake in Georgian Global Utilities Limited that it did not already own. In July 2016 the acquisition was completed for cash consideration of US$ 70 million and the Group now owns 100% of GGU. The transaction put GGU's enterprise value at GEL 287.5 million, or 4.2x EV/EBITDA 2016E. The transaction was both earnings and book value accretive from day one.

GGU is a privately-owned company, which benefits from a natural monopoly that supplies water and provides wastewater services through its wholly-owned subsidiaries to 1.4 million people (approximately one-third of Georgia's total population) in Tbilisi, Mtskheta and Rustavi. In addition, GGU owns and operates four hydropower generation facilities with a total capacity of 149.1MW. GGU was privatised in 2008. The terms of the privatisation include certain commitments by the Government and the investor, part of which have been discharged, and it is expected that the remaining commitments (primarily requiring refurbishment of assets) will be discharged in 2018. BGEO believes that GGU operates in a stable regulatory environment.

GGU is self-sufficient in power for water transportation and it benefits from additional revenue from third-party electricity sales. GGU owns and operates four hydropower generation facilities with a total capacity of 149.1MW and invests in additional capacity for electricity generation through the development of hydro power plants, as well as solar and wind power sources. Average annual production varies between 380GWh and 560GWh, depending on rainfall during the year. Its average annual electricity consumption for its own account varies between 250GWh and 300GWh, which means GGU is self-sufficient in power for water transportation and it benefits from additional revenue from third-party electricity sales. During the last few years the company has achieved certain efficiencies in terms of its own energy consumption. The involvement in hydro power also provides revenue diversification.

Room for efficiencies in water business from improving the worn-out infrastructure. The Georgian water pipeline infrastructure is dilapidated due to legacy underinvestment. The poor condition of the infrastructure is the main reason for leaks and accidents, causing on average 50% water losses annually. An additional 20% loss of water is caused by unregistered customers. The current high level of water losses is significantly worse than the peer average and represents a strong efficiency upside for the business. GGU owns and operates a water supply network of around 2,700km and about 1,700km of wastewater pipelines. It also has 45 pumping stations, 84 service reservoirs with a total capacity of 320,000m^3 and one water treatment plant. Around 520 million m^3 of potable water is supplied from water production/treatment facilities annually. By improving the pipeline infrastructure and as a result reducing the water supplied to its utility customers, GGU expects to free-up water supply for additional electricity generation, which in turn can be sold to third parties.

Water tariff and regulation. The current water tariff for residential customers stands at GEL 3.15 (per month, per capita) for non-metered customers and at GEL 0.27 per m^3 for metered customers. All of GGU's commercial customers are metered and the tariff stands at GEL 4.40 per m^3. The tariff is set per cubic metre of water supplied to customers. Georgian National Energy and Water Supply Regulatory Commission (GNERC), regulates GGU's water tariffs. GNERC is an independent regulatory body, not subject to direct supervision from any other state authority, but accountable to parliament. It is funded predominantly from the fees paid by market participants (0.3% of total revenues).

Strong cash flow generation is expected to enable GGU to sponsor stable dividend payouts to shareholders starting from 2018. GWP, a wholly-owned subsidiary of GGU, which operates the water business, has a credit rating of BB- with stable outlook from Fitch.

In December 2014, BGEO acquired a 25% shareholding in GGU for c.GEL 49.4 million (US$ 26.25 million). The acquisition was earnings as well as book value accretive in year one. In addition, BGEO had a call option to acquire an additional 24.9% shareholding within a ten-month period for a further US$ 26 million, plus interest at 20% per annum accrued on the option consideration from the closing date of the initial shareholding acquisition until the call option exercise date, less any dividends distributed through the call option period. Subsequently, BGEO did not exercise the call option mainly due to Lari depreciation which made the exercise of the option unattractive at that time.

The outstanding performance of GGU in 2015 was primarily driven by efficiency improvements achieved following the appointment of a new management team. Since 2014, GGU put in place a strong management team and streamlined operations, however, there remains room for significant further improvement. GGU has reported growing revenues, with a 4.4% CAGR 2010-2016 and revenues of GEL 127.4 million for 2016, up 7.7% y-o-y. EBITDA was GEL 68.1 million in 2016, up 10.3% y-o-y, with an EBITDA margin of 53.0%, up 100bps y-o-y. GGU's debt to EBITDA ratio stood at 1.6-times at the end of 2016.

The combination of GGU's strong performance during 2015 and the prospect of significant further improvement over the medium term led the BGEO Board of Directors to make the decision to step up the Group's investment in GGU by purchasing the remaining 75% stake. In exchange for the 75% stake in GGU, BGEO paid cash consideration of US$ 70.0 million (c.GEL 164.2 million). This cash consideration was paid in full at the closing of the transaction, within one month following the signing of the Share Purchase Agreement (SPA). Additionally, as contemplated by the SPA, GGU distributed dividends in the aggregate amount of GEL 13.0 million to its existing shareholders (including BGEO Group PLC), on a pro rata basis, before the completion of the GGU acquisition. BGEO funded the acquisition through the Eurobonds it issued in July 2016. GGU's planned capital expenditure programme is fully funded and, accordingly, BGEO does not expect that GGU will require any additional equity financing in the medium term.

TRANSACTION RATIONALE

Exit strategy through potential IPO is feasible

Strong potential for value generation for the shareholders in the short term

Strong management and streamlined operations but room for potential further improvement exists

A profitable company with significant capacity for growth

A natural monopoly

Cash generating business, no additional equity financing required for planned capex

Potential to improve utilisation

TELIANI – CREATING A LEADING BEVERAGES PRODUCER AND DISTRIBUTOR IN THE SOUTH CAUCASUS

Teliani Valley is a leading wine producer in Georgia, selling around three million bottles of wine in 12 countries globally per annum, with about 60% of its revenue coming from exports. Teliani has strong production and distribution franchise, and we aim to leverage this expertise by launching beer production in partnership with Heineken. Teliani will produce beer in Georgia and sell it throughout the South Caucasus (c.17 million population). Note that Heineken does not produce in either the Caucasus or Turkey. Of the c.US$ 41.3 million investment in the beer project, US$ 21.7 million is equity of which US$ 16.3 million is BGEO's share. We expect EBITDA to grow to c.US$ 12.8 million in 2020, up from current US$ 1.4 million, with growth primarily driven by the expansion into the beer segment. A trade sale seems the most likely exit.

CONSTRUCTION OF THE BEER FACTORY WAS COMPLETED IN 2016



GOAL – BECOME LEADING BEVERAGES PRODUCER AND DISTRIBUTOR IN THE SOUTH CAUCASUS

BUSINESS SEGMENTS

Wine production

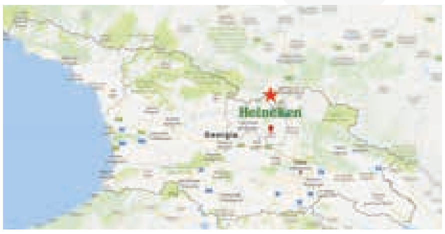
- c.3 million bottles sold annually
- GEL 29.8 million revenue in 2016
- GEL 3.4 million EBITDA in 2016
- 60% of sales from export

Distribution

- 4,600 sales points
- Exporting wine to 12 countries, including all FSU, Poland, Sweden, Finland, USA, Canada, Brazil, China, Thailand, Singapore

Beer production

- Launch beer production facility in Georgia
- Ten-year exclusivity with Heineken to sell in Georgia, Armenia and Azerbaijan (17 million population)



PRIORITIES BY 2018

Wine production

- Grow in line with market locally
- Enhance exports

Distribution

- Enhance product portfolio and become the leading FMSG distributor in Georgia

Beer production

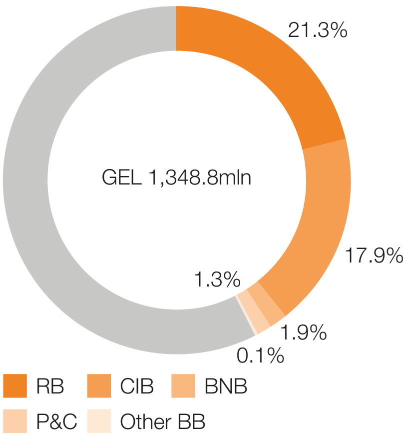
- Achieve 10% market share

STRATEGIC SALE

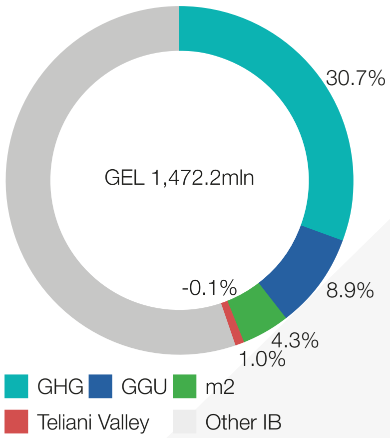
BGEO CAPITAL ALLOCATION

GEL 3,181.2mln[1]

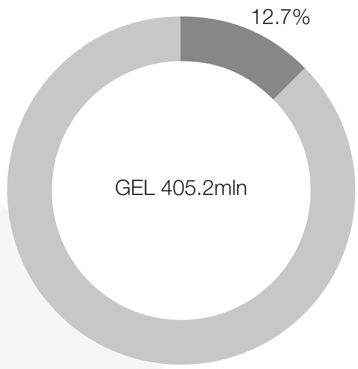
BANKING BUSINESS



INVESTMENT BUSINESS



CASH BUFFER



1. Comprises the sum of the following items: a book value of equity attributable to shareholders of BGEO of GEL 2,166.2 million, GEL 656.8 million market value adjustment to GHG's equity book value and long term borrowing of GEL 358.2 million.

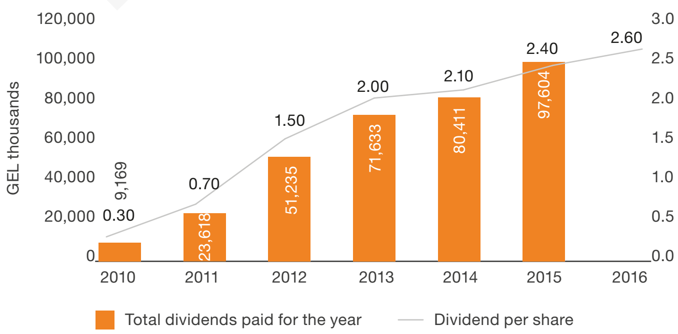
SOLID REGULAR DIVIDEND AND CAPITAL RETURN TRACK RECORD

REGULAR DIVIDENDS

Regular dividends: GEL 333.7 million cash dividend paid since 2010
DPS CAGR 10-16: 51.6%

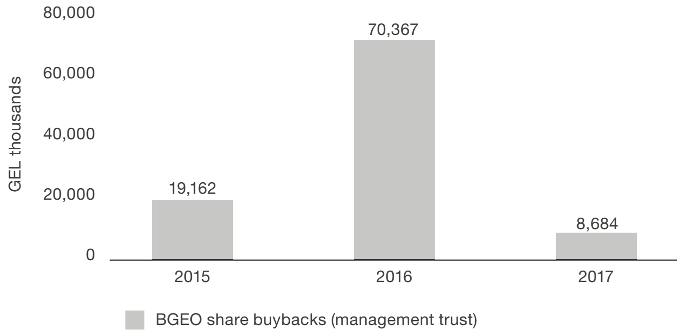
Payout Ratio: *10%* *15%* *30%* *36%* *33%* *34%*

2016 regular dividend: At the 2017 Annual General Meeting the Board intends to recommend an annual regular dividend for 2016 of GEL 2.6 per share payable in British Pounds Sterling at the prevailing rate. This is in the range of our regular dividend payout ratio target of 25-40% paid from the Banking Business profits and represents an 8.3% increase over the 2015 dividend.



CAPITAL RETURN

Capital return: GEL 98.2 million share buybacks since 2015. In November 2016, announced US$ 70 million share buyback programme for next two years (US$ 50 million to be cancelled, US$ 20 million for management trust)
Crystallised value: BGEO holds GEL 977.0 million worth of GHG shares*



* Calculation based on GHG stock market price as of 10 February 2017 and BGEO ownership of GHG of 65%.

KEY PERFORMANCE INDICATORS

A strong performance

Our KPIs for 2016 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 continuing progress in our Investment Businesses.

RETURNS KPIs

Diversified revenue sources, a growing loan book and efficient cost performance were the main drivers of the exceptional results in terms of profitability.

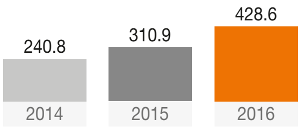
The resilience of NIM is a function of our distribution capabilities and pricing power. The substantial growth of the loan book and lower cost of funds during 2016 enabled our NIM to withstand downward pressures from increase of minimum reserve requirement mandated by the National Bank of Georgia in the second quarter of 2016 and high excess liquidity levels. The resulting robust growth in interest income, the further increased contribution of non-interest income to our revenue, and strong margins translated into 37.8% growth in profit.

In 2017 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 Investment Businesses.

For more information on our financial results, see page 53.

PROFIT (BGEO)
(GEL million)

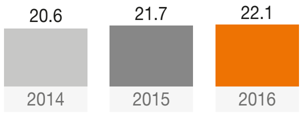
428.6



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
(Banking Business) (%)

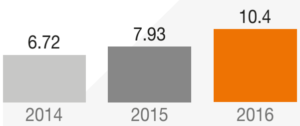
22.1%



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 (BGEO)
(GEL)

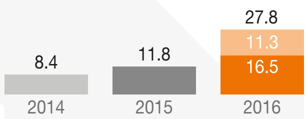
10.4



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

SHARE IN GROUP'S PROFIT
(Investment Business) (%)

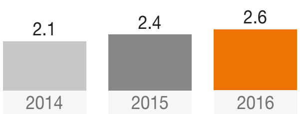
16.5%



Profit from Investment Business divided by the Group's total profit.

DIVIDEND PER SHARE (BGEO)
(GEL)

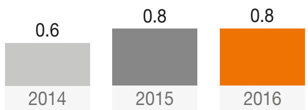
2.6



* At the 2017 Annual General Meeting the Board intends to recommend an annual regular dividend for 2016 of GEL 2.6 per share payable in British Pounds Sterling at the prevailing rate. This is in the range of our regular dividend payout ratio target of 25-40% paid from the Banking Business profits and represents an 8.3% increase over the 2015 dividend.

DIVIDEND PER SHARE (BGEO)
*(GBP)**

0.8



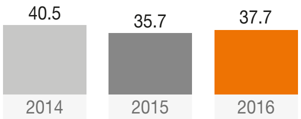
* The following GEL/GBP exchange rates are used for presenting GBP amounts: 2016: 3.2579 as of 31 December 2016 (the actual currency conversion date: 26 June 2017), 2016 dividends proposed for 2016 to be approved by shareholders at the 2017 AGM; 2015: 3.0376/GBP as of 11 July 2016, the currency conversion date for the year 2015; 2014: 3.5110/GBP as of 8 June 2015, the currency conversion date for the year 2014.

EFFICIENCY KPIs

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 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.

COST TO INCOME RATIO
(Banking Business) (%)

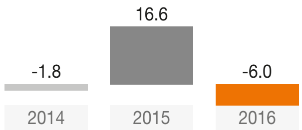
37.7%



Operating expenses divided by revenue.

OPERATING LEVERAGE
(Banking Business) (%)

-6.0%



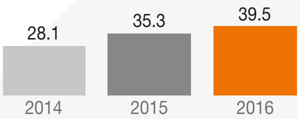
Operating leverage is measured as the percentage change in revenue less the percentage change in operating expenses.

GROWTH KPIs

The 24.5% loan book growth was mainly driven by our Retail Banking business, which posted a 39.5% growth in the loan book in 2016. Corporate Investment Banking loan book grew at 8.3% in 2016. We are targeting at least 20% growth of our Retail Banking loan book over the medium term.

NET RETAIL LOAN BOOK
(Banking Business) (% growth, y-o-y)

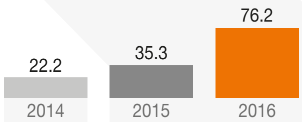
39.5%



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

INVESTMENT BUSINESS REVENUE GROWTH
(Investment Business) (% growth, y-o-y)

76.2%



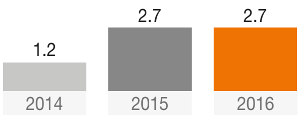
Revenue from Investment Business at the end of the year compared to the last year.

ASSET QUALITY KPIs

Our asset quality remained robust in 2016 despite local currency devaluation in the last quarter of the year. Retail loan book quality was resilient, as a result of our continued prudent risk management policies. Cost of Risk stood at 2.7%. NPL coverage ratio adjusted for the discounted value of collateral stood at a comfortable level of 132.1% and NPL to gross loans ratio improving slightly to 4.2%, from 4.3% a year ago.

COST OF RISK
(Banking Business) (%)

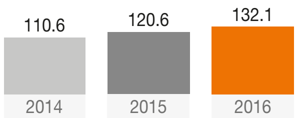
2.7%



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
(Banking Business) (%)

132.1%



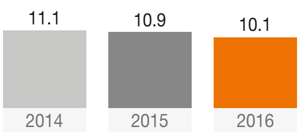
NPL coverage ratio adjusted for discounted value of collateral equals allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment).

CAPITAL KPIs

Capital adequacy ratios include GEL 99.5 million distributed as dividend from the Bank to the holding level on 29 December 2016. These funds are earmarked for regular dividends to be paid from BGEO Group in respect of the 2016 financial year and will be payable in 2017, subject to shareholder approval. Including this payment, NBG (Basel 2/3) Tier I and Total CAR is 9.1% and 14.4%, respectively. The risk weighted assets increased by 17.1%, reflecting the increase in interest earning assets during the year. In 2017 and beyond, we intend to maintain strong capital ratios above the regulatory requirements.

TIER I CAPITAL ADEQUACY RATIO, BASEL 2/3 *(%)*

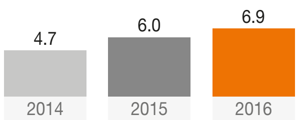
10.1%



NBG, Basel 2/3 Tier I Capital adequacy ratio: Tier I Capital divided by risk weighted assets.

LEVERAGE
(Banking Business) (times)

6.9



Leverage is calculated as total liabilities divided by total equity.

BGEO RISK MANAGEMENT

CREATING A CULTURE OF INTEGRITY AND ACCOUNTABILITY

We identify, evaluate, manage and monitor the risks that we face through an integrated control framework supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our framework has been in place throughout the year under review and to the date of approval of this Annual Report and is integrated into both our business planning and viability assessment processes.

OVERVIEW

Our Board, supported by our Audit and Risk Committees and executive management, is ultimately responsible for the Group's risk management and internal controls.

We believe that in order to have an effective risk management framework there needs to be a strong risk management culture within the Group. We have worked to ensure that 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 are accountable for the risk management and internal control processes associated with their activities. Our culture also seeks to ensure that risk management is responsive, forward-looking and consistent.

OUR FRAMEWORK

The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as 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 develop risk management strategies which address the full spectrum of risks that the Group faces. We are accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit and Risk Committees assisting in the discharge of this responsibility. We also focus on the resolution of any internal control failures that may arise, although no significant failures occurred during 2016 and the period up to the date of this Annual Report.

The Group's risk appetite is the amount and type of risk that we are prepared to seek, accept or tolerate. 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. At the Board, Committee and executive management levels, we develop formal policies and procedures which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored. We clearly delegate authority levels and reporting lines throughout each level of management. Each business participates in the risk management process by identifying the key risks applicable to its business. Through executive and senior management, we ensure that our employees are given the appropriate training and knowledge to perform their roles in line with the framework we have developed.

On a day-to-day basis, management is responsible for the implementation of the Group's risk management and other internal control policies and procedures. Based on our risk culture, managers "own" the risks relevant to their respective function. For each risk identified at any level of the business, the risk is measured, mitigated (if possible) in accordance with our policies and procedures and monitored. Managers are required to report on identified risks and responses to such risks on a consistent and frequent basis. Executive and senior management regularly review the output from the bottom-up process by providing independent challenge and assessing the implementation of the risk management and internal control policies and procedures.

Comprehensive reporting forms an integral part of our framework. Our reporting process enables key risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary on an ad hoc basis if outside of the regular reporting process) by the Audit and Risk Committees, as appropriate, and the Board. The principal risks and uncertainties faced by the Group are identified through this process.

A description of these principal risks and uncertainties, including to recent trends and outlook, as well as mitigation efforts, can be found on pages 36 to 39 of the Strategic Report.

Since the Bank is the Group's largest business and operates in the complex financial services sector, its risk management and internal control framework is key to that of the Group.

A description of the Bank's risk management and internal control framework can be found on pages 34 to 35 of the Strategic Report.

INTERNAL CONTROL

As mentioned above, our Board is responsible for reviewing and approving the Group's system of internal control and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, operational and compliance among other risks we face. Certain matters, such as the approval of major capital expenditure, significant acquisitions or disposals and major contracts, among others, are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website, at http://bgeo.com/page/id/67/schedule-of-matters-reserved-for-the-board. With respect to other matters, the Board is often assisted by both the Audit and Risk Committees.

With respect to internal control over financial reporting, including over the Group's consolidation process, our financial procedures include a range of system, transactional and management oversight controls. Our businesses prepare detailed monthly management reports that include analyses of their results along with comparisons to relevant strategic plans, budgets, forecasts and prior results. These are presented to and reviewed by Executive management. Each quarter, the CFO of the Bank and other members of the finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews the quarterly, half-year and full-year financial statements and corresponding press releases and provides feedback to the Board. The external and internal auditors attend each Audit Committee meeting and the Audit Committee meets regularly both with and without management present.

Our Audit and Risk Committees monitor internal control over operating and compliance risk through discussions with the Chief Risk Officer and Head of Compliance and other executive management on a quarterly basis. Any key issues identified are escalated to the Board. The Board also receives regular presentations directly from the head of each business. Important risk and internal control issues are addressed in such presentations.

The Group's internal audit function reviews a number of areas of risk pursuant to a programme approved by the Audit Committee. Any significant issues or risks arising from an internal audit review are reported to the Audit Committee and appropriate actions are undertaken to ensure satisfactory resolution. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

Our systems of internal control are also supported by our Whistleblowing Policy, which allows employees to report concerns on an anonymous basis. The Audit Committee approves the Whistleblowing Policy on an annual basis and receives quarterly reports from the Head of Compliance on any significant issues raised.

EFFECTIVENESS REVIEW

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year to 31 December 2016 and the period from year-end to the approval of this Annual Report.

We obtained assurance from management, Internal Audit and other external specialists.

The Board is able to conclude with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively throughout 2016 and the period from year-end to the approval of this Annual Report. The review did not identify any significant weaknesses or failings in the systems. We are satisfied that our risk management processes and internal control systems processes comply with the UK Corporate Governance Code 2014 (the Code) and the Financial Reporting Council (FRC)'s guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Although we did not identify any significant weaknesses or failings, we continuously strive to improve our framework and focus on further mitigating our our key risks, especially as they evolve, also we will provide online training focused on the importance of risk management and internal controls.

COMMITTEE REPORTS

As noted throughout this discussion, both the Audit and Risk Committees play an essential role in implementing effective risk management and internal control. Each Committee has described this work in its Committee report.

The Audit Committee Report and Risk Committee Report can be found on pages 89 to 93 and pages 94 to 96, respectively.

GOING CONCERN STATEMENT

The Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives and performance are set out on pages 14 to 39. After making enquiries, the Directors confirm that they have a reasonable expectation that BGEO and the Group, as a whole, have adequate resources to continue in operational existence and therefore the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

VIABILITY STATEMENT

In accordance with the Corporate Governance Code, the Directors are required to assess the prospects of the Company to meet its liabilities by taking into account its current position and principal risks. The Board conducted this review over a three-year period beginning 1 January 2017, being the first day after the end of the financial year to which this report relates. In determining the appropriate period over which to make their assessment, the Directors considered the duration of its strategic plans, financial forecasts, the diverse nature of the Group's activities, the evolving nature of the regulatory environment in which the Group's businesses operate as well as recent trends relating to Lari volatility. A period of three years beyond the balance sheet date was considered appropriate for the Company.

In order to consider the Group's viability, the Board considered a number of key factors, including:

- the Group's financial and operational position, including capital allocation and other key financial ratios;
- the Board's risk appetite;
- the Group's business model and strategy as set out on pages 14 to 31;
- the Group's principal risks and uncertainties, principally those related to adverse economic conditions, the depreciation of the Lari, deterioration of loan book creditworthiness IT and/or information security (including cyber-security) control failures, underperformance of our Investment Businesses and how these risks and uncertainties are managed, as set out on pages 36 to 39;
- the effectiveness of our risk management framework and internal control processes; and
- stress testing, as described below.

The key factors above have been reviewed in the context of our current position and strategic plan, financial budgets and forecasts assessed annually and on a three-year basis.

The viability assessment involved a risk identification process which involved recognition of the principal risks to viability (risks that could impair the Group's business model, future performance, solvency or liquidity), excluding risks not sufficiently severe over the period of assessment. We also identified other risks which, while not necessarily severe in themselves, could escalate when combined with others. For each risk, we considered our risk appetite and tolerance as well as risk proximity and momentum.

For those risks considered sufficiently severe to affect our viability, we performed stress testing for the assessment period, which involved modelling the impact of a combination of severe and plausible adverse scenarios. The stress test scenarios were then reviewed against the Group's current and projected liquidity position (considering current committed funding), capital adequacy and solvency. The stress testing also took into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed.

The Directors have also satisfied themselves that they have the evidence necessary to support the statement below in terms of the effectiveness of the Group's risk management framework and internal control processes in place to mitigate risk. Based on the analysis described above, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period from 1 January 2017 to 31 December 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

IDENTIFYING, PRIORITISING AND MANAGING OUR RISKS TO SUPPORT OUR GOALS AND STRATEGIC OBJECTIVES

The Board has performed a robust assessment of the principal risks facing the Group, taking into account the Group's strategic objectives, business model, operations, future performance, solvency and liquidity. All principal risks identified by the Board may have an impact on our strategic business objectives. These principal risks are described in the table that follows, together with the relevant strategic business objectives, key risk drivers and trends, material controls that have been put in place to mitigate and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been discussed in depth at recent Board, Audit or Risk Committee meetings. It is not possible to fully mitigate all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

CURRENCY AND MACROECONOMIC ENVIRONMENT

PRINCIPAL RISK/ UNCERTAINTY	**Depreciation of the Lari against the Dollar and macroeconomic factors relating to Georgia may have a material impact on our loan book.**
KEY DRIVERS/ TRENDS	In 2016, the Lari depreciated against the Dollar by 10%. The Lari was particularly weak in Q4 2016 when it depreciated against the Dollar by over 13%. The depreciation has adversely affected, and may continue to adversely affect, the quality of our loan portfolio as well as increase the cost of credit risk and impairment provisions. This is because our corporate and MSME loan book and mortgage portfolio are heavily Dollar-denominated and many of our customers' earnings are in Lari. The creditworthiness of our customers may be adversely by the depreciation, which could result in them having difficulty repaying their loans. The depreciation of the Lari may also affect the adversely affect the value of our customers' collateral. As at 31 December 2016, approximately 83%, 65% and 57% of our corporate, MSME and retail (excluding MSME) gross loans, respectively, were denominated in foreign currency (predominantly Dollars), while Dollar income covered approximately 26% of total gross loans. Euro-denominated loans comprise only 2% of our foreign currency-denominated gross loans. Our Banking Business cost of credit risk increased by 11.2% from 2015 to 2016, principally due to the depreciation of the Lari. 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. Real GDP growth in Georgia was modest at 2.7% in 2016, slightly down from 2.9% in 2015, according to Geostat. Despite growth below potential, Georgia's economy has remained resilient despite the external shock related to low world commodity prices, which have affected the economy negatively since the end of 2014 through reduced exports and remittances. Inflation has also remained low.
MITIGATION	The Asset and Liability Management Committee sets our open currency position limits and the Bank's proprietary trading position limits, which are currently more conservative than those imposed by the National Bank of Georgia (NBG), our regulator. The Treasury Department manages our open currency position on a day-to-day basis. The open currency position is also monitored by the Quantitative Risk Management and Risk Analytics Department. In order to assess the creditworthiness of our customers, we take into account currency volatility when there is a currency mismatch between the customer's loan and revenue. 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%. The maturities of our foreign currency loans are also shorter. Our Credit Committees and Credit Risk Management Department set counterparty limits by using a credit risk classification and scoring system and approving individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral revaluations, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements. Since the beginning of 2016, we have focused on increasing local currency lending. We actively work with IFIs to raise long-term Lari funding to increase our Lari-denominated loans to customers. As a result, our Lari-denominated loan book increased by 27.8% while our foreign currency-denominated loan book increased by 11.5% in constant currency terms. Applicable from the beginning of 2017, the NBG expanded the list of assets that banks are permitted to use as collateral for REPO transactions, which provides an additional funding source for our Lari-denominated loan book.

CORPORATE LOAN PORTFOLIO EXPOSURE

PRINCIPAL RISK/ UNCERTAINTY	**Our corporate banking loan portfolio is larger than our target retail/corporate mix and remains concentrated. It is also subject to cyclicality of certain economic sectors. This exposes us to increased cost of credit risk and impairment charges, if a single large borrower defaults or a material concentration of smaller borrowers default.**
KEY DRIVERS/ TRENDS	As at 31 December 2016, corporate loans accounted for 39% of total gross loans and loans to our ten largest borrowers represented 11.8% of total gross loans. Our corporate loan portfolio is also exposed to certain cyclical economic sectors, such as trade of consumer durables (retail trade of cars), construction and real estate development, as well as to certain commodities, such as gold and ammonium nitrate.
MITIGATION	We are continuing to implement our strategy to reduce the size of and de-concentrate our corporate loan portfolio and will continue to do so until our targets are met. At the same time, we are also taking various steps to reduce our credit risk. Corporate loans accounted for 45% of total gross loans as at 31 December 2015 and reduced to and 39% of total gross loans as at 31 December 2016. Loans to our ten largest borrowers represented 12.7% of total gross loans as at 31 December 2015 and reduced to 11.8% one year later. We aim to further reduce: • the share of corporate lending to 35%; and • the proportion of our loans to our top ten borrowers to 10%. In order to reduce our credit risk, we: • reduce our large guarantee exposures in the construction sector; • increase our collateral from our top borrowers; • securitise our corporate loans; • manage the issuance of Lari-denominated bonds by our large corporate borrowers; and • maintain well-diversified loan book sector concentration. Our Credit Committees continuously perform credit quality reviews in order to provide early identification of possible changes in the creditworthiness of our customers, potential losses and corrective actions needed to reduce our risk.

REGIONAL TENSIONS

PRINCIPAL RISK/ UNCERTAINTY	**The Georgian economy and our business may be adversely affected by regional tensions.** Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories, Abkhazia and the Tskhinvali Region/South Ossetia. There has been ongoing geopolitical tension, political instability, civil disturbances and military conflict in the region. Prolongation or escalation of such conflicts could have a negative effect on the political or economic stability of Georgia.
KEY DRIVERS/ TRENDS	Russia imposed economic sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed Georgian borders. Tensions persist as Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia regions after having recognised the independence of these regions. The crisis in Ukraine began in late 2013 and is still ongoing, directly and adversely affecting the economies of both Ukraine and Russia. Sanctions by the United States against Russia continue and there is uncertainty as to how and when the conflict between Russia and Ukraine the countries will be resolved. In late 2015, relations between Russia and Turkey quickly deteriorated after an airspace dispute close to the Syria-Turkey border. In 2016, the relationship between the two countries began to improve, with Russia partially lifting the economic sanctions it had imposed against Turkey and the countries coordinating efforts in the fight against extremist groups in Syria. Following the recent use of chemical weapons in Syria, tensions have renewed between the countries. Conflict remains unabated between Azerbaijan and Armenia.
MITIGATION	One of the most significant changes in the Georgian export market was a shift away from the Russian market after Russia's 2006 embargo. Despite tensions in the breakaway territories, Russia has continued to open its export market to Georgian exports since 2013. While lower global commodity prices and macroeconomic factors have affected Georgia's regional trading partners, leading to lower exports within the region, Georgia has benefited from increased exports earnings from non-traditional markets such as Switzerland, China, Egypt, Saudi Arabia, South Korea and Singapore. It is expected that the IMF will approve a new three-year US$ 285 million economic programme this month, aimed at preserving macroeconomic and financial stability and addressing structural weaknesses in the Georgian economy to support higher and inclusive growth. During 2016, Georgia delivered real GDP growth of 2.7%, whilst inflation decreased from 2015 and remained well controlled at 1.8% at the end of 2016. Foreign direct investment continued to be solid and tourist arrivals, a significant driver of Dollar inflows for the country, continued to increase. Tax revenues increased 9.7% y-o-y and were above the budgeted figure for 2016. The Georgian Government's fiscal position continues to be strong.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

REGULATORY RISK

PRINCIPAL RISK/ UNCERTAINTY	**The Group operates across a wide range of industries, principally banking, but also healthcare services, pharma, insurance, real estate, water and energy utility, hydro, wine and beverages.** Many of these industries are highly regulated. The regulatory environment continues to evolve. We, however, cannot predict what additional regulatory changes will be introduced in the future or the impact they may have on our operations.
KEY DRIVERS/ TRENDS	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 existing or amended NBG requirements may be affected by a number of factors, including those outside of our control, such as our ability to raise capital, losses resulting from deterioration in our asset quality as well as weakening of the global and Georgian economies. Each of our Investment Businesses is subject to different regulators and regulation. Legislation in certain industries such as healthcare and energy and utilities are continuously evolving. Different changes, including but not limited to Governmental funding, licensing and accreditation requirements and tariff structures may adversely affect our businesses.
MITIGATION	Continued investment in our people and processes is enabling us to meet our current regulatory requirements and means that we are well placed to respond to any future 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.

CYBER SECURITY, INFORMATION SYSTEMS AND FINANCIAL CRIME

PRINCIPAL RISK/ UNCERTAINTY	**We are at risk of experiencing cyber-security breaches, unauthorised access to our systems and financial crime, which could disrupt our customer services, result in financial loss, have legal or regulatory implications and/or affect our reputation.** We are highly dependent on the proper functioning of our risk management, internal controls and systems, including those related to IT and information security in order to manage these threats.
KEY DRIVERS/ TRENDS	Cyber-security threats have increased y-o-y and 2016 saw a number of major organisations subject to cyber-attacks. Fortunately, our operations have not been affected. The external threat profile is continuously changing and threats continue to increase. Over the past few years, as our operations have expanded, we have seen an increase in electronic crimes, including fraud, although losses have not increased significantly. Money laundering has also increased globally in recent years.
MITIGATION	We have an integrated control framework encompassing operational risk management and control, IT and information security and Anti-Money Laundering (AML) compliance, each of which is managed by a separate department. We identify and assess operational risk categories within our risk management framework and internal control processes, identifying critical risk areas or groups of operations with an increased risk level. In response to these risks, we develop and implement policies and security procedures to mitigate these risks. We have security controls in place including policies, procedures and security technologies. We also regularly carry out IT and information security checks internally and with the assistance of external consultants. We have sophisticated anti-virus protection and firewalls to deny the execution of potentially malicious software. We have increased our internal and external penetration testing and have back-up disaster recovery and business continuity plans in place across the Group. Access control and password protections have been improved through the implementation of “Privileged Access Monitoring” for employees with the highest privileged access to confidential and customer data. We continue to invest in technology to enhance our ability to prevent, detect and respond to increasing and evolving threats. Our Internal Audit function provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems in place. These types of operational risk are on the regular agenda for the Audit Committee and are also frequently discussed at the Board level.

INVESTMENT BUSINESS STRATEGY

PRINCIPAL RISK/ UNCERTAINTY	**Our Investment Businesses may underperform and other factors beyond our control may affect our ability to divest them in line with our strategy.** Our Investment Businesses have growth and expansion strategies and we face execution risk in implementing these strategies. Our Investment Business Strategy is to divest an Investment Business (in full or partially) within six years in order to unlock the value for our shareholders. In order for an Investment Business to be divestment ready, targets in respect of EBITDA margin, revenue growth, market share, IRR and capital return must be achieved and the business must be led by strong management and have a culture of good corporate governance among other things. With respect to future divestments by way of a stock market listing or trade sale, we face potential exit risks, as it may not be possible, or desirable, to divest our other investment businesses in line with our strategy due to a number of factors, including supportive equity issuance markets, the ability to achieve favourable terms for an IPO or trade sale (as the case may be) and/or the political and macroeconomic environment.
KEY DRIVERS/ TRENDS	We have a solid track record of growth. The Group's market capitalisation has grown from GBP 380 million in 2012 when we listed on the London Stock Exchange, to over GBP 1.2 billion as at the date of this Annual Report. We successfully completed the IPO of our healthcare business, GHG, through a premium listing on the London Stock Exchange in 2015. GHG has grown its revenue from GEL 119.4 million in 2012 to GEL 426.4 million in 2016. It has also doubled its market capitalisation sine listing. m^2 Real Estate, our real estate subsidiary and currently the major real estate developer in Georgia, started its first residential development in 2010. Since then, m^2 Real Estate has recorded total sales of US$ 172.9 million and has completed six residential projects with 97% of apartments sold and has four ongoing projects, with 35% apartments pre-sold. In July 2016, we completed the acquisition of the remaining 75% equity stake in GGU. Our beverages business, Teliani, finished the construction of a beer production facility in 2016 and acquired a ten-year exclusive licence to sell Heineken in Georgia, Armenia and Azerbaijan. Our investment businesses are aiming to deliver solid further growth through organic growth as well as potential acquisitions.
MITIGATION	The Group has a strong track record of growth and has accessed the capital markets on multiple occasions. Our acquisition history has also been successful and we have been able to integrate businesses due to strong management with integration experience. For each business, we focus on building a strong management team and have successfully been able to do so thus far. Management succession planning is a regular agenda for the Nomination Committee and the Board as whole. We closely monitor the implementation of strategy, financial and operational performance, risk management and internal control framework and corporate governance structure of our businesses. We hold management accountable for meeting targets. For each industry in which we operate, we closely monitor industry trends, market conditions and regulatory environment. We have also sought and continue to seek advice from experienced global professionals in our industries.

BANK RISK MANAGEMENT

The banking business is the principal driver of the Group's revenue and operates in the complex financial services sector – its risk management and internal control framework is fundamental to that of the Group.

OVERVIEW

The BGEO Board, supported by our BGEO Audit and Risk Committees and management, is ultimately responsible for the Group's risk management and internal controls.

Formal policies and procedures have been developed at the BGEO level, with the help of senior management, which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored.

Clearly delegated authority levels and reporting lines have been established and comprehensive reporting forms an integral part of the BGEO risk management framework and internal control processes.

Each business participates in the risk management process by identifying the key risks applicable to its business.

A detailed description of the BGEO risk management control framework can be found on pages 34 to 35 of the Strategic Report.

The work undertaken by the Bank's risk management bodies feeds back directly to BGEO and certain banking-related risks have been identified in the Group's Principal Risks and Uncertainties, which can be found on pages 36 to 39 of the Strategic Report.

Given the significance of the banking business, the risk management and internal control framework in place at the Bank is described in this section.

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
- qualitative and quantitive 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
- analysis of efficiency of the risk management system

BANK RISK MANAGEMENT BODIES

The principal risk management bodies of the Bank are the: Supervisory Board, Audit Committee, Management Board, Risk Committee, Internal Audit, Treasury Committee, Credit Committee, Asset and Liability Management Committee (the "ALCO"), Compliance and the Bank's Legal Department. Each of the Supervisory Board, Audit Committee and Risk Committee perform similar roles as the BGEO Board, BGEO Audit Committee and BGEO Risk Committee, but on the Bank level. Please refer to the diagram at the bottom of page 41.

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 regular 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 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's Internal Audit Department discusses the results of all assessments with management and reports its findings and recommendations to the Bank's Audit Committee.

The Bank's Internal Audit Department is independent of the Bank's Management Board. The Head of the Bank's Internal Audit Department is appointed by the Bank's Supervisory Board and reports directly to the Bank's Audit Committee. The Bank's Internal Audit Department audits all of the Bank's subsidiaries, apart from BNB, which has its own internal audit department.

As part of its auditing procedures, the Bank's 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
- making recommendations to management and the Audit Committee on the basis of internal audits to improve internal controls
- monitoring the compliance of the Bank with the NBG regulations
- 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 Committee. The Bank has three credit committees (together, the "Credit Committees"), each one supervising and managing the Bank's credit risks in respect of loans for retail and wealth management clients, 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). FGCRMC manages, monitors and controls 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. The Committee consists of five members – Chief Risk Officer, Chief Financial Officer, Head of Quantitative Risk Management, Head of Treasury and Head of Trade Finance, and a majority of votes is enough for approval. If the potential exposure exceeds US$ 10.0 million, then the decision is deferred to the ALCO. The Credit Committee for retail loans comprises four tiers of subcommittees. (For risk management purposes, loans for wealth management clients 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$ 10.0 million. All exposures to single group borrowers over US$ 25.0 million require approval by the Supervisory Board. Lower tier subcommittees meet on a daily basis, whereas higher tier ones typically meet three to four times a week. Each of the subcommittees of the credit committees makes its decisions by a majority vote of its respective members. Since 2016, SME falls within corporate credit committee structure, where loans up to US$ 1.5 million are approved by credit risk managers. Micro loans up to US$ 50,000 are approved by retail credit underwriting and loans from US$ 50,000 to US$ 150,000 by credit risk managers.

CREDIT COMMITTEE TIERS OF SUBCOMMITTEES FOR RETAIL AND CORPORATE BANKING LOANS

	Subcommittee Chair	Approval limit for Corporate Banking loans (US$)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US$ 2.0 million for existing and new borrowers
Tier II	Deputy CRO/Head of the Credit Risk Department	Between US$ 2.0 million and US$ 10 million for existing and new borrowers
Tier III	CEO/CRO	Greater than US$ 10 million for existing and new borrowers

	Subcommittee Chair	Approval limit for Retail Banking loans (US$)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US$ 200,000
Tier II	Head of Portfolio Quality Analysis Unit	Between US$ 200,000 and US$ 500,000 for retail loans
Tier III	Deputy CRO	Between US$ 500,000 and US$ 2.0 million
Tier IV	CEO/CRO	Greater than US$ 2.0 million

The Problem Assets Committee is chaired by one of the following: (1st level) the Head of the Problem Loan Management Department; and (2nd and 3rd level) the Deputy CEO (Chief Risk Officer). The Problem Loan Management Department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Operations Officer).

The Litigation Team Committee is chaired by one of the following: (1st level) Deputy Head of the Legal Department/Head of the Litigation Team; (2nd level) Head of the Legal Department; (3rd level) Head of the Credit Risk Management Department; and the (4th level) Deputy CEO (Chief Risk Officer). This Committee is responsible to take decisions on the cases which are managed by the Litigation Team and are 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).

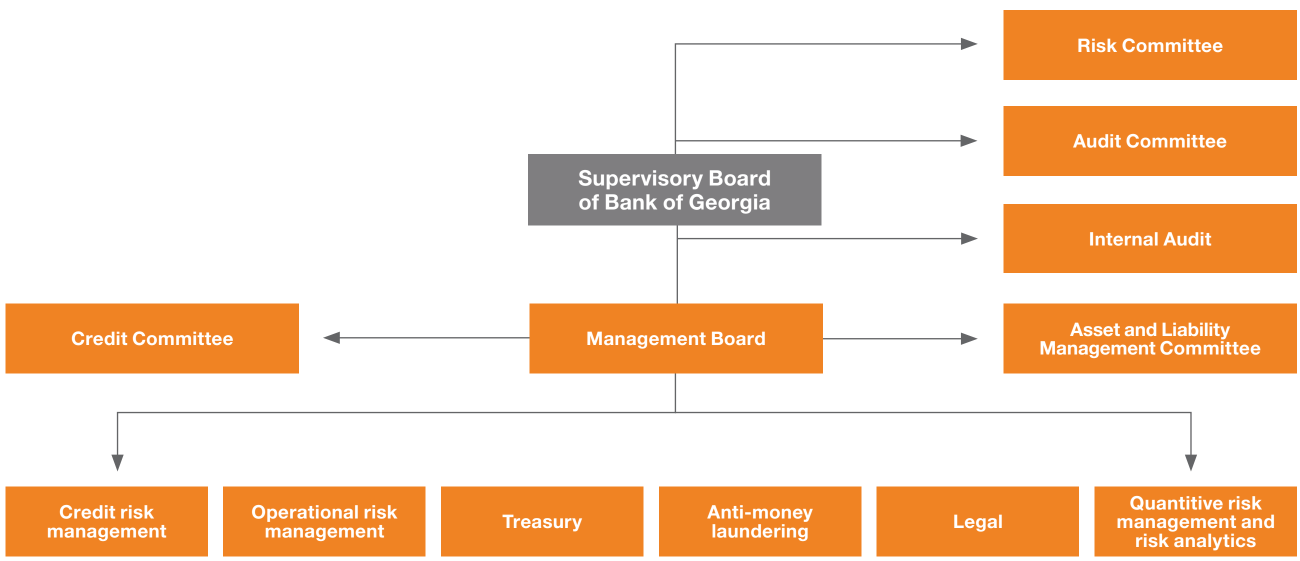
Asset and Liability Management Committee (ALCO). The ALCO is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, 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
- reviews different stress tests and capital adequacy models prepared by the Finance Department and FGCRMC

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 and Investment Banking, Deputy CEO, Retail Banking, 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 indicators 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 the National Bank of Georgia (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 10.5% of risk-weighted assets and a minimum Tier I Capital Adequacy ratio of 8.5% 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.

RISK MANAGEMENT BODIES OF BANK OF GEORGIA



On 30 June 2014, the NBG introduced a new regulation aimed at replacing its old regulation, which was developed independently from international committees and organisations and was not based on the 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. No definite plans for introduction of Pillar II of the Basel Accord 2/3, which entails implementation of the Internal Capital Adequacy Process (ICAAP), have yet been communicated by NBG. The old regulation will be completely phased out by 1 January 2018.

ALCO is the key governing body for capital adequacy management as well as for 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 of and reporting on 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 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 action plans.

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 a 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 a special software application.

BODIES IMPLEMENTING THE 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, as well as AML Compliance 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 Legal Department reports to the Deputy CEO (Chief Operating Officer).

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 and management of the quality of the Bank's loan portfolio.

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 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. 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 loan restructuring tools were introduced. 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 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.

The Credit Committees approve individual transactions and the Credit Risk Management Department establish their credit risk categories and provisioning rates, which are set as per provisioning methodology. The Deputy CEO (Chief Risk Officer) and the 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 regular collateral revaluations. Counterparty limits are established by the use of a credit risk classification system, which assigns a risk rating to each counterparty. 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 financial condition, credit history, business operations, market position, management, level of shareholder support, 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 20,000 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 micro financing 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 2016, 85.3% 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 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. For the purposes of provisioning all loans are divided into different groups (for example, mortgage, consumer, microfinancing loans).

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 Info Georgia (CIG) that serves a centralised credit bureau in Georgia. Since 2009, all the participating banks, insurance companies and microfinance organisations share and contribute positive and negative customer credit information with CIG.

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 2016, in line with the NBG's requirements, 20% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 7% 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 20% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 10% for borrowings with a remaining maturity of one to two years and 7% 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
- fee and commission income

As of 31 December 2016, the Group's total consolidated amounts due to customers was GEL 5,382.7 million (US$ 2,033.7 million) (as compared to GEL 4,751.4 million and GEL 3,338.7 million as of 31 December 2015 and 2014, respectively) and represented 50.9% (as compared to 59.1% and 56.2% as of 31 December 2015 and 2014, respectively) of the Group's total liabilities. 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 2016, total amounts due to credit institutions and debt securities issued were GEL 4,725.7 million (US$ 1,785.5 million) (as compared to GEL 2,828.9 million and GEL 2,265.9 million as of 31 December 2015 and 2014, respectively) and represented 44.7% (as compared to 35.2% and 38.1% as of 31 December 2015 and 2014, 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 29 of the Notes to the Consolidated Financial Statements of this Annual Report.

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 Value at Risk (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 an annual VAR of GEL 50 million 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 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 (repricing) 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 2016, the Group's floating rate borrowings accounted for 15.8% 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 29 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.

BORROWED FUNDS MATURITY BREAKDOWN (BANKING BUSINESS)

US$ million	2017	2018	2019	2020	2021	2022	2023	2024	2025
Eurobonds	–	–	–	–	–	–	250.0	–	–
Senior Loans	162.3	84.8	58.6	32.0	44.1	7.7	5.6	3.6	5.4
Subordinated Loans	–	10.0	–	–	–	–	65.0	–	90.0
TOTAL	**162.3**	**94.8**	**58.6**	**32.0**	**44.1**	**7.7**	**320.6**	**3.6**	**95.4**
% OF TOTAL ASSETS	3.8%	2.2%	1.4%	0.8%	1.0%	0.2%	7.5%	0.1%	2.2%

RESOURCES AND RESPONSIBILITIES

Sustainability lies at the heart of our business

We understand our corporate responsibility, which is embedded in our culture and believe we can make a difference to society.

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, while taking into account our environmental footprint.

In 2012, 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. This policy describes the Group's strategy to developing solid management controls to 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. The policy was last updated in 2016.

SOCIAL MATTERS

The Group considers the interests of its main stakeholders (which include customers, shareholders, employees, lenders and wider society) when developing the strategy and the processes to improve its operations. We continually 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, carrying out sponsorship and charitable activities.

SOCIALLY ORIENTED PRODUCTS AND SERVICES

CORPORATE BANKING

In order to efficiently manage its indirect environmental and social impact, the Bank prioritises the integration of sustainable finance principles into its credit risk management procedures. In 2013, the Bank updated its Environmental and Social Risk Management (ESRM) 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 financed projects.

These procedures are now being integrated into the Bank's credit risk management process and soon will be routinely applied to all commercial transactions. In all that the Bank does, it strives to find sustainable solutions that make business sense to the clients and minimise its impacts 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 the ESRM Procedure, the Bank enhances our clients' opportunities to be in compliance with national environmental and social regulations and adopt international best practices in this area. The Environmental and Social Policy and Risk Management Procedures 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. In 2014 Bank of Georgia won the "Green Service" award at the "Georgian Green Business Awards" ceremony organised by the Ministry of Environmental and Natural Resources Protection of Georgia.

Furthermore, to ensure a more effective operation and maintenance of the ESRM Policy, the Social and Environmental Risk Unit was created in September 2016. Until then, the Environmental and Social Risk Coordinator was responsible for the implementation of the Policy. In 2017, we aim to appoint a Social and Environmental Risk Specialist to oversee day-to-day implementation of the Bank's ESRM Policy.

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 Development Finance Institutions such as EBRD, IFC, DEG, FMO and ADB among others
- We aim to assess 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 to regularly monitor 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 a part of the stable due diligence, the Bank encourages its customers to fulfil their environmental and social obligations and 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 has helped them to avoid financial and legal sanctions during inspections conducted by state enforcement agencies.

Environmental and social issues are tracked at the project site in cooperation with 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 projects, the Bank contracts independent external experts. As a part of monitoring, the Bank requires each of the 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 2016, the Bank held extensive Environmental and Social Due Diligence (ESDD), monitored relevant clients and developed action plans for non-compliant clients. Due to the Bank's efforts, a few clients conducted environmental audits and obtained the necessary environmental impact permits to continue their business operations legally. Those clients started to identify, avoid, mitigate and manage environmental and social risks and impacts on the natural and social environment. In addition, as a result of ESDD some clients took out loans to enhance their companies' power and ability to reduce negative impacts on the environment and positively benefit their communities.

In the Association Agreement between the European Union and Georgia, Georgia has committed to progressively approximate its legislation in the relevant sectors with that of the EU and to implement it effectively. Through this approximation process, Georgia is actively developing and amending its national legislation in the relevant sectors. As a result, the Bank regularly checks legal developments and updates with regard to environmental, health and safety and labour issues and places great emphasis on the improvement of ESDD opportunities. The Bank's staff are very focused on introducing clients to information about relevant (existing and new) regulations and laws during ESDD with the aim of strengthening the clients' knowledge and capacity in the area of environmental and social protection.

Training activities are also an important element for enhancing capacity for policy implementation. In 2016, the Bank provided opportunities for the development and enhancement of the capacity of Head of Corporate & SME Credit Risk Department and the staff involved in environmental and social management process. Head of Corporate & SME Credit Risk Department participated in the tenth Annual Performance Standards Community of Learning organised by IFC. The Community of Learning is a knowledge-sharing forum aimed at strengthening the implementation of environmental and social standards by financial institutions in emerging markets. The event provided a chance to exchange experience, learn from investment case studies and engage in dialogue among environmental and social risk management specialists from all over the globe. As mentioned above, Social and Environmental Risk Management training was held for the staff with a strong focus on strengthening of social and environmental due diligence and risk management. More generally, the Bank has delivered several training sessions in this area and consequently more than 100 employees were trained during the last three years. Leading experts and state inspectors were invited as trainers. We intend to continue these types of training activities.

Other highlights of the year included the development and adoption of a Procedure for Addressing External Queries and Concerns. The Procedure is intended to provide a means for the public to submit queries or concerns related to the Bank's Environmental & Social Policy, and have these inquiries responded to by the Bank in a timely manner. This process of receiving, reviewing and responding to communications from external stakeholders is managed by the relevant departments of the Bank.

The Bank is committed to respecting the principles of sustainable development, protecting the environment and is willing to improve the level of public health safety and protection of human health as an essential element for sustainable development and economic growth.

The Bank continues to make progress toward 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 and social protection and contribute to the creation of a sustainable society. The Bank will further help increase clients benefits through proper and diligent 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 country.

Tourism still remains one of the most rapidly developing sectors of the Georgian economy. The Bank actively provides financing for hotel constructions throughout the country. Alongside financing the construction of hotels in Tbilisi, the Bank has financed the acquisition and a renovation of a 34-room hotel in Batumi. The hotel is scheduled for launch in 2017 and will be operated by local management. It is located in the very centre of old Batumi, which due to its exclusive location is one of the most popular tourist destinations in the city. The hotel also provides a variety of international and local cuisines, operated by the client.

In 2016, the Bank financed the upgrade of a data centre, specialising in Bitcoin mining, via the Georgia Bitcoin Mining Data Centre (BFDC). A free industrial zone in Tbilisi hosts the data centre and provides a tax-free zone for the entities working in the information technology industry. The data centre was founded by Bitfury, a world leader in Bitcoin mining. The total financing required for the upgrade was US$ 15.0 million, of which Bank of Georgia financed US$ 5.0 million.

In addition, the Bank endeavours to finance projects that provide millions of people with access to safe drinking water, well-maintained urban roads and other projects that provide important sustainable development benefits to households and enterprises across Georgia.

RETAIL BANKING

Bank of Georgia continues to innovate and generate a wide range of socially oriented financial products and services that provide additional value to individuals and small and medium-sized enterprises (SMEs) and meet their respective needs.

Express Banking. The Georgian banking sector still experiences difficulties in overcoming economic and geographical barriers in expanding its financial services in remote regions and among low-income parts of the population.

Our Express Banking service plays an important role in addressing this issue:

- As at 31 December 2016, a network of 128 Express branches and 2,729 Express Pay terminals are located all over the country, including in remote mountain regions
- Express financial products such as Express card, Express deposit and Express loan are uncomplicated, easily accessible and affordable to a segment of the population that would not have access to banking products and services otherwise. By 31 December 2016, the Bank had attracted 471,967 clients, of which 46,617 became clients of the Bank in 2016 alone

As a part of the Express Banking service, we prioritise the development of self-service skills of our clients. We plan to expand services in Express Pay terminals, develop web-based application processing tools and implement a new instalment credit product. All of these changes will provide a more accessible banking service to our clients.

In 2016 we replaced the Student Card with the Express Student Card which has all debit card functions, as well as special discounts on public transportation and free distance banking services among other benefits. Students are automatically involved in the Express Bonus Points Loyalty Scheme. Students who collect a minimum of 600 Express Points on a monthly basis are awarded with additional 3,000 bonus points that can be converted into mobile phone top-ups and used to pay public transportation and utility bills. This award programme encourages the student population to use financial services and supports them financially during their studies.

Youth support. We have developed a wide range of financial products to support young people in Georgia. For example, via the special conditions of the Child Deposit we provide parents with the opportunity to secure their children's future. Starting from a minimal amount of GEL 10, a deposit can be opened for at least two years at any time from a child's birth until the age of 18. The annual interest rate (10.5% for Georgian Lari and 1.5-4.0% for foreign currency) is added to the initial deposit. In 2016, we opened approximately 5,930 Child Deposit accounts.

The Bank also offers special products that allow young people to receive higher education. Examples of such products are student loans with favourable terms that do not require any financial guarantees and collateral. Total portfolio of student loans stood at GEL 430,449 by the end of 2016, while GEL 301,081 was issued in 2016 alone.

Another example of the Bank's products aimed at supporting young people is a social-educational project "sCool Card" – a multifunctional card for school children. The main objective of the project is to teach the children about financial culture and build their knowledge around financial services at an early stage. sCool Card is available at no cost and all of the transactions and services are also free of charge. sCool Card provides special benefits for children in Georgian public and private schools. The benefits include free public transportation in Tbilisi (metro, buses), discounts for entertaining centres popular among children, bookstores, websites of book publishers, school subject competitions as well as the accumulation of bonuses (sCoola) per each transaction.

In a further effort to help children better understand banking products, the Bank opened a sCool Card Business School, where experienced staff provide free training about topics such as: "What is money", "Banking products", "Bank professions" and "Time management".

SME support. We continue to provide financing to SMEs, a backbone of the Georgian economy that helps to ensure the sustainable development of Georgia. Apart from our own micro-financing and SME loan programmes, we also participate in various programmes that support entrepreneurs. In 2015, 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 2016, the total amount of Bank loans issued to SMEs was GEL 1.3 million, of which GEL 75 million was issued through the Preferential Agriculture Lending Programme.

In 2016 the Bank enhanced financing to micro-business owners that were previously considered as a non-bankable segment.

The Bank now has a dedicated staff and established processes for its new product "micro-express loans" that targets micro-business segment and offers loans under GEL 10,000.

In 2016 the Bank partnered with European Bank for Reconstruction and Development (EBRD) to offer the market a much needed local currency funding. Bank of Georgia is committed to further extending its financing to SMEs. Furthermore, the Bank is keen to develop financial products and lending practices, to specifically service women-led SMEs, which will ultimately increase their involvement in developing Georgia's private sector. The loan facility signed with EBRD enables the Bank to issue longer-term local currency loans, providing essential support for micro, small and medium sized enterprises to converge to DCFTA requirements, as well as underserved women entrepreneurs.

In 2016 the Bank created a "Startup for Women" programme under EBRD's Women in Business (WiB). WiB enables the Bank to take more risk in financing this segment by offering partial first loss coverage. The programme started in late November and eight projects amounting to GEL 228,600 were already financed by the end of 2016.

Combined with supporting SMEs financially, the Bank also plans to launch an SME portal in the beginning of 2017. The portal will provide financial and business-related advice to entrepreneurs in order to enhance their finance management skills and ensure the sustainable development of their businesses. The portal will contain information on training, provide entrepreneurs with knowledge and skills in accounting, legal documents, business development, sales and marketing.

Environmental and social risk management processes of SME clients are embedded throughout the Bank's activities. By ensuring that comprehensive environmental and social risk assessment and action plans are undertaken, we encourage our SME clients to be in compliance with national environmental and social legislation in order to achieve good environmental and social standards. During site visits, we provide advice and guidance on good practice and standards in these areas, update clients with regards to environmental, health and safety as well as labour issues and monitor compliance with environmental and social 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.

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. m^2 Real Estate has completed six projects 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 is tailored to the customers' needs and wishes. As few customers can afford to buy large flats with an area exceeding 100m^2, the company continuously works to optimise the size of apartments to meet the current demand of its customers without compromising the apartments' convenience and usability. A large segment of the Group's customers are 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.

SPONSORSHIP AND CHARITY

As part of our sponsorship and charitable activities, the Group continues to focus on promoting and enhancing access to education, conserving nature and supporting people with disabilities and special needs. The Group's Sponsorship and Charity Policy encourages partnering with Foundations and Non-Governmental Organisations (NGOs) to deliver sustainable results and bring about positive change. Our priority is to help solve the cause, not the symptom. The Group chooses to focus on three areas bearing the utmost importance for Georgian society. Sponsorship and charity funds are channelled through the Tree of Life Foundation that, in its turn, distributes funding via means of grants competitions thus assuring a transparent and fair way of financing.

Georgia Healthcare Group PLC (GHG) is the largest private healthcare services provider in the Georgian market. The company operates a network of medical centres and hospitals through its healthcare services business. It covers more than 75% of the Georgian population with clinics located across the country providing access to high-quality medical services to the population including those living in remote mountain regions. 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.

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

GHG traditionally participates in the state Children's oncology programme under which it offers oncology treatment for children in Tbilisi Iashvili Paediatric Tertiary Referral Hospital, its multi-profile paediatric medical establishment. The clinic is a unique provider of this service in Georgia, for which about GEL 2 million is annually subsidised. In 2016, 701 young patients received treatment under this programme.

Sponsoring medical TV programmes is GHG's way of promoting good health awareness and practices, which helps the company reach a wide range of the Georgian population. GHG has five TV shows: The Doctors, Day Show, Impulse, Medical hour and Mechanical Ventilation (Khelovnuri Suntkva, a soap opera). The shows share their expertise in a simple and clear manner on various health and wellness issues such as screening programmes, allergies, cardiovascular disease, oncology, arthritis and others. Sometimes celebrity interviews are conducted, health news, healthy recipes and helpful tips are also broadcast during the shows. As GHG's medical TV programmes proved to be very popular in 2015, it increased their scale and financing from GEL 177,180 in 2015 to GEL 730,841 in 2016.

GGU regularly runs charitable activities for the social service agency "Child and Environment", international humanitarian network "Catharsis" in Tbilisi and "Retirement Home" in Rustavi. GGU covers the annual water supply expenses for "Child and Environment" – the agency that cares for homeless children and children with disabilities. Twice a year GGU sponsors the project "Dinner for Everyone" which is organised by '"Catharsis" for approximately 3,000 people.

Promoting and enhancing access to education. Bank of Georgia University, established in 2014, welcomed its third intake of MBA in Finance students in autumn 2016. The cost of studies in 2016 were again largely subsidised by the Bank – GEL 101,250 in total, giving a possibility to up to ten top students to study free of charge while the next 20 can enjoy a 0% loan and start repaying one year after graduation. Besides providing high-quality education, Bank of Georgia University offers its students hands-on experience by offering them the possibility to observe various business processes at the Group's companies.

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 GBP 65,405 in total and funded three students in 2016. The partnership with Chevening has been extended for the next year and the Group is looking forward to selecting 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 the Bank of Georgia's contribution, one student from Georgia will be able to enrol in a two-year Master's degree programme at a US university in 2017. Funding provided to the student for two years amounts to US$ 100,000.

For the past four years the Bank has 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 it in front of a competent jury. The winner is granted a fully paid trip to London to attend the global public speaking competition. We aim to support this competition in 2017 as well.

The Bank has been supporting every single TEDxTbilisi conference from when it was first organised in 2012. A TEDx conference is a locally organised TED format event, where communities, organisations and individuals join to initiate a conversation and connect with each other on different matters which are important to the society.

Conserving nature. Another priority of the Group's charitable activities is the preservation of wildlife diversity. In 2016, the Bank granted US$ 100,000 to the Caucasus Nature Fund (CNF) to provide support to the Protected Areas of Georgia.

Supporting people with disabilities. Since 2014, the Bank has focused its efforts on supporting people with disabilities, mainly children – one of the most vulnerable social groups in Georgia. In 2016, the Bank broadened the scope to include all people with disabilities and donated GEL 101,313 to the Tree of Life Foundation for this cause. The Foundation distributed the funds through two grant competitions – one intended for the relevant NGOs that work on the issues of people with disabilities and another with the specific aim of promoting social entrepreneurship. In order to qualify for the competition, proposals had to focus on the creation of a small enterprise with a social component aimed at improving the livelihood of people with disabilities.

In total, the Tree of Life allocated over GEL 1 million to support education, nature conservation and people with disabilities and special needs.

In addition to external projects, the Bank continued to focus on the adaptation of its own infrastructure. In 2016, an additional ten service centres have become available for people with disabilities.

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 Human Capital Management (HCM) department and the management system it implements play a vital role in managing our most valuable resources – our employees. The HCM department develops Human Resource (HR) policies and procedures which determine key principles, areas, approaches and methods that are crucial for building HCM systems for all our businesses.

Examples of some our HR policies and procedures include, but are not limited to:

- employee planning and recruiting
- staff administration
- compensation and benefits
- code of conduct
- employee development and training
- human rights
- grievances
- whistleblowing
- retrenchment
- anti-nepotism

The Bank's HCM department works closely with HR managers and executives from our subsidiaries in order to ensure proper implementation of the main principles and the 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 discrimination or harassment on any grounds, including disability. Our Human Rights Policy applies to all employees (including the disabled) and includes the procedures in relation to employment processes (including recruitment procedures and procedures governing the continuity of employment of employees who become disabled during the course of their employment), training and development.

We are committed to employee engagement. We believe that the knowledge of our Group is key and we strive to provide our employees with a continuous flow of information which includes but is not limited to information about our corporate culture, the Group's strategy and performance, risks relating to its performance, such as financial and economic factors, and our policies and procedures. We provide information in a number of ways, including via managers, presentations, intranet, email and regular town hall and off-site meetings. We also value the views of our employees. We consult with them regularly and have implemented feedback systems, such as frequent employee satisfaction surveys, which ensure that opinions of our employees are taken into account when making decisions which are likely to affect their interests. Employee feedback also helps to improve our customer-focused orientation and client servicing approach.

GENDER DIVERSITY

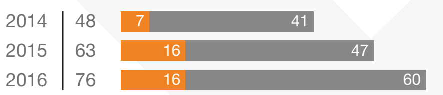
DIRECTORS

7

Female
Male

SENIOR MANAGERS

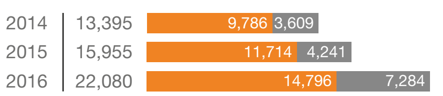
76



Female
Male

ALL EMPLOYEES

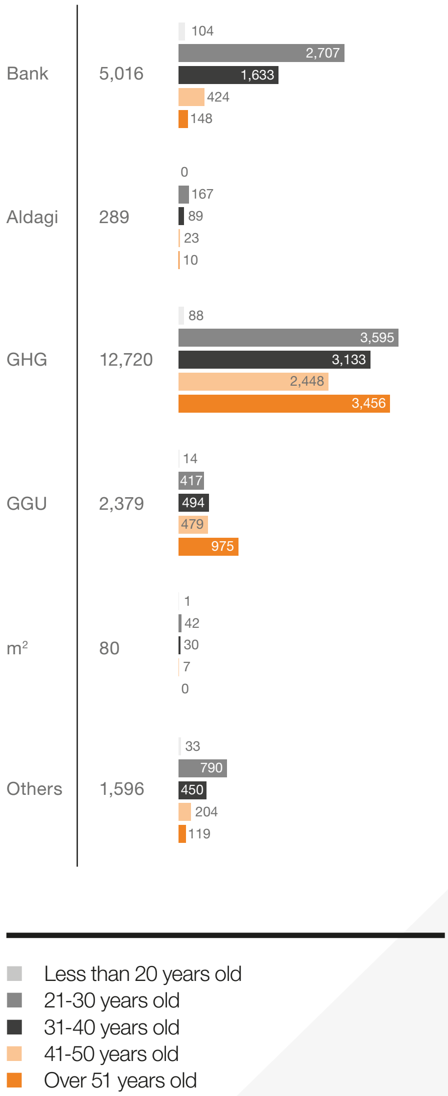
22,080



Female
Male

TOTAL HEADCOUNT BY AGE CATEGORY

22,080



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 2016, 262 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 and continues to implement it. The programme 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 2016 the Company successfully completed a talent acquisition project for its Investment Officer position. This project has also allowed the selection of a number of young and talented candidates, who were hired for various assignments within BGEO Group. In 2016, the number of young professionals (under 30 years old) increased by 16% compared to 2015 and currently represents 38% of the total headcount.

In 2016, GGU, in collaboration with Georgia's Innovation and Technology Agency, launched a project for talented and motivated young people with technical academic backgrounds. Participants had opportunity to work on and introduce technological solutions to real challenges that the company is facing in the fields of water supply and sewerage systems. Approximately 15 authors of the best projects were offered a job and they are successfully continuing their work and development within the company. The project is planned to take place annually.

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. The 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 2014-2015, Bank of Georgia launched a Leadership Development Executive Coaching programme. It provides an individual approach towards developing leadership skills of the participants. The programme continued to run successfully throughout 2016 and benefited its participants with a personally tailored development experience. Participants gained a greater awareness of their leadership strengths and opportunities for further growth.

Based on its experience in 2016, the Bank started refining its Leadership Development System together with 360 Degree Assessments. Updated programmes are planned for launch in 2017.

The Bank highly values the talents of its employees and provides various talent retention activities engaging them through leadership development and various professional certification programmes. The Company creates different development opportunities for employees in terms of career and personal growth. Internal promotions are part of the talent attraction system and also create a basis for employee loyalty and retention. The Bank also offers competitive remuneration and benefits packages for its employees and supports work-life balance by providing additional paid days off, in addition to those in the Labour Code of Georgia. The Bank also encourages engagement and dedication of its talented employees with awards made to the Best Employee and Team of the Year.

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.

GHG's healthcare services business provides additional training to its employees that work in the specialised field of healthcare. The company remains the only healthcare institution in Georgia to have in-house training of personnel. In 2016 GHG has invested about GEL 2 million in training and development for ER, nurses and specialists in various medical fields. The business operates training and development activities via the Evex Learning Centre established in 2014.

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.

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, 2015 and 2016, the number of health and safety training hours amounted to approximately 1,008, 110 and 70 respectively. In addition, m^2 Real Estate 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.

With regard to emergency preparedness and response, m^2 Real Estate follows an Emergency Management Plan. This 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, through the projects it finances, produces significant indirect impacts on the environmental. In order to properly manage this impact, the Bank has implemented Environmental and Social Policy and Risk Management Procedures, as detailed in the "Social matters" section.

As for the 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 4,000-5,000 per month. We implemented this system in all of the Bank's branches during 2014. Since 2015 the Bank has worked towards minimising paper waste. "Green Boxes" are placed on every floor of the Bank's headquarters and are designated to collect paper for recycling purposes. 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. In 2016 the Bank started replacing 80W and 60W traditional light bulbs with 20W and 12W LED light bulbs in all of its service centres. New lighting systems will continue to be introduced throughout 2017 and save considerable energy resources. Similarly, new air conditioning systems were introduced in the Bank's headquarters. The VRV/VRF system was installed in air conditioners which enables the chillers to reduce energy consumption from 120KW to 75KW. The Bank installed new charging facilities for electric vehicles in 2016 and once there is a supply of service centres for them, the Bank is keen to start replacing its car fleet, that runs on petrol, with electric vehicles.

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 the resource efficiency of its apartment buildings, m^2 Real Estate has two ongoing development projects with financial support from IFC and another two in the pipeline. The company has entered the hospitality market with an exclusive agreement with the Ramada group to develop Ramada Encore hotels in Georgia (also financed by IFC). The company not only follows high environmental standards that IFC imposes on its borrowers but is also a participant of the IFC-Canada Climate Change Programme[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^{2}K. As a result, it is expected that utility costs for these buildings will be reduced by up to 43% compared to an average residential building in Georgia.

GHG's direct environmental impact mainly comes from the medical waste generation and combustion of fuels, both for stationary use and for owned vehicles. GHG's operations also affect the environment by using significant amounts of water in hospitals and purchasing electricity and paper. Although its overall negative impact is relatively low, GHG still aims at becoming more resource efficient and environmentally-friendly. GHG's waste management procedures are compliant with the relevant Georgian legislation which defines risk categories and appropriate procedures for the treatment of medical waste.

To prevent human and environmental harm, GHG clinics collect and dispose of medical and biological waste through an outsourced service specialising in medical waste disposal. For the collection of waste the company uses plastic bags that have sufficient strength and are secured with staples to safely retain waste. Further, steam sterilisation is used to decontaminate biological and bio hazardous waste. To ensure the reliability of the contractors used, GHG examines their certificates and monthly reporting as well as imposing penalties if necessary.

In order to light up the hospital premises and run the necessary medical equipment, GHG annually consumes thousands of kilowatts of electricity. In fact, electricity usage accounts for about a half of our total greenhouse gas generation. To decrease this negative impact the company has implemented a number of energy saving solutions, such as installation of LED lights and energy efficient equipment. GHG also works towards minimising its carbon footprint by other means. For example, heat insulation is being improved in a number of hospitals.

GGU's major emission sources are caused by water supply, wastewater treatment and energy generation. GGU is focusing efforts on optimising water extraction, treatment and distribution with minimal energy inputs. GGU strictly follows the standards implemented by the Georgian legislation for its waste water treatment and hydro power plants. In addition, GGU regularly rehabilitates dilapidated sewerage network.

GGU is currently developing an Environmental and Social Management System (ESMS) in accordance with the roadmap schedule presented in the Environmental & Social Policy Framework, adopted by the company in 2016. ESMS will be in compliance with Georgian legislation and the IFC performance standards (Environmental, Health and safety guidelines for Water and Sanitation). The roadmap schedule further develops the Environmental and Social Action Plan (ESAP) based on the outcomes of the current ongoing audit. ESMS will allow GGU to gradually implement the ISO14000 standard for environmental management and the ISO26000 standard for social responsibility.

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 126 to 213. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

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).

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

In preparing our 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 2016. For wastewater treatment and discharge operations we used conversion factors from 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

Our reported data is collected and reported on in respect of five 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
- Utility and energy business (represented by Georgia Global Utilities) which includes all of its offices and operational 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 Imedi L), 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 metre readings.

The Group has in place a Code of Ethics, as well as policies which relate to environmental matters, employees, social matters, our respect for human rights and anti-corruption and bribery.

Copies of these polices can be found on the Group's website: http://bgeo.com/page/id/69/policies

TOTAL GREENHOUSE GAS EMISSIONS DATA FOR THE PERIOD BEGINNING 1 JANUARY 2016 AND ENDED 31 DECEMBER 2016 (TONNES OF CO_2E)[1]

	2014	2015	**2016**
Scope 1 (emissions fuel combustion and facility operations)	7,614	6,679	**10,567**
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	11,034	12,183	**30,826**
Scope 3 (emissions from air travel and ground transportation)	3,822	4,487	**10,266**
TOTAL GREENHOUSE GAS EMISSIONS	22,470	23,349	**51,660**
FTEs	13,395	15,955	**21,278**
TOTAL GREENHOUSE GAS EMISSIONS PER FTE	1.68	1.46	**2.43**

1 Due to the nature of their operations, GHG and GGU contributed to the increase in greenhouse gas emissions in 2016.

OVERVIEW OF FINANCIAL RESULTS

Executing our strategy

The Group has delivered another strong year of strategic progress and excellent earnings growth, in what remains a challenging and uncertain macroeconomic backdrop, both globally and in the Caucasus region. We are confident however in our ability to continue to deliver high returns and strong performances in both the Banking Business and the Investment Businesses during 2017 and beyond.

INCOME STATEMENT

	BGEO Consolidated		
GEL thousands unless otherwise noted	**2016**	2015	Change y-o-y
Net banking interest income	**549,407**	501,390	9.6%
Net fee and commission income	**122,913**	118,406	3.8%
Net banking foreign currency gain	**82,909**	76,926	7.8%
Net other banking income	**11,773**	18,528	-36.5%
Gross insurance profit	**33,683**	29,907	12.6%
Gross healthcare and pharmacy profit	**134,862**	80,938	66.6%
Gross real estate profit	**19,768**	14,688	34.6%
Gross utility profit	**38,541**	–	–
Gross other investment profit	**20,926**	20,777	0.7%
REVENUE	**1,014,782**	861,560	17.8%
OPERATING EXPENSES	**(390,788)**	(314,732)	24.2%
OPERATING INCOME BEFORE COST OF CREDIT RISK/EBITDA	**623,994**	546,828	14.1%
Profit from associates	**4,328**	4,050	6.9%
Depreciation and amortisation of investment business	**(28,865)**	(14,225)	102.9%
Net foreign currency gain (loss) from investment business	**(9,650)**	651	NMF
Interest income from investment business	**4,155**	2,340	77.6%
Interest expense from investment business	**(21,429)**	(10,337)	107.3%
OPERATING INCOME BEFORE COST OF CREDIT RISK	**572,533**	529,307	8.2%
Cost of credit risk	**(171,089)**	(155,377)	10.1%
Net non-recurring items	**(11,524)**	(14,577)	-20.9%
Income tax (expense) benefit	**38,656**	(48,408)	NMF
PROFIT	**428,576**	310,945	37.8%
EARNINGS PER SHARE (BASIC)	**10.41**	7.93	31.3%
EARNINGS PER SHARE (DILUTED)	**10.09**	7.93	27.2%

BALANCE SHEET

	BGEO Consolidated		
GEL thousands unless otherwise noted	**Dec-16**	Dec-15	Change y-o-y
Liquid assets	**3,914,596**	3,068,166	27.6%
Cash and cash equivalents	**1,573,610**	1,432,934	9.8%
Amounts due from credit institutions	**1,054,983**	731,365	44.2%
Investment securities	**1,286,003**	903,867	42.3%
Loans to customers and finance lease receivables	**6,648,482**	5,322,117	24.9%
Property and equipment	**1,323,870**	794,682	66.6%
TOTAL ASSETS	**12,989,453**	10,115,739	28.4%
Client deposits and notes	**5,382,698**	4,751,387	13.3%
Amounts due to credit institutions	**3,470,091**	1,789,062	94.0%
Borrowings from DFI	**1,403,120**	917,087	53.0%
Short-term loans from NBG	**1,085,640**	307,200	253.4%
Loans and deposits from commercial banks	**981,331**	564,775	73.8%
Debt securities issued	**1,255,643**	1,039,804	20.8%
TOTAL LIABILITIES	**10,566,035**	8,042,101	31.4%
TOTAL EQUITY	**2,423,418**	2,073,638	16.9%

During 2016, BGEO Group delivered a strong earnings performance against a challenging macroeconomic backdrop in a number of Georgia's regional trading partner countries which resulted in a year of lower economic growth than expected and a 10.5% depreciation of the Georgian Lari compared to the Dollar. The Lari was particularly weak in the last quarter of the year when it devalued by over 13% against the Dollar. Despite these challenges, Group revenue in 2016 increased by 17.8% to GEL 1.01 billion, profit increased by 37.8% to GEL 428.6 million, and earnings per share increased by 31.3% to GEL 10.41. Book value per share at the end of 2016 was GEL 57.52, up 18.0% y-o-y. The Return on Average Equity in the banking business increased from 21.7% in 2015, to 22.1% in 2016.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

RESILIENT GROWTH MOMENTUM SUSTAINED ACROSS MAJOR BUSINESS LINES

Retail Banking (RB) continues to deliver strong franchise growth. Retail Banking revenue reached GEL 494.1 million in 2016, up 15.6% y-o-y.

The Retail Banking net loan book reached GEL 3,902.3 million as at 31 December 2016, up 39.5% y-o-y. The growth on a constant-currency basis was 31.5% y-o-y, well above our strategic target of 20%+. Consequently, our share of retail loan book accounted for 60.9% of our total gross loan book at the end of 2016, 5.9ppts up compared to last year.

Retail Banking client deposits increased to GEL 2,413.6 million as at 31 December 2016, up 28.4% y-o-y. The growth on a constant-currency basis was 19.2% y-o-y.

The number of Retail Banking clients reached 2.1 million at the end of 2016, up 7.1% from 2.0 million a year ago.

Solo – our premium banking brand – continues its strong growth. Solo, which offers a fundamentally different approach to premium banking and targets the mass affluent client segment, more than doubled its client base since April 2015, when we launched Solo in its current format. As of 31 December 2016, the number of Solo clients reached 19,267. Our goal is to significantly increase our market share in the mass affluent segment, which stood below 13% at the beginning of 2015.

Our Retail Banking product to client ratio reached 2.0 in 2016, up from 1.9 at the end of 2015. The start of the transformation of our retail banking operations from product-based into a client-centric one is expected to positively affect the Retail Banking product to client ratio in the future. We completed the change in 15 branches in 2016 and are currently in process of converting nine additional branches into the new client-centric model. We have seen outstanding sales growth in transformed branches, with the number of products sold to our clients increasing by over 100% compared to the base-line figures.

Corporate Investment Banking (CIB) is successfully delivering its risk deconcentration strategy, having reduced the concentration of our top ten CIB clients to 11.8% by the end of 2016, down from 12.7% a year ago. The CIB net loan book totalled GEL 2,394.9 million, up 8.3% y-o-y. On a constant-currency basis, the loan portfolio was largely flat y-o-y. CIB net fee and commission income was GEL 28.0 million or 12.0% of total CIB revenue in 2016 compared to GEL 34.3 million or 14.2% a year ago. The decline was mainly driven by the decrease in commission fee income from guarantees (net income from guarantees was GEL 12.6 million in 2016, down by GEL 6.2 million or 33.0% y-o-y) as we reduced our large guarantee exposures (more detailed review on this is presented in the Banking business discussion below). CIB ROAE was 14.5% in 2016, down from 18.5% in 2015, which was primarily a result of 1) negative operating leverage, and 2) higher cost of risk, largely related to the impact of the recent GEL devaluation. We expect to further reduce concentration risk in the corporate loan portfolio, grow our fee income and improve the Bank's ROAE in this segment.

Investment Management's Assets Under Management (AUM) increased to GEL 1,592.0 million[1], up 15.9% y-o-y, reflecting higher bond issuance activity by our brokerage arm Galt & Taggart, as our clients increasingly access these new products.

BANKING BUSINESS BALANCE SHEET STRENGTH SUPPORTED BY SOLID CAPITAL AND LIQUIDITY POSITIONS

- The net loan book reached a record GEL 6,681.7 million, up 24.5% y-o-y. The growth on a constant-currency basis was 16.1% y-o-y
- Customer funds increased to GEL 5,730.4 million, up 14.8% y-o-y. The growth on a constant-currency basis was 6.4% y-o-y
- Net Loans to Customer Funds and DFI ratio stood at 95.3% (90.8% at 31 December 2015)
- Leverage stood at 6.9 times as at 31 December 2016 compared to 6.0 times at the same time last year
- NBG (Basel 2/3) Tier I and Total CAR stood at 10.1%[2] and 15.4%, respectively as at 31 December 2016
- NBG Liquidity Ratio was 37.7% as at 31 December 2016, compared to 46.2% at the same time last year

Our Investment Business contributed GEL 119.1 million, or 27.8% to the Group's profit in 2016, up from GEL 36.7 million a year ago. Of this, GEL 91.6 million is attributed to shareholders of BGEO and the rest mainly belongs to the non-controlling shareholders of GHG.

2016 profit includes material one-offs from deferred tax adjustments, gain from the purchase of GGU and other net non-recurring items. Excluding these one-offs, profit from our Investment Business was GEL 60.8 million, or 16.5% of the Group's profit. Furthermore, if we exclude our publicly listed subsidiary, GHG, from this figure, then our Investment Business profit was GEL 26.0 million or 7.8% of the Group's profit.

Our healthcare business, Georgia Healthcare Group PLC (GHG) continued to deliver strong revenue performance across all business lines. GHG recorded revenue of GEL 426.4 million (up 73.4% y-o-y) in 2016. During 2016, GHG achieved further diversification of the revenues. The healthcare services business revenue accounted for around 55%, the pharmacy business revenue accounted for c.31% and the medical insurance business revenue accounted for c.14% of its gross revenues in 4Q16. GHG delivered quarterly EBITDA of GEL 24.3 million, up 47.0% y-o-y. This growth was primarily driven by the healthcare services business EBITDA growth of 30.2% y-o-y. **Consequently, for 2016 EBITDA was GEL 78.0 million (up 39.0% y-o-y) and profit was GEL 61.3 million (up 159.7% y-o-y) (including a tax benefit of GEL 24.0 million relating to the deferred tax adjustments).**

In January 2017, GHG received final approval for and completed the purchase of JSC ABC Pharmacia (ABC), owner of the Pharmadepot chain of pharmacies. This acquisition followed the acquisition in mid-2016 of the GPC chain of pharmacies, which was GHG's entry into the retail pharmacy business. These acquisitions have resulted in GHG becoming a key player in the pharmacy market, as it is in the healthcare services and medical insurance markets. Details of ABC acquisition are in GHG's separate press release, which is available at www.ghg.com.ge. GHG will be consolidating the ABC pharmacy business from 1 January 2017.

Our real estate business, m^2 Real Estate (m^2) continued its strong project execution and sales performance in 2016. In 2016, m^2 achieved sales of US$ 34.4 million, selling a total of 407 apartments, compared to US$ 30.0 million sales and 346 apartments sold in 2015. As a result, m^2 recognised revenue of GEL 20.9 million (down 3.2% y-o-y) and net profit of GEL 12.5 million (up 16.1% y-o-y).

1 Wealth Management client deposits, Galt & Taggart client assets, Aldagi Pension Fund and Wealth Management client assets at Bank of Georgia Custody.
2 Capital adequacy ratios include GEL 99.5mln distributed as dividend from the Bank to the holding level on 29 December 2016. These funds are earmarked for regular dividends to be paid from BGEO Group in respect of the 2016 financial year and will be payable in 2017, subject to shareholder approval. Including this payment, NBG (Basel 2/3) Tier I and Total CAR is 9.1% and 14.4%, respectively.

Prior to 1 January 2017, m² followed revenue recognition guidance under International Accounting Standard (IAS) 18 and recognised revenues from sales of residential units upon completion and handover of the units to customers. Effective 1 January 2017, the Group, inclusive of m², is early adopting the new revenue recognition standard, IFRS 15, which allows revenue recognition according to the percentage of completion method. As a result, m² Real Estate expects that out of its total deferred revenue of US$ 30.6 million (net of US$ 5.5 million VAT) at 31 December 2016, US$ 17.1 million will be recognised as revenue gradually in the upcoming years, while US$ 13.5 million will be recognised through equity on 1 January 2017.

Our utility and energy business, Georgia Global Utilities (GGU), delivered strong revenue and cost-efficiency performance in 2016 and achieved revenue of GEL 127.4 million (up 7.7% y-o-y), EBITDA of GEL 68.1million (up 10.3% y-o-y) and profit of GEL 35.7million (up 134.5% y-o-y) for 2016. As BGEO owned 25% of GGU until July 2016, we reported our share of GGU's profits in the line item "profit from associates". In July 2016, we completed the acquisition of the remaining 75% equity stake in GGU and we started consolidating GGU financial results from 21 July 2016 as part of our Investment Business and included it in the segment results discussion as a separate business.

Our beverages business, Teliani, reached a major milestone in 2016 and finished the construction of the beer brewery. Teliani will brew Heineken under the ten-year exclusive licence agreement to sell Heineken in Georgia, Armenia and Azerbaijan.

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of a 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances ("deferred taxes") attributable to previously recognised temporary differences arising from prior periods. The Group considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 30 June 2016. Subsequently, deferred tax assets and liabilities were re-measured again at 31 December 2016. The Group has calculated the portion of deferred taxes that it utilised before 1 January 2017 for our non-financial businesses and the portion of deferred taxes it expects to utilise before 1 January 2019 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities ("Deferred tax adjustments") as of 31 December 2016. The deferred tax liabilities that were reversed significantly exceeded the deferred tax assets written off. The net amount was recognised as an income tax benefit for the Group and amounted to GEL 63.8 million for full-year 2016, of which GEL 39.4 million and GEL 24.4 million impacts the Group's Banking Business and Investment Business profit after tax, respectively. The amounts are reflected in the "income tax (expense) benefit" line of the income statement.

The Group has also incurred a GEL 43.9 million charge for accounting losses arising from the buyback of the Bank's Eurobond, which took place in July 2016.

During July 2016, the Group completed the acquisition of the remaining equity interests in Georgia Global Utilities Limited ("GGU"), its utility and energy business and gained full control of GGU. As a result of this acquisition, the Group recorded a GEL 31.8 million gain from negative goodwill. The gain resulted from the fair value of the net identifiable assets acquired (totalling GEL 255.9 million) which exceeded the fair value of the total consideration paid by the Group (totalling GEL 224.1 million). This gain is reflected in the "net non-recurring items" line of the income statement. The Group started consolidating GGU results on 21 July 2016. Prior to this, the Group reported the results of GGU's operations under "profit from associates".

Full-year 2016 profit was also positively affected by a GEL 16.4 million one-off gain from the sale of Class C shares and Class B shares of Visa Inc. and MasterCard, respectively. This gain was partially offset by one-off employee costs related to termination benefits, inclusive of the Bank's former CEO. These items are also reflected in the "net non-recurring items" line of the income statement.

3 Significant deferred tax liabilities that were reversed arose from the recognition timing differences between the IFRS and the tax accounting rules and were related to accumulated depreciation, allowance for impairment of loans, property and equipment, investment properties, intangible assets, accruals of certain provisions, and various other items.

Discussion of Banking Business Results

The Group's **Banking Business** is comprised of several components. **Retail Banking** operations in Georgia principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfer and settlement services and handling customers' deposits for both individuals as well as legal entities. The business targets the emerging retail, mass retail and mass affluent segments, together with small and medium enterprises and micro businesses.

Corporate Investment Banking comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high net worth clients. **Property and Casualty (P&C)** principally provides property and casualty insurance services to corporate clients and insured individuals in Georgia. **BNB**, comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services in Belarus. The following discussion refers to the Banking Business only.

REVENUE

GEL thousands, unless otherwise noted	2016	2015	Change, y-o-y
Banking interest income	**933,715**	872,299	7.0%
Banking interest expense	**(376,987)**	(359,372)	4.9%
NET BANKING INTEREST INCOME	**556,728**	512,927	8.5%
Fee and commission income	**172,715**	161,891	6.7%
Fee and commission expense	**(47,766)**	(40,302)	18.5%
NET FEE AND COMMISSION INCOME	**124,949**	121,589	2.8%
Net banking foreign currency gain	**82,909**	76,926	7.8%
Net other banking income	**12,767**	19,837	-35.6%
Net insurance premiums earned	**42,959**	40,161	7.0%
Net insurance claims incurred	**(17,858)**	(20,114)	-11.2%
GROSS INSURANCE PROFIT	**25,101**	20,047	25.2%
REVENUE	**802,454**	751,326	6.8%

Net Interest Margin (NIM)	**7.5%**	7.7%	
Average interest earning assets	**7,447,665**	6,667,220	11.7%
Average interest bearing liabilities	**7,961,933**	7,069,269	12.6%
Average net loans and finance lease receivables, currency blended	**5,640,611**	5,200,650	8.5%
Average net loans and finance lease receivables, GEL	**1,592,987**	1,527,852	4.3%
Average net loans and finance lease receivables, FC	**4,047,624**	3,672,798	10.2%
Average client deposits and notes, currency blended	**5,017,993**	4,379,707	14.6%
Average client deposits and notes, GEL	**1,221,469**	1,203,167	1.5%
Average client deposits and notes, FC	**3,796,524**	3,176,540	19.5%
Average liquid assets, currency blended	**3,106,676**	2,540,310	22.3%
Average liquid assets, GEL	**1,210,935**	1,153,425	5.0%
Average liquid assets, FC	**1,895,741**	1,386,885	36.7%
Excess liquidity (NBG)	**418,016**	789,311	-47.0%
Liquid assets yield, currency blended	**3.2%**	3.2%	
Liquid assets yield, GEL	**7.4%**	6.5%	
Liquid assets yield, FC	**0.5%**	0.5%	
Loan yield, currency blended	**14.2%**	14.8%	
Loan yield, GEL	**23.3%**	22.6%	
Loan yield, FC	**10.6%**	11.4%	
Cost of Funds, currency blended	**4.7%**	5.1%	
Cost of Funds, GEL	**6.4%**	5.5%	
Cost of Funds, FC	**4.2%**	4.9%	

In the Banking Business, 2016 was characterised by the expected strong growth in the retail bank, and a repositioning of the corporate bank to reduce concentration risk.

Banking Business revenue: We recorded revenue of GEL 802.5 million in 2016 (up 6.8% y-o-y). For 2016 overall, our revenue was primarily driven by net interest income resulting from the growth in our loan book, together with a smaller increase in net fee and commission income, gain on foreign currency and strong performance of our P&C insurance business.

Net banking interest income. Our net banking interest income was up 8.5% for 2016 y-o-y. Net banking interest income was primarily driven by a strong performance in our Retail Banking operations, offset by a slight decline in CIB net interest income.

Our NIM stood comfortably within our target range of 7.25-7.75%. NIM stood at 7.5% for 2016, 20bps lower compared to 2015 primarily due to high levels of excess liquidity held during the first half of 2016. Excess liquidity, which was a drag to NIM in previous quarters, started to be deployed in our loan portfolio in 4Q16 and consequently decreased by 47.0% y-o-y and 23.4% q-o-q. Reflecting this, NIM rebounded in 4Q16 compared to 3Q16. At the same time, cost of funds improved, reflecting lower cost on deposits compared to the previous year as well as the lower cost of our Eurobond funding. These factors influenced NIM's increase by 30bps in 4Q16 to 7.6%.

Loan yields. Loan yield grew by 30bps in 4Q16 compared to 3Q16, which partially reflected a shift in our loan book toward higher yielding local currency-denominated loans. Average local currency-denominated loans grew faster than foreign currency-denominated loans compared to the previous quarter. Similarly, our liquid asset yield also increased reflecting growth in average liquid assets in local currency compared to a reduction in foreign currency-denominated liquid assets. Y-o-y decrease of 60bps in loan yields was attributable to decline in the market interest rates during 2016.

Dollarisation. Dollarisation of our loan book decreased since last year as local currency-denominated loans increased faster than foreign currency-denominated loans during the year. On the other hand, the dollarisation of our average liquid assets increased slightly to 61% in 2016, up from 54.6% in 2015 – this is primarily due to a higher level of Dollar liquidity mobilised at the beginning of the 2016 in connection with the liability management exercise of the Bank's outstanding Eurobonds, which was completed during the third quarter. In addition, a change in the minimum reserve requirement for foreign currency deposits resulted in a further increase of dollarisation of liquid assets[4].

Net Loans to Customer Funds and DFI ratio. At year-end 2016, customer funds (client deposits and notes) increased 14.8% y-o-y to GEL 5,730.4 million primarily driven by strong deposit generation in our Retail Banking operations where client deposits grew by 28.4% y-o-y to GEL 2,413.6 million. We also increased our borrowings from DFIs by 39.8% y-o-y to GEL 1,281.8 million, particularly to support local currency lending. Consequently, our Net Loans to Customer Funds and DFI ratio, which is closely monitored by management, stood at 95.3% (90.8% at 31 December 2015).

Net fee and commission income. Net fee and commission income performance is mainly driven by the strong performance in our settlement operations supported by the success of our Express banking franchise. This was partially offset by a decline in our fees from guarantees, driven by the deconcentration efforts in the CIB segment which resulted in decreased large guarantee exposures in the Bank. Excluding the impact of guarantees, net fee and commission income was GEL 112.3 million for 2016, up 9.3% y-o-y.

Net banking foreign currency gain. On the back of continued volatility in the GEL exchange rate, the banking foreign exchange gain was up 7.8% for the year. Both Retail Banking and CIB contributed to the foreign currency gain.

Net other banking income. The decrease in net other banking income by 35.6% y-o-y was caused by the difference between an insignificant loss from revaluation of investment property in 2016 compared to the substantial gain of GEL 6.4 million recorded in 2015.

Gross insurance profit. Gross insurance profit showed its strong growth throughout 2016. Net insurance premiums earned increased by 7.0% y-o-y and net insurance claims incurred decreased by 11.2% y-o-y, driving y-o-y growth in gross insurance profit of 25.2%. This strong performance is mainly driven by the improved quality of the insurance portfolio that resulted from the termination of relationships with loss-making clients. The improvement in 2016 also results from a base effect, as claims in 2015 were high with GEL 1.3 million of expense recognised related to floods in Tbilisi.

Operating expenses increased to GEL 302.2 million in 2016 (up 12.8% y-o-y). Growth in operating expenses outpaced growth in revenue, and consequently operating leverage was negative in 4Q16 at 6.8 percentage points and also negative in 2016 at 6.0 percentage points, both on a y-o-y basis. **Both 4Q16 and full year 2016 operating expenses were driven by:**

- An increase in salaries and employee benefits, which mainly reflects the organic growth of our Retail Banking Business
- Growth in year-to-date administrative expenses which was driven by rent, marketing expenses and operating taxes compared with the same period last year. The increase in operating taxes is due to change in the Georgian Tax code from January 2016 as a result of which the Group pays property taxes on investment properties owned

Cost of Risk and Cost of Risk ratio. The y-o-y increase in Banking Business cost of credit risk is mainly attributable to the GEL devaluation, and the Group's subsequent review of its performing and non-performing Dollar-denominated portfolios, which resulted in an increase in impairment of c.GEL 32 million in 4Q16. As a result, we recorded a cost of credit risk of GEL 168.6 million in 2016, up 11.2% y-o-y (compared to 24.5% growth in loan book), and Cost of Risk ratio of 2.7%, flat y-o-y.

Despite more than 13% GEL devaluation during the 4Q16, the quality of the Bank's loan book remains solid:

- **NPLs.** NPLs were GEL 294.8 million, up 22.2% y-o-y. The increase reflects the growth in the net loan book and the effect of the local currency devaluation
- **NPLs to gross loans.** NPLs to gross loans were 4.2% as of 31 December 2016, down 10bps y-o-y. Our Retail Banking NPLs to gross loans stood at 1.4%, down from 1.5% a year ago. CIB NPLs to gross loans were 8.0%, compared to 7.3% a year ago
- **The NPL coverage ratio.** The NPL coverage ratio stood at 86.7% as of 31 December 2016, compared to 83.4% as of 31 December 2015. Our NPL coverage ratio adjusted for the discounted value of collateral was 132.1% as of 31 December 2016, compared to 120.6% as of 31 December 2015
- **Past due rates.** Our 15 days past due rate for retail loans stood at 1.2% as of 31 December 2016 compared to 0.9% as of 31 December 2015. 15 days past due rate for our mortgage loans stood at 0.6% as of 31 December 2016 compared to 0.4% as of 31 December 2015

Net non-recurring items and Income tax expense (benefit). For a discussion of the factors affecting these two items and their impact, see page 55 above.

As a result of the foregoing, the Banking Business profit was GEL 309.4 million in 2016 (up 12.8% y-o-y). This resulted in an ROAE of 22.1% in 2016 (up 40bps y-o-y).

BNB – the banking subsidiary in Belarus – generated a profit of GEL 2.7 million in 2016 (down 84.6% y-o-y)[5]; The earnings were negatively impacted by higher cost of risk due to the difficult economic environment in Belarus, a GEL 1.4 million impairment charge on PPE, and a GEL 1.2 million loss from revaluation of investment property. The BNB loan book reached GEL 362.1 million, up 13.1% y-o-y, mostly consisting of an increase in SME loans. BNB client deposits were to GEL 233.5 million, down 15.9% y-o-y. **BNB remains well capitalised,** with Capital Adequacy Ratios well above the requirements of its regulating Central Bank. As at 31 December 2016, Total CAR was 15.5%, above 10% minimum requirement by the National Bank of the Republic of Belarus (NBRB) and Tier I CAR was 9.5%, above the 6% minimum requirement by NBRB. Return on Average Equity (ROAE) for BNB was 2.6% compared to 22.3% in 2015.

4 Effective 17 May 2016, the National Bank of Georgia changed its minimum reserve requirements, with the goal to incentivise local currency lending. The minimum reserve requirement for local currency was reduced from 10% to 7% and the minimum reserve requirement for foreign currency has increased from 15% to 20%.
5 BNB 2016 profit reflects the deferred tax adjustment attributable to BNB. Before this adjustment, BNB profit was GEL 6.2mln in 2016.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

OPERATING INCOME BEFORE NON-RECURRING ITEMS; COST OF CREDIT RISK; PROFIT FOR THE PERIOD

GEL thousands, unless otherwise noted	2016	2015	Change y-o-y
Salaries and other employee benefits	**(176,280)**	(155,744)	13.2%
Administrative expenses	**(83,792)**	(74,381)	12.7%
Banking depreciation and amortisation	**(37,981)**	(34,199)	11.1%
Other operating expenses	**(4,174)**	(3,535)	18.1%
OPERATING EXPENSES	**(302,227)**	(267,859)	12.8%
OPERATING INCOME BEFORE COST OF CREDIT RISK	**500,227**	483,467	3.5%
Impairment charge on loans to customers	**(158,892)**	(142,819)	11.3%
Impairment charge on finance lease receivables	**(777)**	(1,958)	-60.3%
Impairment charge on other assets and provisions	**(8,892)**	(6,740)	31.9%
COST OF CREDIT RISK	**(168,561)**	(151,517)	11.2%
NET OPERATING INCOME BEFORE NON-RECURRING ITEMS	**331,666**	331,950	-0.1%
Net non-recurring items	**(45,351)**	(13,046)	NMF
PROFIT BEFORE INCOME TAX	**286,315**	318,904	-10.2%
Income tax (expense) benefit	**23,126**	(44,647)	NMF
PROFIT	**309,441**	274,257	12.8%

BANKING BUSINESS BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	Dec-16	Dec-15	Change y-o-y
Liquid assets	**3,712,489**	3,006,991	23.5%
Liquid assets, GEL	**1,455,296**	1,191,353	22.2%
Liquid assets, FC	**2,257,193**	1,815,638	24.3%
Net loans and finance lease receivables	**6,681,672**	5,366,764	24.5%
Net loans and finance lease receivables, GEL	**1,920,422**	1,502,888	27.8%
Net loans and finance lease receivables, FC	**4,761,250**	3,863,876	23.2%
Client deposits and notes	**5,730,419**	4,993,681	14.8%
Amounts due to credit institutions	**3,067,651**	1,692,557	81.2%
Borrowings from DFIs	**1,281,798**	917,087	39.8%
Short-term loans from central banks	**1,085,640**	307,200	253.4%
Loans and deposits from commercial banks	**700,213**	468,270	49.5%
Debt securities issued	**858,037**	961,944	-10.8%
LIQUIDITY AND CAR RATIOS			
Net loans/client deposits and notes	**116.6%**	107.5%	
Net loans/client deposits and notes + DFIs	**95.3%**	90.8%	
Liquid assets as percent of total assets	**33.0%**	32.8%	
Liquid assets as percent of total liabilities	**37.8%**	38.3%	
NBG liquidity ratio	**37.7%**	46.2%	
Excess liquidity (NBG)	**418,016**	789,311	-47.0%
New NBG (Basel II) Tier I Capital Adequacy Ratio[6]	**10.1%**	10.9%	
New NBG (Basel II) Total Capital Adequacy Ratio[6]	**15.4%**	16.7%	

Our Banking Business balance sheet remained highly liquid (NBG Liquidity ratio of 37.7%) **and well-capitalised** (Tier I Capital Adequacy Ratio, NBG Basel 2/3 of 10.1%[6]) **with a well-diversified funding base** (Client Deposits and notes to Total Liabilities of 58.4%).

Liquidity. The NBG liquidity ratio stood at 37.7% as of 31 December 2016 compared to 46.2% a year ago, and against a regulatory minimum requirement of 30.0%. Liquid assets increased to GEL 3,712.5 million, up 23.5% y-o-y which was primarily due to an increase in obligatory reserves mandated by the change in NBG regulation. Increase in local currency corporate bonds, which the Bank uses as collateral for short-term borrowing from NBG, was another contributor to growth in liquid assets.

Diversified funding base. Short-term borrowings from NBG grew 253.4% y-o-y due to increase in local currency sourcing from International Financial Institutions whose GEL-denominated bonds were used as collateral for NBG loans. The increase in loans and deposits from commercial banks was partially a result of the GEL devaluation as these loans and deposits are primarily Dollar-denominated. Net Loans to Customer Funds and DFIs ratio, a ratio closely observed by management, stood at 95.3%, up from 90.8% as of 31 December 2015.

Loan book. Our net loan book and financial lease receivables reached a record GEL 6,681.7million, up 24.5% y-o-y. Both, local and foreign currency portfolios recorded strong growth with our focus to increase share of local currency loans in our portfolio.

6 Capital adequacy ratios include GEL 99.5mln distributed as dividend from the Bank to the holding level on 29 December 2016. These funds are earmarked for regular dividends to be paid from BGEO Group in respect of the 2016 financial year and will be payable in 2017, subject to shareholder approval. Including this payment, NBG (Basel 2/3) Tier I and Total CAR is 9.1% and 14.4%, respectively.

Discussion of segment results

The segment results discussion is presented for Retail Banking (RB), Corporate Investment Banking (CIB), Utility & Energy Business (GGU), Healthcare Business (GHG) and Real Estate Business (m^2 Real Estate).

BANKING BUSINESS SEGMENT RESULT DISCUSSION

RETAIL BANKING (RB)

Retail Banking provides consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and the handling of customer deposits for both individuals and legal entities, encompassing the emerging mass retail segment (through our Express brand), retail mass market segment and SME and micro businesses (through our Bank of Georgia brand) and the mass affluent segment (through our Solo brand).

INCOME STATEMENT HIGHLIGHTS

GEL thousands, unless otherwise noted	2016	2015	Change y-o-y
Net banking interest income	**374,022**	322,879	15.8%
Net fee and commission income	**90,193**	78,218	15.3%
Net banking foreign currency gain	**26,086**	17,108	52.5%
Net other banking income	**3,833**	9,159	-58.2%
REVENUE	**494,134**	427,364	15.6%
Salaries and other employee benefits	**(106,396)**	(92,091)	15.5%
Administrative expenses	**(57,743)**	(50,398)	14.6%
Banking depreciation and amortisation	**(30,943)**	(27,714)	11.7%
Other operating expenses	**(2,545)**	(2,093)	21.6%
OPERATING EXPENSES	**(197,627)**	(172,296)	14.7%
OPERATING INCOME BEFORE COST OF CREDIT RISK	**296,507**	255,068	16.2%
Cost of credit risk	**(75,690)**	(75,407)	0.4%
Net non-recurring items	**(32,002)**	(8,945)	NMF
PROFIT BEFORE INCOME TAX	**188,815**	170,716	10.6%
Income tax (expense) benefit	**20,475**	(23,994)	NMF
PROFIT	**209,290**	146,722	42.6%

BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	2016	2015	Change y-o-y
Net loans, currency blended	**3,902,306**	2,796,479	39.5%
Net loans, GEL	**1,530,661**	1,279,286	19.6%
Net loans, FC	**2,371,645**	1,517,193	56.3%
Client deposits, currency blended	**2,413,569**	1,880,018	28.4%
Client deposits, GEL	**603,149**	486,806	23.9%
Client deposits, FC	**1,810,420**	1,393,212	29.9%
of which:			
Time deposits, currency blended	**1,437,644**	1,156,382	24.3%
Time deposits, GEL	**228,047**	192,178	18.7%
Time deposits, FC	**1,209,597**	964,204	25.5%
Current accounts and demand deposits, currency blended	**975,925**	723,636	34.9%
Current accounts and demand deposits, GEL	**375,102**	294,628	27.3%
Current accounts and demand deposits, FC	**600,823**	429,008	40.0%

OVERVIEW OF FINANCIAL RESULTS CONTINUED

KEY RATIOS

GEL thousands, unless otherwise noted	2016	2015
ROAE Retail Banking	**30.5%**	24.6%
Net interest margin, currency blended	**9.2%**	9.6%
Cost of risk	**2.3%**	2.6%
Cost of funds, currency blended	**5.7%**	6.4%
Loan yield, currency blended	**16.8%**	17.6%
Loan yield, GEL	**25.4%**	24.2%
Loan yield, FC	**10.2%**	10.6%
Cost of deposits, currency blended	**3.3%**	3.9%
Cost of deposits, GEL	**4.5%**	4.7%
Cost of deposits, FC	**2.9%**	3.5%
Cost of time deposits, currency blended	**4.9%**	5.5%
Cost of time deposits, GEL	**9.3%**	8.7%
Cost of time deposits, FC	**4.0%**	4.7%
Current accounts and demand deposits, currency blended	**0.9%**	1.2%
Current accounts and demand deposits, GEL	**1.2%**	1.5%
Current accounts and demand deposits, FC	**0.6%**	0.9%
Cost/income ratio	**40.0%**	40.3%

PERFORMANCE HIGHLIGHTS

Retail Banking has continued its strong performance across all major business lines and recorded revenue of GEL 494.1 million (up 15.6% y-o-y) in 2016.

Net banking interest income is growing on the back of the strong growth in the loan book and also reflects growth in the local currency loan portfolio which picked up in 4Q16. However, our foreign currency-denominated loan book growth still outpaced the growth of the local currency-denominated loan book. Dollarisation of the loan book increased y-o-y from 54.3% as at 31 December 2015 to 60.8% as at 31 December 2016, with net loans in foreign currency increasing 56.3% y-o-y.

The Retail Banking net loan book reached a record level of GEL 3,902.3 million, up 39.5% y-o-y. Foreign currency-denominated loans grew to GEL 2,371.6 million (up 56.3% y-o-y) compared to local currency loans that increased to GEL 1,530.7 million (up 19.6% y-o-y).

The loan book growth was a result of accelerated loan origination delivered across all Retail Banking segments:

- Consumer loan originations totalled GEL 1,019.0 million in 2016, resulting in consumer loans outstanding of GEL 886.6 million as of 31 December 2016, up 41.4% y-o-y
- Micro loan originations totalled GEL 800.3 million in 2016, resulting in micro loans outstanding of GEL 856.7 million as of 31 December 2016, up 56.7% y-o-y
- SME loan originations totalled GEL 509.4 million in 2016, resulting in SME loans outstanding of GEL 489.6 million as of 31 December 2016, up 37.1% y-o-y
- Mortgage loan originations totalled GEL 717.7 million in 2016, resulting in mortgage loans outstanding of GEL 1,227.6 million as of 31 December 2016, up 51.7% y-o-y
- Originations of loans disbursed at merchant locations totalled GEL 220.9 million in 2016, resulting in loans disbursed at merchant locations outstanding of GEL 121.2 million as of 31 December 2016, up 1.5% y-o-y

Retail Banking client deposits increased to GEL 2,413.6 million, up 28.4% y-o-y, notwithstanding a decrease of 60bps y-o-y in the cost of deposits. The dollarisation of our deposits has increased slightly to 75.0% from 74.1% a year ago. Foreign currency-denominated deposits grew to GEL 1,810.4 million (up 29.9% y-o-y) compared to local currency-denominated deposits that grew to GEL 603.1 million (up 23.9% y-o-y)

Retail Banking NIM was 9.2% in 2016, down 40bps y-o-y. The increasing dollarisation of our loan book had an important impact on the retail NIM. Our focus going forward continues to be the growth in local currency lending, which will be supported by the new lines of longer term local currency funding that we have been sourcing since the beginning of 2016.

The number of Retail Banking clients totalled 2.1 million, up 7.1% y-o-y and the number of cards totalled 2,056,258, up 5.0% y-o-y.

Our express banking franchise, the major driver of fee and commission income, added 46,617 Express Banking customers during 2016, accumulating a total of 471,967 clients by the end of 2016. The growth in client base has triggered a significant increase in the volume of banking transactions, up 55% y-o-y. The growth of transactions was achieved largely through more cost-effective remote channels. The strong client growth has supported an organic increase in our Retail Banking net fee and commission income to GEL 90.2 million, up 15.3% y-o-y. See below for more information on the development of our Express Banking franchise.

Our Express Banking business continues to deliver strong growth as we continue to develop our mass market Retail Banking strategy:

- In order to better serve the different needs of our Express Banking customers, we have expanded our payment services through various distance channels including ATMs, Express Pay terminals, internet and mobile banking and the provision of simple and clear products and services to our existing customers as well as the emerging bankable population
- **As of 31 December 2016, 1,279,113 Express cards were outstanding, compared to 1,045,433 cards outstanding on the same date last year.** A total of 566,394 Express cards issued in 2016, up 20.5% on 2015
- **We have increased number of Express Pay terminals to 2,729, from 2,589 a year ago.** Express Pay terminals are an alternative to tellers, placed at bank branches as well as various other venues (groceries, shopping centres, bus stops, etc.), and are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups
- **The utilisation of Express Pay terminals continued to grow in 2016.** The volume of transactions reached GEL 3.2 billion, up 45.4% y-o-y and the number of transactions was 117.5 million, up 3.9% y-o-y. Slower growth in the number of transactions was a result of the management decision to introduce transaction fees on non-banking transactions processed through Express Pay terminals in 4Q16. This introduction, however, had a positive impact on the Bank's fees and commission income

- **Increased Point of Sales (POS) footprint** to 8,516 desks and 4,514 contracted merchants as of 31 December 2016, up from 6,632 desks and 3,335 contracted merchants as of 31 December 2015
- The number of POS terminals reached 10,357, up 27.8% from 8,103 a year ago
- The volume of transactions for 2016 through the Bank's POS terminals grew to GEL 926.3 million, up 30.4% y-o-y
- The number of transactions via Internet banking reached 5.8 million, up from 4.4 million a year ago, with volume of transaction reaching GEL 1,290.6 million, up 68.7% y-o-y
- The number of transactions via mobile banking reached 2.6 million, up from 1.7 million a year ago, with volume reaching GEL 246.3 million, up 90.5% y-o-y

The number of Solo clients reached 19,267 at the end of 2016, up 132.6% since its re-launch in April 2015. We have now launched 11 Solo lounges, of which eight are located in Tbilisi, the capital city and three in major regional cities in Georgia. In 2016, profit per Solo client was GEL 1,692 compared to a profit of GEL 77 and GEL 65 per Express and mass retail clients, respectively. Product to client ratio for Solo segment was 6.9, compared to 3.1 and 1.7 for Express and mass retail clients. While the Solo clients currently represent c.0.9% of our total retail client base, they contributed 21.7% to our retail loan book, 36.5% to our retail deposits, 9.5% to our net interest income and 10.9% to our net fee and commission income. Our goal is to significantly increase our market share in this segment, which stood below 13% at the beginning of 2015 when we launched Solo in its current format. See below for more information on Solo.

With Solo we target the mass affluent retail segment and aim to build brand loyalty through exclusive experiences offered through the new Solo Lifestyle. In our Solo lounges, Solo clients are offered, at cost, a selection of luxury products and accessories that are currently not available in the country. Solo clients enjoy tailor-made solutions including new financial products such as bonds, which pay a significantly higher yield compared to deposits, and other financial products developed by Galt & Taggart, the Group's Investment Banking arm. Through Solo Lifestyle, our Solo clients are given access to exclusive products and the finest lounge-style environment at our Solo lounges and are provided with new lifestyle opportunities, such as exclusive events, offering live concerts with world-famous artists and other entertainments for solo clientele exclusively, as well as handpicked lifestyle products. In 2016 Solo organised a number of concerts with the world-famous artists, which were met with strong demand and were regarded highly by Solo clients. All these events were held in Tbilisi.

RB cost to income ratio remained well-controlled and improved to 40.0% down by 30bps y-o-y. Retail Banking Cost to Income ratio continued the improving trend of 2016 into the 4Q16 and stood at 38.8% in 4Q16, compared to 38.7% in 3Q16, 39.9% in 2Q16 and 43.3% in 1Q16. This is a result of increasing utilisation of our newly launched Solo lounges combined with the increasing number of clients and growth of Express Banking which is the most cost efficient among the three Retail Banking segments.

The cost of credit risk was GEL 19.3 million (up 25.4% y-o-y) and GEL 75.7 million (up 0.4% y-o-y) for 4Q16 and 2016, respectively. Cost of Risk ratio was 2.0% in 4Q16 down from 2.1% in 4Q15 and down from 2.4% in 3Q16, ending 2016 with Cost of Risk of 2.3%, down from 2.6% a year ago.

As a result, Retail Banking profit reached GEL 209.3 million (up 42.6% y-o-y) for 2016. Retail Banking continued to deliver an outstanding ROAE, which stood at 30.5% for 2016 compared to 24.6% a year ago.

CORPORATE INVESTMENT BANKING (CIB)

CIB comprises: (1) loans and other credit facilities to the country's large corporate clients as well as other legal entities, excluding SME and micro businesses. The services include fund transfers and settlements services, currency conversion operations, trade finance services and documentary operations as well as handling savings and term deposits for corporate and institutional customers. The Corporate Banking Business also includes finance lease facilities provided by the Bank's leasing operations (the Georgian Leasing Company); and (2) 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. Galt & Taggart brings under one brand corporate advisory, private equity and brokerage services. In its brokerage business, Galt & Taggart serves regional and international markets, including hard-to-reach frontier economies.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

INCOME STATEMENT HIGHLIGHTS

GEL thousands, unless otherwise noted	2016	2015	Change y-o-y
Net banking interest income	**147,108**	156,068	-5.7%
Net fee and commission income	**27,963**	34,335	-18.6%
Net banking foreign currency gain	**48,643**	41,763	16.5%
Net other banking income	**10,170**	10,112	0.6%
REVENUE	**233,884**	242,278	-3.5%
Salaries and other employee benefits	**(47,731)**	(43,333)	10.1%
Administrative expenses	**(15,214)**	(14,574)	4.4%
Banking depreciation and amortisation	**(5,124)**	(4,612)	11.1%
Other operating expenses	**(1,031)**	(839)	22.9%
OPERATING EXPENSES	**(69,100)**	(63,358)	9.1%
OPERATING INCOME BEFORE COST OF CREDIT RISK	**164,784**	178,920	-7.9%
Cost of credit risk	**(76,266)**	(56,158)	35.8%
Net non-recurring items	**(11,934)**	(4,877)	144.7%
PROFIT BEFORE INCOME TAX	**76,584**	117,885	-35.0%
Income tax (expense) benefit	**11,698**	(17,255)	NMF
PROFIT	**88,282**	100,630	-12.3%

BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	2016	2015	Change y-o-y
Letters of credit and guarantees, stand-alone[7]	**511,615**	511,399	0.0%
Net loans and finance lease receivables, currency blended	**2,394,876**	2,210,964	8.3%
Net loans and finance lease receivables, GEL	**400,395**	220,306	81.7%
Net loans and finance lease receivables, FC	**1,994,481**	1,990,658	0.2%
Client deposits, currency blended	**3,059,150**	2,871,323	6.5%
Client deposits, GEL	**772,253**	797,238	-3.1%
Client deposits, FC	**2,286,897**	2,074,085	10.3%
Time deposits, currency blended	**1,230,627**	1,248,720	-1.4%
Time deposits, GEL	**135,002**	187,437	-28.0%
Time deposits, FC	**1,095,625**	1,061,283	3.2%
Current accounts and demand deposits, currency blended	**1,828,523**	1,622,603	12.7%
Current accounts and demand deposits, GEL	**637,251**	609,801	4.5%
Current accounts and demand deposits, FC	**1,191,272**	1,012,802	17.6%
Assets under management	**1,591,963**	1,373,112	15.9%

RATIOS

GEL thousands, unless otherwise noted	2016	2015
ROAE, Corporate Investment Banking	**14.5%**	18.5%
Net interest margin, currency blended	**3.6%**	3.9%
Cost of Risk	**3.1%**	2.2%
Cost of funds, currency blended	**4.7%**	4.6%
Loan yield, currency blended	**10.4%**	10.7%
Loan yield, GEL	**13.2%**	12.6%
Loan yield, FC	**10.1%**	10.4%
Cost of deposits, currency blended	**3.9%**	4.1%
Cost of deposits, GEL	**6.3%**	5.2%
Cost of deposits, FC	**3.1%**	3.6%
Cost of time deposits, currency blended	**5.9%**	6.3%
Cost of time deposits, GEL	**9.5%**	8.0%
Cost of time deposits, FC	**5.3%**	5.8%
Current accounts and demand deposits, currency blended	**2.6%**	2.1%
Current accounts and demand deposits, GEL	**5.4%**	4.0%
Current accounts and demand deposits, FC	**0.9%**	1.1%
Cost/Income ratio	**29.5%**	26.2%
Concentration of top ten clients	**11.8%**	12.7%

7 Off-balance sheet item.

PERFORMANCE HIGHLIGHTS

A key focus of Corporate Investment Banking business is to increase ROAE and we are doing this by deconcentrating our loan book and decreasing the credit losses, while focusing on further building our fee business through the investment management and the trade finance franchise, which we believe is the strongest in the region:

- CIB is successfully following a deconcentration strategy, reducing the concentration of our top ten Corporate Investment Banking clients to 11.8% by the end of 2016, down from 12.7% a year ago
- CIB net banking interest income reflects our continuous efforts towards CIB loan portfolio de-concentration. Y-o-y decrease in CIB net banking interest income was impacted by the drop in the currency blended loan yields. 4Q16 showed a healthy 13.7% rebound from 3Q16 as a result of (1) the higher GEL interest income from FX denominated loans and (2) increase of local currency-denominated loans; which bear higher interest rates than FX denominated loans, in the total CIB portfolio
- CIB net fee and commission income represented GEL 28.0 million or 12.0% of total CIB revenue in 2016 compared to GEL 34.3 million or 14.2% a year ago. The decline was mainly driven by the decrease in commission fee income from guarantees (income from guarantees was GEL 12.6 million in 2016, down by GEL 6.2 million or 33.0% y-o-y), which is a result of our de-concentration efforts as we reduced our large guarantee exposures (as mentioned in the Banking Business discussion above)
- Cost of credit risk was GEL 76.3 million for 2016 (up 35.8% y-o-y). Of this amount GEL 42.2 million was recorded in 4Q16 (more than triple the 4Q15 charge). The level of the 4Q16 CIB cost of credit risk is mainly attributable to the GEL devaluation, and the Group's subsequent portfolio review, which led to an increase in impairment provisioning of c. GEL 31 million in the fourth quarter of 2016. As a result, we recorded Cost of Risk at 6.6% in 4Q16, ending 2016 at 3.1%, up 90bps y-o-y
- As a result of the foregoing, CIB ROAE has declined to 14.5% in 2016, compared to 18.5% a year ago

The loan book de-dollarisation continued in 2016 with the share of Dollar-denominated loans reaching 83.3%, compared to 90.0% a year ago. This trend also reflects the increased volatility and depreciation of the local currency against the Dollar during 2016, as Georgian corporates chose to increasingly borrow or convert existing borrowings into the local currency. This trend stood notwithstanding increasing loan yields for local currency-denominated loans (13.2% for 2016, up 60bps y-o-y) on the back of decreasing loan yields for foreign currency-denominated loans (10.1% for 2016, down 30bps y-o-y).

On the other hand, dollarisation of our CIB deposits increased to 74.8% from 72.2% a year ago, which reflects a similar driver as for the de-dollarisation of the loan book. Dollarisation of our deposits increased notwithstanding increase in local currency deposit rates and decrease in foreign currency deposit rates. During 2016, we continued to decrease our cost of deposits in local currency from 8.0% in 1Q16 to 5.0% in 4Q16, alongside the reduction in the NBG policy rate. Cost of deposits in foreign currency remained in the range of 3.0-3.2% throughout the whole year. In 2016, cost of deposits in local currency stood at 6.3%, up 110bps y-o-y, while cost of deposits in foreign currency decreased by 50bps y-o-y reaching 3.1%. Subsequently, total deposits reached GEL 3,059.2, up 6.5% y-o-y at the end of 2016.

Corporate Investment Banking recorded NIM of 3.6%, down 30bps y-o-y.

Our foreign currency operations were strong and as a result, our net banking foreign currency gain increased to GEL 48.6 million in 2016 (up 16.5% y-o-y).

CIB cost to income ratio increased as a result of the deconcentration efforts, which led to higher reduction in revenues with less impact on the operating costs.

As a result, Corporate Investment Banking 2016 profit reached GEL 88.3 million, down 12.3% y-o-y from GEL 100.6 million a year ago.

PERFORMANCE HIGHLIGHTS OF WEALTH MANAGEMENT OPERATIONS

The AUM of the Investment Management segment increased to GEL 1,592.0 million at the end of 2016, up 15.9% y-o-y. This includes deposits of Wealth Management clients and assets held at Bank of Georgia Custody, Galt & Taggart brokerage client assets and Aldagi pension scheme assets.

Wealth Management deposits were GEL 1,101.9 million, up 7.7% y-o-y, growing at a compound annual growth rate (CAGR) of 19.4% over the last five-year period. Growth continued in the face of a 30bps decline in the Cost of Client Deposits to 4.5% in 4Q16 y-o-y and the impact of Wealth Management clients switching from deposits to bonds, as a number of bond issuances, yielding higher rates than deposits were offered by Galt & Taggart to Wealth Management clients.

We served 1,383 Wealth Management clients from 68 countries as of 31 December 2016.

Galt & Taggart continued to develop local capital markets in 2016. Galt & Taggart acted as:

- A sole placement agent for the European Bank for Reconstruction and Development (EBRD) offering of the five-year, GEL-denominated bond in the amount of GEL 220 million (June)
- A sole placement agent for Black Sea Trade and Development Bank (BSTDB) offering of the five-year, GEL-denominated bond in the amount of GEL 60 million (August)
- A sole book runner and Placement agent for Nikora Trade LLC's US$ 5 million bond offering. Nikora Trade LLC is a leading Georgian Fast Moving Consumer Goods (FMCG) company, which successfully completed its maiden bond offering (March). It is planned that the bonds will be listed on the Georgian Stock Exchange in the near future
- an agent for the Group's wholly-owned real estate subsidiary m^2 Real Estate facilitating a US$ 25 million three-year bond placement into the local market (October)
- A joint placement agent for the Group's wholly-owned utility and energy subsidiary Georgia Global Utilities and placed a GEL 30 million five-year local currency bond for its water utility business unit into the local market (December)
- **Galt & Taggart launched Regional Fixed Income Market Watch on 19 September 2016.** The report is released monthly and covers the debt markets of Georgia, Armenia, Azerbaijan, Belarus, Kazakhstan and Ukraine. Regional Fixed Income Market Watch provides market data for both locally and internationally listed debt issuances from these countries. Furthermore, the report includes country-level macro indicators, such as sovereign ratings, monetary policy rates, economic growth, fiscal and current account balances
- **Galt & Taggart Research continues to provide weekly economic (including economies of Georgia and Azerbaijan) and sectoral coverage.** *Galt & Taggart reports are available at www.galtandtaggart.com.* Other research since Galt & Taggart's launch in 2012 included: coverage of/notes on the Georgian retail and office real estate market; the Georgian wine, agricultural, electricity, healthcare and tourism sectors; fixed income issuances, including Georgian Oil and Gas Corporation and Georgian Railway; and the Georgian State Budget

OVERVIEW OF FINANCIAL RESULTS CONTINUED

INVESTMENT BUSINESS SEGMENT RESULT DISCUSSION

UTILITY & ENERGY BUSINESS (GEORGIA GLOBAL UTILITIES – GGU)

ABOUT GGU

Natural monopoly in the water business, with upside in electricity generation and sales. Our utility and energy business is operated through the Group's wholly-owned subsidiary Georgia Global Utilities (GGU). GGU has two main business lines – water utility and electric power generation – and it is a major player in both markets. In its water utility business, GGU is a natural monopoly that supplies water and provides a wastewater service to 1.4 million people (more than one-third of Georgia's population) in three cities: Tbilisi, Mtskheta and Rustavi.

GGU is self-sufficient in power for water transportation and it benefits from additional revenue from third-party electricity sales. GGU owns and operates three hydropower generation facilities (and manages an additional facility) with a total capacity of 149.1MW. It is also investing in additional capacity for electricity generation through the development of hydro power plants, as well as solar and wind power sources. Average annual production varies between 380GWh and 560GWh, depending on rainfall during the year. Its average annual electricity consumption for its own account varies between 270GWh and 300GWh, which means GGU is self-sufficient in power for water transportation and it benefits from additional revenue from third-party electricity sales. During the last few years the company has achieved certain efficiencies in terms of its own energy consumption. The involvement in hydro power also provides revenue diversification.

Room for efficiencies in water business from improving the worn-out infrastructure. The Georgian water pipeline infrastructure is dilapidated due to legacy underinvestment. The poor condition of the infrastructure is the main reason for leaks and accidents, causing on average 50% water loss annually. An additional 20% loss of water is caused by unregistered customers. The current high level of water losses is significantly worse than the peer average and represents a strong efficiency upside for the business. GGU owns and operates a water supply network of around 2,700km and about 1,700km of wastewater pipelines. It also has 45 pumping stations, 84 service reservoirs with a total capacity of 320,000 m^3 and one water treatment plant. Around 520,000,000 m^3 of potable water is supplied from water production/treatment facilities annually. By improving the pipeline infrastructure and as a result reducing the water supplied to its utility customers, GGU expects to free-up water supply for additional electricity generation, which in turn can be sold to third parties.

Water tariff and regulation. The current water tariff for residential customers stands at GEL 3.15 (per month, per capita) for non-metered customers and at GEL 0.27 per m^3 for metered customers. All of GGU's commercial customers are metered and the tariff stands at GEL 4.40 per m^3. The tariff is set per cubic metre of water supplied to customers. Georgian National Energy and Water Supply Regulatory Commission (GNERC) regulates GGU's water tariffs. GNERC is an independent regulatory body, not subject to direct supervision from any other state authority, but accountable to parliament. It is funded predominantly from the fees paid by market participants (0.3% of total revenues).

Strong cash flow generation is expected to enable GGU to sponsor stable dividend payouts to shareholders starting from 2018. GWP, a wholly-owned subsidiary of GGU, which operates the water business, has a credit rating of BB- with stable outlook from Fitch.

STAND-ALONE RESULTS

BGEO Group owns 100% of GGU, which it acquired in two transactions. In December 2014, BGEO acquired a 25% shareholding in GGU for c.GEL 49.4 million (US$ 26.25 million). In July 2016, BGEO announced the acquisition of the remaining 75% equity stake for the cash consideration of c.GEL 164.2 million (US$ 70.0 million). **The Group started consolidating GGU results on 21 July 2016. Prior to this, the Group reported results of GGU's operations under "profit from associates".** The results below refer to GGU's stand-alone numbers. GGU's stand-alone results, including the related comparative information, reflect the energy & utility business performance as a separate legal entity. The Group started consolidating GGU's results since 21 July 2016, which is when the Group obtained control over the company.

INCOME STATEMENT

GEL thousands; unless otherwise noted	2016	2015	Change y-o-y
Revenue from water supply to legal entities	**78,187**	74,587	4.8%
Revenue from water supply to individuals	**31,503**	30,170	4.4%
Revenue from electric power sales	**10,112**	9,182	10.1%
Revenue from technical support	**4,166**	3,683	13.1%
Other income	**3,458**	647	NMF
REVENUE	**127,426**	118,269	7.7%
Provisions for doubtful trade receivables	**(2,198)**	(432)	NMF
Salaries and benefits	**(17,181)**	(20,920)	-17.9%
Electricity and transmission costs	**(17,383)**	(11,554)	50.5%
Raw materials, fuel and other consumables	**(2,845)**	(5,253)	-45.8%
Infrastructure assets maintenance expenditure	**(2,402)**	(4,251)	-43.5%
General and administrative expenses	**(3,036)**	(2,950)	2.9%
Taxes other than income tax	**(3,518)**	(3,398)	3.5%
Professional fees	**(2,350)**	(2,475)	-5.1%
Insurance expense	**(793)**	(317)	150.2%
Other operating expenses	**(7,632)**	(5,001)	52.6%
OPERATING EXPENSES	**(59,338)**	(56,551)	4.9%
EBITDA	**68,088**	61,718	10.3%
EBITDA Margin	**53%**	52%	
Depreciation and amortisation	**(16,595)**	(17,919)	-7.4%
EBIT	**51,493**	43,799	17.6%
EBIT Margin	**40%**	37%	
Net interest expense	**(10,764)**	(7,480)	43.9%
Foreign exchange gains (losses)	**(476)**	(14,158)	-96.6%
EBT	**40,253**	22,161	81.6%
Income tax (expense) benefit	**(4,579)**	(6,948)	-34.1%
PROFIT	**35,674**	15,213	134.5%

PERFORMANCE HIGHLIGHTS

GGU recorded revenue of GEL 127.4 million (up 7.7% y-o-y) in 2016. For the full year of 2016, revenue grew across all business lines, particularly in electricity sales which is a major focus area for the company, as well as technical support, which includes new connections performed on behalf of our clients and indicates an increased revenue stream in future. Revenue from water sales represented 86.1% of total revenue in 2016.

Water consumption is characterised by seasonality as GGU generally expects sales in the second half of the year to exceed sales in the first half of the year, with the sales in third quarter being the highest.

During the fourth quarter of 2016, GGU increased the number of individual customers billed, as a result of the verification completed through a number of methodologies, including reconciliation of the customer database with that of the civil registry. This one off effect was the primary driver of a GEL 0.9 million increase in revenue from water supply to individuals in 4Q16, compared to 3Q16:

- **Unregistered customers are one of the major reasons for unrecovered revenue.** GGU regularly under-recovers its water revenue from residential consumers due to discrepancies between customers formally registered with the provider and actual customers. Currently there are 1.17 million people living in Tbilisi while GGU only has 1.04 million registered customers. Some water is also being supplied, but is not billed for, resulting from the challenges associated with accurate accounting for water consumption. GGU is dealing with these issues by aligning its own customer databases with the state registry to identify the unregistered customers and improving metering. The company also expects to recover some of its past due revenues.

The fourth quarter was a major driver of the 10.1% increase in electricity sales for the full year 2016. Revenue from electricity sales grew significantly in 4Q16 and reached GEL 3.6 million. This is a result of the higher selling price (49% up compared to last year) and higher volume sold (up 81%) in 4Q16 compared to the same period last year.

GGU continues to deliver a good performance on cost efficiencies. Salaries and benefits have been further reduced by 17.9% in 2016 compared to last year's results. GGU invests in the rehabilitation of its infrastructure with a focus on improving efficiency in the medium to long term. More prudent rehabilitation works enabled GGU to reduce infrastructure asset maintenance expenditure – which was down 43.5% y-o-y while at the same time reducing the number of accidents on the infrastructure.

Professional fees have overall decreased y-o-y as GGU spent 5.1% less in 2016, compared to last year. This expense was related to a research on its existing infrastructure to identify further efficiency opportunities as well as areas for additional hydro power station development.

However, overall operating expenses are up for 2016 by 4.9% y-o-y, primarily due to the increase in electricity and transmission cost due to a tariff increase (GGU pays transmission cost with regard to its own electricity consumption, no transmission costs are paid for electricity sold to third parties). The main other items that contributed to the increase in operating expenses were the y-o-y increase in provisions for doubtful trade receivables, resulting from the clean-up of legacy accounts, and the increase in other operating expenses due to small one-off items. Excluding the electricity and transmission costs, which was an unusual change, operating expenses decreased by 6.8% y-o-y.

Consequently, GGU reported EBITDA of GEL 68.1 million in 2016.

With the goal to eliminate foreign currency exchange rate risk exposure, GGU focused on converting its foreign currency-denominated loans into local currency during 2016. This strategy significantly reduced GGU's exposure to foreign exchange rate volatility risk. Therefore, in aggregate net interest expense and foreign exchange losses were almost halved, as the reduction in foreign exchange losses outweighed the increase in the cost of funding as local currency borrowings are more expensive compared to foreign currency borrowings.

GGU will benefit from the change in the corporate income tax legislation in Georgia, which is effective for the company from 1 January 2017. As a result, GGU adjusted its deferred income tax assets and liabilities and recorded a gain of GEL 29.4 million in 2016, of which, GEL 27.5 million was recorded directly in equity as an increase in the revaluation reserve balance and GEL 1.9 million was recognised in the income statement as reduction to the income tax expense.

As a result, GGU more than doubled last year's profit in 2016 to GEL 35.7 million.

STATEMENT OF CASH FLOW

GEL thousands; unless otherwise noted	2016	2015	Change y-o-y
Cash receipt from customers	**139,886**	137,952	1.4%
Cash paid to suppliers	**(45,858)**	(35,002)	31.0%
Cash paid to employees	**(18,520)**	(21,317)	-13.1%
Interest received	**216**	(541)	NMF
Interest paid	**(10,388)**	(7,391)	40.5%
Taxes paid	**(11,087)**	(21,334)	-48.0%
Restricted cash in Bank	**(2,355)**	–	–
CASH FLOW FROM OPERATING ACTIVITIES	**51,895**	52,367	-0.9%
Maintenance capex	**(22,432)**	(13,428)	67.1%
OPERATING CASH FLOW AFTER MAINTENANCE CAPEX	**29,463**	38,939	-24.3%
Purchase of PPE and intangible assets	**(31,341)**	(21,921)	43.0%
TOTAL CASH FLOW USED IN INVESTING ACTIVITIES	**(31,341)**	(21,921)	43.0%
Proceeds from borrowings	**45,447**	2,090	2074.5%
Repayment of borrowings	**(14,032)**	(20,152)	-30.4%
Dividends paid out	**(13,008)**	(241)	NMF
TOTAL CASH FLOW USED IN FINANCING ACTIVITIES	**18,407**	(18,303)	NMF
Exchange gains/(losses) on cash equivalents	**(652)**	(320)	103.9%
TOTAL CASH INFLOW/(OUTFLOW)	**15,876**	(1,605)	NMF
CASH BALANCE			
Cash, beginning balance	**11,634**	13,239	-12.1%
Cash, ending balance	**27,511**	11,634	136.5%

GGU has good receivables collection rates within the 95-98% range. During 2016, the collection rate for legal entities was 95%, while for households it stood at 94%. As a result, GGU had GEL 6.7 million of overdue receivables. The Georgian water utility sector has historically had a low receivables collection rates. The latest available countrywide data relate to 2005 and indicate an average collection rate of 65% in major cities. This is because water utility companies are not allowed to cut water supply to residential customers for missed payments. GGU's collection rate has improved significantly from 2011, when a new arrangement with electricity suppliers was set up based on the amendment to Georgian Law on Electricity and Natural Gas. Consequently, Tbilisi's electricity suppliers assist in improving GGU's receivables collection rates through disconnecting non-paying water customers from the electricity network. In return, electricity suppliers receive flat monetary compensation from GGU (c.GEL 1.3 million both in 2015 and 2016). As a result, GGU's collection rates improved very quickly and have remained at around 96% since then.

The increase of amounts paid to suppliers in 2016 is due to the increase in the cost of electricity transmission and professional fees.

GGU spent GEL 22.4 million on maintenance capex during 2016, which is 67.1% higher than what it spent for the same period last year reflecting the acceleration of the infrastructure maintenance programme to improve the operational efficiencies. Consequently, the operating cash flow, after deducting maintenance capex, was GEL 29.5 million. A GEL 13.1 million dividend was paid in 2016 to GGU's shareholders (including BGEO Group PLC) before BGEO completed its acquisition of the remaining 75% shareholding in GGU. This dividend was distributed on a pro rata basis to the then existing shareholders of the company.

Proceeds from the borrowings include the loans obtained for: (a) dividend payout of GEL 13.0 million (from Bank Republic Société Générale), (b) Saguramo HPP (4.4 MW capacity) construction of GEL 4.8 million (from TBC Bank) and (c) investment in various efficiency and development projects of GEL 30 million (local currency-denominated bonds issued in Georgia).

BALANCE SHEET

GEL thousands; unless otherwise noted	Dec-16	Dec-15	Change y-o-y
Cash and cash equivalents	**27,511**	11,634	136.5%
Trade and other receivables	**29,499**	23,452	25.8%
Inventories	**3,048**	3,249	-6.2%
Current income tax prepayments	**735**	1,340	-45.1%
TOTAL CURRENT ASSETS	**60,793**	39,675	53.2%
Property, plant and equipment	**329,997**	287,638	14.7%
Investment property	**18,728**	19,436	-3.6%
Intangible assets	**1,186**	1,466	-19.1%
Restructured trade receivables	**307**	307	0.0%
Restricted cash	**5,094**	2,545	100.2%
Other non-current assets	**1,246**	1,354	-7.9%
TOTAL NON-CURRENT ASSETS	**356,558**	312,745	14.0%
TOTAL ASSETS	**417,351**	352,420	18.4%
Current borrowings	**22,617**	28,354	-20.2%
Trade and other payables	**24,997**	19,204	30.2%
Provisions for liabilities and charges	**706**	1,318	-46.4%
Other taxes payable	**7,135**	689	935.5%
TOTAL CURRENT LIABILITIES	**55,455**	49,565	11.9%
Long-term borrowings	**83,651**	45,689	83.1%
Deferred income tax liability	**1**	28,434	-100.0%
TOTAL NON-CURRENT LIABILITIES	**83,652**	74,123	12.9%
TOTAL LIABILITIES	**139,106**	123,688	12.5%
Share capital	**2**	2	0.0%
Retained earnings	**96,782**	74,774	29.4%
Revaluation reserve	**181,461**	153,956	17.9%
TOTAL EQUITY	**278,245**	228,732	21.6%
TOTAL LIABILITIES AND EQUITY	**417,351**	352,420	18.4%

The GGU balance sheet is characterised by low leverage and modest foreign exchange risk exposure.

During 2015 and 2016, GGU made significant progress towards reducing its foreign-exchange exposure. In particular, the company refinanced a large part of its Dollar-denominated debt with Lari-denominated debt.

Currently 99.7% of GGU's borrowings are denominated in local currency. The plan is to further reduce foreign currency-denominated borrowings.

The increase in property, plant and equipment is primarily due to additional investment into the company's infrastructure carried out during 2016.

The revaluation reserve balance increased y-o-y primarily due to the deferred tax adjustment, discussed above.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

HEALTHCARE BUSINESS (GEORGIA HEALTHCARE GROUP – GHG)

STAND-ALONE RESULTS

The business of Georgia Healthcare Group PLC (GHG) includes three different business lines: healthcare services, pharmacy and medical insurance. BGEO Group owns 65% of GHG, with the balance of the shares being held by the public (largely institutional investors). GHG's results are fully consolidated in BGEO Group's results. GHG's shares are listed on the London Stock Exchange. The results below refer to GHG stand-alone numbers and are based on GHG's reported results, which are published independently and available on GHG's web-site: www.ghg.com.ge.

INCOME STATEMENT

GEL thousands; unless otherwise noted	2016	2015	Change y-o-y
REVENUE, GROSS	426,439	245,969	73.4%
Corrections and rebates	(2,686)	(3,608)	-25.6%
REVENUE, NET	423,753	242,361	74.8%
Revenue from healthcare services	243,453	191,424	27.2%
Revenue from pharma	133,002	–	–
Net insurance premiums earned	61,494	58,552	5.0%
Eliminations	(14,196)	(7,615)	86.4%
COSTS OF SERVICES	(277,735)	(149,232)	86.1%
Cost of healthcare services	(130,369)	(107,291)	21.5%
Cost of pharma	(105,472)	–	–
Cost of insurance services	(55,772)	(49,372)	13.0%
Eliminations	13,878	7,431	86.8%
GROSS PROFIT	146,018	93,129	56.8%
Salaries and other employee benefits	(39,750)	(26,515)	49.9%
General and administrative expenses	(27,853)	(10,517)	164.8%
Impairment of healthcare services, insurance premiums and other receivables	(2,332)	(3,448)	-32.4%
Other operating income	1,944	3,490	-44.3%
EBITDA	78,027	56,139	39.0%
Depreciation and amortisation	(19,577)	(12,666)	54.6%
Net interest expense	(13,736)	(20,282)	-32.3%
Net gains/(losses) from foreign currencies	(5,657)	2,098	NMF
Net non-recurring income/(expense)	1,118	(1,682)	NMF
PROFIT BEFORE INCOME TAX EXPENSE	40,175	23,608	70.2%
Income tax benefit	21,156	9	NMF
of which: Deferred tax adjustments	23,992	–	–
PROFIT FOR THE YEAR	61,331	23,617	159.7%
Attributable to:			
– shareholders of the Company	50,202	19,651	155.5%
– non-controlling interests	11,129	3,966	180.6%
of which: deferred tax adjustments	4,541	–	–

PERFORMANCE HIGHLIGHTS

GHG delivered record full year 2016 revenue of GEL 426.4 million (up 73.4% y-o-y). This growth was driven by all business lines. Revenue growth was primarily affected by the consolidation of the pharmacy business since the acquisition of GPC in May 2016. The healthcare services business was the next biggest contributor to revenue growth, with a strong organic growth (16.3% in 2016) as a result of investments in new services to close the service gaps, primarily in hospitals, further strengthening its market position, as well as the roll-out of ambulatory clinics to tap a highly fragmented outpatient services segment (no single competitor has more than 1% market share by revenues). Growth of net insurance premiums earned contributed slightly to GHG's revenue growth, while achieving higher referrals within GHG's healthcare facilities, which is reflected in the increase in the retention of medical insurance claims within GHG by 7.2% y-o-y in 2016.

In 2016, GHG achieved a well-diversified revenue mix, tapping all three segments of the Georgian healthcare ecosystem. 55% of its revenues came from the healthcare services business, 31% from the pharmacy business (GPC was consolidated in May 2016 and ABC, the second pharmacy acquisition will be consolidated starting on 1 January 2017) and the remaining 14% from medical insurance business.

In 2016, GHG continued to focus on extracting operating efficiencies and synergies, achieving stronger gross profit margins in its healthcare and pharmacy businesses, while the medical insurance business continued implementing initiatives to achieve targeted levels of loss ratio. The stronger gross profit in the healthcare services business is primarily a result of the increases in both the scale of GHG's business and utilisation of its healthcare facilities, each of which drives more revenue while fixed costs grow at a slower pace. GHG expects this trend to be supported next year by some of the healthcare facilities that were launched in 2016 and which are still in the ramp-up phase. On the other hand, some pressure on margins may result from the launch in 2017 of two large hospitals in Tbilisi which GHG is currently renovating. Another factor favourably affecting gross profit in healthcare services is that GHG has started to realise synergies in its medical disposables procurement as a result of entering into the pharmacy business. This process will be ongoing and the results of the cost savings are expected to be reflected in the coming year as well. As to gross profit in the pharmacy business itself, since the acquisition of GPC, GHG has been focused on implementing initiatives, such as renegotiating pricing with manufacturers and engaging in more profitable sales initiatives, and, at the same time, cancelling some other initiatives which were not bringing additional business or which diluted margins. The acquisition of the ABC chain will allow us to continue these efforts in 2017.

GHG reported record EBITDA of GEL 78.0 million (up 39.0% y-o-y) and 2016. EBITDA margin for the healthcare services was 30.2% in 2016, compared to 27.4% in 2015. Healthcare services was the main contributor to this increase, with strong gross margin and low single digit growth in administrative payroll for healthcare services resulting in strong positive operating leverage in the healthcare business at 17.5 percentage points in 2016. The addition of the GPC pharmacy business from May 2016 brought GEL 5.7 million EBITDA to the Group in 2016.

GHG's profit was GEL 61.3 million for 2016. The healthcare services business was the main driver of GHG's profit in 2016, and contributed GEL 64.5 million, up 195.1% y-o-y, followed by the GPC pharmacy business which contributed GEL 1.9 million to GHG's profit. The Group's profit was partially offset by the loss of GEL 4.9 million reported by the medical insurance business. The loss was driven by GHG's loss-making medical insurance contract with the Ministry of Defense, which was not renewed in 2017. Thus, within medical insurance business, GHG expects improved loss ratio in corporate sales and increased efficiencies in 2017. Due to the changes in the corporate tax legislation in Georgia, GHG recognised one-off gains during the year. GHG's profit, adjusted for the impact of deferred tax and adjusted for the one-off foreign currency translation loss, was GEL 39.6 million for 2016 (up 117.8% y-o-y).

GHG continued sizeable development projects throughout the year and actively invested in healthcare facilities, which is reflected in the y-o-y growth of the depreciation and amortisation expenses for 2016 (up 54.6% y-o-y).

GHG reduced its borrowings in line with our strategy of deleveraging following the IPO. Additionally, GHG repaid a large part of the borrowings from local commercial banks and instead sourced longer-term and less expensive funding from DFIs. Subsequently, these efforts resulted in a net interest expense decrease by 32.3% y-o-y in 2016.

GHG's foreign currency exposure is a result of a Dollar short position arising from foreign currency-denominated borrowings from DFIs and trade accounts payable of the pharmacy business. GHG hedges its major open currency positions through typical foreign currency forwards (swaps) bought from local commercial banks. During 3Q16 and 4Q16 respectively, GHG hedged US$ 27.0 million and US$ 4.0 million of its short position. This helped to significantly reduce the open currency position, however, during 4Q16, GHG still had a short currency position of US$ 9.0 million, which resulted in increased foreign currency losses at the end of 4Q16, as the Georgian Lari continued to devalue. By the end of December 2016, GHG's entire foreign currency position, other than foreign suppliers to the pharmacy business had been closed fully. The cost of the foreign currency hedging is included in net interest expense in the income statement.

GHG's balance sheet increased substantially over the last 12 months, as a result of the recent acquisitions (mostly GPC), reaching GEL 912.6 million as of 31 December 2016. The growth of total assets by 20.3% y-o-y was largely driven by the 29.3% (GEL 130.3 million) increase in property and equipment reflecting investments in the renovation of hospitals, roll-out of ambulatory clinics and the acquisition of the pharmacy business in 2016. The high level of cash and bank deposits at the end of 2015 reflected the receipt of IPO proceeds, and during 2016 a large part of those proceeds were deployed for development capex as well as for the acquisition of GPC. The increase in accounts receivable is primarily due to the growth in revenues of healthcare services by 26.2% y-o-y. The pharmacy business consolidation primarily affected inventories and goodwill. Out of the GEL 54.9 million inventory balance at the year-end, GEL 40.0 million was attributable to the pharmacy business. Borrowed funds have increased y-o-y as a result of obtaining new cheaper funding from DFIs, replacing part of the local funding previously repaid through IPO proceeds. GHG has simultaneously introduced the practice of hedging the foreign currency risk associated with these borrowings from DFIs that are denominated in a foreign currency. We describe the swap agreements with local commercial banks above. A currency swap asset of GEL 6.3 million as of 31 December 2016 is recognised on the balance sheet, included in other assets. It is accounted at fair value and its carrying amount decreased GHG's net debt insofar as the instrument is attached to these borrowings.

GHG's revenue cash conversion ratio, on a consolidated basis, reached 91.2% in 2016 compared to 89.6% in 2015. This translated into an EBITDA cash conversion ratio of 68% on a consolidated adjusted basis for the same period.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

During 2016, GHG spent a total of GEL 111.0 million on capital expenditure, an increase of 56.0% y-o-y. Of this, maintenance capex was GEL 9.4 million. Capital expenditure included the following:

- Renovation of Sunstone (c.334 beds, initially scheduled to be launched in May 2017) which is two months ahead of schedule and the full and complete opening is currently planned for March 2017
- The renovation of Deka (c.320 beds) is largely in line with the initial schedule. In August 2016, GHG opened Deka's diagnostic centre, which is one of the largest in Tbilisi. The opening of the diagnostic centre was the first step toward developing Deka into a flagship multi-profile hospital in Georgia. GHG expects the full launch of Deka to be delayed by up to two months compared to the initial expectation. The delay was caused by a required State authorisation to remove a few trees in the hospital yard. GHG is in the final stage of obtaining this permission

GHG acquired the fourth largest retail and wholesale pharmacy chain in Georgia (ABC). Following the receipt of regulatory approval and completion in January 2017, GHG is currently merging ABC with its existing pharmacy business, GPC. GHG now owns a 67% equity stake in the combined pharmaceutical business and the remaining 33% minority stake is owned by ABC's former principal shareholders, Mr Enriko Beridze and Mr Mikheil Abramidze. This transaction underpins GHG's expansion strategy and further consolidates GHG's position as a leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value. It strengthens GHG's position as a major purchaser of pharmaceutical products in Georgia, and provides a platform which offers significant cost and revenue synergy potential. The combined pharmacy business will be the largest retailer in the country, with over two million customer interactions per month through over 240 pharmacies. Details on this acquisition are in GHG's separate press release, which is available at www.ghg.com.ge.

GHG has completed implementation of Exact, a new enterprise resource planning system (ERP) sourced from a Dutch supplier. It fully covers all finance functions (integrated internet banking, general ledger, receivables, payables, fixed assets, intangibles, shareholder's equity, etc.) as well as all key operating functions (requesting, ordering, procurement, warehouse management, sale and resale, cost accounting, stock item management, rents, depreciations, etc.). The ERP enhances our capabilities to identify and extract further efficiencies in our operations. The system has 150 advanced users and over 1,000 basic users and it covers all entities within GHG. Following this implementation, GHG now uses one platform company-wide, excluding the pharmacy business. GHG has also completed implementation of Vabaco, a software package that includes a full and complete billing system, fully integrated human resource management software (HRMS) and fully integrated payroll module for the healthcare services business. Vabaco has been further fully integrated with Exact in real time. This way GHG currently runs fully integrated ERP, Billing, HRMS and payroll systems. Vabaco is fully integrated with all external payment channels. It covers Universal Healthcare Programme services as well as private services for insured individuals and out-of-pocket coverage. The system has more than 2,000 advanced users. Vabaco is up and successfully running in all healthcare facilities except for three, where implementation is ongoing. As a result of implementing Vabaco, GHG has replaced all different billing systems, which were outdated, with limited capabilities and integration capacities, and currently the healthcare services business runs on one unified platform with substantially increased functionality, capacity and speed.

As of 31 December 2016, GHG's healthcare services business operated 15 referral hospitals, 20 community hospitals and ten ambulatory clusters (consisting of 13 district ambulatory clinics and 28 express ambulatory clinics).

As of 31 December 2016, total beds operated were 2,557 (down from 2,670 from 31 December 2015), of which 2,092 beds were at referral hospitals (down from 2,209 since FY15) and 465 beds (almost flat, at 461 at FY15) were at community hospitals. The change in total number of beds is primarily due to: 1) disposal of the 82-bed Tbilisi Maternity Hospital "New Life", in exchange for the 33.3% minority shareholding in Iashvili Referral Hospital that GHG acquired in February 2016; and 2) the temporary reduction in the number of operating beds, which is due to renovations at the Deka and Sunstone Hospitals.

GHG's healthcare services market share by number of beds was 23.4% as of 31 December 2016. The change in market share by number of beds, from 26.7% a year ago to 23.4% at year-end 2016 is due to the reduced number of referral hospital beds as explained above and the increase in total number of beds in the market throughout the year.

GHG's hospital bed occupancy rate was 55.7% in 2016 (51.7% in FY15):

- GHG's referral hospital bed occupancy rate was 63.0% in 2016 (59.3% in FY15)

The average length of stay was 5.0 days in 2016 (4.6 days in FY15):

- The average length of stay at referral hospitals was 5.2 days in 2016 (4.9 in FY15)

GHG expanded the number of specialties offered in our residency programme in line with our strategy to develop a new generation of doctors. We obtained accreditation in an additional seven specialties bringing the total number of specialties to 20. This increased the number of slots for admission to the programme up 65 and the total number of slots for admission to 231 residents. GHG is currently expecting accreditation in four additional specialties. Since the launch of residency programmes at the end of 2015, we have 58 residents involved in 12 specialties.

For the period of May-December 2016, GHG's pharmacy business had (does not include ABC figures, which will be consolidated from 1 January 2017):

- C.1 million retail customer interactions per month
- C.0.5 million loyalty card members.
- Average transaction size of GEL 13.7 in GHG's retail pharmacies
- C.15% market share measured by sales (expected to be c.29.0% after the consolidation of ABC)
- Total number of bills issued was 7.9 million

In GHG's medical insurance business:

- The number of insured clients was 211,000 as of 31 December 2016
- Our medical insurance market share was 35.1% based on net insurance premium revenue, as of 30 September 2016
- Our insurance renewal rate was 73.4% in 2016

REAL ESTATE BUSINESS (m² REAL ESTATE)

STAND-ALONE RESULTS

Our Real Estate business is operated through the Group's wholly-owned subsidiary m² Real Estate, which develops residential property in Georgia. m² Real Estate outsources the construction and architecture works whilst itself focusing on project management and sales. The Bank's Real Estate business serves to meet the unsatisfied demand in Tbilisi for housing through its well-established branch network and sales force, while stimulating the Bank's mortgage lending business. The business has also recently begun hotel development in the under-developed mid-price sector. The results below refer to m² Real Estate segment, which are m² Real Estate stand-alone results adjusted for Group consolidation purposes.

INCOME STATEMENT

GEL thousands, unless otherwise noted	2016	2015	Change y-o-y
Revenue from sale of apartments	96,373	44,917	114.6%
Cost of sale of apartments	(80,870)	(39,721)	103.6%
NET REVENUE FROM SALE OF APARTMENTS	15,503	5,196	198.4%
Revenue from operating leases	2,912	1,852	57.2%
Cost of operating leases	(228)	–	-86.5%
NET REVENUE FROM OPERATING LEASES	2,684	1,852	44.9%
Revaluation of commercial property	959	7,083	-86.5%
GROSS REAL ESTATE PROFIT	19,146	14,131	35.5%
Gross other investment profit	1,798	7,502	-76.0%
REVENUE	20,944	21,633	-3.2%
Salaries and other employee benefits	(1,069)	(1,150)	-7.0%
Administrative expenses	(4,755)	(4,710)	1.0%
OPERATING EXPENSES	(5,824)	(5,860)	-0.6%
EBITDA	15,120	15,773	-4.1%
Depreciation and amortisation	(243)	(191)	27.2%
Net foreign currency gain (loss)	792	(1,534)	NMF
Interest income	698	386	80.8%
Interest expense	(1,633)	(1,566)	4.3%
NET OPERATING INCOME BEFORE NON-RECURRING ITEMS	14,734	12,868	14.5%
Net non-recurring items	(533)	(137)	NMF
PROFIT BEFORE INCOME TAX	14,201	12,731	11.5%
Income tax benefit/(expense)	(1,717)	(1,974)	-13.0%
PROFIT	12,484	10,757	16.1%

PERFORMANCE HIGHLIGHTS

m² Real Estate revenue performance throughout 2016 reflects the success of m² Real Estate's strategy of developing residential properties on its existing land plots, and increasing its portfolio of yielding assets. As a result, m² Real Estate recorded very strong revenue across all business lines.

Net revenue from the sale of apartments in 2016 almost tripled and reflects the strong sales and project completion performance of the business.

Net revenue from operating leases increased by 44.9%, reflecting m²'s increasing commercial real estate portfolio which reached GEL 44.8 million at the end of 2016 (up 39.3% y-o-y) and which now represents 12.1% of the total assets of m² Real Estate, compared to 11.7% last year.

Gross other investment profit is down in 2016 reflecting the large gain from the revaluation of an investment property recorded in 2015.

Consequently, m² recognised revenue of GEL 20.9 million (down 3.2% y-o-y) and net profit of GEL 12.5 million (up 16.1% y-o-y).

m² Real Estate's gross real estate revenue and profit are by their nature choppy, given both uneven real estate project cycles and the revenue recognition method under accounting rules (IAS 18) that the company followed until 2017. Pursuant to IAS 18 apartment sale revenues were recognised upon handover of the apartment to its clients, following completion of the projects. IFRS 15, adopted by m² Real Estate and the Group from 2017 onwards, requires revenue recognition according to the percentage of completion method. As a result, it is expected that out of the current accrued deferred revenue, which at the end of 2016 stood at *US$ 30.6 million (net of US$ 5.5 million VAT), of which, US$ 17.1 million will be recognised into revenues gradually during 2017-2019 in line with the project completion progress, while US$ 13.5 million will be recorded through equity on 1 January 2017.*

Effective 1 October 2016, m² Real Estate switched its selection of functional currency from GEL to Dollar. The change was warranted by m² Real Estate's increased dollarisation levels of its balance sheet, revenues and expenses. As a result of the change, foreign exchange gains or losses arising from long or short Dollar positions are now recorded through equity rather than through the income statement. The change did not have a material impact on the company's financial statements.

In 2016, m² Real Estate sold a total of 407 apartments with the sales value of US$ 34.4 million, compared to 346 apartments sold with sales value of US$ 30.0 million during the same period last year.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

m² Real Estate has started ten projects since its establishment in 2010, of which six have already been completed, and construction of four is ongoing. m² Real Estate has completed all of its projects on or ahead of time and within the budget. Two of the ongoing projects are expected to be completed in 2017 and the other two in 2018. Currently, a total of 827 units are available for sale out of total of 2,874 apartments developed or under development.

Of the four ongoing m² Real Estate projects:

- One is the largest ever carried out by m² Real Estate, with a total of 819 apartments in a central location in Tbilisi, out of which 289 have already been sold
- The second is a new type of project for m² Real Estate, representing a luxury residential building in Old Tbilisi neighbourhood with few apartments (19 in total) and with almost double the price charged at other m² Real Estate buildings
- The third is a mixed-use development, with 302 residential apartments and a hotel with a capacity of 152 rooms. This mixed-use development started in June 2016, with sales of 96 apartments to date
- The fourth is the latest project by m² Real Estate, located in a central location of Tbilisi with a total of 62 apartments, out of which 28 have already been sold

At its six projects which have already been completed with a total of 1,672 apartments, m² Real Estate currently has a stock of only 47 unsold apartments. At its four ongoing projects with a total capacity of 1,202 apartments, 422 apartments or 35% are already sold.

m² Real Estate has unlocked total land value of US$ 16.4 million from the six completed projects and an additional US$ 16.5 million in land value is expected to be unlocked from the four ongoing projects.

The number of apartments financed with BOG mortgages in all m² Real Estate projects was 946, with an aggregate amount of GEL 110.7 million.

OPERATING DATA
FOR COMPLETED AND ONGOING PROJECTS, AS OF 31 DECEMBER 2016

Project name	Number of apartments	Number of apartments sold	Number of apartments sold as % of total	Number of apartments available for sale	Start date (construction)	Planned Completion date (construction)	Actual Completion date (construction)	Construction completed %
COMPLETED PROJECTS	**1,672**	**1,625**	**97%**	**47**				**100%**
1 Chubinashvili Street	123	123	100%	–	Sep-10	Aug-12	Aug-12	100%
2 Tamarashvili Street	525	523	99%	2	May-12	Sep-14	Jun-14	100%
3 Kazbegi Street	295	295	100%	–	Dec-13	Feb-16	Feb-16	100%
4 Nutsubidze Street	221	221	100%	–	Dec-13	Nov-15	Sep-15	100%
5 Tamarashvili Street II	270	262	97%	8	Jul-14	Sep-16	Jun-16	100%
6 Moscow Avenue	238	201	85%	37	Sep-14	Jul-16	Jun-16	100%
ONGOING PROJECTS	**1,202**	**422**	**35%**	**780**				**30%**
7 Kartozia Street	819	289	35%	530	Nov-15	Sep-18	–	29%
8 Skyline	19	9	47%	10	Dec-15	Mar-17	–	69%
9 Kazbegi Street II	302	96	32%	206	Jun-16	Nov-18	–	18%
10 50 Chavchavadze Ave.	62	28	45%	34	Oct-16	Dec-17	–	3%
TOTAL	**2,874**	**2,047**	**71%**	**827**				

FINANCIAL DATA
FOR COMPLETED AND ONGOING PROJECTS, AS OF 31 DECEMBER 2016

Project name	Total Sales (US$mln)	Recognised as revenue (US$mln)	Deferred revenue (US$mln)	Deferred revenue expected to be recognised as revenue in 2017	Land value unlocked (US$mln)	Realised & Expected IRR
COMPLETED PROJECTS	**136.9**	**136.7**	**0.2**	**0.2**	**16.4**	
1 Chubinashvili Street	9.9	9.9	–	–	0.9	47%
2 Tamarashvili Street	48.5	48.5	–	–	5.4	46%
3 Kazbegi Street	27.2	27.2	–	–	3.6	165%
4 Nutsubidze Street	17.4	17.4	–	–	2.2	58%
5 Tamarashvili Street II	23.9	23.7	0.1	0.1	2.7	71%
6 Moscow Avenue	10.0	9.9	0.1	0.1	1.6	31%
ONGOING PROJECTS	**35.9**	**–**	**35.9**	**30.4**	**16.5**	
7 Kartozia Street	21.0	–	21.0	18.3	5.8	60%
8 Skyline	4.1	–	4.1	4.1	3.1	329%
9 Kazbegi Street II	7.8	–	7.8	5.1	4.3	51%
10 50 Chavchavadze Ave.	3.0	–	3.0	3.0	3.3	75%
TOTAL	**172.8**	**136.7**	**36.1**	**30.6**	**32.9**	

BALANCE SHEET

GEL thousands, unless otherwise noted	Dec-16	Dec-15	Change y-o-y
Cash and cash equivalents	**93,278**	28,015	233.0%
Investment securities	**1,145**	1,145	0.0%
Accounts receivable	**1,016**	757	34.2%
Prepayments	**20,823**	26,581	-21.7%
Inventories	**112,669**	95,314	18.2%
Investment property, of which:	**116,058**	108,753	6.7%
Land bank	**71,214**	76,558	-7.0%
Commercial real estate	**44,844**	32,195	39.3%
Property and equipment	**5,368**	1,259	326.4%
Other assets	**20,975**	13,852	51.4%
TOTAL ASSETS	**371,332**	275,676	34.7%
Amounts due to credit institutions	**42,342**	3,282	1190.1%
Debt securities issued	**104,410**	48,937	113.4%
Accruals and deferred income	**82,398**	109,024	-24.4%
Other liabilities	**5,232**	6,646	-21.3%
TOTAL LIABILITIES	**234,382**	167,889	39.6%
Additional paid-in capital	**4,382**	4,382	0.0%
Other reserves	**12,880**	(3,575)	NMF
Retained earnings	**119,688**	106,980	11.9%
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE GROUP	**136,950**	107,787	27.1%
TOTAL EQUITY	**136,950**	107,787	27.1%
TOTAL LIABILITIES AND EQUITY	**371,332**	275,676	34.7%

m^2 Real Estate has a solid and well managed balance sheet. As of 31 December 2016, total assets were GEL 371.3 million (up 34.7% y-o-y), constituting 25% cash, 6% prepayments, 30% inventories (apartments in development), 31% investment property (land bank and commercial real estate) and 7% other assets.

Borrowings, which consist of debt raised from Development Financial Institutions (DFIs) and debt securities issued in the local market, constitute 40% of the total balance sheet. Accruals and deferred income, constituting 22% of the balance sheet, represents prepayments for the presold apartments.

m^2 Real Estate currently has a land bank on its balance sheet with a total value of GEL 71.2 million. We do not expect the land bank to grow, as m^2 Real Estate strategy is to utilise its existing land plots within three to four years and, in parallel, start developing third-party land.

DIRECTORS' GOVERNANCE OVERVIEW

Committed to the highest standards of corporate governance

NEIL JANIN
NON-EXECUTIVE CHAIRMAN

DAVID MORRISON
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

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

NEIL JANIN
CHAIRMAN OF THE BOARD

Dear Shareholders

Our aim is to be at the forefront of best practice in corporate governance. The strength of our corporate governance has helped ensure the successful execution of our strategy and the achievement of our objectives. It is the Board of Directors that imbeds the importance of strong corporate governance throughout the Group by its leadership and culture – success within the Group is only possible through transparency, honesty, fairness and collaboration. Our culture creates an inclusive environment that helps us attract, retain and develop the best talent. We are appreciative of management's unity as a cohesive team dedicated to delivery of the Board's strategy and best practise corporate governance. Our culture is also reflected in the Group's commitment to its customers and clients by acting ethically and responsibly in all of its business dealings.

The Board leads through a framework (described in this section of the Report) that provides for the development, review, implementation and continued oversight of a system of controls, policies and procedures that uphold our high governance standards. This established framework allows us to put the human and financial resources in place that we believe will optimise the Group's ability to meet its strategic objectives to increase shareholder value.

In this part of the Annual Report, we explain our governance policies and practices and the measures that we have taken to ensure that the Group continues to apply our high standards of corporate governance. The key themes of the UK Corporate Governance Code 2014 (the "Code") form the framework for discussing our corporate governance structure. Given the importance of the work of the Nomination, Audit, Risk and Remuneration Committees, each Committee presents a separate report, which can be found within this section.

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

- We supported management to advance its Retail Banking and Investment Business strategy.
- We continued our focus on Board succession planning and appointed Jonathan Muir as an advisor to the Board and member of the Audit Committee.
- We pursued our management succession plan by strengthening management at each of our Investment Businesses.
- We expanded our talent development programmes (coaching, mentoring and leadership) to enhance the skills of executive management as well as create an internal talent pipeline of individuals with the skills and capabilities to be become our future leaders.
- We continued our focus on our systems of risk management and internal control throughout the Group, assisted by our Audit and Risk Committees. Our systems were optimised to manage identified risks (e.g., we strengthened our IT security to add additional protection against financial crime and cyber-security breaches).
- We approved a new Remuneration Policy, now fully compliant with the Code, which will be subject to shareholder approval at our upcoming AGM.
- Our Board and management continued to engage extensively with our investors, reflecting our commitment to transparent reporting and dialogue. The Directors and management met with over 300 institutional investors in 2016.
- We received detailed training on and revised our policies and procedures to address the implementation of the EU Market Abuse Regulation and changes introduced by EU Audit Reform, the latest edition of the Code and the Disclosure Guidance and Transparency Rules.

As corporate governance continues to evolve, we commit to challenge ourselves to develop and maintain the highest standards possible for the Group.

Neil Janin	**David Morrison**
Non-Executive Chairman	Senior Independent Non-Executive Director

13 April 2017

COMPLIANCE STATEMENT

Throughout the year ended 31 December 2016, we applied the Main Principles and complied with the Provisions of the 2014 UK Corporate Governance Code except as set out below. Please note that the 2014 Remuneration Policy states that shares granted as discretionary compensation will vest over a two-year period starting in January of the second year following the work year earned. This vesting period does not comply with Code provision D.1.1, which requires a vesting period of three years. To address this, the service agreement of our sole Executive Director has been varied. We agreed to extend the vesting period for discretionary shares to three years (vesting starts in January of the second year following the work year earned) which complies with Code provision D.1.1. It was further agreed that the amended vesting period will apply to the 2016 work year, which is reflected in the Annual Report on Remuneration on page 107 and in our new Directors' Remuneration Policy, which is set out on pages 100 to 106.

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

Set out on our website at http://bgeo.com/page/id/62/our-governance is the Board's assessment of its application of the Main Principles of the Code, as required by LR 9.8.6.

BOARD OF DIRECTORS

Diverse and balanced team who govern with experience

NEIL JANIN
NON-EXECUTIVE CHAIRMAN

Neil 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 BGEO's Nomination Committee as well as a member of BGEO's Remuneration Committee. Mr Janin also serves as a member of the Supervisory Board of the Bank, having stepped down as Chairman in July 2015, a position he had held since 2010. Mr Janin continues to serve as a member of the Bank's Remuneration Committee, a position he has held since 2010.

Mr Janin also serves as a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group.

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 regard 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 Limited, a company through which he provides 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.

IRAKLI GILAURI
CEO

Irakli Gilauri was appointed as an Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Gilauri has served as CEO of BGEO since his appointment in 2011, and was appointed Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Mr Gilauri also serves as CEO of JSC BGEO Group, JSC BGEO Investment Group and JSC BG Financial Group. He is currently Chairman of the Board of Georgia Healthcare Group PLC and Chairman of the Supervisory Board for the following subsidiaries: JSC Georgia Healthcare Group, m^2 Real Estate, Georgian Renewable Power Company and Teliani Valley. He is also a member of the Supervisory Board of Georgia Global Utilities and Agron Group.

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.

DAVID MORRISON
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

David Morrison was appointed as the Senior Independent Non-Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Morrison assumed the role of Chairman of BGEO's Audit Committee in December 2013, prior to which he served as a member of the Committee.

Mr Morrison is also a member of BGEO's Remuneration and Nomination Committees, and serves on 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 a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group.

Skills and experience:
Mr Morrison is a member of the New York bar and worked for 28 years at Sullivan & Cromwell LLP until he withdrew from the firm in 2007 to pursue other interests. At Sullivan & Cromwell, he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, including capital raisings, IPOs and mergers and acquisitions. Key clients included investment banks and a wide range of commercial and industrial companies. He advised on a number of the largest privatisations in Europe, and was advisor to Germany's development bank, Kreditanstalt für Wiederaufbau (KfW) for over 20 years (serving on the Board of Directors of KfW's finance subsidiary). 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 turned his attention to nature protection financing. He became the Founding CEO of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. He resigned as CEO in March 2016 and now serves on the Board of Directors of CNF as well as on the boards of two new conservation trusts he helped to create in 2015 and 2016.

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.

BOARD OF DIRECTORS CONTINUED

Diverse and balanced team who govern with experience (continued)

ALASDAIR (AL) BREACH
INDEPENDENT NON-EXECUTIVE DIRECTOR

Al Breach was appointed as an Independent Non-Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Breach serves as Chairman of BGEO's Remuneration Committee and serves as a member of BGEO's Risk and Nomination Committees. 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 a member of the Bank's Risk Committee since December 2014.

Skills and experience:

In 2013, Mr Breach co-founded Gemsstock Limited, 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 Limited, which 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 Former Soviet Union (FSU) 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 Limited, 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.

KIM BRADLEY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Kim Bradley was appointed as an Independent Non-Executive Director of BGEO on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Bradley serves as Chairman of the BGEO Risk Committee and a member of BGEO's Audit and Nomination Committees. Mr Bradley was also appointed to the Bank's Supervisory Board in December 2013 and serves as Chairman of the Bank's Risk Committee and as 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 serves as a director of a mental health charity.

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.

TAMAZ GEORGADZE
INDEPENDENT NON-EXECUTIVE DIRECTOR

Tamaz Georgadze was appointed as an Independent Non-Executive Director of BGEO Group on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Georgadze serves as a member of BGEO's Risk and Nomination Committees and was appointed as a member of BGEO's Audit Committee in September 2016. Mr Georgadze was also appointed to the Bank's Supervisory Board in December 2013 and serves as a member of the Bank's Risk Committee and Audit Committee.

Skills and experience:

In 2013, Mr Georgadze founded Raisin GmbH (formerly 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 ten-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.


HANNA LOIKKANEN
INDEPENDENT NON-EXECUTIVE DIRECTOR

Hanna Loikkanen was appointed as an Independent Non-Executive Director of BGEO by the Board in June 2015 and was elected by shareholders at the 2016 AGM. Ms Loikkanen is also a member of BGEO's Nomination Committee and was appointed to BGEO's Audit Committee in March 2016. Ms Loikkanen was also appointed to the Bank's Supervisory Board in August 2015.

Ms Loikkanen previously served as a Non-Executive Director of BGEO from 2011 until 2013 and as a member of the Bank's Supervisory Board from 2010 until 2013.

Skills and experience:
Ms Loikkanen has over 20 years of experience working with financial institutions in Russia and Eastern Europe. She currently serves as an advisor to East Capital Private Equity AB. Prior to this, she served from 2010 until 2012 as the Chief Representative and Head of the Private Equity team at East Capital, a Swedish asset management company in Moscow, with a special focus on financial institutions. Prior to joining East Capital, Ms Loikkanen held the position of Country Manager and Chief Executive Officer at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running FIM Group's brokerage and corporate finance operations in Russia. During her tenure at FIM Group, the company advised several large foreign companies in their M&A activities in Russia. Earlier in her career, Ms Loikkanen worked for Nordea Finance in various management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking.

In addition to her directorships at BGEO Group and the Bank, Ms Loikkanen serves as a Non-Executive Director and a member of the Audit and Risk Committee of Locko Bank, an SME-focused Russian bank and as a Non-Executive Director of Locko Invest, Locko Bank's investment banking subsidiary. She is also a Non-Executive Director of AKI Bank in Tatarstan. Since 2014, she has acted as Non-Executive Chairman of the Board of T&B Capital, an independent regulated wealth management company based in Helsinki.

Education:
Ms Loikkanen holds a Master's degree in Economics and Business Administration from the Helsinki School of Economics, and was a Helsinki School of Economics scholar at the University of New South Wales.

JONATHAN MUIR
BOARD ADVISOR
AUDIT COMMITTEE MEMBER

Jonathan Muir was appointed as an advisor to the Board and as a member of the Audit Committee in December 2016.

Skills and experience:
Mr Muir has over 30 years' experience working as a professional in accounting and finance. He is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Prior to joining LetterOne, Mr Muir was CFO (2008-2013) and Vice President of Finance and Control (2003-2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985-2000).

Education:
Mr Muir graduated with first class honours from St. Andrews University in the UK. He is a British qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

KAHA KIKNAVELIDZE
Kaha Kiknavelidze stepped down from the Board on 6 September 2016 and assumed the role of CEO of the Bank. Please see page 79 for his biography.

BOZIDAR DJELIC
Bozidar Djelic stepped down from the Board on 15 December 2016, having served as a member of the Nomination Committee and Risk Committee. We thank him for his contribution to the Group.

EXECUTIVE MANAGEMENT

Experienced leadership who deliver our strategy

BGEO Group Executive Management

IRAKLI GILAURI
GROUP CEO

Please see page 75 for his biography.

LEVAN KULIJANISHVILI
GROUP CFO

Mr Kulijanishvili was appointed as Group CFO in February 2016, prior to which he served as Deputy CEO (Finance) of Bank of Georgia where he continues his services to this date. He has been with the Bank since 1997. During his 19 years of service, Mr Kulijanishvili has held various senior positions, including Head of Compliance and Internal Control from 2009 until his appointment as Deputy CEO (Finance), Head of the Internal Audit department (2000 to 2009), Manager of the Financial Monitoring, Strategy and Planning department (1999 to 2000) and Head of the Financial Analysis division (1997-1999). He received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

AVTO NAMICHEISHVILI
GROUP GENERAL COUNSEL

Mr Namicheishvili was appointed as General Counsel of JSC BGEO Group in September 2015. He previously served as Deputy CEO (Legal) of the Bank since July 2008, prior to which he served as the Bank's General Counsel from March 2007. Before joining the Bank, Mr Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as external legal advisor for Bank of Georgia from 2004. He received his undergraduate degrees in Law and International Economic Relations from Tbilisi State University and a graduate degree (LLM) in International Business Law from Central European University, Hungary.

EKATERINA SHAVGULIDZE
GROUP HEAD OF INVESTOR RELATIONS AND FUNDING

Ms Shavgulidze was appointed as Group Head of Investor Relations and Funding in January 2015. Ms Shavgulidze joined the Group in 2011 and was a Supervisory Board member of the Group's insurance and healthcare subsidiaries and served as the CEO of the healthcare services business, and later was a Supervisory Board Member of the Group's insurance and healthcare subsidiaries (2011-2013). Before her employment with the Group, Ms Shavgulidze was an Associate Finance Director at AstraZeneca, UK for two years, where she worked on finance projects in Eastern Europe, including an assignment as CFO for AstraZeneca Kazakhstan. She also co-lead the reorganisation of AstraZeneca's Central Asian business. Ms Shavgulidze received her undergraduate degree in Business Administration from the European School of Management in Georgia and received her MBA from Wharton Business School, majoring in Finance and Entrepreneurship.

JSC Bank of Georgia Executive Management

KAKHABER (KAHA) KIKNAVELIDZE
CEO, BANK OF GEORGIA

Mr Kiknavelidze was appointed as CEO of the Bank in September 2016. Immediately prior to his appointment, Mr Kiknavelidze served as an Independent Non-Executive Director of BGEO Group since October 2011, which included positions on BGEO's Audit, Risk and Nomination Committees and he also served as a member of the Bank's Supervisory Board and Audit Committee, positions he held since 2008. While serving as a Director and Supervisory Board member, he took a very active role in mentoring many of the current members of the Bank's management team. Kaha has over 15 years of experience in the financial services, including a number of roles at UBS and Troika Dialog. He is the founder and Managing Partner of Rioni Capital Partners LLP, a London-based investment management company, the role he stepped down from at the end of 2016. 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.

MIKHEIL GOMARTELI
DEPUTY CEO, RETAIL BANKING (EXPRESS BANKING AND BRAND OPERATIONS)

Following the split of retail banking into two segments in February 2017 due to significant growth in the retail banking business, Mr Gomarteli assumed the role of Deputy CEO responsible for Express Banking and Brand Operations. Prior to this, Mr Gomarteli had served as the sole Deputy CEO of Retail Banking since February 2009. He has been with the Bank since December 1997. During his 18 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (March 2007 to February 2009), Head of Business Development (March 2005 to July 2005), Head of Strategy and Planning (2004 to 2005), Head of Branch Management and Sales Coordination (2003 to 2004), Head of Branch Management and Marketing (2002 to 2003) and Head of Banking Products and Marketing (2000 to 2002). Mr Gomarteli received an undergraduate degree in Economics from Tbilisi State University.

DAVID TSIKLAURI
DEPUTY CEO, CORPORATE INVESTMENT BANKING

Mr Tsiklauri was appointed as Deputy CEO (Corporate Investment Banking) in February 2017. Prior to joining the Bank, Mr Tsiklauri served as Deputy CEO in charge of Corporate Banking at TBC Bank, a position he held since 2014. Before TBC Bank, Mr Tsiklauri served as the Vice President of the Capital Markets and Treasury Solutions team at Deutsche Bank since 2011, where he started as an associate in the Debt Capital Markets Department in 2008. Mr Tsiklauri received his MBA from London Business School.

Experienced leadership who deliver our strategy (continued)

JSC Bank of Georgia Executive Management (continued)

RAMAZ KUKULADZE
DEPUTY CEO, MSME AND PREMIUM RETAIL BUSINESS

Mr Kukuladze was appointed as Deputy CEO, MSME and Premium Retail Banking in February 2017. Prior to his current role, Mr Kukuladze held the joint role of Chief Commercial Officer and Deputy CEO at Bank Republic since 2013, having previously served as the Chief Commercial Officer since 2011. Before working at Bank Republic, Societe Generale Group, Mr Kukuladze spent two years working for Silknet as Deputy CEO, in charge of commercial business. Mr Kukuladze first joined the Bank in 2006 and served as a Deputy CEO, Corporate Banking until 2009. Before first joining the Bank, Mr Kukuladze served as CEO of BCI Insurance Company, a company founded by him 1998, which later was acquired by the Group. Mr Kukuladze received his MBA from IE Business School.

GEORGE CHILADZE
DEPUTY CEO (CHIEF RISK OFFICER)

Mr Chiladze was appointed as Deputy CEO (Chief Risk Officer) in September 2013. He re-joined the Bank having already served as Deputy CEO (Finance) from 2008 to 2011. From 2011 to 2013, Mr Chiladze was deputy CEO at the Partnership Fund, and he 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 Programme 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.

TORNIKE GOGICHAISHVILI
DEPUTY CEO, OPERATIONS

Mr Gogichaishvili was appointed as Deputy CEO, Operations of Bank of Georgia in January 2016. Prior to this, Tornike served as Director of operations' department at Bank of Georgia from June 2010. Before that he served as head of international banking, coordinating the activities of the Group's Ukraine and Belarus subsidiaries. From 2006 to 2008, he served as CEO of Aldagi. Prior to joining the bank, he served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004. Mr Gogichaishvili graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

ALEXANDER KATSMAN
DEPUTY CEO, HUMAN RESOURCES MANAGEMENT AND BRANDING

Mr Katsman was appointed as Deputy CEO (Human Resources and Branding) at the Bank in January 2016. Prior to this appointment, Mr Katsman served as Chief Branding Officer at the Bank. Before joining the Bank in 2010, in 2004-2009 Mr Katsman was a partner at Sarke, the largest communications' group in Georgia where he held a position of the Director of Client Service and Strategy. Mr Katsman received his undergraduate degree in law from Tbilisi State University and his EMBA from the Berlin School of Creative Leadership.
Mr Katsman also holds a PhD in jurisprudence from Tbilisi State University.

Investment Business Executive Management

NIKOLOZ GAMKRELIDZE
CEO, GEORGIA HEALTHCARE GROUP

Mr Gamkrelidze was appointed as CEO of Georgia Healthcare Group in December 2014, having previously served as Deputy CEO (Finance) at Bank of Georgia since October 2012, prior to which he was CEO of Aldagi. Before joining Aldagi, Mr Gamkrelidze served as CEO of joint stock company My Family Clinic from October 2005 to October 2007. Prior to that, he served as a consultant at Primary Healthcare Development Project (a 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.

ARCHIL GACHECHILADZE
CEO, GEORGIA GLOBAL UTILITIES

Mr Gachechiladze was appointed CEO of Georgian Global Utilities in January 2017. He served as Deputy CEO (Corporate and Investment Banking) from February 2016 until his recent appointment. Mr Gachechiladze also served as Group CFO (2015-2016) and Deputy CEO (Investment Management) since 2013. He joined the Bank in 2009 as Deputy CEO (Corporate Banking). Prior to this, Mr Gachechiladze served as Deputy Director in charge of Corporate Recovery at TBC Bank, Georgia, a position he took up in August 2008. From 2006 to 2008, he 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.

IRAKLI BURDILADZE
CEO, m² REAL ESTATE

Mr Burdiladze was appointed as CEO of JSC m² Real Estate in September 2015 having previously served as deputy CEO (Affordable Housing) of JSC Bank of Georgia from 2010. Prior to this, he served as the bank's chief operating officer from March 2007 to June 2010 after having spent a year as CFO. Prior to joining the bank, he 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. He has 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 Tbilisi State University.

SHOTA KOBELIA
CEO, TEILANI VALLEY

Mr Kobelia was appointed as CEO of Teliani Valley in January 2010, having previously served as Chief Commercial officer in Pernod Ricard Georgia. Prior to joining Pernod Ricard, Mr Kobelia worked as Head of Sales Department in several beverage businesses in the United States. He received his Bachelor degrees in agriculture product sales and marketing from Georgian National Agrarian University and holds a Masters degree in international sales marketing from Bordeaux Business School, France.

CORPORATE GOVERNANCE FRAMEWORK

OUR GOVERNANCE STRUCTURE

BGEO GROUP PLC BOARD OF DIRECTORS

The Board is collectively responsible for the long-term success of the Group and is responsible to shareholders for creating and delivering sustainable value through the management of the Group's businesses. The Board: establishes the Group's core values and leads by example; sets and oversees the execution of the Group's strategy within a framework of strong and effective risk management and internal controls; and upholds best practice corporate governance, among many other responsibilities.

The Board is composed of seven Directors, six of whom are Independent 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://bgeo.com/page/id/66/roles-and-responsibilities.

AUDIT COMMITTEE

It assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and information security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Committee Membership
David Morrison (Chairman)
Kim Bradley
Hanna Loikkanen
Tamaz Georgadze
Jonathan Muir

See pages 89 to 93 for the Audit Committee Report.

RISK COMMITTEE

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

Committee Membership
Kim Bradley (Chairman)
Al Breach
Tamaz Georgadze
Hanna Loikkanen

See pages 94 to 96 for the Risk Committee Report.

NOMINATION COMMITTEE

It assists the Board 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, the strategic direction of the Group and the diversity aspirations of the Board. It is responsible for both Director and management succession planning.

Committee Membership
Neil Janin (Chairman)
David Morrison
Al Breach
Kim Bradley
Tamaz Georgadze
Hanna Loikkanen

See pages 86 to 88 for the Nomination Committee Report.

REMUNERATION COMMITTEE

It reviews and recommends to the Board the Directors' Remuneration Policy to ensure that remuneration is designed to promote the long-term success of BGEO (and to see that management is appropriately rewarded for their contribution to the Group's performance in the context of wider market conditions and shareholder views). It determines the remuneration packages of the Executive Directors, Chairman and executive management along with their terms of employment and assesses the performance of executive management against KPIs.

It is also responsible for designing and overseeing the administration of Group employee share schemes.

Committee Membership
Al Breach (Chairman)
Neil Janin
David Morrison

See pages 98 to 113 for the Remuneration Committee Report.

THE ROLE OF THE 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 and are accountable to shareholders for the financial performance of the Group.

We believe that the success of the Group's implementation of strategy requires the alignment of strategy with the Group's internal governance framework. We view a strong systems of risk management and internal controls as essential to governance which allows us to pursue our strategy in a way that risk appetite can be set and risks robustly identified, assessed, managed and reported effectively. You can read more about our risk management on pages 34 to 35.

By setting the tone at the top, establishing the core values of the Group and demonstrating our leadership, management are able to implement key policies and procedures we have created in a manner that clearly sets an expectation that every employee acts ethically and transparently in all of his or her dealings.

We also monitor management's execution of strategy and financial performance. 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. You can read more about our sustainability initiatives on pages 46 to 52.

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://bgeo.com/page/id/67/schedule-of-matters-reserved-for-the-board.

OPERATION OF THE BOARD

We schedule in person Board meetings at least four times a year in Georgia, 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. Matters which require decisions outside the scheduled meetings are dealt with through additional ad hoc meetings and conference calls. In addition, in 2016, all Directors except one attended our annual investor day. In total, we met formally as a Board 11 times during the year. The Board also passed written resolutions on 14 separate occasions.

At each regularly scheduled meeting, we receive reports from the Group Chairman, BGEO CEO, CFO of JSC BGEO Group and the Bank, and the Bank CEO on the performance and results of the Group. The CEOs of our principal subsidiaries and the Deputy CEOs of the Bank regularly update the Board on the performance, strategic developments and initiatives in their respective segment throughout the year. The Bank's Chief Risk Officer, Group General Counsel 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 and risk management, compliance, internal audit, human resources and corporate responsibility matters.

Many of our Non-Executive Directors will also make site visits several times a year. Examples include visits to newly open branches, real estate sites under construction and GHG hospitals, among other visits.

At the end of each day of regularly scheduled meetings, there is an informal dinner. One of the dinners always bring the Directors and executive management together, and the other is typically just the Directors among themselves.

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. These include the budget, quarterly, half-yearly and full year results, the Annual Report and Accounts, approval of the final dividend and the Notice of AGM, among others.

At each regularly scheduled meeting, the following topics are discussed:

- Updates from each Committee Chairman as to matters discussed at the respective Committee meeting held the day before.
- Strategy, including progress against strategy.
- Financial performance.
- Business segment performance and developments.
- Macroeconomics.
- Principal risks and risk management.
- Board and/or management succession planning, management performance and talent management.
- Regulatory, legislative and other corporate governance updates.

A comprehensive assessment of the risk management framework and system of internal controls is performed at least annually and optimised as needed. Board meetings are, however, flexible to ensure that pressing matters, when they arise, are addressed as quickly as possible.

The Chairman and BGEO CEO seek input from the Non-Executive Directors ahead of each Board meeting. The Senior Independent Director helps 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 follow-up actions and to discuss how effective the meeting was.

The Senior Independent Director also serves as a sounding Board to the Chairman and the CEO.

The Chairman and CEO also maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

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. The Audit Committee oversees and challenges BGEO in relation to its internal control and risk management systems in relation to the financial reporting process. Full details of the internal control and risk management systems in relation to the financial reporting process are given within the Audit Committee Report on pages 89 to 93.

In 2016, the Board had four Committees, comprised solely of Independent Non-Executive Directors: the Nomination Committee, the Audit Committee, the Risk Committee and the Remuneration Committee. Each Committee has agreed Terms of Reference, which are approved by each Committee and the Board and reviewed annually. Each Committee's Terms of Reference can be found on our website at http://bgeo.com/page/id/70/terms-of-reference.

The Chairman of each Committee reports to the Board on the matters discussed at Committee meetings. Later in this section, there are reports from the Chairman of each Committee which describe the Committee's operation, activities in 2016 and priorities for 2017.

In addition, each Committee provides a standing invitation for any Non-Executive Director to attend Committee meetings (rather than just limiting attendance to Committee members). It is not uncommon for the full Board to sit in on a Risk Committee meeting.

Read the Nomination Committee Report on pages 86 to 88.

Read the Audit Committee Report on pages 89 to 93.

Read the Risk Committee Report on pages 94 to 96.

Read the Remuneration Committee Report on pages 98 to 113.

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

BOARD MEETING ATTENDANCE

Details of Board meeting attendance in 2016 are as follows:

Board attendance	Number of meetings attended	% of meetings attended
Neil Janin (Chairman)		91%
Irakli Gilauri (Executive Director)		100%
David Morrison		100%
Alasdair Breach		91%
Kim Bradley		100%
Tamaz Georgadze		100%
Hanna Loikkanen		100%
Kaha Kiknavelidze[1]		88%
Bozidar Djelic[2]		100%

1 Retired 6 September 2016.
2 Retired 15 December 2016.

Please further note that the Non-Executive Members of the Board of BGEO are identical to the Members of the Supervisory Board of the Bank.

Details of the individual Directors and their biographies are set out on pages 75 and 77.

BOARD SIZE, COMPOSITION, TENURE AND INDEPENDENCE

We consider that a diversity of skills, backgrounds, knowledge, experience, outlook and approach, 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.

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. Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to decision-making. 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 four years. We value diversity in all forms. Currently, six different nationalities are represented on our Board of seven Directors. More information on our approach to diversity can be found on page 87.

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 or her independence.

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.

Read more detail on this in the Nomination Committee Report on pages 86 to 88.

EVALUATION OF BOARD PERFORMANCE

The Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. We are in year three of our three-year performance evaluation cycle. For the 2014 and 2015 evaluations, we engaged Lintstock, an external effectiveness evaluation specialist, to conduct comprehensive evaluations of the full Board, each of our Committees and individual Directors. The 2016 evaluation of the Board, Committees and Chairman was an internal process. Our Chairman conducted an evaluation of the Board, which included an assessment of the progress made against the objectives set for 2016. Our Group Company Secretary conducted evaluations of our Committees and the performance review of the Chairman was conducted by the Senior Independent Director who consulted with all members of the Board beforehand.

The outcomes of the evaluations are discussed in detail at Board meetings and the Board will set its priorities for the following year. The 2016 evaluation confirmed that Board and its Committees continue to perform effectively.

Overall, the Board is considered strong, bringing a good balance and mix of expertise and experience and offering real diversity of view and perspective.

Progress was felt to have been made against the objectives we set for 2016. In particular:

- We closely monitored our Investment Business strategy and were pleased with the progress made.
- We dedicated more time to discuss risk management and internal control and we were satisfied with how these systems were improved.
- We were very pleased with the results of our management succession plans Group-wide.

We did not succeed in appointing an additional female Board member despite interviewing female candidates for the auditing and/or accounting expertise appointment.

Based on the results of the evaluations and continued discussions, the Board has set the following objectives for 2017:

- Continuous review of overall strategy for the Group.
- Monitor the Bank's implementation of its strategy and financial performance.
- Monitor our shareholding at GHG and consider a potential further reduction in our shareholding if opportune.
- Monitor progress at our other Investment Businesses, including strategy implementation and financial performance.
- Oversee improvements to risk management and internal controls at our Investment Businesses, as needed.
- Continue succession planning, with regard to gender diversity, at the Board and executive management.

Our three-year performance evaluation cycle begins again for 2017 with our external evaluator, Lintstock, engaged to perform a comprehensive evaluation of our Board, Committees and Directors.

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 25-35 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 registered office during normal business hours.

NON-EXECUTIVE DIRECTORS' EXTERNAL APPOINTMENTS

Any external appointment or other significant commitment of the Non-Executive Director requires prior approval of the Board. Our Non-Executive Directors hold external directorships or other external positions but the Board believes they still have sufficient time to devote to their duties as a Director and that the other external directorships/positions held provide with valuable expertise which is then contributed to our Board.

BOARD INDUCTION, ONGOING TRAINING AND PROFESSIONAL DEVELOPMENT

On appointment, each Director takes part in an induction programme, during which he or she meets members of executive 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.

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, markets and regulatory environment in which Group companies operate and our evolving corporate governance framework.

All of our Directors participated in ongoing training and professional development throughout 2016, which included briefings, site visits, development sessions and presentations by our Group Company Secretary, members of management, external speakers and our professional advisors. We note that we received detailed training on and revised our policies and procedures to address the implementation of the EU Market Abuse Regulation and changes introduced by EU Audit Reform, the latest edition of the Code and the Disclosure Guidance and Transparency Rules.

INFORMATION SUPPORT

We also ensure that all of our Directors have access to advice of the Group Company Secretary as well as independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

RE-ELECTION OF DIRECTORS

In line with the Code's recommendations, all of our Directors seek re-election every year and accordingly all Directors will stand for re-election in June 2017. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for re-election.

NOMINATION COMMITTEE REPORT

Planning for our future in the best interests of our shareholders

NEIL JANIN
CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholders,

In 2016, we continued to focus on succession planning and talent development programmes. We believe that the skills, experience, knowledge and attributes of the members of our Board and executive management are the fundamental drivers of successful delivery of strategic and financial objectives.

In last year's Annual Report, we identified the addition of someone with accounting and/or auditing experience and increased female representation as our Board succession planning priorities. We also highlighted the importance of increasing the strength of management at the executive level and directly below in order to have a highly capable team to successfully execute our strategy as our Group continues to grow and diversify. We discuss our progress against these priorities in the pages that follow.

We also stepped up mentoring, coaching and leadership programmes for talent development in 2016 and expanded the programmes to certain levels of middle management. Our pipeline of future leaders continues to increase and team building is very strong.

In 2016, we also reviewed the time commitment and length of service of the Non-Executive Directors, recommended to the Board the re-appointments of all Non-Executive Directors, carried out our annual review of the Board Diversity Policy and facilitated the evaluations of the Board and our Committees.

I conducted an internal evaluation of the Board and our Group Company Secretary evaluated each Committee. The results confirmed that the Board and Committees are effective and dedicated to best practise corporate governance.

I invite you to read more about our work in the following report.

Neil Janin
Chairman of the Nomination Committee
13 April 2017

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. We also help to ensure that the Group appoints excellent executive managers capable of successfully executing the Group's strategic objectives.

In summary, the Nomination Committee is responsible for:

- Reviewing the composition of the Board and Board Committees to ensure they are appropriately constituted and balanced in terms of size, 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 executive managerial roles.
- Evaluating the suitability of Directors standing for election and 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.
- Preparing the report by the Nomination Committee to be included in the Annual Report.

The Nomination Committee's full Terms of Reference are available on our website, http://bgeo.com/uploads/pages/nomination-committee-terms-of-reference-2.pdf.

COMPOSITION AND MEMBERS' MEETING ATTENDANCE

The members' attendance during 2016 is provided below.

Member Attendance	Number of meetings attended	% of meetings attended
Neil Janin		100%
David Morrison		100%
Al Breach		100%
Kim Bradley		100%
Tamaz Georgadze		100%
Hanna Loikkanen		100%
Kaha Kiknavelidze[1]		67%
Bozidar Djelic[2]		100%

1 Retired 6 September 2016.
2 Retired 15 December 2016.

The biographies of the members of the Nomination Committee are set out on pages 75 to 77.

In order to get the right balance of skills and knowledge on our Board, the Nomination Committee keeps Board composition under review throughout the year. Each year, we ask our Board members to provide feedback on the skills, expertise and performance of the other Board members as well as re-evaluate their own skills. For each Non-Executive Director the Nomination Committee reviews the time commitment required by him or her, taking into account any external directorships, length of service as well as independence of character and integrity. It then recommends to the Board whether each Non-Executive should be re-appointed. The Nomination Committee reported to the Board that it believes the overall size and composition of the Board to be appropriate and recommended that each Non-Executive Director be re-appointed.

BOARD DIVERSITY POLICY

Our Board embraces diversity in all its forms. Diversity of skills, background, experience, knowledge, outlook, approach, gender, nationality and ethnicity, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Diversity is not always an easily measured characteristic, such as gender. Diversity of outlook and approach is hard to measure but may be equally as important. Notwithstanding the foregoing, any Board appointment will always be made based on merit.

We have noted the recommendation in Lord Davies' final report on women on boards that a target of 33% female board representation be achieved by FTSE 350 companies by 2021. The Board aims to increase the number of women on the Board to two by mid-2018 and further increase this number thereafter.

BOARD RECRUITMENT AND APPOINTMENT PROCESS

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. As mentioned above, our goal is to ensure that the Board is well balanced and appropriate for the needs of the business. The Nomination Committee has regard to the Board's balance of skills, knowledge, experience and diversity.

In identifying suitable candidates, we typically first seek recommendations from trusted advisors but may also use open advertising or external search services to facilitate the recruitment. We carefully assess each candidate, taking into account our Board Diversity Policy, and take care that appointees have enough time available to devote to the position.

Shortlisted candidates are generally seen first by the Chairman, the BGEO CEO and Senior Independent Non-Executive Director. If the selection process progresses further, each potential candidate is invited to meet other members of the Nomination Committee as well as members of management. We then decide whether to recommend the candidate be appointed as an advisor to the Board. It is our usual practise to appoint a Board candidate as an advisor prior to offering an appointment to the Board. While an advisor to the Board, he or she may be recommended for a Committee appointment. The Nomination Committee will agree whether to recommend the advisor for appointment to the Board. The Board will ultimately resolve whether to make the suggested appointment.

SUCCESSION PLANNING

In 2016, we actively recruited a Board member with accounting and/or auditing experience in order to complement the skills identified as necessary for the Board and Audit Committee.

Last year, we received the names of various candidates from our trusted advisors and shortlisted various candidates with accounting and/or auditing experience as well as other complementary skills to our Board. The shortlisted candidates were seen by Neil Janin, Irakli Gilauri and David Morrison in London in October 2016 and the preferred candidate, Jonathan Muir, was invited to speak with/meet other members of the Nomination Committee as well as members of management. We then decided to recommend Mr Muir as an advisor to the Board and as a member of the Audit Committee in line with our appointment policy, with a view to decide whether to recommend him for a Non-Executive Directorship in 2017. The Committee and the Board were confident in the selection of Mr Muir for the role and did not need to use advertising or an external search agency to assist with the recruitment.

The Nomination Committee is always mindful of its Diversity Policy when recruiting. We considered female candidates for the role, but ultimately determined that Mr Muir was the best candidate for the role based on merit.

With respect to management succession planning, we further strengthened our executive management team across the Group in 2016 in line with our evolving business and strategic objectives.

In September 2016, Kaha Kiknavelidze stepped down from the Board to accept the appointment as CEO of the Bank, replacing Murtaz Kikoria. Mr Kikoria resigned from the Bank to pursue a position within the Government. In addition to his Company Board and Committee roles prior to becoming the Bank's CEO, Mr Kiknavelidze served on the Supervisory Board and Audit Committee of the Bank since 2008. His financial experience and knowledge of Bank strategy and operations combined with his strong relationships with Bank management, made Mr Kiknavelidze the ideal choice to take over from Mr Kikoria.

NOMINATION COMMITTEE REPORT CONTINUED

In order to complement the strategy of splitting our Retail Banking business into two different directions (mass retail/emerging retail and MSME/Solo) due to significant y-o-y growth, we implemented the following changes:

- David Tsiklauri was appointed Deputy CEO (Corporate and Investment Banking).
- Mikheil Gomarteli was appointed as Deputy CEO of Express Bank (emerging retail segment) and Bank of Georgia brand operations (mass retail segment); Mr Gomarteli served as Deputy CEO (Retail Banking) prior to this appointment.
- Ramaz Kukuladze was appointed Deputy CEO of MSME and Premium Retail Banking (Solo).

In 2016, we also strengthened our executive management structure in each Investment Business.

We made the following key appointments:

- Archil Gachechiladze was appointed as the CEO of Georgia Global Utilities (GGU), the utility and energy business of the Group; Mr Gachechiladze served as Deputy CEO (Corporate and Investment Banking) prior to the GGU appointment.
- New executive management were hired for each of GHG's ambulatory and pharma businesses.
- New CFOs were appointed for each of m^2 Real Estate and Teliani Valley.

TALENT DEVELOPMENT

We are committed to talent development programmes and initiatives within the Group. We increase the skills of our existing executive managers and develop a pipeline of new executive, senior and middle managers through coaching, mentoring and leadership programmes. We continue to expand our programme y-o-y to include management at lower levels. Career progression is tangible if s/he has the right mindset and work ethic. The Board also met with members of middle management throughout the year.

Our talent development programmes have also been embedded in our culture, which is characterised by:

- Transparency
- Viewing oneself as part of a team of leaders
- Helping each other to succeed
- Honest feedback

COMMITTEE EFFECTIVENESS REVIEW

It is the Nomination Committee's responsibility to organise the Board, Committee and individual Director performance reviews. Our three-year performance evaluation cycle is now well established and operates effectively in assessing the performance of the Board and its Committees as well as individual Directors. As we are in the third year of our three-year performance evaluation cycle, the 2016 performance evaluation was an internal process led by me and our Group Company Secretary. We start our cycle again this year which means that comprehensive external reviews will be performed in respect of 2017 and 2018.

This year's Nomination Committee review by our Group Company Secretary principally addressed how effectively the Nomination Committee reviews the composition of the Board and the Board Committees as well as how the Nomination Committee develops and implements succession plans for both the Board and executive management. The evaluation concluded that the Nomination Committee continues to operate and perform effectively.

Our priorities for 2017 are:

- Continue to develop Board and management succession plans in line with the Group's mid and long-term strategic objectives
- Continue to actively recruit in accordance with our Diversity Policy
- Keep Board composition under review as strategy evolves
- Further enhance access to talent management programmes

AUDIT COMMITTEE REPORT

Upholding integrity, transparency and accountability

DAVID MORRISON
CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholders,

During the year, the Committee continued to support the Board in its assessment of the integrity of the Group's financial reporting. The establishment of the Group Technical Accounting Team (our IFRS desk) in 2016 was a key achievement for the Group, further strengthening our financial reporting internal controls.

The Committee also devoted significant time assessing our risk management framework and internal controls to comply with the latest edition of the UK Corporate Governance Code effective 1 January 2017. The effectiveness of our IT and information security controls remained a principal area of focus, particularly in respect of evolving cyber-security risks.

Provisions for loan losses an accounting for complex and one-off transactions continued to occupy a significant portion of our time.

As the regulatory environment applicable to Audit Committees continued to evolve in 2016, we received continuing education in relation to the changes introduced by EU Audit Reform, the latest edition of the UK Corporate Governance Code and the Disclosure Guidance and Transparency Rules. We revised our Non-Audit Services Policy at the end of the year and carefully assessed the effectiveness of our external auditor.

The composition of the Audit Committee has been refreshed with three new appointees and one retirement.

I invite you to read about the operations and other main activities of the Committee in the pages that follow.

David Morrison
Chairman of the Audit Committee
13 April 2017

COMPOSITION AND OPERATIONS OF THE AUDIT COMMITTEE
As mentioned in my letter, membership in the Audit Committee has been refreshed since last year. In 2016:

- Hanna Loikkanen was appointed in March
- Kaha Kiknavelidze resigned in September upon his appointment as CEO of the Bank
- Tamaz Georgadze was appointed later in September

At the end of 2016, the Audit Committee comprised four independent Non-Executive Directors.

The members' attendance during 2016 is provided on the next page.

Effective 1 January 2017, the Board appointed Jonathan Muir to serve as an advisor to the Board and member of the Committee. Since his appointment, Mr Muir has participated in meetings and actions of the Committee, including the finalisation of the Annual Report and Accounts, and has assisted the Committee to fulfil its responsibilities.

Each member has recent and relevant financial experience and Mr Muir, a member of the Institute of Chartered Accountants of England and Wales, also has accounting and auditing experience. The members of the Committee have been chosen to provide the wide range of financial and commercial experience needed for the Committee to fulfil its duties and the Committee is well placed to continue its oversight and governance role in the year ahead.

The biographies of the members of the Audit Committee are set out on pages 75 to 77.

The Audit 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 (updated on 15 December 2016), but also reacts to business developments. Our meetings are regularly attended by the CFO of JSC BGEO Group and the Bank, Head of Internal Audit, Head of Internal Control, Security and AML Compliance and Risk departments, Chief Risk Officer of the Bank and occasionally by Irakli Gilauri, (BGEO and JSC BGEO Group CEO), and Bank CEOs. The external auditor also attends the regularly scheduled Audit Committee meetings. Separately, we had regular 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 Audit Committee take place prior to the Board meeting in order for the Audit Committee to report its activities and matters of particular relevance to the Board.

Mr Morrison attends the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

KEY PURPOSE AND RESPONSIBILITIES

On behalf of the Board, the Audit Committee safeguards high standards of integrity and oversees conduct in financial reporting, internal control and risk management (together with the Risk Committee) and internal audit. It also supervises the work of our external auditor. The Audit 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 primary roles and responsibilities of the Audit Committee include:

FINANCIAL REPORTING

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Company's performance before recommending them for approval by the Board
- Reviewing the appropriateness of the Group's accounting policies and practices
- Evaluating material areas in which estimates and judgements have been applied and reviewing the appropriateness of the financial reporting judgements made
- Monitoring significant issues that have been discussed with the external auditor and any significant adjustments resulting from the audit
- Assessing the clarity, consistency and completeness of disclosure, including compliance with financial reporting standards and relevant financial and governance requirements
- Reviewing and challenging the going concern assumption and the viability statement
- Informing the Board of the outcome of the Group's external audit and explaining its contribution to the integrity of financial reporting

Narrative reporting

- At the Board's request, reviewing the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- At the Board's request, assisting in relation to the Board's assessment of the principal risks facing the Group and the prospects of the Group for the purposes of disclosures required in the Annual Report and Accounts

Internal financial controls

- Ensuring that there are clearly defined lines of accountability and delegation of authority
- Reviewing the effectiveness of the Group's internal financial controls, including the policies and overall process for assessing established systems of internal financial control and timeliness and effectiveness of corrective action taken by management

Compliance

- Assisting the Board to review the permissibility of and monitor conflicts of interests
- Overseeing the Group's policies, procedures and controls for:
  - Preventing bribery and corruption
  - Identifying money laundering
  - Safeguarding the Group's arrangements for whistleblowing

Operational risk

- Monitoring various areas of operational risk, including overseeing the Group's policies, procedures and controls and investigating control weaknesses and management's response to such findings in respect of:
  - IT and information security (including cyber-security)
  - Corporate security and similar areas of operational risk
  - Internal and external fraud or misconduct

Internal audit

- Monitoring and reviewing the role, effectiveness and independence of the Group's internal audit function in the context of the Group's overall financial risk management system

External audit

- Overseeing the relationship with the Group's external auditor, including reporting to the Board each year whether it considers the audit contract should be put out to tender, adhering to any legal requirements for tendering or rotation of the audit services contract as appropriate
- Reviewing and monitoring the external auditor's objectivity and independence; agreeing the external auditor's scope of work and fees paid for the audit
- Assessing the effectiveness of the audit process
- Agreeing the policy in relation to the provision of non-audit services

The 2016 Audit Committee's full Terms of Reference (updated 15 December 2017) are available on our website at http://bgeo.com/uploads/pages/bgeo-audit-committee-terms-of-reference-december-2016-82.pdf.

FINANCIAL REPORTING

A principal responsibility of the Audit Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements.

The Committee received detailed reporting from the external auditor in respect of key areas of audit focus during the year. The Committee and the external auditor, without management present, discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate. Taking into account the external auditor's assessment of risk, but also using our own independent knowledge of the Group, we reviewed and challenged where necessary, the actions, estimates and judgements of management in relation to the financial statements.

Member attendance	Number of meetings attended	% of meetings attended
David Morrison		100%
Kim Bradley		100%
Hanna Loikkanen		100%
Tamaz Georgadze		100%
Kaha Kiknavelidze[1]		88%

1 Retired 6 September 2016.

The significant financial judgements considered by the Audit Committee in relation to the financial statements are addressed below.

APPROPRIATENESS OF ALLOWANCE FOR LOAN LOSSES

In 2016, we continued to scrutinise the appropriateness of the allowance for loan losses. As mentioned in last year's Annual Report, the Bank introduced a new loan loss provisioning methodology on 1 January 2014, which was developed in consultation with Deloitte. This provisioning methodology, which the Bank continued to use in 2016, is based on a statistical assessment of probability of default and loss given default. The Bank uses a loan loss provisioning methodology based on a combination of collective provisioning and individual provisioning based on discounted cash flow analyses.

In 2016, the depreciation of the Lari led to a modest increase in our Banking Business credit risk. In response, provisioning levels were increased to account mainly for the increased post-devaluation risk. The main judgements in respect of the appropriateness of the allowance for loan losses involved 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 used for identifying assets at risk, categorising the loan portfolio and determining provisioning rates, as well as the key 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.

In conclusion, we were satisfied that the impairment provisions were appropriate. The disclosures relating to impairment provisions are set out in Note 29 of the consolidated financial statements.

VALUATION OF OWN PREMISES AND INVESTMENT PROPERTIES, HOSPITALS AND CLINICS

We received reports from management on the assumptions to be used in valuing the Group's premises and investment properties. The Group engaged Colliers International Georgia (Colliers), an independent external valuer, to value the top five largest items across land and buildings and investment properties, covering approximately 28% of our portfolio as well as to provide detailed market overview reports describing price developments in residential, development land, office, hotel and retail property markets in 2016 compared to 2015 in key locations (Tbilisi, Batumi, Kutaisi, etc.), covering approximately 85% of our portfolio. With respect to land and buildings, the valuation confirmed that any change in value was insignificant. In 2016, our subsidiary, Georgia Healthcare Group engaged an independent external valuer to appraise 45 of its hospitals and clinics as well as land and office buildings. Management presented the results of the external valuation to the Committee. In respect of its hospitals and clinics, the appraisal value was approximately GEL 20 million higher than historical value. We discussed the results of the reports and EY findings, who tested the valuation reports as part of their audit.

We scrutinised and challenged management's assumptions and judgements and were satisfied with the conclusions reached by management. The disclosures relating to the valuation of own premises and investment properties are set out in Note 30 of the consolidated financial statements.

In addition to the significant financial judgements discussed above, we also discussed accounting and financial reporting matters relating to:

- Accounting for one-off and complex transactions including business combinations (GGU and GPC acquisitions) and the accounting for the restructuring of the Group's exposure to its largest borrower
- Revenue recognition in our healthcare and pharmaceutical businesses
- The change in functional currency of m^2 Real Estate from Lari to Dollar
- The classification of non-recurring income and expenses
- Changes in tax treatment of profit distributed as dividends and profit which is undistributed and reinvested
- The implementation timetables of IFRS 9, 15 and 16

INTERNAL AUDIT

The Audit Committee is responsible, on behalf of the Board, to oversee the Internal Audit department, which serves as the Group's independent assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Group.

The Audit Committee monitors the scope, extent and effectiveness of the Group's Internal Audit function. We review and approve the Internal Audit Policy and oversee the Internal Audit Plan, which is designed using a risk-based approach which is aligned with the overall strategy of the Group.

In 2016, Internal Audit assignments covered a wide range of financial reporting and operational controls, IT and IS systems and risk management processes. Internal audits of the Group risk management framework, including compliance processes, materially significant transactions, reliability of information for decision-making and retail banking activities were identified as the highest priority. Throughout the year, we received regular reports from Internal Audit on its audit activities and significant findings as well as the corrective measures recommended to management. We also reviewed and monitored management's responsiveness to the corrective measures through follow-up reports provided by Internal Audit.

The Head of Internal Audit has direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present. We also monitor the staffing of the Internal Audit department as well as the relevant qualifications and experience of the team – in 2016, we approved an increase in budget to ensure that senior staffing needs were met and provide best practice continuing education and training.

We reviewed Internal Audit's self-assessment of its performance and independently formed our own view of the Internal Audit department by considering the progress of internal audit against the agreed plan, taking into account the need to respond to changes in the Group's business and the external environment. We also considered the quality of the reporting by Internal Audit to the Audit Committee and the ability of Internal Audit to address unsatisfactory results. On this basis, we 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

With respect to our responsibilities for the external audit process on behalf of the Board, we:

- Approve the annual audit plan, which includes setting the areas of responsibility, scope of the audit and key risks identified
- Oversee the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement
- Review the findings of the external audit with the external auditor, including the level of errors identified during the audit
- Monitor management's responsiveness to the external auditor's findings and recommendations
- Review the content of the management letter issued by the external auditor
- Review the qualifications, expertise and resources of the external auditor
- Monitor the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements
- Review audit fees and the cost effectiveness of the audit
- Monitor the rotation of key partners in accordance with applicable legislation
- Recommend the appointment, re-appointment or removal, as applicable, of the external auditor

AUDIT COMMITTEE REPORT CONTINUED

AUDIT TENDER AND LEAD AUDIT PARTNER ROTATION

EY was appointed as our Group statutory auditor by shareholders at our 2012 AGM, following a competitive tender process. The Group will be required to put the external audit contract out to tender no later than 2022.

We continue to review the auditor appointment and consider the opportune time to tender the audit. The Committee confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2016.

Following the retirement of Andrew McIntyre upon completion of the 2015 audit, EY appointed John Headley as our lead audit partner.

AUDITOR INDEPENDENCE

The Audit Committee is responsible for the development, implementation and monitoring of the policies and procedures on the use of the external auditor for non-audit services, which help to ensure that the external auditor maintains the necessary degree of independence and objectivity. In 2016, we revised our policy on the use of the external auditor to provide non-audit services, in accordance with applicable laws and taking into account the relevant ethical guidance for auditors. Any non-audit work to be undertaken by the external auditor now requires authorisation by Audit Committee upon recommendation by the Group Chief Financial Officer except in very narrow circumstances. The policy on non-audit services also requires that fees incurred, or to be incurred, for non-audit services both individually and in aggregate, do not exceed any limits in applicable law and take into account the relevant ethical guidance for auditors. The Group's current Policy on Non-Audit Services was revised and approved in December 2016 and can be found on our website at http://bgeo.com/uploads/pages/bgeo-policy-on-nonaudit-services-22.pdf.

The Audit Committee has formally assessed the independence of EY, which included review of: (i) a report from EY describing their arrangements to identify, report and manage any conflicts of interest, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and (ii) the value of non-audit services provided by EY. EY has also confirmed its independence throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. The total fees paid to EY for the year ended 31 December 2016 were GEL 4.73 million of which GEL 680,000 related to work other than the audit or review of the interim accounts. Approximately 81% of the these services provided in 2016 were related to the issuance of Eurobonds by JSC BGEO Group, with the remainder relating to the provision of comfort letters for creditor covenants, preparation of a transfer pricing report, agreed upon procedures related to the BNB share acquisition and estimation methodology in respect of greenhouse gas emissions. Both EY and the Audit Committee do not consider that this work compromises the independence of the external auditor.

EFFECTIVENESS

We have an established framework for assessing the effectiveness of the external audit process. This includes:

- A review of the audit plan, including the materiality level set by the auditor and the process they have adopted to identify financial statement risks and key areas of audit focus
- Regular communications between the external auditor and both the Committee and management, including discussion of regular papers prepared by EY
- Regular discussions with EY (without management present) and management (without EY present) in order to discuss the external audit process
- A review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached
- A review of EY's 2016 Transparency Report and the annual FRC Audit Quality Inspection Report of EY
- A formal questionnaire issued to all Committee members and executive management of the Group who are involved in the audit (including internal audit) which covers among other items the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Committee and management and the auditor's independence and objectivity

Following our assessment of the external auditor, 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 affirmed
- EY was in a position to challenge management on its approach to key judgements
- Appropriate discussions were held with the Audit Committee during the audit planning process

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.

The Committee has recommended to the Board that EY be reappointed under the current external audit contract. EY has expressed its willingness to continue as auditor of the Group. Separate resolutions proposing its re-appointment and determination of its remuneration by the Audit Committee will be proposed at the 2017 AGM.

WHISTLEBLOWING, CONFLICTS OF INTEREST AND ANTI-BRIBERY AND ANTI-CORRUPTION POLICIES AND PROCEDURES

The Audit Committee ensures that there are effective procedures relating to whistleblowing. In particular, we have developed a Whistleblowing Policy which allows staff to confidentially raise any concerns about business practices. We keep this policy under review and receive regular updates from management as to any issues raised by employees. At the end of 2016, the Group acquired a license for Whistle B, an advanced independent whistleblowing reporting channel and case management tool, to replace its existing whistleblowing platform. Roll-out of Whistle B will be completed in Q2 2017.

We have also developed a Conflicts Authorisation Policy through which we assess actual and potential conflicts of interest and assist the Board in its review of the permissibility of such conflicts.

The Audit Committee also keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrong-doing. There were no significant findings in 2016.

RISK MANAGEMENT AND INTERNAL CONTROLS

Although the Board assumes the ultimate responsibility for the Group's risk management and internal control framework, its work is supported by both our Committee and the Risk Committee.

Since the Bank is the Group's largest business and operates in the complex financial services sector, its risk management framework and internal control processes are key to that of the Group.

See pages 40 to 45 for a discussion on Bank Risk Management.

In relation to risk management and internal financial control, the Audit Committee assists the Board to fulfil its responsibilities relating to the adequacy and effectiveness of the controls over financial reporting and certain types of operational risk: IT and information security (including cyber-security), corporate security and similar areas of operational risk and internal and external fraud or misconduct. The Committee also monitors the Group's compliance with the corporate governance policies and procedures related to anti-bribery and anti-corruption, conflicts of interest and whistleblowing.

The Audit Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. This includes reports from and regular discussions with the Group executives with whom it regularly meets. We receive Internal Audit's reports on the control environment and, as mentioned later in this report, we approve the Internal Audit Plan which is risk-based and aligned with the Group's strategy. For 2016, the Internal Audit Plan included a thorough risk management and internal control assessment, including compliance with corporate governance policies and procedures. During 2016 and up to the date of this Annual Report and Accounts, Internal Audit did not find any significant weaknesses in risk management or internal controls. We challenged the reports by management and Internal Audit and requested data regarding the application of controls for various types of transactions affecting the relevant account balances in the financial statements as well as compliance with key policies and procedures related to operational risk.

With respect to external assurance, the Audit Committee reviews the external auditor's reports to the Audit Committee, which include the external auditor's observations on risk management and internal financial controls identified as part of its audit. Without management present, the Committee and EY discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate.

In 2016, our risk management and internal control processes continued to evolve in line with the strategy of the Group. Set out below are a few examples of changes made in 2016.

Finance

The finance department established an IFRS desk (Group Technical Accounting team), staffed by newly recruited experienced auditors from the big four accounting firms. In addition to involvement in an analysis of the appropriate accounting treatment for various complex or one-off transactions, the IFRS desk is in the process of implementing a new financial reporting control framework for the Group focused on: (i) risk identification, evaluation, treatment and reporting; (ii) the application of consistent accounting standards across the Group; and (iii) the establishment of materiality thresholds for transaction pre-approval and improved reporting. In respect of the treatment of complex and one-off transactions at the Bank, EY remarked that the procedures implemented represent a significant improvement in the risk management and internal control framework.

IT and information security systems

In respect of our IT and information security systems, the Group has increased its internal and external penetration testing, and added a whitelisting solution, in order to deny the execution of potentially malicious software and implemented "Privileged Access Monitoring" for employees with the highest privileged access to confidential and customer data.

Regulatory compliance

Our Group compliance function was expanded in 2016 and new internal controls added. A Compliance Committee was established at the Georgian holding company level composed of the Group General Council, Group CFO, Head of PLC Legal and Compliance/Group Company Secretary, Chief Risk Officer and Chief Compliance Officer with the remit to standardise risk management and internal controls as well as provide additional oversight in relation to legal and regulatory compliance with various policies and procedures such as the Code of Conduct and Ethics, Anti-Bribery and Anti-Corruption Policy and Whistleblowing Policy across the Group's material subsidiaries. An advanced independent whistleblowing reporting channel and case management tool, Whistle B, was purchased at the end of 2016 will be implemented in Q2 2017. In addition, development of a Group-wide online training platform began in 2016. Online training will cover the policies mentioned above as well as other topic such as conflicts of interest, anti-money laundering and personal data protections, risk management, among others.

The Audit Committee has also considered and confirmed to the Board that its work is performed in accordance with the provisions in the Code and the Financial Reporting Council's (FRC) associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Based on the above, we are satisfied that our overall internal control framework is effective.

CONTINUING EDUCATION AND TRAINING

Throughout the year, the Audit Committee received presentations and training from the PLC Legal and Compliance/Company Secretariat department in respect of recent EU Audit Reforms, amendments to the Companies Act 2006, Disclosure Guidance and Transparency Rules and UK Corporate Governance Code as well as revised FRC publications. Discussions principally focused on changes applicable to the Committee and its accountability and addressed: (i) Committee competence and composition; (ii) key judgments; (iii) risk management and internal control systems; (iv) internal audit; (v) non-audit services; and (vi) appointment of the external auditor and retendering.

VIABILITY STATEMENT

In accordance with the Code, the Directors are required to assess the viability of the Group. In collaboration with the Risk Committee, we spent time considering the timeframe over which the viability statement should be made as well as an assessment underlying the period of coverage, which we agreed should be three years, which aligns with the the Group's strategy and financial forecasts. In particular, we looked closely at: the Group's principal risks and uncertainties, including those that will threaten its business model, future performance and solvency or liquidity; the current financial position of the Group, including future cash flows, allocated capital expenditure and funding requirements; future prospects; and downside stress testing. We discussed our analysis with the Risk Committee, management and full Board.

The viability statement is set out on page 35.

FAIR, BALANCED AND UNDERSTANDABLE REPORTING

Having been tasked by the Board to advise it, we examined the 2016 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. We reviewed several drafts of the 2016 Annual Report and Accounts and directly reviewed the overall messages and tone of the Annual Report with the CEOs and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts 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 internal review was conducted by the Group Company Secretary. The evaluation principally addressed the composition of the Committee, internal financial reporting controls and the quality of financial reporting, the review and testing of the work of the internal and external auditors as well as the assessment of internal controls and risk management within the scope of Audit Committee responsibilities. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our priorities for 2017 include among others continued focus on:

- Areas of management judgment
- Complex and one-off transactions
- IT and information security

We will also be closely monitoring implementation progress of IFRS 9 and its implications for our financial results and reporting.

RISK COMMITTEE REPORT

Safeguarding shareholder value

KIM BRADLEY
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholders,

I am pleased to present the Group's Risk Committee Report. As our Group continues to grow, we continue to strengthen our risk management framework and internal controls. Effective risk management is critical to the achievement of our strategic objectives and the long-term success of the Group.

In 2016, we continued to assist the Board in setting the Group's risk appetite and exposure in line with the Group's strategic objectives and in making any necessary modifications as strategy evolves and when the risk environment changes. We also monitored the Group's risk exposure and actions to address risk, which included oversight and support of our executive management risk team.

We continued to work closely with the Audit Committee to ensure that our risk management framework and systems of internal control operate effectively and in compliance with the Code and FRC guidance. We also work through the processes supporting the assessment of the Group's longer-term solvency and liquidity which underlie the viability statement.

As you will read in the following report, we followed through with each of the priorities we set for 2016. We continued to focus heavily on our loan portfolio and strategy to mitigate risks associated with the dollarisation of our loan book, the depreciation of the Lari and the concentration of borrowers.

I invite you to read more about our work in the following report.

Kim Bradley
Chairman of the Risk Committee
13 April 2017

KEY PURPOSE AND RESPONSIBILITIES

The purpose of the Risk 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 and systems of internal control.

The key responsibilities of the Risk 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 and its effectiveness
- 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 executive 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 in conjunction with the Audit Committee and the effectiveness of risk reporting within the Group

The principal risk categories overseen by the Risk Committee include reputational, geopolitical, macro-economic and market, liquidity and capital, credit and certain operational risks (other than those overseen by the Audit Committee) within the Group. As to credit risk, our focus is principally on forward-looking matters.

The Risk Committee's full Terms of Reference are available on our website at http://bgeo.com/uploads/pages/risk-committee-terms-of-reference2-48.pdf.

COMPOSITION OF THE RISK COMMITTEE AND MEETINGS

Our Risk Committee is solely comprised of Independent Non-Executive Directors.

Membership of the Risk Committee was refreshed during 2016: Hanna Loikkanen was appointed to the Committee on 22 September 2016 following the resignation of Kaha Kiknavelidze on 6 September 2016 upon his appointment as CEO of the Bank. Bozidar Djelic retired from the Committee and the Board on 15 December 2016. At the end of 2016, the Risk Committee comprised four independent Non-Executive Directors.

The members' attendance during 2016 is provided below.

Member attendance	Number of meetings attended	% of meetings attended
Kim Bradley		100%
Al Breach		100%
Tamaz Georgadze		100%
Hanna Loikkanen[1]		100%
Kaha Kiknavelidze[2]		50%
Bozidar Djeclic[3]		100%

1 Appointed 22 September 2016.
2 Retired 6 September 2016.
3 Retired 15 December 2016.

The biographies of the members of the Risk Committee are set out on pages 75 to 77.

Our meetings are regularly attended by the Chairman of the Board, the Chairman of the Audit Committee, BGEO and JSC BGEO Group CEO, Bank CEO, JSC BGEO Group and Bank CFO, Chief Risk Officer 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. At several meetings, most members of the Board were present. Although not appointed until September, Ms Loikkanen attended every Committee meeting in 2016.

At each meeting, the Risk Committee receives detailed reporting which provides an analysis of: the Group's overall risk profile using both quantitative models and risk analytics, loan portfolio dynamics, key risk exposures and management actions, performance against risk appetite, the emerging and potential risks the Group may face, the drivers of risk throughout the Group as well as analyses of down-side stress testing scenarios. The underlying assumptions, methodology applied and results of such stress testing are challenged by the Risk Committee. Early in 2016, we requested management to implement several changes to its loan portfolio dynamics reporting, which was done quickly.

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

RISK COMMITTEE FOCUS DURING 2016

We continued to focus on our remit as set out above. As mentioned in last year's Annual Report, our 2016 priorities were to closely monitor our strategy to reduce both our corporate loan book exposure and operational risks in our Investment Business as well as continue to focus on loan quality in relation to our Dollar-denominated loan book. We monitored the risks associated with each of these priorities and adapted our risk management strategies as macro-economic conditions changed due the depreciation of the Lari.

OUR LOAN BOOK

Macroeconomic conditions in Georgia during the year were affected by low economic growth within the region, commodity price fluctuations and the depreciation of the Lari, particularly in Q4 and against the Dollar. The Group saw an increase in NPLs and changes in debt-service coverage ratios with respect to Dollar-denominated loans covered by Lari income as a result of these conditions, which in turn increased our cost of credit risk. We monitored this very closely and on several occasions conducted credit-specific reviews on the top 20 corporate exposures, both in formal Committee meetings as well as on informal interim calls with management. We worked closely with management throughout the year to formulate strategies to mitigate risk which included the continued drive to increase local currency loans. In 2016, Retail Banking successfully increased its local currency loans by nearly 20% between 2015 and 2016.

Despite approximately 83.3% of our corporate loan book being denominated in Dollars, more than 47.5% of customers with Dollar loans have income in Dollars. The vast majority of our corporate customers were able to continue servicing their loans although one our largest corporate borrowers experienced financial difficultly in the second half of the year due to concurrent weakening of product sales prices combined with a decline in commodity prices, resulting in the full restructuring of the debt and continuous monitoring of the status of the borrower's business. The borrower is currently operating profitably leading to no additional provisioning of our loan receivable.

We closely monitored NPL levels and management actions to assure adequate coverage of our loan loss exposure. Our NPL coverage ratio was successfully increased from 83.4% as of 31 December 2015 to 86.7% as of 31 December.

Throughout the year, we also monitored managements' implementation of the corporate loan book risk de-concentration strategy and we were pleased that management continued to deliver on this strategy by reducing the concentration of our top ten Corporate and Investment Business clients to 11.8% at the end of 2016, down from 12.7% at the end of 2015. On the overall balance sheet level, the risk de-concentration strategy involves a focus on retail versus corporate credit growth as well as our previously communicates steps to increase overall NPL coverage ratio. On the specific corporate level, our de-concentration measures include reducing our corporate guaranty exposure to certain sectors and focus on further developing out corporate credit syndication activities. This strategy takes time and corporate credit risk reduction will remain one of our risk priorities in 2017.

RISK COMMITTEE REPORT CONTINUED

RISK MANAGEMENT

As our strategy evolves and our businesses grow, we need to continue evaluating the design, completeness and effectiveness of the risk management framework and systems of internal controls to support managements' implementation of new changes and continued enhancements to ensure that the needs of our businesses are covered through a robust framework, which complies with the Code and FRC guidance in respect of risk management and internal controls.

During the year, we prioritised review of the frameworks and controls in place in our Investment Business. At our meeting in September, we were presented with a comprehensive review of the risk management framework and systems of internal control of Georgia Global Utilities Limited (GGU), our utility and energy business. We had acquired the remaining equity interests of GGU in July. Both the CEO and CFO of GGU presented us with an in-depth look into the principal risks and uncertainties facing the GGU business, the key drivers of those risks, current controls in place to identify, assess and report the risks as well as future plans to amend and enhance the current framework. GGU management also gave us insight into expected risk exposure over the short to medium term. We and the Board will continue to support and oversee GGU managements' changes to the framework in line with best practise going forward.

We continued to assist formulating the Group viability statement in conjunction with the Audit Committee and management. The viability statement can be found on page 35.

We also carefully reviewed the principal risks and uncertainties disclosure and other relevant risk management disclosures for inclusion in this Annual Report.

An overview of our risk management framework is set out on pages 34 to 35.

A description of these principal risks and uncertainties, in addition to recent trends and outlook, as well as mitigation efforts can be found on pages 36 to 39.

An overview of the Bank risk management framework is set out on pages 40 to 45.

COMMITTEE EFFECTIVENESS REVIEW

An internal review was conducted by the Group Company Secretary. The evaluation principally addressed questions on whether the Risk Committee's coverage was aligned with both the Group's strategy and current economic conditions as well as oversight effectiveness with regards to the Group's risks teams and management.

The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our priorities for 2017 include a continued focus on reducing our overall corporate credit exposure and Dollar-denominated loan book, and insuring that our risk teams within the Bank as well as our Investment Business execute on their objectives. On the macro-economic front, we are focusing on various interest rate and currency scenarios given the strengthening Dollar and expected interest rate increases by the Federal Reserve. In addition to our regional geo-political discussions, we are also monitoring any policy shifts towards the region following the 2016 US elections.

SHAREHOLDER ENGAGEMENT

Fostering open and honest communication

The Company has a comprehensive shareholder engagement programme and maintains an open and transparent dialogue with existing and potential shareholders, a responsibility that the Company takes very seriously.

The Board's primary contact with institutional shareholders is through the Chairman, Independent Non-Executive Directors, 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 Interim Management Statements. These are supported by a combination of presentations and telephone briefings. Over the course of the year, we met with over 300 institutional investors, and participated in more than 20 investor conferences and road shows around the world. Throughout the year, our Directors and management met with shareholders in the United Kingdom, Europe, the United States and South Africa.

In November 2016, BGEO hosted an investor day in Tbilisi, which was open to all investors and analysts. 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 Board members and raise matters of interest. BGEO was pleased to host 50 investors and analysts at our investor day.

In addition to our shareholders, we meet and present to analysts throughout the year, hold regular meetings with the Group's existing lenders and actively engage with potential lenders to discuss our funding strategy. Our Group Company Secretary also has ongoing communication with the shareholders' advisory groups.

The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The full Board is regularly kept informed of these views by the Chairman as well as executive management and the Investor Relations team and, to the extent deemed appropriate, issues raised at these meetings have been adopted by the Group. Informal feedback from analysts and the Group's corporate advisors is also shared with the Board.

Our website, www.bgeo.com, provides our stakeholders with access the Group's results, press releases, investor presentations, analyst reports, details on our corporate governance and corporate and social responsibility framework, our leadership, as well as other information relevant to our stakeholders. We also ensure that shareholders can access details of the Group's results and other news releases through the London Stock Exchange's Regulatory News Service.

DIRECTORS' REMUNERATION REPORT

Annual Statement

"Our Policy was and continues to be innovative and unique – remuneration is dominated by deferred shares. By heavily weighting remuneration in the form of deferred shares, executives are incentivised to create value over the long-term. The use of deferred shares also guards against executives taking risks that endanger the long-term stability of the business."

AL BREACH
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholders,

As Chairman of the Remuneration Committee and on behalf of the Board, I am pleased to present our Directors' Remuneration Report for 2016 comprising this statement, our Remuneration Policy that will be presented to our shareholders for approval at our AGM and the Annual Report on Remuneration.

In 2016 and early 2017, the Remuneration Committee devoted considerable time to a review of our Policy, which included a pay review for our Non-Executive Directors. Because we aim to ensure that the entire executive management team is focused on the long-term and remunerated in a way that aligns directly with the shareholders, the structure of the Policy as it applies to our Executive Directors will apply equally to executive management below the Board level, even though outside of the scope of the Policy. I should also say that throughout our process we have engaged with our major shareholders and are pleased to report that we expect the 2017 Policy to be strongly supported.

The Committee also made its annual determination of the discretionary remuneration for our CEO, Irakli Gilauri, and the other executive management in respect of 2016.

The priorities set for 2017 were also advanced by the Committee. With respect to executive management below the Board, we helped to set expanded self-development and mentoring KPIs and enhanced the scope of management performance evaluation.

REMUNERATION POLICY

BACKGROUND

Our Policy was originally designed and implemented in Georgia in 2010, during the period immediately after the financial crisis when many of the remuneration practises and traditions in banking were being heavily criticised. Among these practices were significant cash bonuses for executives, which unfortunately too often rewarded short-term results and promoted excessive risk-taking at stakeholder expense. In 2010, the Bank was already the market leader in Georgia but had barely reached its potential. In order to deliver increased shareholder return, the Bank needed to grow organically as well as capture new growth opportunities. In order to recruit new management as well as retain both existing and new talent, the structure provided the opportunity to offer more competitive remuneration over the long-term to those who believed in the business and its potential, and wanted to be part of the growth story.

The Policy was defined by two key principles:

1. When our shareholders realise value over the long-term, so should our Executives.
2. Our business is built on human capital – it will only reach its potential if we attract and retain the best talent available.

An executive's remuneration package pursuant to the Policy (later approved by shareholders in 2014) comprises:

Salary
- Payable predominantly in the form of long-term deferred shares (five years), complemented by a modest cash sum
- Amounts are fixed in a three-year contract and paid annually

Performance-based remuneration
- Solely in deferred shares and dependent on Group performance and the executive achieving KPIs for the year
- No LTIP

Pension and benefit
- Provided but form a very small part of a remuneration package
- No cash bonuses

Vesting conditions apply to all deferred shares. Both long-term deferred salary shares and deferred discretionary shares may cease to vest in certain circumstances such a dismissal or resignation when the Executive does not depart on good terms with the Group.

2017 REMUNERATION POLICY

At the beginning of the Policy review process, the Committee first set its objectives for the Policy, which are:

- Attract and retain the best talent available to execute our strategy and meet our business objectives
- Incentivise executives to focus on the Group's sustainable, long-term performance and genuine value creation for our shareholders
- Support our corporate culture which focuses executives on team performance which creates value (for both shareholders and the executives) when the whole enterprise thrives long-term
- Keep it simple and transparent

The Committee then carefully analysed the 2014 Policy against its objectives. The Committee also reviewed the historical executive and Group performance outcomes to assess whether the Policy had supported achievement of strategy and business objectives.

As a result of this process, the Remuneration Committee is reaffirming its commitment to the principal tenets of our 2014 Policy, with the following three changes:

1. The vesting period for discretionary shares has been increased from two to three years.
2. For Mr Gilauri, maximum opportunity has been fixed at 75% of total salary (an increase from 50% under the 2014 Policy).
3. An Executive Director may work for any of our principal subsidiaries, reflecting our investment platform strategy.

We propose to lift the ceiling on Mr Gilauri's maximum opportunity from 50% to 75% of total salary to allow for additional headroom in the event of exceptional performance, although we continue to restrict Mr Gilauri's maximum opportunity to less (as a proportion of salary) than that of other Executive Directors and members of executive management below the Board level.

We are convinced that the Policy has worked well and has contributed to the strong total shareholder return the Group has delivered in recent years. Our shareholders also agree. Since listing in 2012, the market capitalisation of BGEO has more than tripled, BGEO shares have been among the FTSE 250's best performing shares and the Group's business has expanded in both size and scope. Since the introduction of dividends in 2010, the Group has increased its annual dividend per share by 51.6% CAGR.

The Policy naturally aligns the interests of our management with those of our shareholders, since our executives are all long-term shareholders whose shares vest over a multi-year period. The heavy weighting of remuneration in the form of deferred shares means that day-to-day actions are thus geared to the Group's long-term performance and interests and to executing the Group's strategy with those interests in mind. At the maximum and minimum levels, 91% and 84% of Mr Gilauri's 2017 remuneration, respectively, will be in the form of deferred shares.

Share focused remuneration also supports our culture of hard work, teamwork and loyalty as everyone benefits when the Group performs well over the long-term. We are also attached to the simplicity and transparency of our structure. We are pleased to have avoided the now out of favour LTIPs and stand by our system – which rewards (or penalises) our executives when the shareholder is rewarded (or penalised).

NON-EXECUTIVE DIRECTOR FEE REVIEW

As to remuneration of our Non-Executive Directors, our new Policy moderately increases the fees (solely cash) payable commensurate with the increased volume of work and time commitment required in respect of the growing and diversified business. Fees for Non-Executive Directors have remained static since listing in 2012 and we view it appropriate to increase the fees to reflect the size of the Group and in line with similar companies.

DISCRETIONARY REMUNERATION FOR IRAKLI GILAURI

Despite the depreciation of the Lari, 2016 was another record year for the Group. It was a strong year of strategic progress and excellent earnings growth. Mr Gilauri met or exceeded expectations in respect of his KPIs. The Committee and the Board rated Mr Gilauri's overall performance in 2016 as exceptional and the Committee strongly felt that he deserved the maximum bonus that we awarded him.

Al Breach
Chairman of the Remuneration Committee
13 April 2017

WHAT IS IN THIS REPORT?
This Remuneration Report is split into two sections:

- A Directors' Remuneration Policy that, if approved, will apply to Executive and Non-Executive Directors from the date of the 2017 AGM
- The Annual Report on Remuneration, which relates to the Remuneration Policy approved at our 2014 Annual General Meeting

The Directors' Remuneration Policy (set out on pages 100 to 106) will be subject to a binding vote at the 2017 AGM. The Annual Report on Remuneration (set out on pages 107 to 113), which includes the Annual Statement by the Chairman of the Remuneration Committee (set out on pages 98 to 99), will be subject to an advisory vote at the 2017 AGM.

This Remuneration Report complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the provisions of the 2014 UK Corporate Governance Code. Where information in this Remuneration Report has been audited by Ernst & Young LLP it has been clearly indicated. The Remuneration Report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

DIRECTORS' REMUNERATION POLICY

Our Directors' Remuneration Policy approved by our shareholders in 2014 (the "2014 Policy") has been in place for three years, the maximum period permissible. We will be presenting our new Remuneration Policy applicable to Directors (the "Policy"), described in this section, to our shareholders for a binding vote at the AGM to be held on 1 June 2017.

As mentioned in the Chairman's Statement, the principles of our Policy as it applies to Executive Directors are: (i) heavily weighting salary to long-term deferred share remuneration rather than cash; and (ii) paying performance-based remuneration in the form of deferred shares only and no cash. Pension and benefits are only a very small part of the remuneration package (less than 5%).

These key principles have remained the same since 2010. Our simple and strategically aligned remuneration structure means that Executive Directors are completely focused on delivering shareholder value.

Mr Gilauri continues to be BGEO's sole Executive Director. Mr Gilauri entered into a new three-year service agreement with JSC Bank of Georgia (the "Bank") on 24 August 2015 which became effective 1 May 2016, consistent with the terms of the 2014 Policy. In connection with the Board adopting the new Policy, Mr Gilauri agreed to amend this service agreement to extend the reflected vesting period for discretionary shares to three years after award, which he has also voluntarily agreed to apply to the 2016 work year and is reflected in an amendment to his Service Agreement. Mr Gilauri's salary, which has remained the same since 2013, will not increase under the Policy.

As mentioned in the Chairman's Statement, the Policy introduces the following changes:

- The vesting period for discretionary shares increases from two to three years.
- For Mr Gilauri, maximum opportunity has been fixed at 75% of total salary (an increase from 50% under the 2014 Policy).
- An Executive Director may work for any of our principal subsidiaries, reflecting our investment platform strategy.

As to remuneration of our Non-Executive Directors, our Policy moderately increases the fees (solely cash) payable commensurate with the increased volume of work and time commitment required in respect of the growing business, now diversified in various sectors. Fees for Non-Executive Directors have remained static since listing in 2012 while the business has tripled in size and expanded into different industries through our Investment Business.

Subject to shareholder approval, the Policy will take effect from the date of the 2017 AGM and is intended to apply until the earlier of Mr Gilauri entering into a new service agreement with any principal subsidiary of BGEO, the terms of which differ from the Policy, or the 2020 AGM, at which time we will seek shareholder approval.

EXECUTIVE DIRECTORS REMUNERATION POLICY

The Policy provides for an Executive Director's remuneration package to be comprised of the elements set forth below.

SALARY IN THE FORM OF CASH AND LONG-TERM DEFERRED SHARES		
PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
• To reflect the role and required duties, skills, experience and individual contribution to the Group • To recruit and retain talent • To promote long-term value creation and share price growth • To encourage long-term commitment to the Group • To closely align the Executive Director and shareholders' interests	• The level of base salary for an Executive Director is fixed in his or her service agreement. The level of salary is reviewed by the Remuneration Committee when a service agreement is up for renewal. • Salary is comprised principally of long-term deferred shares (deferred share salary), complemented by a modest cash sum, which when combined with the remainder of the components of the remuneration package, is competitive enough to attract, retain and develop high-calibre talent who buy into a remuneration structure that supports reward over the long-term. • Deferred share salary is awarded in the form of nil-cost options awarded at the beginning of the year following the calendar year when the Executive worked to earn such salary (the "work year"). • Deferred share salary in respect of a work year will vest as follows: 20% in each of the second, third and fourth years following the work year, and 40% in the fifth year following the work year. 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. • No malus or clawback provisions apply to base salary, because "natural" malus and clawback are built into the structure as described in the notes to the Policy table.	• There is no set maximum monetary value for the salary for Executive Directors. However, the maximum level of salary set for an Executive Director will be no more than the Remuneration Committee considers reasonable based on his duties, skills and experience, provided that his salary will not exceed the salary currently awarded to Executives at the equivalent level of seniority. • The salary of our sole Executive Director, CEO of BGEO, can be found on page 107 of the Annual Report on Remuneration.

PERFORMANCE-BASED REMUNERATION – DISCRETIONARY DEFERRED SHARES		
PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
• To motivate and reward an Executive Director that meets or exceeds the KPIs set for him or her. • Performance-based remuneration solely in the form of deferred shares (no cash): – Closely aligns the interests of an Executive Director with shareholders – Minimises risk taking for short-term gain – Encourages long-term commitment to the Group	• Performance-based remuneration is awarded entirely in the form of nil-cost options over BGEO shares which are deferred (no cash bonus). • Deferred shares in respect of a work year vest 33.33% in each of the second, third and fourth years following the work year. 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. • KPIs for the Executive Director are set at the start of each work year and reflect the Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the work year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility. • Early in the year following the work year, the Remuneration Committee will determine whether an award is merited based on the Executive Director's achievement of the KPIs set for the work year and the performance of the Group during the work year. In appropriate cases where a strategic change or change in business circumstances has made one or more KPIs an inaccurate gauge of performance, the Remuneration Committee may base its assessment on alternative measures. The outcome of the Executive Director's performance and the Committee's determination will be reported in the Directors' Remuneration Report for the work year in consideration. • There is no contractual right to discretionary remuneration and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory. • Malus applies under the circumstances as set out in the notes to this Policy table.	• For an Executive Director (other than Mr Gilauri), maximum opportunity in respect of the previous work year is 125% of total salary. • For Mr Gilauri, maximum opportunity in respect of the previous work year is fixed at 75% of total salary (US$ 2,044,650). • However, for an Executive Director (other than Mr Gilauri) whose performance has resulted in outstanding benefits for shareholders, the Remuneration Committee has reserved the right to increase the maximum opportunity in respect of the previous work year to 150% of total salary.

PENSION		
PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
The provision of a retirement benefit helps to attract and retain high-calibre talent.	Pension contributions not exceeding a percentage of the Executive Director's gross monthly cash salary are payable into a defined contribution scheme.	Additional contributions of the Executive Director will be matched in a proportion of 0.2 to one, but only up to a maximum of 1% of gross monthly salary where the Executive Director makes additional contributions of up to 5% of gross monthly salary.

BENEFITS		
PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
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: life insurance; health insurance; incapacity/disability insurance; Directors' and officers' liability insurance; physical examinations; tax gross-ups; company car and driver; mobile phone (including agreement charges and costs of calls made during business trips abroad); personal security arrangements (if requested by the Executive Director); and assistance with completing tax returns (where required). • A tax equalisation payment may be paid to an Executive Director if any part of his remuneration becomes subject to double taxation.	The Remuneration Committee determines the maximum amount payable. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant.

NOTES TO THE NEW POLICY – EXECUTIVE DIRECTORS

(1) Salary

Deferred share salary is the most important element of the Executive Director's fixed annual remuneration and is commensurate with his role within the Group. By heavily weighting salary to deferred share remuneration that vests over five years rather than cash, the Executive Director's day-to-day actions are geared towards achievement of the Group's strategic goals and 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 agreement and is therefore not subject to performance targets or measures. That salary (40% of which vests a full five years after the work year) 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.

Specific malus and clawback are not applied to salary. Natural clawback and malus are built in to the structure, given that shares are deferred over a long period and are subject to a number of vesting conditions which, if breached, would result in the Executive Director's salary shares fully lapsing, unless the Board otherwise agrees. An Executive Director's service agreement may be terminated for "cause", a definition which is broadly defined and extends beyond standard malus and clawback triggers to include, for example, gross and wilful misconduct having a material adverse effect on the Group, fraud, material repeated failure to perform his duties, breach of his obligations or conviction of a felony. An Executive Director's unvested shares may also lapse if he terminates his service agreement early (in the absence of repeated material wrongdoing by the company). By way of example, an Executive Director terminated by the Board for "cause" in 2017 would normally give up (because his shares would fail to vest): his entire deferred share salary for 2017 and 2016 and 80%, 60% and 40% of his deferred share salary for 2015, 2014 and 2013, respectively. As a result, an Executive Director is motivated to perform to the best of his ability and to act in the long-term interest of – and remain with – the Group to ensure that salary shares vest.

(2) Performance-based remuneration

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 remuneration. No cash bonuses are paid to Executive Directors. Instead, individual and Group performance is rewarded through an award of discretionary deferred share remuneration that vests over three years beginning in the second year following the work year. As discretionary deferred share remuneration 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.

After the end of each work year, the Remuneration Committee will determine the aggregate number of shares (based on the share price at the time of the award), if any, available to award in respect of discretionary deferred share remuneration for all members of executive management, including Executive Directors, in relation to the defined maximum opportunity and based on the Group's performance and the individual's KPIs.

The Remuneration Committee does not utilise strict weighting of performance measures to ensure that flexibility is encouraged if, for example, strategic objectives evolve as the Group does or business circumstances change during the year. The Remuneration Committee believes that this flexibility ensures that the Board can work with an Executive Director so that he does not take excessive risk to achieve KPIs when, for example, markets have turned. Even in a "good" year for an Executive Director (e.g. achievement of most of his KPIs), if this coincides with a "bad" year for the Group (e.g. poor financial performance by it), the Remuneration Committee has the discretion to award little or no discretionary remuneration to the Executive Director.

If at any time after awarding discretionary deferred share remuneration, it has been determined that there was a material misstatement in the financial results for the work year in respect of which the award was formally granted, the Board has the right to cause some or all of the Executive's unvested discretionary deferred shares at the time of its determination, not to vest and to lapse. Similar to deferred share salary, natural clawback and malus are built in to the structure. Discretionary deferred share are also subject to vesting conditions which, if breached, would result in the Executive Director's salary shares fully lapsing, unless the Board otherwise agrees.

(3) Discretion

The Committee retains certain discretion in relation to discretionary share remuneration. This includes:

- The determination of the award, if any
- Selection of KPIs, which may vary from year to year in order to align with strategy and financial objectives
- Any adjustments required to an Executive Director's KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more of KPIs becoming an inaccurate gauge of performance

EQUITY COMPENSATION TRUST AND DILUTION LIMITS

An equity compensation trust ("Trust"), was established for the purposes of satisfying deferred share remuneration awarded to Executive Directors and members of executive management. In 2016, the Board approved funding of approximately US$ 30 million to enable Sanne Fiduciary Services Limited ("Sanne"), acting as trustee of the Trust, to purchase shares in the market to satisfy awards in respect of the 2015 and 2016 work years. Since listing on the London Stock Exchange in 2012, a total of 1,138,283 shares have been purchased in the market for the Trust. We intend for Sanne to continue purchasing additional shares in the market, but may need to issue new shares, in order to ensure that there are a sufficient number of shares committed to the Trust in order to satisfy awards. The Group continues to commit to shareholders that new shares issued in satisfaction of deferred share remuneration from the time of the Company's listing on the Premium Segment of the LSE will not exceed 10% of BGEO's ordinary share capital over any ten-year period.

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 agreements, deferred share remuneration schemes and pension and benefit plans.

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, 2015, 2016 and early 2017, 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 remuneration in the overall remuneration package creates a direct and natural alignment of shareholder and executive management interests.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

When determining an Executive Director's remuneration, the Remuneration Committee considers: (i) the pay and employment conditions of executive management (other than Directors); (ii) any changes in pay and employment conditions across the Group as a whole; (iii) whether employees across the Group are personally satisfied with the way they are remunerated; and (iv) any feedback received during the year from the Human Resources department, executive management and other employees on the executive remuneration structure.

We frequently benchmark remuneration at all levels within the Group in order to ensure that our remuneration is competitive in order to attract the right candidates and remain competitive in order to motivate, satisfy and retain our talent.

The remuneration of employees in the Group, other than Executive Directors and executive management, is benchmarked against the Georgian labour market as this is the most relevant comparator. Each year, the Bank participates in the largest salary survey in Georgia. Survey results are used to offer competitive remuneration packages when recruiting as well as benchmark the salaries of the Group's employees on an annual basis in order for the Group to upwardly adjust the remuneration of current employees in order to remain competitive. Our employees' remuneration packages are comprised of cash salary, bonus opportunity, benefits as well as the opportunity to participate in the pension scheme on the same terms as applicable to Mr Gilauri and executive management.

For a FTSE 250 company of our size and depth, our Executive Directors and executive management must have the skills, experience, work ethic and attitude required to successfully execute our strategy, meet our objectives and create value for shareholders over the long-term. In order to recruit and retain this talent, we must benchmark the value of remuneration against other FTSE companies of similar size and sector in the UK. Our executives are not paid cash bonuses and therefore remuneration in the form of deferred shares will comprise nearly all of total remuneration.

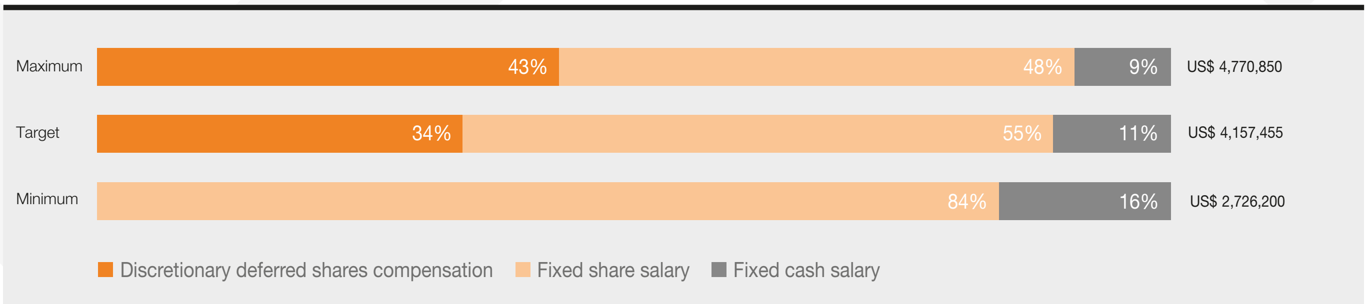
As it is not possible for a direct comparison to be made between executive remuneration and remuneration of other employees in the Group, the most important consideration for us is whether other employees are satisfied with their remuneration packages. In 2015 and 2016, employee surveys were conducted by the Human Resources department, targeted at a large number of employees with varying skill, seniority, department, among other factors. The results confirmed that employees consulted were satisfied with the manner in which they were compensated. Our retention rate of employees is high.

COMPARISON WITH REMUNERATION POLICY FOR EMPLOYEES GENERALLY

As mentioned above, 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. Members of senior management below the executive management level 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. Natural clawback, including normal lapse of shares upon termination for "cause" also applies. 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.

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 2017 under the Policy at three different performance levels. It should be noted that, at the maximum level, 91% of Mr Gilauri's 2017 remuneration will be in the form of deferred shares for which the average vesting period exceeds four years. At the minimum level, 84% of Mr Gilauri's 2017 remuneration will be in the form of deferred shares.



Notes:

1 Salary is comprised of cash and deferred share salary. Mr Gilauri's total cash salary in 2017 in respect of his service agreements with the Group will be US$ 437,450. The value of the deferred share salary payable is US$ 2,288,700, calculated by reference to the share price as at the date Mr Gilauri's most recent service agreement with the Group was signed on 24 August 2015, being US$ 25.43 per share (the official share price of GBP 16.16 per share converted into Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). The price is the value at which the shares were committed to the Trust and underlies the determination of remuneration expense in the Group's accounts. Deferred share salary in respect of 2017 will be formally granted in 2018 and will vest in January 2019, 2020, 2021 and 2022. For the purposes of this graph, we have added the value of pension and benefits (only about 0.1% of total salary) to cash salary. The value used is the same as 2016 as we assume pension and benefits in 2017 will be substantially the same.

2 The means of determining the number of shares underlying the discretionary deferred share remuneration and terms and conditions applicable to this remuneration are described in the Policy table. Discretionary deferred shares in respect of 2017 will be formally granted in 2018 and will vest in January 2019, 2020 and 2021.

3 Minimum opportunity reflects a scenario whereby Mr Gilauri receives only fixed remuneration which is salary (cash and deferred shares), pension contributions and benefits and the Remuneration Committee considers that the Group's and/or Mr Gilauri's performance in 2017 does not warrant any award of discretionary deferred shares.

4 On-target opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in iii above) and discretionary deferred shares with a value of US$ 1,431,255, being 70% of the maximum opportunity (as described in 5 below). In this scenario, the Remuneration Committee considers that the Group's and Mr Gilauri's performance in 2017 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 in iii above) and discretionary deferred shares with a value of US$ 2,044,650, being 75% of total salary. In this scenario, the Remuneration Committee considers that the Group's and Mr Gilauril's performance in 2017 warrant the highest possible level of discretionary deferred share remuneration.

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).

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

The fees for Non-Executive Directors are currently the same as when BGEO listed in February 2012. Since listing, the market capitalisation of BGEO has more than tripled and the Group's business has expanded in both size and scope. Each Non-Executive Director also serves as a member of the Supervisory Board of the Bank and since 2016, each has devoted an increasing amount of time to the Investment Business arm through JSC BGEO Group. This Policy reflects a moderate increase in fees to reflect the volume of work and time commitment required for the complexity of our Group. Our 2014 Policy provided for fee review in 2017. It is proposed that, if the Policy is approved, the Non-Executive Director fees stated below will apply in each year that the Policy operates from the date of approval of the Policy. Further, the Non Executive Directors will receive in the second half of 2017 a top up payment to allow the Non Executive Directors to reach the level of fees indicated for the 2017 financial year.

PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
• To attract and retain high performing Non-Executive Directors with the requisite skills, knowledge, experience, independence and other attributes to add value to the Group. • To reflect the time commitment dedicated by Non-Executive Directors.	• All fees are paid in cash. • Fees will be reviewed the year we propose a new policy to shareholders, taking into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. • Additional fees are payable to compensate for the skill provided and time spent discharging JSC BGEO Group, Bank Supervisory Board and Committee duties. • There is no remuneration in the form of deferred share salary or discretionary deferred share remuneration, pensions, benefits or any variable or performance-linked remuneration or incentives. • Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts. The maximum amount payable depends on the cost of providing such expenses in the location at which the Non-Executive Director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely.	• Aggregate (BGEO and subsidiaries) base fees for Non-Executive Directors (excluding the Chairman and Senior Independent Director) are US$ 109,500. • The Chairman and Senior Independent Director receive higher base fees which reflect increased responsibilities and time commitment. The Chairman will receive an aggregate flat fee of US$ 313,900 and our Senior Independent Director will receive an aggregate base fee of US$ 146,000. • Committee fees range from US$ 6,570 to US$ 17,520.

POLICY ON THE APPOINTMENT OF EXTERNAL HIRES AND INTERNAL APPOINTMENTS

The Policy provides for a new Executive Director's remuneration package to be comprised of the elements set out below.

ELEMENT	POLICY AND OPERATION
Overall	• The Committee intends that the components of remuneration set out in the above Policy tables, and the approach to those components as set out in the Policy tables, will (subject to the remainder of this recruitment policy) be equally applicable to the annual package provided to new recruits. Any new Executive Director would be paid no more than the Committee considers reasonably necessary to attract a candidate with the relevant skills and experience, taking into account (where appropriate) either the annual total monetary value or the total number of shares awarded to executives at an equivalent level of seniority. • Relocation benefits and buy-out awards may also be required to recruit the right candidate, subject to the conditions and restrictions outlined below. • For internal promotions, any commitments made prior to the appointment may continue to be honoured as the executive is transitioned to new remuneration arrangements. Any pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate, within the parameters set out in the Policy tables. • The rationale for the compensation package offered will be explained in the Annual Report on Remuneration published after commencement of the appointment.
Base salary	In accordance with the Policy and the Overall summary above.
Discretionary deferred shares	• In accordance with the Policy and the Overall summary above. • Malus and/or clawback would operate in respect of discretionary share remuneration.
Pension	Pension provision would be in line with normal policy and the Overall summary above.
Benefits	• In accordance with the Policy and the Overall summary above. • Relocation support for an incoming Executive Director and, where relevant, his or her family may be provided depending on the individual's circumstances. BGEO 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. • The Group may make a contribution towards legal fees in connection with agreeing employment terms. The Group may also agree to pay certain expenses and taxes should an executive director be asked to relocate to a different country, such that the executive director pays no more than would have been required in the home location.
Buy-out awards	• In addition to other elements of remuneration described above, buy-out awards may be made to reflect value forfeited through an individual leaving their current employer. • If a buy-out award is required, the Committee would aim to reflect the nature, timing and value of awards forgone in any replacement awards. • Awards will only 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.

SERVICE AGREEMENTS AND POLICY ON PAYMENTS FOR LOSS OF OFFICE FOR OUR DIRECTORS

The following paragraphs (1) to (3) summarise the termination and payments for loss of office provisions pursuant to Mr Gilauri's service agreements with BGEO and the Bank. In 2016, and as of the date of this Annual Report, Mr Gilauri remained the sole Executive Director on the BGEO Board.

The termination provisions of Non-Executive Director letters of appointment is described in paragraph (4) below and our approach to termination and payments for loss of office for future Executive Directors is described in paragraph (5). The Directors' service agreements and letters of appointment are kept for inspection by shareholders at BGEO's registered office.

(1) Termination of BGEO service agreement dated 15 December 2011

Mr Gilauri's service agreement with BGEO 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 agreement is terminated on notice, BGEO may put Mr Gilauri on garden leave for some or all of the notice period and continue to pay his cash salary under the BGEO service agreement, provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period.

BGEO 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. BGEO 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 BGEO service agreement as at the date of termination of employment.

(2) Termination of Previous service agreement with the Bank dated 19 February 2013

This service agreement was subject to variations on 26 February 2014 and 24 August 2015. The latter variation was in connection with Mr Gilauri's change of role to Chairman of the Supervisory Board of the Bank. The termination provisions in this service agreement are broadly on the same terms as the service agreement described in paragraph (3) below.

(3) Termination of Bank service agreement dated 24 August 2015

Mr Gilauri's service agreement with the Bank is for an initial term of three years expiring on 1 May 2019 and was amended on 16 March 2017 to extend the vesting period of discretionary deferred shares to three years, which shall be applicable in respect of the 2016 work year.

The service agreement 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 agreement immediately without notice (subject to the terms set out below), whereas Mr Gilauri may terminate the agreement upon three months' written notice or such shorter period as is agreed with the Supervisory Board of the Bank and CEO of the Bank.

SEPARATION PAYMENTS

(i) Mr Gilauri will be entitled to only: accrued and unpaid cash salary; holiday pay; reimbursement of business expenses; accrued but not yet paid dividend equivalents; and benefits upon termination of the service agreement in the following circumstances:

- by the Bank for "cause" (cause being defined as gross and wilful misconduct in the course of his duties having a material adverse effect on the Group, fraud, material repeated failure to perform his duties or breach of his obligations or conviction of a felony, among other circumstances); by reason of death or disability (in which case he receives life or disability insurance benefits); or
- by Mr Gilauri other than for "good reason".

See the discussion below for the treatment of unvested share awards in the above circumstances.

"Good reason" is defined as an uncorrected material breach of a material provision of the service agreement by the Bank which is not cured within 45 days upon Mr Gilauri serving notice of breach, or material and unremedied illegal or unethical behaviour by Bank employees which has been notified to the Board by Mr Gilauri and the Board fails to react and cooperate with Mr Gilauri in addressing the behaviour.

(ii) Mr Gilauri will be entitled to: a separation payment of 12 months' cash salary; accrued and unpaid cash salary; holiday pay; and reimbursement of business expenses upon termination of the service agreement in the following circumstances:

- By Mr Gilauri for "good reason"
- By the Bank for any other reason excluding: (a) voluntary termination by Mr Gilauri; (b) termination for cause; or (c) death or permanent disability (fully covered by insurance)
- If the service agreement is not renewed on substantially similar terms on expiry

If the service agreement is terminated for any of the reasons set out in (ii) directly above, the Bank may assign Mr Gilauri garden leave for a period of up to four months following the termination of his employment during which the Bank will compensate him only in the form of his regular cash salary with all other benefits, bonuses, incentive or reimbursements excluded. Mr Gilauri will be required to adhere to non-compete and non-solicitation restrictions for a period of six months following termination. In addition, the Bank may impose a two-year non-compete period, subject to a materiality threshold, in exchange for accelerated vesting of his deferred share remuneration (as described on the next page).

DEFERRED SHARE REMUNERATION ON TERMINATION

Mr Gilauri will be entitled to an award of his deferred share salary in respect of any incomplete calendar year which he has worked. He may also be awarded discretionary deferred share remuneration if:

- His service agreement expires and is not renewed upon substantially similar terms
- He does not accept a new service agreement, but continues as a member of the BGEO Board and/or becomes a member of the JSC BGEO Group Board, as the case may be
- His service agreement is terminated before its expiry date but he continues as a member of the BGEO Board and/or becomes a member of the JSC BGEO Group Board, as the case may be

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

VESTING AND LAPSE OF EXISTING AWARDS

Unvested deferred share remuneration granted in respect of the 2015 work year and all prior work years

Unvested deferred share remuneration granted in respect of the 2015 work year and all prior work years will vest upon termination of the service agreement, save for in the following circumstances:

- If Mr Gilauri's service agreement is terminated for cause, unless otherwise agreed with the Board, his unvested deferred share remuneration will lapse
- if Mr Gilauri terminates his service agreement for any reason other than good reason, unless otherwise agreed with the Board in favour of Mr Gilauri, 50% of his unvested deferred share remuneration 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 his unvested deferred share remuneration at the price per share recorded in the IFRS accounts on the respective grant dates plus a 10% annual increase from the respective grant date until the date of purchase (if any) by Mr Gilauri

Unvested deferred share remuneration granted in respect of the 2016 work year and beyond

Any unvested deferred share remuneration will, unless otherwise agreed with the Board, lapse on the termination date if Mr Gilauri's services agreement by:

- The Bank for cause
- Mr Gilauri for any reason other than for good reason

Any unvested deferred share remuneration will vest immediately if:

- The Bank terminates the service agreement other than for cause
- Mr Gilauri terminates the service agreement for good reason
- The service agreement expires and neither a renewed agreement on substantially similar terms is offered nor BGEO and/or JSC BGEO Group Board membership continues
- Mr Gilauri 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, BGEO or any intermediary holding company of the Bank (as appropriate)

If Mr Gilauri's service agreement expires and he refuses to continue as a member of the BGEO and/or JSC BGEO Group Board, 50% of his unvested deferred share remuneration 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 he may acquire some or all of his unvested deferred share remuneration at the price per share recorded in the IFRS accounts on the respective grant dates plus a 10% annual increase from the respective grant date until the date of purchase (if any) by Mr Gilauri. 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 agreement expires and: (i) is not renewed upon substantially similar terms, or (ii) he does not accept a new service agreement, but he is continues as a member of the BGEO and/or JSC BGEO Group 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 BGEO 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.

MALUS

If at any time after awarding discretionary deferred share remuneration, it has been determined that there was a material misstatement in the financial results for work year in respect of which the award was formally granted, the Board has the right to cause some or all of the Executive's unvested discretionary deferred shares at the time of its determination, not to vest and to lapse.

(4) Termination of Non-Executive Directors' appointments

The letters of appointment for Non-Executive Directors provide for a one-month notice period although BGEO 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 BGEO, is guilty of fraud or dishonesty, brings BGEO 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.

(5) Approach to termination and payments for loss of office for new Executive Directors

Any payment upon termination of a new Executive Director's service agreement would not exceed 12 months' cash salary under the relevant service agreement, plus any accrued and unpaid cash salary, benefits and holiday pay and reimbursement of any business expenses. The Group may assign the Executive Director garden leave for a period of up to four months following the termination of his employment during which he will compensates only in the form of his regular cash salary with all other benefits, bonuses, incentive or reimbursements excluded. The Executive Director may also be required to adhere to non-compete and non-solicitation restrictions for a period of six months following termination.

It is expected that the vesting provisions listed below will apply to deferred share remuneration in the case of termination of a new Executive Director's service agreement.

- Unvested deferred share remuneration would lapse upon termination of the service agreement by BGEO or material subsidiary of BGEO for cause or if the Executive Director terminates his employment for any other reason than good reason.
- Unvested deferred share remuneration would continue to vest in the normal way during the respective vesting period(s) upon termination by BGEO or material subsidiary of BGEO without cause; if the Executive Director's service agreement expires and he is not offered a new service agreement 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 remuneration would vest immediately upon death of the Executive Director; termination of the service agreement by the Executive Director for good reason; or a change of control.

Notwithstanding the above vesting terms for current and future Executive Directors, the Board reserves the right to permit unvested deferred share remuneration to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group.

ANNUAL REPORT ON REMUNERATION

KEY PURPOSE AND RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee is principally responsible to the Board for establishing the remuneration policy for the Executive Directors, Chairman and designated executive management that rewards them fairly and responsibly, and is designed to promote the long-term success of the Group. The Remuneration Committee's full Terms of Reference were last updated in March 2016 and are available on our website at http://bgeo.com/uploads/pages/remuneration-committee-terms-of-reference-29.pdf.

SHAREHOLDER CONTEXT

The Directors' Remuneration Policy applicable to this section of Annual Report on Remuneration was approved by shareholders at our AGM on 28 May 2014 (the "2014 Policy"). The Directors' Remuneration Policy received the following votes from shareholders:

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

Set out below are the shareholder voting figures for the Directors' Remuneration Report (including the Annual Statement of the Chairman of the Remuneration Committee) presented at our 2014, 2015 and 2016 AGMs.

Date of AGM	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
28 May 2014	25,901,873	93.59	1,773,857	6.41	27,675,730	875,065
21 May 2015	28,081,250	93.98	1,799,042	6.02	29,880,292	87,002
26 May 2016	28,335,277	91.35	2,683,660	8.65	31,018,937	82,265

SINGLE TOTAL FIGURE OF REMUNERATION FOR THE SOLE EXECUTIVE DIRECTOR (AUDITED)

The table below sets out the remuneration received by BGEO's sole Executive Director, Irakli Gilauri, for 2016 and 2015 in respect of his employment with the Group. Mr Gilauri receives no additional remuneration for any role at a subsidiary or affiliate within the Group.

Mr Gilauri's current service agreements provide for salary in the form of cash and deferred shares. In addition, Mr Gilauri is eligible to receive discretionary deferred share remuneration up to a maximum of 50% of total salary (cash and deferred shares).

Approximately 81% of Mr Gilauri's remuneration for 2016 set forth in the table below is in the form of deferred shares, for which the average vesting period exceeds four years.

	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary (US$)	Discretionary deferred share remuneration (US$)[3]	Taxable benefits (US$)[4]	Pension benefits (US$)[5]	Dividend equivalents (US$)[6]	Total (US$)
2016	**437,500**	**2,177,342**	**2,614,842**	**1,307,313**	**1,239**	**1,698**	**389,793**	**4,314,885**
2015	437,500	1,954,157	2,391,657	1,099,473	1,252	1,801	196,459	3,690,642

Notes:

1 Expressed in Dollars but paid in British Pounds and Lari, as applicable, converted into the respective currency as at the date of payment. 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 the BGEO shares underlying nil-cost options granted in respect of the relevant year. For both 2016 and 2015, the award was 90,000 BGEO shares. In 2016, a new service agreement that Mr Gilauri signed on 24 August 2015 came into effect on 1 May 2016. For 2016, the value of the deferred share salary payable is calculated as follows: (a) from 1 January 2016 until 1 May 2016 (when the prior service agreement was in effect), the share price used is the date the prior service agreement was signed, being US$ 21.71 per share (based on the official share price of GBP 14.06 per share converted into Dollars using an exchange rate of 1.5443, being the official exchange rate published by the Bank of England on the same date); and (b) from 1 May 2016 until 31 December 2016 (when the new service agreement was in effect), the share price used is the date the new service agreement was signed, being US$ 25.43 per share (the official share price of GBP 24.90 per share as at 24 August 2015 converted into Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). For 2015, the value of the deferred share salary payable is calculated by reference to the share price set out in (a) above. 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 are described in section 1(a) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf and consistent with the Policy table on page 100 and Note 1 to the Policy table on pages 101 to 102.

3 Discretionary deferred share remuneration. The figures show the value of BGEO shares underlying nil-cost options granted in respect of bonus awards in the relevant year. For 2016, options were awarded over 37,450 BGEO shares. The value is calculated by reference to the share price on 28 February 2017 which was US$ 34.91(based on the official share price of GBP 28.05 per share converted into Dollars using an exchange rate of 1.2445, being the official exchange rate published by the Bank of England on the same date). For 2015, options were awarded over 47,000 BGEO shares. The value is calculated by reference to the share price on 12 February 2016 which was US$ 23.39 (based on the official share price of GBP 16.16 per share converted into Dollars using an exchange rate of 1.4458, being the official exchange rate published by the Bank of England on the same date). The discretionary remuneration in respect of 2016 is deferred and vests over three years in equal amounts, beginning in January of the second year following the work year as amended in Mr Gilauri's Service Agreement whereas the vesting period in respect of 2015 discretionary remuneration is over two years in equal amounts, also beginning in January of the second year following the work year. Both the 2015 and 2016 awards are subject to the leaver provisions described on pages 105 to 106 and in section 3 of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf. The means of determining the number of shares underlying this remuneration and the terms and conditions are described in section 1(b) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf and consistent with the Policy table on page 101 and Note 2 to the Policy table on page 102. The basis for determining Mr Gilauri's 2016 discretionary award is described on the next two pages.

4 Benefits. The figures show the gross taxable value of health, life and personal accident insurance.

5 Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined contribution pension scheme, normal retirement age is 65.

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.

DIRECTORS' REMUNERATION REPORT CONTINUED

The following table sets out details of total remuneration for Mr Gilauri for the period from 1 January 2012 to 31 December 2016 and his discretionary remuneration 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.

	2012	2013	2014	2015	**2016**
Single figure of total remuneration (US$)	2,002,386	3,488,463	3,142,021	3,690,642	**4,314,885**
Discretionary remuneration as a percentage of maximum opportunity (%)	94.9%	83.2%	54.7%	91.9%	**100%**

Notes:
1 Single figure of total remuneration for 2015 and 2016 has been calculated in accordance with the table on the previous page. In 2013, 2014, 2015 and 2016, the maximum opportunity for Mr Gilauri was 50% of salary.
2 For 2014, 2013 and 2012, Mr Gilauri's cash salary was US$ 437,500.
3 In 2014 and 2013, the value of the Mr Gilauri's deferred salary shares was calculated by reference to the share price of US$ 21.71 (an amount calculated as described in Note 2 to the table on the previous page). In 2012, 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.
4 For 2014, options were awarded on 19 March 2015 over 25,000 BGEO Shares. For 2013, options were awarded on 25 February 2014 over 25,000 BGEO shares. The share price on 19 March 2015 was US$ 26.17 (based on the official share price of GBP 17.77 per share converted into 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 GBP 23.85 per share converted into Dollars using an exchange rate of 1.6682, being the official exchange rate published by the Bank of England on the same date). The award of discretionary deferred shares was 30,000 BGEO 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 GBP 13.84 per share converted into 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.

BASIS FOR DETERMINING MR GILAURI'S DISCRETIONARY DEFERRED SHARE REMUNERATION IN RESPECT OF 2016

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. Strict weighting is not imposed on the KPIs below for the reasons mentioned in section 1(b) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf which is consistent with Note 2 of the Policy table on page 102.

The following table sets out the objective KPIs set for Mr Gilauri in respect of 2016 as well as Mr Gilauri's performance against them.

KEY PERFORMANCE INDICATOR	2016 TARGET	2016 PERFORMANCE	COMMITTEE EVALUATION
BANKING BUSINESS			
Return on Average Equity (ROAE)	20%	22%	Target met, driven by the strong retail banking segment.
Retail loan book growth	20%	39.5%	Target exceeded, driven by loan origination across all Retail Banking segments.
INVESTMENT BUSINESS			
Value of our Investment Business	y-o-y growth	Exceeded expectations	All businesses showed growth throughout 2016. Combined revenue and net profit (normalised) increased 76% and 60% y-o-y, respectively. The share price of GHG more than doubled and GGU EBITDA grew by over 10%.
Investment Business management teams	Continued enhancement	Exceeded expectations	Management was significantly strengthened at our Investment Businesses. Key executive management appointments were: (i) Archil Gachechiladze as CEO of GGU; (ii) new executive management for each of GHG's ambulatory and pharma businesses; and (iii) new CFOs for each of m^2 Real Estate and Teliani Valley. The level of management below executive management was also strengthened at each investment business.
GROUP-WIDE			
Management team	Coaching and mentoring	Met expectations	Mr Gilauri intensified his focus on coaching and mentoring of the management team. In 2016, two leadership development programmes were developed and two Group coaching sessions were held. Mr Gilauri provided personal guidance to members of management who engaged with the coaching process or otherwise showed a high level of motivation and strong performance. Promotions were awarded in appropriate cases.
Self-development	Continued self-development	Met expectations	Mr Gilauri continued to prioritise self-development, principally through analysis of his own management style. He has made substantial progress in addressing the weaknesses identified in earlier periods. His increased self-awareness has resulted in him improving his own leadership skills and has had a very positive effect on the wider management culture.

In terms of objective KPIs, Mr Gilauri met or exceeded all KPIs, as described on the previous page. In addition to the pre-set KPIs, Mr Gilauri's accomplishments in 2016 include the provision of strategic direction to the CEOs of each of the Bank, GHG, GGU, m^2 and Teliani Valley; oversight and support of significant corporate transactions and changes to business lines; management succession planning; and philanthropy.

2016 business highlights include:
- JSC BGEO Group PLC issuance of a US$ 350 million Eurobond
- GHG acquisition of two pharma companies
- Group acquisition of the remaining 75% stake in GGU
- Teliani Valley construction of a brewery and acquisition of an exclusive ten-year license with Heineken;
- Launch of the Retail Banking client-centric model
- Separation of Solo and MSME from mass market Retail Banking

Mr Gilauri's succession planning for Bank and GGU executive management in 2016 significantly enhanced Group leadership. At the Bank, Kaha Kiknavelidze became CEO, followed by the appointments of David Tsiklauri as Deputy CEO (Investment Banking) and Ramaz Kukuladze as Deputy CEO (MSME and Premium Retail Banking). At the same time, Archil Gachechiladze, a highly experienced member of executive management at the Bank, became the CEO of GGU.

In 2016, Mr Gilauri also continued to expand the Group's social and environmental agenda, which is described on pages 46 to 52. Notably, the Bank: (i) implemented strict requirements for customers to adhere to internationally recognised environmental and social sustainability standards; (ii) offered finance opportunities to female entrepreneurs on favourable terms otherwise unavailable in the market; and (iii) created new debit card products for students with benefits such as discounted/free transportation, loyalty points and discounts at bookstores. Funding to programmes Mr Gilauri initiated in previous years to enhance access to education – the Bank of Georgia University MBA programme as well as Chevening and Fulbright scholarships – increased in 2016.

For 2016, the Committee found that Mr Gilauri's overall performance was exceptional. As a result, the Committee determined that Mr Gilauri should be awarded discretionary deferred share remuneration at maximum opportunity. The Committee agreed to award Mr Gilauri 37,450 shares.

MR GILAURI'S 2017 KPIS – DISCRETIONARY DEFERRED SHARE REMUNERATION

For 2017, in respect of objective KPIs, we plan to continue measuring 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.

Banking Business
- ROAE of 20%
- Retail loan book growth of 20%

Investment Business
- Y-o-y growth of the value of our investment businesses as targeted
- Continued enhancement of our investment business management teams

Group-wide
- Continued coaching and mentoring of the management team
- Continued self-development

PERCENTAGE CHANGE IN REMUNERATION OF CEO

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2015 and 2016, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2015 and 2016. See the Single Total Figure Remuneration Table on page 107 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred remuneration of Mr Gilauri.

	Percentage change for the CEO between 2015 and 2016	Average percentage change for the Group's employees as a whole (excluding Mr Gilauri) between 2015 and 2016
Total cash salary	0%	14%
Total deferred share salary	11%	13%
Taxable benefits	-1%	29%
Total bonus (discretionary deferred share remuneration, in the case of Mr Gilauri, and deferred discretionary share remuneration plus cash bonus, in the case of other employees of the Group)	19%	32.2%

FURTHER DETAILS OF FIXED AND DISCRETIONARY CONTINGENT DEFERRED SHARE REMUNERATION GRANTED DURING 2016 (AUDITED)

The following table sets out details of the nil-cost options over BGEO shares which have been granted to Mr Gilauri in 2016 in respect of the year ended 31 December 2015. Please note that the information presented in this section is for the 2015 financial year.

	Deferred share salary	Discretionary deferred share remuneration
Number of underlying shares and basis on which award was made	90,000 granted on the basis described in the table in section 1(a) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf.	47,000 granted on the basis described in section 1(b) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group (as reflected in accounts)	US$ 1,954,157[1]	US$ 1,099,473[2]
Face value	US$ 1,954,157[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.	US$ 1,099,473[2] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of the executive's salary set out in the 2013 contract 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 2015 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 remuneration and so no payment is required upon exercise.
Vesting period	20% in each of 2017, 2018 and 2019 and 40% in 2020.	50% in each of 2017 and 2018.
Performance measures	None. See section 1(a) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf.	See section 1(b) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf.

DIRECTORS' REMUNERATION REPORT CONTINUED

Notes:
1 Deferred share salary. The figures show the value of the BGEO shares underlying nil-cost options granted in respect of 2015. The award was 90,000 BGEO shares and the value of the deferred share salary is calculated using the share price as at the date the prior service agreement was signed, being US$ 21.71 per share (based on the official share price of GBP 14.06 per share converted into Dollars using an exchange rate of 1.5443, being the official exchange rate published by the Bank of England on the same date). The terms and conditions applying to deferred share salary are described in section 1(a) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf.
2 Discretionary deferred share remuneration. For 2015, options were awarded over 47,000 BGEO shares. The value is calculated by reference to the share price on 12 February 2016 which was US$ 23.39 (based on the official share price of GBP 16.18 per share converted into Dollars using an exchange rate of 1.4458, 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 award and the terms and conditions are described in section 1(b) of the 2014 Policy available at http://bgeo.com/uploads/pages/remuneration-policy-86.pdf.

SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The table below sets out the remuneration received by each Non-Executive Director in 2016 and 2015.

	BGEO fees (US$)		Bank fees (US$)		Total fees (US$)	
	2016	2015	**2016**	2015	**2016**	2015
Neil Janin (Chairman)[1]	**107,500**	107,500	**107,500**	107,500	**215,000**	215,000
David Morrison[2]	**83,500**	83,500	**72,500**	72,500	**156,000**	156,000
Al Breach	**67,000**	67,000	**56,000**	56,000	**123,000**	123,000
Kim Bradley	**70,500**	70,500	**59,500**	59,500	**130,000**	130,000
Tamaz Georgadze	**59,046**	56,000	**47,531**	45,000	**106,577**	101,000
Hanna Loikkanen[3]	**56,077**	20,714	**37,500**	12,500	**93,577**	33,214
Kaha Kiknavelidze[4]	**46,102**	67,000	**52,238**	56,000	**98,340**	123,000
Bozidar Djelic[5]	**53,703**	56,000	**45,000**	45,000	**98,703**	101,000
TOTAL	**543,428**	528,214	**477,769**	454,000	**1,021,197**	983,214

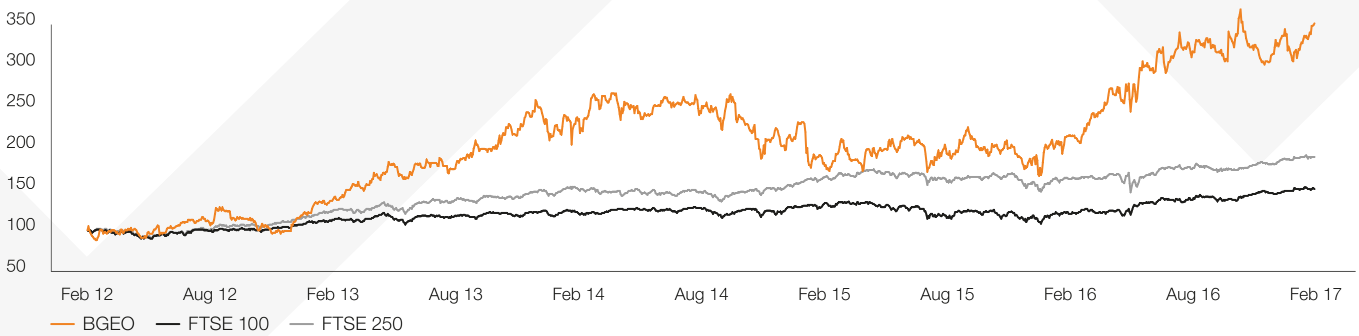
Notes:
1 On 4 September 2015, Mr Janin was appointed as an Independent Non-Executive Director of GHG PLC. He also serves as Chairman of both the Nomination and Remuneration Committees and was most recently appointed to the Critical Quality and Safety Committee in February 2017. In 2016 and 2015, Neil Janin received remuneration of US$ 111,000 and US$ 89,706, respectively from GHG PLC in respect of his services. Mr Janin has no entitlement to fees in respect of his position on the Supervisory Board of JSC Georgia Healthcare Group.
2 On 4 September 2015, Mr Morrison was appointed as an Independent Non-Executive Director of GHG PLC. He also serves as Chairman of the Audit Committee and a member of both the Nomination Committee. He stepped down from the Critical Quality and Safety Committee in February 2017. In 2016 and 2015, Mr Morrison received remuneration of US$ 156,000 and US$ 102,664, respectively from GHG PLC in respect of his services. Mr Morrison has no entitlement to fees in respect of his position on the Supervisory Board of JSC Georgia Healthcare Group.
3 Ms Loikkanen was appointed to the Board of BGEO and the Supervisory Board of the Bank on 12 June 2015 and 27 August 2015, respectively, and therefore the fees reflected in respect of 2015 have been pro-rated from the date of appointment until 31 December 2015.
4 Kaha Kiknavelidze resigned from the Board of BGEO and the Supervisory Board of the Bank on 6 September 2016.
5 Bozidar Djelic resigned from the Board of BGEO and the Supervisory Board of the Bank on 15 December 2016.
6 The maximum amount for BGEO base fees, including the Chairman, as provided for in BGEO's Articles of Association, is GBP 750,000.

In 2016, no payments were made to past Directors, nor were payments made for loss of office.

TOTAL SHAREHOLDER RETURN

BGEO GROUP PLC TSR VS. THE FTSE INDICES TSR

The following graph compares the Total Shareholder Return (TSR) of BGEO Group PLC with the companies comprising the FTSE 250 Index and FTSE 100 Index for the period since BGEO's listing on the Premium Segment of the LSE on 28 February 2012 until 31 March 2017. BGEO Group PLC has been a member of the FTSE 250 since 15 June 2012. For further context and comparison, our TSR performance is also compared to that of the FTSE 100 index as it has consistently outperformed the FTSE 100 over the past four years.



Source: Thomson Reuters Datastream.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table shows the difference in remuneration paid to all employees of the Group between 2015 and 2016 as well as the difference in value of distributions paid to shareholders by way of dividends between 2015 and 2016.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Year ended 31 December 2015 (US$) (dividend for year 2014)	77,384,819	33,575,932
Year ended 31 December 2016 (US$) (dividend for year 2015)	83,805,260	36,876,228
Percentage change	8.3%	9.8%

DIRECTORS' INTERESTS IN SHARES (AUDITED)

The following table sets forth the respective holdings of BGEO shares of each Director as at 31 December 2015 and 2016.

	As at 31 December 2015				**As at 31 December 2016**			
	Number of BGEO shares held directly	Number of vested but unexercised BGEO shares held under option through deferred share salary and discretionary deferred share remuneration (all nil-cost options with no performance conditions)	Number of unvested and unexercised BGEO shares held under option through deferred share salary and discretionary deferred share remuneration (all nil-cost options with no performance conditions)	Total number of interests in BGEO shares	**Number of BGEO shares held directly**	**Number of vested but unexercised BGEO shares held under option through deferred share salary and discretionary deferred share remuneration (all nil-cost options with no performance conditions)**	**Number of unvested and unexercised BGEO shares held under option through deferred share salary and discretionary deferred share remuneration (all nil-cost options with no performance condition)**	**Total number of interests in BGEO shares**
Irakli Gilauri[1]	250,319	–	289,500	539,819	**202,315**	**–**	**439,000**	**641,315**
Neil Janin[2]	35,729	N/A	N/A	35,729	**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]	16,400	N/A	N/A	16,400	**16,400**	**N/A**	**N/A**	**16,400**
Kim Bradley	1,250	N/A	N/A	1,250	**1,250**	**N/A**	**N/A**	**1,250**
Tamaz Georgadze	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Bozidar Djelic	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**

Notes:

1 Mr Gilauri's unvested and unexercised shares include all options granted in respect of the 2016 work year. In March 2017, Mr Gilauri exercised options in respect of 126,000 BGEO shares, of which 25,200 BGEO shares were withheld to satisfy tax liabilities. After the exercise Mr Gilauri held 303,115 vested BGEO shares.

2 At year-end 2016, NeilCo Limited, a company wholly-owned by Mr Janin, held 10,000 BGEO shares. In March 2017, Mr Janin purchased 3,500 BGEO shares is his personal capacity.

3 At year-end 2016, Gemsstock Growth Fund, which Mr Breach manages, held 20,000 BGEO shares.

Save for Mr Gilauri's exercise of options as set out in Note 1 above and Mr Janin's purchase of shares as set out in Note 2 above, there have been no further changes in the interests of each Director listed above since 31 December 2016 and the date of this Annual Report.

The Remuneration Policy is heavily weighted towards remuneration in deferred salary shares and deferred discretionary shares. In respect of 2016, 81% of Mr Gilauri's compensation was in the form of deferred shares. The long vesting periods, particularly for deferred salary shares (five years), result in executive management having large holdings of shares. Accordingly, the Group does not apply a shareholding guideline or impose a holding period on Mr Gilauri'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 at the date of this Annual Report, Mr Gilauri's vested and unvested shareholding is 616,115 BGEO shares, representing approximately 1.56% of the share capital of BGEO. The vesting period for the majority of unvested shares exceeds three years.

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

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

Several of our Directors chose to subscribe for shares in the GHG IPO in 12 November 2015. The following table sets forth the respective holdings of GHG shares of each Director as at 31 December 2016.

As at 31 December 2016	Number of GHG shares held directly
Irakli Gilauri	411,700
Neil Janin	88,000
David Morrison	116,600
Al Breach	30,000
Kim Bradley	19,000

MR GILAURI'S INTERESTS IN GROUP DEBT SECURITIES AND REAL ESTATE

Directors and executive management of the Group from time-to-time will purchase securities or real estate from Group entities on an arms-length basis. In the interest of transparency, such transactions entered into by our sole Executive Director, Mr Gilauri, are described below.

Mr Gilauri participated in the US$ 25 million three-year bond offering by m^2 Real Estate and the US$ 15 million two-year bond offering by Evex. Both bonds are listed on the Georgian Stock Exchange. As at the date of this Annual Report, Mr Gilauri holds US$ 41,240 worth of m^2 Real Estate bonds and US$ 312,780 worth of Evex bonds. Mr Gilauri also purchased US$ 3,372 worth of Teliani Valley shares.

On 24 December 2015 and 3 October 2016, Mr Gilauri purchased an apartment in the m^2 Real Estate Skyline Project in the amount of US$ 519,220 and US$ 416,239, respectively. Mr Gilauri purchased these apartments on an arms-length basis.

DETAILS OF NON-EXECUTIVE DIRECTORS' TERMS OF APPOINTMENT

Letters of appointment are entered into by BGEO with each Non Executive Director, generally for a three-year term and subject to our succession plan which permits service for a six-year period. However, at the discretion of the Board, if the Non-Executive's continued membership is in the best interests of the Group, he may be re-offered membership to the Board pursuant to a letter of appointment for an additional one-year term, which may be renewed no more than two times. All Non Executive Directors are proposed for annual re-election at the AGM. The letters of appointment require Non Executive Directors to provide one month's notice prior to termination. If our Directors' Remuneration Policy is approved at the 2017 AGM, new letters of appointment will be prepared, reflecting the new fees, revised corporate structure and enhanced responsibilities in respect of the Investment Business.

The table below shows each Non-Executive Director's date of appointment to the Board of BGEO.

	Date of appointment
Neil Janin	December 2011
David Morrison	December 2011
Al Breach	December 2011
Kim Bradley	December 2013
Tamaz Georgadze	December 2013
Hanna Loikkanen	June 2015

SHAREHOLDINGS OF EXECUTIVE MANAGEMENT

Similar to Executive Directors, the remuneration of executive management is characterised by heavily weighted salary in the form of long-term deferred share remuneration rather than cash and performance-based remuneration in the form of deferred shares only and no cash.

The following table sets forth the respective holdings of BGEO shares of several members of executive management as at 31 December 2016 and 2015, which reflects the predominance of unvested shares.

	As at 31 December 2016			As at 31 December 2015		
	Number of vested BGEO shares	Number of unvested BGEO shares	Total vested and unvested BGEO shares	Number of vested BGEO shares	Number of unvested BGEO shares	Total vested and unvested BGEO shares
Kaha Kiknavelidze	**26,337**	**11,667**	**38,004**	26,337	–	26,337
Levan Kulijanishvili	**1,100**	**64,641**	**65,741**	9	25,918	25,927
Avto Namichieshvili	**18,095**	**154,750**	**172,845**	58,139	108,750	166,889
Nikoloz Gamkrelidze	**–**	**116,500**	**116,500**	–	95,250	95,250

STATEMENT OF IMPLEMENTATION FOR 2017

The only changes in the way the Policy will be implemented in 2017 compared to how it was implemented in 2016 are an increase in maximum opportunity for Mr Gilauri (capped at 75% of total salary) and a moderate increase in Non-Executive Director fees.

Details of how the Policy will be implemented for the 2017 financial year are set out below.

FOR IRAKLI GILAURI

FIXED PAY

Total cash salary (combined BGEO and Bank)	US$ 437,500
Total deferred share salary (Bank)	US$ 2,288,700
Pension and other benefits	No change from the stated Policy; Value is expected to be substantially to 2016

There are circumstances in which unvested deferred shares may lapse and narrow circumstances in which such shares may vest immediately are set out in the Policy.

2017 DISCRETIONARY DEFERRED SHARE REMUNERATION

Opportunity	Maximum is 75% of total salary (total cash salary and total deferred share salary as listed in the table above)
Deferral terms	Early in 2018, the Committee will determine whether an award is merited based on the Executive Director's achievement of the KPIs set for the work year and the performance of the Group during the work year. If Mr Gilauri is awarded discretionary deferred shares, the award will vest 33.33% in each of 2019, 2020 and 2021. At vesting (upon exercise of the nil-cost options), Mr Gilauri will receive (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date.
Performance measures and targets	For 2017, the Committee has determined that the performance measures for will be based on the KPIs, subject to the terms of the Policy. **Banking Business** • ROAE of 20% • Retail loan book growth of 20% **Investment Business** • Year-on-year growth of the value of our Investment Business as targeted • Continued enhancement of our Investment Business management teams **Group-wide** • Continued coaching and mentoring of the management team • Continued self-development

Natural clawback and further malus are built in to the structure of Mr Gilauri's remuneration above, given that both salary shares and discretionary shares are deferred and are subject to a number of vesting conditions which, if breached, would result in Mr Gilauri's salary shares fully lapsing, unless the Board otherwise agrees. His service agreement may be terminated for "cause", a definition which is broadly defined and extends beyond standard malus and clawback triggers to include, for example, gross and wilful misconduct having a material adverse effect on the Group, fraud, material repeated failure to perform his duties, breach of his obligations or conviction of a felony. His unvested shares may also lapse if he terminates his service agreement early (in the absence of repeated material wrongdoing by the company). Further malus applies to discretionary deferred shares if it is determined that there was a material misstatement in the financial results. In this case, 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, as set out in the Policy.

NON-EXECUTIVE DIRECTOR REMUNERATION
The table below shows the fee structure for Non-Executive Directors for 2017.

All fees to Non-Executive Directors are paid in cash and reflect work performed for BGEO, JSC BGEO Group and the Bank Supervisory Board and its subsidiaries. Fees were moderately increased in 2017 to reflect the additional duties in respect of the Investment Business.

Role	2017 fees
Chairman (aggregate all-inclusive fee)	US$ 313,900
Senior Independent Director base fee (aggregate)	US$ 146,000
Non-Executive Director (excluding Chairman and Senior Independent Director) base fee (aggregate)	US$ 109,500
Additional Committee fees	Range from US$ 6,570 to US$ 17,520, depending on whether the Non-Executive serves as Chairman or Member of a Committee

Notes
1 The term aggregate refers to work in respect of BGEO JSC BGEO Group and the Bank.
2 The allocation of base fees to BGEO does not and will not exceed the maximum amount of GBP 750,000 as set out in our Articles.

COMPOSITION OF THE REMUNERATION COMMITTEE AND ADVISORS
The Committee is comprised of three members: our Chairman, Al Breach, an independent Non-Executive Director; David Morrison, our Senior Independent Director; and Neil Janin, who was independent on appointment.

The members' attendance during 2016 is provided below.

Member Attendance	Number of meetings attended	% of meetings attended
Al Breach		80%
David Morrison		100%
Neil Janin		100%

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 included the CEO, Bank CEO, the other Board members, General Counsel and Group Company Secretary. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Committee received advice from Baker & McKenzie LLP, its legal advisors, on compliance and best practice.

COMMITTEE EFFECTIVENESS REVIEW
An internal review was conducted by the Group Company Secretary. The evaluation principally addressed the composition of the Committee, the structure and effectiveness of the 2014 Policy, the design of the new Policy and the performance evaluation process. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our priorities for 2017 include: vigilant review of Executive Director and executive management performance as well as focus on senior and mid-level remuneration, motivation and development.

Signed on behalf of the Board of Directors.

Al Breach
Chairman of the Remuneration Committee
13 April 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT

The Directors are responsible for preparing the Annual Report and the 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. As required, we have prepared the accompanying consolidated and separate statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable 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 the Company and of the profit or loss of the Group and the Company for that period.

In preparing the accompanying consolidated and separate financial statements, we are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company 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 the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We are also responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

- The consolidated and stand-alone financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole
- The Strategic Report and Directors' Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Neil Janin	**Irakli Gilauri**
Chairman	CEO
13 April 2017	13 April 2017

DIRECTORS' REPORT

STRATEGIC REPORT
The Strategic Report on pages 1 to 73 was approved by the Board of Directors on 13 April 2017 and signed on its behalf by Irakli Gilauri, Chief Executive Officer.

MANAGEMENT REPORT
This Directors' Report together with the Strategic Report on pages 1 to 73 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 73
BGEO risk management	Pages 34 to 35
Going concern statement	Page 35
Viability statement	Page 35
Bank risk management	Pages 40 to 45
Principal risks and uncertainties	Pages 36 to 39
Directors' Governance Overview	Page 74
The Board of Directors	Pages 75 to 77
Nomination Committee Report	Pages 86 to 88
Audit Committee Report	Pages 89 to 93
Risk Committee Report	Pages 94 to 96
Greenhouse gas emissions	Page 52
Employee matters	Page 49
Environmental matters	Pages 51 and 52
Share capital	Note 20 on page 187
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	Note 29 on pages 193 to 202

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 the Company'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 the Company's statutory auditors are aware of such information.

ARTICLES OF ASSOCIATION
BGEO's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The process for the appointment and removal of Directors is included in our Articles of Association. The BGEO Articles of Association are available on BGEO's website: http://bgeo.com/uploads/pages/bgeo-group-plc-articles-of-association-91.pdf.

SHARE CAPITAL AND RIGHTS ATTACHING TO THE SHARES
Details of the movements in share capital during the year are provided in Note 20 to the consolidated financial statements on page 187.

As at the date of this Annual Report, there was a single class of 39,469,320 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to BGEO's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and BGEO's Articles of Association, to:

- Have shareholder documents made available to them including the notice of any general meeting
- Attend, speak and exercise voting rights at general meetings, either in person or by proxy
- Participate in any distribution of income or capital

In accordance with a request issued by BGEO, Sanne Fiduciary Services Limited, acting as trustee of the Trust, has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by BGEO.

BGEO is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Such authority was given at the 2016 AGM.

The Company's share buyback and cancellation programme is described on the next page.

In 2016, the Board approved funding of approximately US$ 30 million to enable Sanne, our Trustee, to purchase shares in the market to satisfy awards in respect of the 2015 and 2016 work years. Since listing on the London Stock Exchange in 2012 until 31 December 2016, a total of 1,138,283 shares have been purchased in the market for the Trust.

The Group previously committed 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 BGEO's ordinary share capital over any ten-year period.

None of the ordinary shares carry any special rights with regard to control of BGEO.

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 BGEO's shares
- Where a person with an interest in BGEO's shares has been served with a disclosure notice and has failed to provide BGEO with information concerning interests in those shares

All employees (including Directors) that are deemed by BGEO to be insiders have complied with the Group's Share Dealing Code. There are no restrictions on exercising voting rights save in situations where BGEO 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 BGEO). BGEO is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

RESULTS AND DIVIDENDS
The Group made a profit before taxation of GEL 389.9 million (year ended 31 December 2015: GEL 359.4 million). The Group's profit after taxation for the year was GEL 428.6 million (year ended 31 December 2015: GEL 310.9 million).

BGEO may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by BGEO's Directors. The Directors may also pay interim dividends as appear to be justified by the profits of BGEO available for distribution.

As BGEO is a holding company, BGEO 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 BGEO Board intends to recommend an annual dividend of GEL 2.6 payable in British Pounds Sterling, which is subject to shareholders' approval at the 2017 AGM. If approved, the dividend will be paid on 7 July 2017 to shareholders on the UK register of members at the close of business in the UK (6:00 pm London time) on 23 June 2017.

POWERS OF DIRECTORS
The Directors may exercise all powers of BGEO subject to applicable legislation and regulation and BGEO'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 2016. BGEO'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. The remuneration of our Directors' must be in accordance with the Directors' Remuneration Policy approved by our shareholders. Fees for Non-Executive Directors (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 GBP 750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of BGEO. The fees paid to the Non-Executive Directors in 2016 pursuant to their letters of appointment are shown on page 100. The fees paid to our sole Executive Director in 2016 pursuant to his service agreements with BGEO and the Bank are shown on page 107.

DIRECTORS' INTERESTS
The Directors' beneficial interests in ordinary shares of BGEO as at 31 December 2016 are shown on page 110.

INDEMNITY
Subject to applicable legislation, every current and former Director or other officer of BGEO (other than any person engaged by the Company as auditor) shall be indemnified by BGEO against any liability in relation to BGEO, other than (broadly) any liability to BGEO or a member of the Group, or any criminal or regulatory fine.

RELATED PARTY DISCLOSURES
Details of related party disclosures are set out in Note 32 to the consolidated financial statements on page 211.

SIGNIFICANT AGREEMENTS
On 23 October 2015, BGEO entered into a Relationship Agreement with GHG and JSC BGEO Investments which regulates the degree of control that BGEO and its associates may exercise over the management and business of GHG. The principal purpose of the Relationship Agreement is to ensure that GHG and its subsidiaries are capable at all times of carrying on their business independently of BGEO and its associates. The Relationship Agreement took effect on 12 November 2015 and will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) BGEO, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If BGEO ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as BGEO and its associates together hold 20% or more of the voting share capital of GHG, BGEO and its associates shall amongst other things:

- Conduct all transactions, agreements or arrangements entered into between: (i) BGEO and its associates, and (ii) GHG or any of its subsidiaries on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- Not take any action that has or would have the effect of preventing GHG or any of its subsidiaries from complying with their obligations under the Listing Rules;
- Not propose or procure the proposal of any resolution of the shareholders (or any class thereof) which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and/or
- Abstain from voting on any resolution required by LR 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving BGEO.

The Relationship Agreement entitles BGEO to appoint one person to be a Non-Executive Director of GHG for so long as it (together with its associates) holds at least 20% of the voting share capital of GHG.

The Relationship Agreement also provides that (subject to permitted exceptions) neither BGEO nor its associates shall compete with the business of GHG nor use any names associated with GHG and that GHG shall not use any names associated with BGEO or its associates.

A copy of the Relationship Agreement is available to view at the Company's registered office.

At no time during 2016 did any Director hold a material interest in any contracts of significance with BGEO or any subsidiary of the Group. BGEO is not party to any significant agreements that would take effect, alter or terminate following a change of control of BGEO.

There are no agreements between the Company and any Director or employee that would provide compensation for loss of office or loss of employment that occurs because of a takeover bid.

However, under the terms of Mr Gilauri's service agreements (as described in further detail in the Directors' Remuneration Report), unvested shares will vest on a change of control of the Company, the Bank or or any intermediary holding company of the Bank (as appropriate).

PRESENCE OUTSIDE OF GEORGIA
We have representative offices in London, Budapest, Istanbul and Tel Aviv. See pages 4 and 61.

PAYMENT OF CREDITORS
We value our suppliers and acknowledge the importance of paying invoices in an orderly and timely manner. It is the Group's practice to agree terms on an individual basis when entering into contracts and meet obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

EMPLOYEE DISCLOSURES
Our disclosures relating to the number of women in senior management, employee engagement and policies as well as human rights, including employment of the disabled, are included in "Employee matters" on pages 49 to 51.

POLITICAL DONATIONS
The Group did not make any political donations or expenditures during 2016.

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: http://bgeo.com/uploads/pages/code-of-conduct-and-ethics-58.pdf.

INDEPENDENT AUDITORS
A resolution to reappoint Ernst & Young LLP as auditors of BGEO 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 December 2016. A description of changes in voting rights which have been notified to BGEO for the period 1 January 2017 up to and including 31 March 2017 are disclosed below the table.

	As of 31 December 2016	
Shareholder	Number of voting rights	% of voting rights
Harding Loevner LP	3,805,270	9.63%
Schroder Investment Management	2,118,956	5.36%
Artemis Investment Management	1,765,639	4.47%
Sanne Fiduciary Services	1,566,224	3.97%
Westwood International Advisors	1,377,615	3.49%
JP Morgan Asset Management	1,101,754	2.79%

Source: Georgeson, Computershare

Notes:
On 21 February 2017, Sanne's voting rights decreased slightly to 1,571,007, or 3.97%.
On 23 January 2017 Shroder's voting rights decreased slightly to 1,928,526, or 4.88%
On 9 January 2017, Shroder's voting rights decreased slightly to 1,961,920, or 4.97%.

The respective regulatory filings by shareholders are available on the BGEO website: http://bgeo.com/regulatoryannouncements and the London Stock Exchange website: www.londonstockexchange.com/news/news/finance.htm.

POST BALANCE SHEET EVENTS

BGEO SHARE BUYBACK AND CANCELLATION PROGRAMME

As a result of the Group's strong capital position, in November 2016 the Board approved a US$ 50 million share buyback and cancellation programme to be completed over a two-year period. BGEO entered into an agreement with Numis Securities Limited (Numis) on 7 March 2017 to enable Numis to use the maximum consideration of US$ 50 million over a two-year period expiring 6 March 2019 to purchase shares in accordance with the terms of the general authority to make market purchases of up to 3,950,032 of its shares granted to BGEO by its shareholders at the 2016 AGM and subject to its shareholders' approval of a similar buyback resolution at BGEO's 2017 AGM in respect of any purchases to be made after the date of that meeting.

On behalf of the Company, Numis Securities Ltd purchased a total of 31,000 BGEO Group PLC ordinary shares of GBP 0.01 (total nominal value purchased: GBP 310 at each between 17 March 2017 and 22 March 2017. The net cost for the purchased shares was GBP 940,701.33. The 31,000 shares purchased represent 0.78% of the issued share capital as at the date of this Annual Report. Any shares repurchased will be immediately cancelled.

Pursuant to the Company's agreement with Numis, Numis must carry out purchases on the London Stock Exchange and executed in accordance with Article 5(1) of Regulation (EU) No 596/2014, Chapter 12 of the Financial Conduct Authority's Listing Rules and the rules of the London Stock Exchange.

ESOP FUNDING

In March 2017, the Group provided additional funding of US$ 6 million to enable Sane to purchase more shares in the market to satisfy upcoming awards.

JSC ABC PHARMACIA ACQUISITION

On 6 January 2017, Georgia Healthcare Group, through ones of its subsidiaries, acquired 67% of the shares of JSC ABC Pharmacy, a pharmaceuticals company operating in Georgia from individual investors. Consideration comprised GEL 72,341, which consists of a cash payment of GEL 32,554, a holdback amount with a fair value of GEL 30,041 and non-cash consideration of GEL 9,746 comprising 33% of GPC shares.

DE-DOLLARISATION PROGRAMME

On 11 January 2017, the Government of Georgia approved a "de-dollarisation" programme. The purpose of the programme is to increase the disposable income of individuals, reduce their dependency on foreign exchange rate fluctuations and promote financial stability in Georgia. Under the programme rules, all Georgian commercial banks were, at the request of a client, convert eligible Dollar-denominated loans into Lari, at a discount compensated by the Government until 25 March 2017. Effective from 15 January 2017, the NBG introduced a new regulation whereby borrowings that are less than GEL 100,000 will be issued in Lari effective from 15 January 2017.

By order of the Board

Kate Bennett Rea
on behalf of Sirius Compliance Solutions
Group Company Secretary
13 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BGEO GROUP PLC

OUR OPINION ON THE FINANCIAL STATEMENTS
In our opinion:

- BGEO Group plc's Group financial statements and Parent company financial statements (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 2016 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 as applied in accordance with the provisions of the Companies Act 2006; and
- 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
BGEO Group plc's financial statements for the year ending 31 December 2016 comprise:

Group	Company financial statements
• the consolidated statement of financial position • the consolidated income statement • the consolidated statement of comprehensive income • the consolidated statement of changes in equity • the consolidated statement of cash flows • the related Notes 1 to 34 to the consolidated financial statements	• the separate statement of financial position • the separate statement of changes in equity • the separate statement of cash flows • the related Notes 1 to 34 to the Company financial statements

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.

OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement having greatest impact on audit scope	• Monitoring of credit quality and appropriateness of allowance for loan losses. • Risk of fraud in recognition of healthcare revenue and pharmaceutical revenue. • Valuation of land and office buildings, hospitals and clinics and investment properties. • Accounting for one-off and complex transactions including business combinations.
Audit scope	We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further three components. The components where we performed full or specific audit procedures accounted for 95% of Profit before non-recurring items and tax, 91% of Revenue and 95% of total assets.
Materiality	Overall Group materiality of GEL 20 million which represents 5% of pre-tax profit adjusted for non-recurring items.

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
MONITORING OF CREDIT QUALITY AND APPROPRIATENESS OF ALLOWANCE FOR LOAN LOSSES **LOAN LOSS ALLOWANCE GEL 252.8 million, (2015: GEL 198.9 million)** JSC Bank of Georgia is the largest credit institution in Georgia. The allowance for loan losses is highly judgmental and changes in assumptions could have a material impact on reported profits. The allowance for loan losses is calculated using a combination of a collective provisioning model and specific loan provisions based on discounted cash flow analyses. Both collective and specific provisions depend on a number of assumptions and judgments, the most important of which are management's assessment of credit risk, estimates of future cashflows and valuations of collateral. As a consequence of the judgment involved in establishing the allowance, there is a greater risk of misstatement in this balance, either by fraud or error, including through the potential override of controls by management. As described in the principal risks and uncertainties on page 36, the risk has increased in the current year as a result of the depreciation of the Lari. Refer to the Audit Committee Report (page 91); accounting policies (page 150); and Note 10 of the Consolidated Financial Statements.	• We performed a walkthrough of the loan loss allowance process and assessed the design and operating effectiveness of key controls. • We tested key controls over the collective loan loss provision, which included controls over the identification of loans to be included in the collective assessment and management's review of key assumptions. • We tested key controls over specific loan loss provisions, 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. • For specific loan loss provisions, we assessed the recoverability of loan exposures on a sample basis and ensured the appropriateness of the provision as at the balance sheet date, including reviewing the Group's documented credit assessment of the borrowers, challenging assumptions relating to future cash flow projections and the valuation of collateral held. • For the collective loan loss provision, we critically assessed the appropriateness of the collective provisioning methodology as well as the assumptions and data inputs into the model with reference to our understanding of the business, relevant accounting standards and market practices, recalculated the collective loan loss provision and analysed the sensitivity of provisions to changes in key model inputs. • We reviewed 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. • During the year the Group's largest borrower experienced financial difficulties and its business was restructured. Management's assessment of the loan loss allowance is based on projected cashflows of the restructured business. We considered whether key assumptions underlying these projections were consistent with our knowledge of the business and independent projections of expected prices for the business's key products.	Although the loan loss allowance is by nature highly judgmental, based on the results of our audit procedures, we concluded that the loan loss allowance is within a reasonable range as at 31 December 2016. We consider that the allowance in respect of the loan to the Group's largest borrower is based on assumptions in respect of the underlying business of the borrower that are reasonable.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
RISK OF FRAUD IN RECOGNITION OF HEALTHCARE REVENUE AND PHARMACEUTICAL REVENUE **REVENUE GEL 363 million (2015: GEL 184 million)** GHG is one of the largest healthcare providers and pharmacy distributors in Georgia. Following the IPO of GHG in 2015, there is a heightened risk that GHG management may be under pressure to report strong financial performance in order to meet the expectations of internal and external stakeholders. As a consequence, there is a greater risk of misstatement in these balances, either by fraud or error, including through the potential override of controls by management. The risk has increased in the current year as a result of the acquisition of GPC, which exposed the Group to new streams of revenue, including retail sales of pharmaceutical products, a customer loyalty programme and exchange transactions with other pharmaceutical companies. Judgment is required to be exercised by management in determining amounts recorded as revenue in respect of loyalty schemes and exchange transactions. Refer to the Accounting policies (page 156); and Note 24 of the Consolidated Financial Statements.	• We gained an understanding of the healthcare and pharmaceutical revenue processes and assessed the design and operating effectiveness of key controls. • We performed substantive testing of healthcare and pharmaceutical revenue including key items testing, representative sampling, testing manual and topside adjustments and cut-off testing (by selecting a sample of transactions either side of year-end). • We performed procedures on contractual documentation for the sampled transactions to determine whether revenue had been recognised in accordance with the Group's accounting policies and IFRSs, particularly in respect of pharmaceutical exchange transactions and the issuing and redemption of points under customer loyalty programmes. • We performed analytical procedures for healthcare and pharmaceutical revenue at legal entity level to consider unusual trends that could indicate material misstatements, including monthly fluctuations analysis and analysis of changes in key drivers of healthcare revenue, such as bed occupancy, number of patients and number of beds. • We performed journal entry testing in order to identify and test the risk of misstatement arising from management override of controls. • We considered whether the presentation and disclosure of revenue in the financial statements is in accordance with relevant accounting standards.	Based on the results of our audit procedures, we concluded that healthcare and pharmaceutical revenue for the year ended 31 December 2016 has been recognised in accordance with IFRSs. In particular, exchange transactions and customer loyalty schemes have been accounted for in accordance with IAS18 "Revenue" and IFRIC 13 "Customer Loyalty Programmes", respectively.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
VALUATION OF LAND AND OFFICE BUILDINGS, HOSPITALS AND CLINICS AND INVESTMENT PROPERTIES **GEL 1,029 million, (2015: GEL 475 million)** The Group applies the revaluation model for the measurement of its office buildings and service centres (including related land) and the fair value model for investment properties. During the year, the Group extended the revaluation model to the hospitals and clinics in GHG. Valuations of office buildings and service centres are performed once in every three years, unless there is a sign of material change in fair values in the market; the last such valuation was performed at 31 December 2015. The GHG hospitals and clinics were revalued as at July 2016. To assess whether there had been a material change in fair values in the market, management appointed an independent valuer to assess the fair value of the top five land and buildings and investment properties by value, covering approximately 28% of the Group's property portfolio as at 31 December 2016. The valuer was also engaged to provide a detailed analysis of the property markets for relevant sectors in the key locations where the Group's properties are located. Based on the these reports, management concluded that there were no material variances between the carrying value and the fair value of the Group's properties as at the balance sheet date. Separate independent external valuers were appointed by GHG management to perform the valuation of the hospitals and clinics as at July 2016. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid, particularly in respect of hospitals and clinics. Although the valuations are performed by, appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. The risk has increased in the current year as a result of the extension of the revaluation model to the GHG hospitals and clinics. Refer to the Audit Committee Report (page 91); Accounting policies (pages 152 and 153); and Notes 11 and 12 of the Consolidated Financial Statements.	We engaged our Real Estate specialists to evaluate the appropriateness of the Group's valuations of office buildings and service centres, investment properties and hospitals and clinics, including the following: • We evaluated the competence, professional qualifications and objectivity of the external valuers engaged by the Group; • Through reading the valuation reports and discussion with management and the valuers, we obtained an understanding of the objectives and scope of the valuers' work, the methods and assumptions that they had used and the conclusions that they had reached; • We challenged the methods and assumptions used in the valuation reports, including consideration as to whether there was contrary market intelligence that had not been taken into account in the valuers' analyses; and • For the hospitals and clinics and 5 properties for which specific valuations were performed, we assessed the data, application of the methods and logic and reasoning applied by the valuers. To the extent possible we compared this information to norms and benchmarks in the Georgian market, although we noted that there is limited availability of transaction information against which to make such comparisons. We ensured the appropriate recognition of the results of the valuations in accordance with IAS 16 'Property, Plant and Equipment' and IAS 40 'Investment Property'.	Based on the results of our audit procedures, we concluded that the independent valuation reports obtained by management supported their assessment that there were no material differences between the carrying value and fair value of the Group's properties at the balance sheet date. For the hospitals and clinics revalued as at July 2016, we concluded that the valuation of the total pool of assets was within a reasonable range of market values.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
ACCOUNTING FOR COMPLEX OR ONE-OFF TRANSACTIONS **BUSINESS COMBINATIONS** In July 2016, the Group acquired the remaining 75% of GGU that it did not hold previously, and in May 2016 GHG acquired JSC GPC, a top-three pharmaceutical retailer in Georgia. During the year GHG also acquired certain other smaller entities in addition to finalising the acquisition accounting for businesses acquired in 2015. There is a risk of error in the reporting for the acquisitions, particularly due to the judgment involved in determining the fair values of the identifiable net assets acquired, assessing the fair value of the consideration, identifying the acquired intangibles and determining the resultant goodwill or gain on bargain purchase. **OTHER TRANSACTIONS** During the year the Group has entered into a number of complex or one-off transactions including the sale of Visa and Mastercard shares, the early redemption of Eurobonds and additional investments in associates. In our audit opinion in 2015 we stated that we considered that the Group needed to improve its internal controls to match the growth in the business, particularly in relation to complex and one-off transactions. Refer to the Audit Committee Report (page 91 and 93); Accounting policies (page 147); and Notes 5 and 13 of the Consolidated Financial Statements.	**BUSINESS COMBINATIONS** • We tested the methodology and assumptions behind the significant judgments involved in the determination of the fair values of the identifiable net assets acquired. We used our valuation specialists to assess the methodology and assumptions used by management to value infrastructure assets in GGU. • We considered whether management's assessment of the nature and value of separately identifiable intangible assets acquired was consistent with the requirements of IFRSs and market practice for similar transactions. • We tested on a sample basis the existence of acquired subsidiaries' assets and liabilities, including obtaining evidence of legal title to land and buildings and underground assets. • We performed procedures to test that management had identified and fair valued liabilities and contingent liabilities at the dates of acquisition. • We reviewed the presentation and disclosures in the financial statements. **OTHER TRANSACTIONS** • We inspected significant one-off transactions and critically challenged the assumptions and judgments made by management in determining the appropriate accounting treatment in accordance with applicable IFRSs, and we assessed whether the conclusions reached by management were consistent with the underlying agreements and commercial factors applicable to each of the transactions.	Based on the results of our audit procedures, we concluded that the accounting for acquisitions during the year was appropriate. We consider that one-off and complex transactions have been accounted for in accordance with relevant IFRS requirements. We considered the actions taken by management in response to our recommendations regarding the control environment. During the year, the Group established an IFRS accounting and control desk and we consider that this has remediated the weakness in internal control identified in our 2015 audit opinion.

In the prior year, our auditor's report included a risk of material misstatement in relation to IT general and automated controls over financial reporting. In the current year, the results of our audit procedures with respect to this matter provided us with sufficient audit evidence to enable us to place reliance on the IT applications and relevant controls identified as having a material impact on the financial reporting process. We have not included this risk above as it was no longer a risk that had a significant effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit findings when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected components covering entities within the UK and Georgia, which represent the principal business units within the Group.

The table below illustrates the coverage obtained from the work we performed:

	2016				2015			
	No.	Revenue	Profit[4]	Total assets	No.	Revenue	Profit[4]	Total assets
Full scope[1]	3	85%	86%	88%	2	84%	88%	90%
Specific scope[2]	3	6%	9%	7%	4	7%	6%	6%
Full and specific scope coverage	6	91%	95%	95%	6	91%	94%	96%
Remaining components[3]	21	9%	5%	5%	22	9%	6%	4%
Total reporting components	27	100%	100%	100%	28	100%	100%	100%

1 We audited the complete financial information.
2 We audited specific accounts within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.
3 We performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.
4 Profit before non-recurring items and tax.

The components for which we performed full or specific scope procedures are set out below:

Component	Scope	Location/Team
BGEO Group plc	Full	London/primary team
JSC Bank of Georgia	Full	Georgia/primary team
Georgia Healthcare Group plc (consolidated)	Full	London and Georgia/component team
Georgian Global Utilities limited	Specific	Georgia/component team
JSC m² Real Estate	Specific	Georgia/component team
JSC BGEO Group	Specific	Georgia/primary team

INVOLVEMENT WITH COMPONENT TEAMS

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.
Of the three full scope components, audit procedures were performed on two of these directly by the primary audit team. For the specific scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to make sure that the Senior Statutory Auditor visits the principal components of the Group. 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 four times during the current year's audit and there was regular interaction between team members in each jurisdiction. During the current year's audit cycle, visits were undertaken by the Senior Statutory Auditor and other members of the primary audit team to the component teams in Georgia.

These visits involved discussing the audit approach with the component teams and any issues arising from their work, as well as meeting with local management. In addition, the primary team participated in planning and closing meetings and reviewed selected audit working papers. The primary team interacted regularly with the component teams where appropriate during various stages of the audit and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 20 million (2015: GEL 18 million), which is 5% (2015: 5%) of profit before tax and non-recurring items. We consider that this adjusted profit figure best represents the results of the underlying operations of the Group and as such provides us with an appropriate basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

Starting basis	Profit before tax: GEL 390 million
Adjustments	Non-recurring items: (GEL 11.5 million)
Materiality	Totals GEL 401.5 million (materiality basis) Materiality of GEL 20 million (5% of materiality basis)

During the course of our audit, we reassessed initial materiality and made adjustments based on the final financial performance of the Group.

PERFORMANCE MATERIALITY
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2015: 50%) of our planning materiality, namely GEL 10 million (2015: GEL 9 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts was undertaken based on a percentage of total performance materiality. The performance materiality set for each component was based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to components was as follows:

BGEO Group plc	GEL 10 million
JSC Bank of Georgia	GEL 7 million
Georgia Healthcare Group plc	GEL 3.5 million
Specific scope components	GEL 2.0 million

REPORTING THRESHOLD
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 1 million (2015: GEL 0.9 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR
As explained more fully in the Directors' Responsibilities Statement set out on page 114, 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.

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.

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
- based on the work undertaken in the course of the audit:
  - 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;
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAS (UK AND IRELAND) REPORTING	We are required to report to you if, in our opinion, financial and non-financial 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 • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the Audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
COMPANIES ACT 2006 REPORTING	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. 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.	We have no exceptions to report.
LISTING RULES REVIEW REQUIREMENTS	We are required to review: • the Directors' statement in relation to going concern, set out on page 35, and longer-term viability, set out on page 35; and • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY

ISAS (UK AND IRELAND) REPORTING	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and • the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 April 2017

Notes:
1. The maintenance and integrity of the BGEO Group 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

		2016			
	Notes	Banking Business	Investment Business	Eliminations	Total
ASSETS					
Cash and cash equivalents	7	1,482,106	397,620	(306,116)	1,573,610
Amounts due from credit institutions	8	943,091	153,497	(41,605)	1,054,983
Investment securities	9	1,287,292	3,075	(4,364)	1,286,003
Loans to customers and finance lease receivables	10	6,681,672	–	(33,190)	6,648,482
Accounts receivable and other loans		56,495	125,964	(53,953)	128,506
Insurance premiums receivable		24,152	24,284	(2,013)	46,423
Prepayments		19,607	57,270	(600)	76,277
Inventories		9,009	179,335	–	188,344
Investment properties	11	153,442	134,785	–	288,227
Property and equipment	12	339,442	984,428	–	1,323,870
Goodwill	13	49,592	57,394	–	106,986
Intangible assets		41,350	17,557	–	58,907
Income tax assets	14	20,638	3,405	–	24,043
Other assets	15	140,338	56,312	(11,858)	184,792
TOTAL ASSETS		11,248,226	2,194,926	(453,699)	12,989,453
LIABILITIES					
Client deposits and notes	16	5,730,419	–	(347,721)	5,382,698
Amounts owed to credit institutions	17	3,067,651	435,630	(33,190)	3,470,091
Debt securities issued	18	858,037	407,242	(9,636)	1,255,643
Accruals and deferred income		25,242	158,387	(53,310)	130,319
Insurance contracts liabilities		41,542	26,329	–	67,871
Income tax liabilities	14	23,937	3,854	–	27,791
Other liabilities	15	72,547	168,917	(9,842)	231,622
TOTAL LIABILITIES		9,819,375	1,200,359	(453,699)	10,566,035
EQUITY	20				
Share capital		1,154	–	–	1,154
Additional paid-in capital		45,072	138,800	–	183,872
Treasury shares		(54)	–	–	(54)
Other reserves		(31,116)	133,385	–	102,269
Retained earnings		1,393,117	485,828	–	1,878,945
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF BGEO		1,408,173	758,013	–	2,166,186
Non-controlling interests		20,678	236,554	–	257,232
TOTAL EQUITY		1,428,851	994,567	–	2,423,418
TOTAL LIABILITIES AND EQUITY		11,248,226	2,194,926	(453,699)	12,989,453

The financial statements on page 126 to 213 were approved by the Board of Directors on 13 April 2017 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer
BGEO Group PLC
13 April 2017

Registered No. 07811410

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

2015				2014			
Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total
1,378,459	290,576	(236,101)	1,432,934	706,780	92,722	(89,358)	710,144
721,802	15,730	(6,167)	731,365	399,430	72,181	(53,330)	418,281
906,730	1,153	(4,016)	903,867	768,559	1,153	–	769,712
5,366,764	–	(44,647)	5,322,117	4,438,032	–	(90,181)	4,347,851
10,376	82,354	(4,758)	87,972	12,653	61,836	(4,282)	70,207
19,829	20,929	(1,532)	39,226	14,573	18,020	(753)	31,840
21,033	37,295	–	58,328	15,644	18,130	–	33,774
9,439	117,588	–	127,027	6,857	94,585	–	101,442
135,453	110,945	–	246,398	128,552	62,308	–	190,860
337,064	457,618	–	794,682	314,369	274,144	–	588,513
49,592	23,392	–	72,984	38,537	11,096	–	49,633
35,162	5,354	–	40,516	31,768	2,664	–	34,432
16,003	5,547	–	21,550	14,484	8,261	–	22,745
163,731	79,479	(6,437)	236,773	153,764	58,407	(2,460)	209,711
9,171,437	1,247,960	(303,658)	10,115,739	7,044,002	775,507	(240,364)	7,579,145
4,993,681	–	(242,294)	4,751,387	3,482,001	–	(143,276)	3,338,725
1,692,557	144,534	(48,029)	1,789,062	1,324,609	177,313	(92,708)	1,409,214
961,944	84,474	(6,614)	1,039,804	827,721	29,374	(400)	856,695
20,364	126,488	–	146,852	19,897	88,726	–	108,623
34,547	21,298	–	55,845	27,979	18,607	–	46,586
89,980	34,415	–	124,395	79,987	17,577	–	97,564
63,073	78,404	(6,721)	134,756	51,031	40,594	(3,980)	87,645
7,856,146	489,613	(303,658)	8,042,101	5,813,225	372,191	(240,364)	5,945,052
1,154	–	–	1,154	1,143	–	–	1,143
101,793	138,800	–	240,593	87,950	157,355	–	245,305
(44)	–	–	(44)	(46)	–	–	(46)
(63,958)	96,802	–	32,844	(11,073)	(11,501)	–	(22,574)
1,257,415	319,635	–	1,577,050	1,134,158	216,100	–	1,350,258
1,296,360	555,237	–	1,851,597	1,212,132	361,954	–	1,574,086
18,931	203,110	–	222,041	18,645	41,362	–	60,007
1,315,291	758,347	–	2,073,638	1,230,777	403,316	–	1,634,093
9,171,437	1,247,960	(303,658)	10,115,739	7,044,002	775,507	(240,364)	7,579,145

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

		2016			
	Notes	Banking Business	Investment Business	Eliminations	Total
Banking interest income		933,715	–	(6,399)	927,316
Banking interest expense		(376,987)	–	(922)	(377,909)
NET BANKING INTEREST INCOME	21	556,728	–	(7,321)	549,407
Fee and commission income		172,715	–	(2,652)	170,063
Fee and commission expense		(47,766)	–	616	(47,150)
NET FEE AND COMMISSION INCOME	22	124,949	–	(2,036)	122,913
Net banking foreign currency gain		82,909	–	–	82,909
Net other banking income		12,767	–	(994)	11,773
Net insurance premiums earned		42,959	56,998	(2,872)	97,085
Net insurance claims incurred		(17,858)	(45,544)	–	(63,402)
GROSS INSURANCE PROFIT	23	25,101	11,454	(2,872)	33,683
Healthcare and pharma revenue		–	362,586	–	362,586
Cost of healthcare and pharma services		–	(227,724)	–	(227,724)
GROSS HEALTHCARE AND PHARMACY PROFIT	24	–	134,862	–	134,862
Real estate revenue		–	101,560	(694)	100,866
Cost of real estate		–	(81,098)	–	(81,098)
GROSS REAL ESTATE PROFIT	25	–	20,462	(694)	19,768
Utility revenue		–	56,486	(139)	56,347
Cost of utility		–	(17,806)	–	(17,806)
GROSS UTILITY PROFIT		–	38,680	(139)	38,541
Gross other investment profit	25	–	20,802	124	20,926
REVENUE		802,454	226,260	(13,932)	1,014,782
Salaries and other employee benefits	26	(176,280)	(48,286)	2,751	(221,815)
Administrative expenses	26	(83,792)	(42,856)	2,336	(124,312)
Banking depreciation and amortisation		(37,981)	–	–	(37,981)
Other operating expenses		(4,174)	(2,506)	–	(6,680)
OPERATING EXPENSES		(302,227)	(93,648)	5,087	(390,788)
OPERATING INCOME BEFORE COST OF CREDIT RISK/EBITDA		500,227	132,612	(8,845)	623,994

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

	2015				2014			
	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total
	872,299	–	(12,521)	859,778	600,925	–	(7,313)	593,612
	(359,372)	–	984	(358,388)	(243,654)	–	–	(243,654)
	512,927	–	(11,537)	501,390	357,271	–	(7,313)	349,958
	161,891	–	(3,733)	158,158	134,488	–	(2,053)	132,435
	(40,302)	–	550	(39,752)	(32,643)	–	–	(32,643)
	121,589	–	(3,183)	118,406	101,845	–	(2,053)	99,792
	76,926	–	–	76,926	52,752	–	–	52,752
	19,837	–	(1,309)	18,528	9,890	–	(620)	9,270
	40,161	54,996	(2,256)	92,901	28,129	69,700	(1,979)	95,850
	(20,114)	(42,880)	–	(62,994)	(11,707)	(54,713)	–	(66,420)
	20,047	12,116	(2,256)	29,907	16,422	14,987	(1,979)	29,430
	–	183,993	–	183,993	–	125,720	–	125,720
	–	(103,055)	–	(103,055)	–	(72,237)	–	(72,237)
	–	80,938	–	80,938	–	53,483	–	53,483
	–	54,409	–	54,409	–	60,456	(80)	60,376
	–	(39,721)	–	(39,721)	–	(46,810)	–	(46,810)
	–	14,688	–	14,688	–	13,646	(80)	13,566
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	20,639	138	20,777	–	12,804	187	12,991
	751,326	128,381	(18,147)	861,560	538,180	94,920	(11,858)	621,242
	(155,744)	(31,621)	2,036	(185,329)	(130,060)	(25,651)	1,530	(154,181)
	(74,381)	(18,491)	1,953	(90,919)	(58,833)	(15,974)	1,348	(73,459)
	(34,199)	–	–	(34,199)	(25,641)	–	–	(25,641)
	(3,535)	(750)	–	(4,285)	(3,230)	(520)	–	(3,750)
	(267,859)	(50,862)	3,989	(314,732)	(217,764)	(42,145)	2,878	(257,031)
	483,467	77,519	(14,158)	546,828	320,416	52,775	(8,980)	364,211

CONSOLIDATED INCOME STATEMENT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

		2016			
	Notes	Banking Business	Investment Business	Eliminations	Total
OPERATING INCOME BEFORE COST OF CREDIT RISK/EBITDA		500,227	132,612	(8,845)	623,994
Profit from associates		–	4,328	–	4,328
Depreciation and amortisation of investment business		–	(28,865)	–	(28,865)
Net foreign currency (loss) gain from investment business		–	(9,650)	–	(9,650)
Interest income from investment business	21	–	3,232	923	4,155
Interest expense from investment business	21	–	(29,351)	7,922	(21,429)
OPERATING INCOME BEFORE COST OF CREDIT RISK		500,227	72,306	–	572,533
Impairment charge on loans to customers	10	(158,892)	–	–	(158,892)
Impairment charge on finance lease receivables	10	(777)	–	–	(777)
Impairment charge on other assets and provisions		(8,892)	(2,528)	–	(11,420)
COST OF CREDIT RISK		(168,561)	(2,528)	–	(171,089)
NET OPERATING INCOME BEFORE NON-RECURRING ITEMS		331,666	69,778	–	401,444
Net non-recurring items	27	(45,351)	33,827	–	(11,524)
PROFIT BEFORE INCOME TAX BENEFIT (EXPENSE)		286,315	103,605	–	389,920
Income tax benefit (expense)	14	23,126	15,530	–	38,656
PROFIT FOR THE YEAR		309,441	119,135	–	428,576
ATTRIBUTABLE TO:					
– shareholders of BGEO		306,918	91,620	–	398,538
– non-controlling interests		2,523	27,515	–	30,038
		309,441	119,135	–	428,576
EARNINGS PER SHARE:	20				
– basic earnings per share					10.4148
– diluted earnings per share					10.0895

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

2015				2014			
Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total
483,467	77,519	(14,158)	546,828	320,416	52,775	(8,980)	364,211
–	4,050	–	4,050	–	–	–	–
–	(14,225)	–	(14,225)	–	(9,164)	–	(9,164)
–	651	–	651	–	(3,169)	–	(3,169)
–	3,338	(998)	2,340	–	1,860	(551)	1,309
–	(25,493)	15,156	(10,337)	–	(16,089)	9,531	(6,558)
483,467	45,840	–	529,307	320,416	26,213	–	346,629
(142,819)	–	–	(142,819)	(45,088)	–	–	(45,088)
(1,958)	–	–	(1,958)	(476)	–	–	(476)
(6,740)	(3,860)	–	(10,600)	(10,168)	(3,288)	–	(13,456)
(151,517)	(3,860)	–	(155,377)	(55,732)	(3,288)	–	(59,020)
331,950	41,980	–	373,930	264,684	22,925	–	287,609
(13,046)	(1,531)	–	(14,577)	(11,837)	820	–	(11,017)
318,904	40,449	–	359,353	252,847	23,745	–	276,592
(44,647)	(3,761)	–	(48,408)	(32,343)	(3,482)	–	(35,825)
274,257	36,688	–	310,945	220,504	20,263	–	240,767
270,466	33,228	–	303,694	216,883	15,626	–	232,509
3,791	3,460	–	7,251	3,621	4,637	–	8,258
274,257	36,688	–	310,945	220,504	20,263	–	240,767
			7.9264				6.7228
			7.9264				6.7228

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Notes	**2016**	2015	2014
PROFIT FOR THE YEAR		**428,576**	310,945	240,767
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		**86,245**	(30,928)	(4,079)
– realised (gain) loss on available-for-sale securities reclassified to the consolidated income statement		**(28,325)**	84	(83)
– gain (loss) from currency translation differences		**13,252**	(14,372)	20,157
Income tax impact	14	**(2,192)**	1,276	(124)
NET OTHER COMPREHENSIVE INCOME (LOSS) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**68,980**	(43,940)	15,871
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
– revaluation of property and equipment	12	**18,699**	(7,223)	–
– income tax impact	14	**4,947**	361	–
– impact of income tax changes on associates	14	**5,580**	–	–
NET OTHER COMPREHENSIVE INCOME (LOSS) NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**29,226**	(6,862)	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		**98,206**	(50,802)	15,871
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**526,782**	260,143	256,638
ATTRIBUTABLE TO:				
– shareholders of BGEO		**490,790**	256,324	250,571
– non-controlling interests		**35,992**	3,819	6,067
		526,782	260,143	256,638

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Attributable to shareholders of BGEO							
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
31 DECEMBER 2013	1,028	23,843	(56)	(16,399)	1,174,124	1,182,540	58,514	1,241,054
Profit for the year	–	–	–	–	232,509	232,509	8,258	240,767
Other comprehensive income for the year	–	–	–	11,359	6,703	18,062	(2,191)	15,871
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	–	11,359	239,212	250,571	6,067	256,638
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(446)	446	–	–	–
Increase in equity arising from share-based payments	–	19,094	13	–	–	19,107	–	19,107
Issue of share capital (Note 20)	108	218,921	–	–	–	219,029	–	219,029
GBP-GEL translation effect	7	(8,667)	–	551	8,109	–	–	–
Transactions costs recognised directly in equity (Note 20)	–	(3,370)	–	–	–	(3,370)	–	(3,370)
Dividends to shareholders of BGEO (Note 20)	–	–	–	–	(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
Profit for the year	–	–	–	–	303,694	303,694	7,251	310,945
Other comprehensive loss for the year	–	–	–	(41,535)	(5,835)	(47,370)	(3,432)	(50,802)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	–	(41,535)	297,859	256,324	3,819	260,143
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(625)	625	–	–	–
Increase in equity arising from share-based payments	–	22,483	15	–	–	22,498	897	23,395
GBP-GEL translation effect	11	1,737	–	(10,467)	8,719	–	–	–
Dividends to shareholders of BGEO (Note 20)	–	–	–	–	(80,411)	(80,411)	–	(80,411)
Dilution of interests in subsidiaries	–	–	–	109,435	–	109,435	125,163	234,598
Transactions costs recognised directly in equity	–	–	–	(13,379)	–	(13,379)	–	(13,379)
Acquisition and sale of non-controlling interests in existing subsidiaries	–	–	–	11,989	–	11,989	2,369	14,358
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	29,786	29,786
Purchase of treasury shares	–	(28,932)	(13)	–	–	(28,945)	–	(28,945)
31 DECEMBER 2015	1,154	240,593	(44)	32,844	1,577,050	1,851,597	222,041	2,073,638
Profit for the year	**–**	**–**	**–**	**–**	**398,538**	**398,538**	**30,038**	**428,576**
Other comprehensive income for the year	**–**	**–**	**–**	**91,831**	**421**	**92,252**	**5,954**	**98,206**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**–**	**–**	**91,831**	**398,959**	**490,790**	**35,992**	**526,782**
Depreciation of property and equipment revaluation reserve, net of tax	**–**	**–**	**–**	**(540)**	**540**	**–**	**–**	**–**
Increase in equity arising from share-based payments	**–**	**42,365**	**14**	**–**	**–**	**42,379**	**3,816**	**46,195**
Dividends to shareholders of BGEO (Note 20)	**–**	**–**	**–**	**–**	**(97,604)**	**(97,604)**	**–**	**(97,604)**
Dilution of interests in subsidiaries	**–**	**–**	**–**	**(2,785)**	**–**	**(2,785)**	**2,406**	**(379)**
Dividends of subsidiaries to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(936)**	**(936)**
Acquisition of non-controlling interests in existing subsidiaries	**–**	**–**	**–**	**(19,081)**	**–**	**(19,081)**	**(6,087)**	**(25,168)**
Purchase of treasury shares	**–**	**(99,086)**	**(24)**	**–**	**–**	**(99,110)**	**–**	**(99,110)**
31 DECEMBER 2016	**1,154**	**183,872**	**(54)**	**102,269**	**1,878,945**	**2,166,186**	**257,232**	**2,423,418**

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Notes	**2016**	2015	2014
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Interest received		**918,426**	863,965	588,978
Interest paid		**(436,895)**	(361,834)	(270,942)
Fees and commissions received		**165,603**	153,049	133,948
Fees and commissions paid		**(47,157)**	(39,931)	(33,006)
Insurance premiums received		**97,403**	92,838	95,859
Insurance claims paid		**(64,739)**	(60,818)	(66,385)
Healthcare and pharma revenue received		**214,677**	171,927	95,865
Cost of healthcare and pharma services paid		**(137,419)**	(92,358)	(70,308)
Utility revenue received		**58,714**	–	–
Cost of utility services paid		**(19,156)**	–	–
Net cash (outflow) inflow from real estate		**(22,785)**	25,611	24,396
Net realised gain (loss) from trading securities		**944**	(655)	407
Net realised gain (loss) from investment securities available-for-sale		–	(84)	83
Net realised gain from foreign currencies		**64,334**	64,256	44,169
Recoveries of loans to customers previously written off	10	**36,244**	33,685	28,706
Other (expenses paid) income received		**(8,041)**	(126)	3,236
Salaries and other employee benefits paid		**(179,861)**	(151,500)	(129,793)
General and administrative and operating expenses paid		**(91,932)**	(105,616)	(63,038)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**548,360**	592,409	382,175
Net (increase) decrease in operating assets				
Amounts due from credit institutions		**(245,460)**	(180,446)	(71,099)
Loans to customers		**(1,000,571)**	184,963	(935,313)
Finance lease receivables		**(4,248)**	(4,022)	6,115
Prepayments and other assets		**38,052**	(21,062)	9,897
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		**1,431,505**	96,462	243,021
Debt securities issued		**147,963**	(60,478)	128,364
Amounts due to customers		**240,586**	349,420	236,794
Other liabilities		**21,698**	(25,915)	(2,419)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES BEFORE INCOME TAX		**1,177,885**	931,331	(2,465)
Income tax paid		**(44,326)**	(29,408)	(15,990)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**1,133,559**	901,923	(18,455)
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of subsidiaries, net of cash acquired	5	**(188,010)**	(24,467)	(22,177)
Repayment of remaining holdback amounts from previous year acquisitions		**(37,525)**	–	–
Net purchase of investment securities available-for-sale		**(315,317)**	(157,509)	(255,710)
Proceeds from sale of investments in associates		**–**	–	300
Purchase of investments in associates		**(819)**	(3,092)	(45,567)
Proceeds from sale of investment properties	11	**8,599**	19,815	7,383
Purchase of investment properties	11	**(9,799)**	(18,947)	(49,348)
Proceeds from sale of property and equipment and intangible assets	12	**10,879**	24,616	2,648
Purchase of property and equipment and intangible assets		**(274,761)**	(157,488)	(80,459)
Dividends received		**3,230**	–	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(803,523)**	(317,072)	(442,930)

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Notes	2016	2015	2014
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		**–**	–	215,659
Dividends paid		**(97,106)**	(82,015)	(69,725)
Purchase of treasury shares		**(99,110)**	(28,945)	(4,519)
Net proceeds from sale of non-controlling interest in existing subsidiary		**–**	221,219	–
(Purchase) of proceeds from sale of interests in existing subsidiaries		**(2,072)**	14,358	(28,972)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(198,288)**	124,617	112,443
Effect of exchange rates changes on cash and cash equivalents		**8,928**	13,322	5,415
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**140,676**	722,790	(343,527)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	7	**1,432,934**	710,144	1,053,671
CASH AND CASH EQUIVALENTS, ENDING OF THE YEAR	7	**1,573,610**	1,432,934	710,144

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Notes	2016	2015	2014
ASSETS				
Cash and cash equivalents	7	**105,248**	32,435	88,005
Amounts due from credit institutions		**–**	–	46,368
Investments in subsidiaries	2	**1,003,578**	950,290	896,253
Investments in associates		**–**	53,458	48,659
Other assets		**557**	305	591
TOTAL ASSETS		**1,109,383**	1,036,488	1,079,876
LIABILITIES				
Other liabilities		**10,083**	9,740	11,151
TOTAL LIABILITIES		**10,083**	9,740	11,151
EQUITY				
Share capital	20	**1,154**	1,154	1,143
Additional paid-in capital		**208,621**	208,621	206,884
Other reserves		**–**	–	(328)
Retained earnings		**723,211**	793,397	796,341
Net profit for the period		**166,314**	23,576	64,685
TOTAL EQUITY		**1,099,300**	1,026,748	1,068,725
TOTAL LIABILITIES AND EQUITY		**1,109,383**	1,036,488	1,079,876

The financial statements on page 126 to 213 were approved by the Board of Directors on 13 April 2017 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer
BGEO Group PLC
13 April 2017

Registered No. 07811410

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
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 BGEO (Note 20)	–	–	–	(69,111)	(69,111)
31 DECEMBER 2014	1,143	206,884	(328)	861,026	1,068,725
Total comprehensive income	–	–	–	23,576	23,576
GBP-GEL translation effect	11	1,737	328	12,782	14,858
Dividends to shareholders of BGEO (Note 20)	–	–	–	(80,411)	(80,411)
31 DECEMBER 2015	1,154	208,621	–	816,973	1,026,748
Total comprehensive income	–	–	–	166,314	166,314
Dividends to shareholders of BGEO (Note 20)	–	–	–	(93,762)	(93,762)
31 DECEMBER 2016	**1,154**	**208,621**	**–**	**889,525**	**1,099,300**

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016 (THOUSANDS OF GEORGIAN LARI)

	Notes	2016	2015	2014
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Interest income received		**98**	1,146	–
Fees and commissions paid		**(467)**	(484)	(498)
Salaries and other employee benefits paid		**(2,165)**	(1,920)	(1,492)
General and administrative expenses paid		**(2,335)**	(2,073)	(2,250)
CASH FLOWS USED IN OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**(4,869)**	(3,331)	(4,240)
Net decrease in operating assets		**–**	56,658	–
Net (decrease) increase in operating liabilities		**(163)**	2,976	(46,857)
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		**(5,032)**	56,303	(51,097)
Net cash flows (used in) from investing activities				
Purchase of investments in associates		**–**	(3,092)	(45,567)
Increase of investments in subsidiaries		**–**	(45,125)	(28,549)
Dividends received		**169,666**	–	69,856
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**169,666**	(48,217)	(4,260)
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		**–**	–	215,659
Dividends paid		**(93,762)**	(80,411)	(69,111)
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		**(93,762)**	(80,411)	146,548
Effect of exchange rates changes on cash and cash equivalents		**1,941**	16,755	(7,814)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**72,813**	(55,570)	83,377
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		**32,435**	88,005	4,628
CASH AND CASH EQUIVALENTS, ENDING OF THE YEAR		**105,248**	32,435	88,005

The accompanying notes on pages 139 to 213 are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES

BGEO Group PLC (BGEO), formerly known as Bank of Georgia Holdings PLC) is a public limited liability company incorporated in England and Wales with registered number 07811410. BGEO holds 99.55% of the share capital of the Bank as at 31 December 2016, representing the Bank's ultimate parent company. Together with the JSC Bank of Georgia (the "Bank") and other subsidiaries, BGEO makes up a group of companies (the "Group") and provide banking, healthcare, insurance, real estate, utility, pharmaceutical, leasing, brokerage and investment management services to corporate and individual customers. The list of the companies included in the Group is provided in Note 2. The shares of BGEO (BGEO Shares) are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

JSC Bank of Georgia 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 2016, the Bank has 278 operating outlets in all major cities of Georgia (31 December 2015: 266, 31 December 2014: 219). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Group completed legal restructuring in August 2015, undertaken in accordance with the National Bank of Georgia's intention to regulate banks in Georgia on a stand-alone basis and thereby limit investments in non-banking subsidiaries by locally regulated banking entities.

There were the following changes to the management structure of BGEO Group PLC: Bozidar Djelic stepped down from Board on 15 December 2016, having served as a member of the Nomination Committee and Risk Committee; and Kaha Kiknavelidze stepped down from the Board on 6 September 2016 and assumed the role of CEO of the Bank. Neil Janin remained as Chairman of Board of Directors and Irakli Gilauri continued as Chief Executive Officer.

BGEO's registered legal address is 84 Brook Street, London, W1K 5EH, England.

As at 31 December 2016, 31 December 2015 and 31 December 2014, the following shareholders owned more than 4% of the total outstanding shares of the Group. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	**31 December 2016**	31 December 2015	31 December 2014
Harding Loevner Management LP	**9.63%**	9.09%	4.32%
Schroders Investment Management	**5.36%**	10.30%	12.46%
Artemis Investment Management	**4.47%**	3.57%	3.21%
Franklin Templeton Investments	**–**	0.48%	2.45%
Others	**80.54%**	76.56%	77.56%
TOTAL*	**100.00%**	100.00%	100.00%

* 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 Group.

Strategic report Overview
Strategic report Strategy
Strategic report Performance
Governance
Financial statements
Additional information

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. PRINCIPAL ACTIVITIES CONTINUED

As at 31 December 2016, the members of the Board of Directors of BGEO owned 308,388 shares or 0.8% (31 December 2015: 356,392 shares or 0.9%, 31 December 2014: 267,204 shares or 0.7%) of BGEO. Interests of the members of the Board of Directors of BGEO were as follows:

Shareholder	**31 December 2016, shares held**	31 December 2015, shares held	31 December 2014, shares held
Irakli Gilauri	**202,315**	250,319	161,131
Neil Janin	**35,729**	35,729	35,729
David Morrison	**26,357**	26,357	26,357
Kaha Kiknavelidze	**26,337**	26,337	26,337
Al Breach	**16,400**	16,400	16,400
Kim Bradley	**1,250**	1,250	1,250
Tamaz Georgadze	**–**	–	–
Hanna Loikkanen*	**–**	–	–
TOTAL	**308,388**	356,392	267,204

* Stepped down from and rejoined the Board of Directors of BGEO in December 2013 and August 2015, respectively.

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 BGEO is not presented as part of these financial statements. BGEO's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

The 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 2016 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, investment properties and revalued property and equipment;
- the measurement of inventories at lower of cost and net realisable value; and
- the measurement of repossessed assets at fair value less costs to sell or lower of cost and net realisable value as appropriate in the circumstances.

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

GOING CONCERN

The Board of Directors of BGEO has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

2. BASIS OF PREPARATION CONTINUED

SUBSIDIARIES AND ASSOCIATES

BGEO holds a 99.55% stake in the Bank as at 31 December 2016. Total amount of investment in subsidiaries in BGEO's separate statement of financial position as at 31 December 2016 was GEL 1,003,578 (31 December 2015: GEL 950,290, 31 December 2014: GEL 896,253), represented by direct investment in JSC BGEO Group. The consolidated financial statements as at 31 December 2016, 31 December 2015 and 31 December 2014 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held							
Subsidiaries	**31 December 2016**	31 December 2015	31 December 2014	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC BGEO Group	**100.00%**	100.00%	–	Georgia	29a Gagarini Street, Tbilisi, 0105	Investment	28/5/2015	–
JSC Bank of Georgia	**99.55%**	99.52%	99.63%	Georgia	29a Gagarini Street, Tbilisi, 0105	Banking	21/10/1994	–
Bank of Georgia Representative Office UK Limited	**100.00%**	100.00%	100.00%	United Kingdom	84 Brook Street, London W1K 5EH	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	**100.00%**	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	**100.00%**	100.00%	100.00%	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	**100.00%**	100.00%	100.00%	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	**100.00%**	100.00%	100.00%	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	–
Professional Basketball Club Dinamo Tbilisi, LLC	**100.00%**	100.00%	100.00%	Georgia	Digomi District, Block III, Lot #38/3, Tbilisi, 0159	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	**100.00%**	100.00%	100.00%	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	15/10/2013	–
Privat Guard, LLC	**(a)**	100.00%	–	Georgia	Didube-Chughureti district, 114, Ak. Tsereteli Ave., Tbilisi.	Security	–	21/1/2015
Benderlock Investments Limited	**100.00%**	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8-th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009
JSC Belarusky Narodny Bank	**79.99%**	79.99%	79.99%	Belarus	Nezavisimosty Ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008
BNB Leasing, LLC	**99.90%**	99.90%	99.90%	Belarus	Nezavisimosty Ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008
JSC Galt & Taggart Holdings (Georgia)	**–**	–	100.00%	Georgia	Arch. Makariou III 58, IRIS TOWER, 8-th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	4/11/2008	–
JSC BGEO Investment	**100.00%**	100.00%	–	Georgia	Kazbegi Str. 3-5, Tbilisi	Investment	7/8/2015	–
JSC m[2] Real Estate	**100.00%**	100.00%	100.00%	Georgia	4 Freedom Square, Tbilisi, 0105	Real estate	27/9/2006	–
m[2] Residential, LLC	**100.00%**	100.00%	–	Georgia	3-5 Kazbegi Str., Tbilisi, 0179	Real estate	17/8/2015	–
Optima ISANI, LLC	**100.00%**	100.00%	100.00%	Georgia	16 a Moscow Ave., Tbilisi	Real estate	25/7/2014	–
Tamarashvili 13, LLC	**100.00%**	100.00%	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
m[2] at Hippodrome, LLC	**100.00%**	100.00%	–	Georgia	10 Givi Kartozia Str., Tbilisi	Real estate	6/7/2015	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. BASIS OF PREPARATION CONTINUED

SUBSIDIARIES AND ASSOCIATES CONTINUED

Subsidiaries	Proportion of voting rights and ordinary share capital held **31 December 2016**	31 December 2015	31 December 2014	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
m² Skyline, LLC	**100.00%**	100.00%	100.00%	Georgia	3 Maro Makashvili Str., Tbilisi	Real estate	23/7/2015	–
m² at Kazbegi, LLC	**100.00%**	100.00%	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
m² at Tamarashvili, LLC	**100.00%**	100.00%	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
m² at Nutsubidze, LLC	**100.00%**	100.00%	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
M Square Park, LLC	**100.00%**	100.00%	–	Georgia	1 Marshal Gelovani Ave., Tbilisi	Real estate	15/9/2015	–
Optima Saburtalo, LLC	**100.00%**	100.00%	–	Georgia	2 Mikheil Shavishvili St, Tbilisi	Real estate	15/9/2015	–
m² at Vake, LLC	**100.00%**	–	–	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	3/8/2016	–
m² Hospitality, LLC	**100.00%**	100.00%	–	Georgia	3-5 Kazbegi Str., Tbilisi, 0179	Real estate	17/8/2015	–
m², LLC (formerly JSC m²)	**100.00%**	100.00%	100.00%	Georgia	#3-5 Kazbegi Street, Tbilisi	Real estate	12/2/2014	–
m² at Chavchavadze LLC	**100.00%**	–	–	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	5/9/2016	–
m² Commercial Properties LLC	**100.00%**	–	–	Georgia	77 Zh. Shartavai St, Tbilisi	Real estate	1/3/2016	–
Caucasus Autohouse, LLC	**100.00%**	100.00%	100.00%	Georgia	80 Aghmashenebeli Ave., Tbilisi, 0102	Real estate	29/3/2011	–
Land, LLC	**100.00%**	100.00%	100.00%	Georgia	Between University and Kavtaradze Str.,Tbilisi	Real estate	3/10/2014	–
JSC Georgian Renewable Power Company	**100.00%**	100.00%	–	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Renewable energy	14/9/2015	–
JSC Geohydro	**85.00%**	85.00%	85.00%	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Renewable energy	11/10/2013	–
JSC Svaneti Hydro	**65.00%**	65.00%	100.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable energy	6/12/2013	–
JSC Zoti Hydro	**65.00%**	100.00%	–	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Renewable energy	20/8/2015	–
JSC Caucasian Wind Company	**100.00%**	–	–	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Renewable energy	14/9/2016	–
JSC Caucasian Solar Company	**100.00%**	–	–	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Renewable energy	27/10/2016	–
Georgia Healthcare Group PLC	**65.03%**	67.70%	–	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
JSC Georgia Healthcare Group	**100.00%**	100.00%	–	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI)	**100.00%**	100.00%	100.00%	Georgia	3-5 Kazbegi Street, Tbilisi	Insurance	22/6/2007	–
Biznes Centri Kazbegze, LLC	**(b)**	100.00%	100.00%	Georgia	44 Al. Kazbegi Ave, Tbilisi, 0177	Various	22/6/2010	10/1/2011
JSC GPC	**100.00%**	–	–	Georgia	Old Tbilisi, Sanapiro Str. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
JSC Medical Corporation EVEX	**100.00%**	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
JSC My Family Clinic	**–**	–	100.00%	Georgia	N/A	Healthcare	3/10/2005	–
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	**66.70%**	66.70%	66.70%	Georgia	85 Djavakhishvili Street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	**66.70%**	66.70%	66.70%	Georgia	83 A Djavakhishvili Street, Kutaisi	Medical services	15/10/2004	12/9/2011

2. BASIS OF PREPARATION CONTINUED
SUBSIDIARIES AND ASSOCIATES CONTINUED

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2016	31 December 2015	31 December 2014	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Tskaltubo Regional Hospital, LLC	**66.70%**	66.70%	66.70%	Georgia	16 Eristavi Street, Tskhaltubo	Medical services	29/9/1999	12/9/2011
JSC Kutaisi Str. Nicholas Surgical and Oncological Hospital	**96.87%**	96.87%	92.90%	Georgia	9 Paolo Iashvili Street, Kutaisi	Medical services	3/11/2000	20/5/2008
Kutaisi Regional Clinical Hospital, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	19/7/2010	10/1/2010
JSC Zugdidi multi profile Clinical Hospital "Republic"	**–**	–	100.00%	Georgia	N/A	Medical services	11/6/1998	29/11/2011
JSC Chkhorotskhu Regional Central Hospital	**–**	–	100.00%	Georgia	N/A	Medical services	30/11/1999	29/11/2011
E.K. Pipia Central Hospital of Tsalenjikha, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	1/9/1999	12/9/2011
Martvili Multi profile Hospital, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	17/3/2000	12/9/2011
Abasha Outpatient–Polyclinic Union, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	16/3/2000	12/9/2011
Khobi Central Regional Hospital, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	13/7/2000	12/9/2011
Traumatologist, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	20/7/2011	30/9/2014
Patgeo, LLC	**100.00%**	0.00%	0.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Medical services	13/10/2010	27/9/2016
GN KO, LLC	**50.00%**	50.00%	–	Georgia	Chavchavadze ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
High Technology Medical Center, LLC	**100.00%**	100.00%	–	Georgia	Tsinandali Str. N 9, Tbilisi	Healthcare service	16/4/1999	5/8/2015
Geolab, LLC	**50.00%**	50.00%	–	Georgia	Tsinandali Str. N 9, Tbilisi	Healthcare service	3/5/2011	5/8/2015
Nephrology Development Clinic Center, LLC	**80.00%**	80.00%	–	Georgia	Tsinandali Str. N 9, Tbilisi	Healthcare service	28/9/2010	5/8/2015
Catastrophe Medicine Pediatric Center, LLC	**100.00%**	100.00%	–	Georgia	U. Chkeidze Str. N 10	Medical services	18/6/2013	5/8/2015
JSC Pediatria	**76.00%**	–	–	Georgia	U. Chkeidze Str. N 10, Tbilisi	Medical services		
Emergency Service, LLC	**100.00%**	–	–	Georgia	#2, D. Uznadze Str., Tbilisi	Medical services	28/7/2009	6/1/2016
JSC Poti Central Hospital	**100.00%**	–	–	Georgia	Guria Str. 171, Poti	Medical services	29/10/2014	1/1/2016
Deka, LLC	**95.00%**	95.00%	–	Georgia	Bakhtrioni Str. 8B, Tbilisi	Medical services	12/1/2012	11/6/2015
EVEX–Logistics, LLC	**100.00%**	100.00%	–	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	2/2/2015	–
EVEX Collection, LLC	**100.00%**	0.00%	0.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	25/3/2016	–
Unimed Achara, LLC	**100.00%**	100.00%	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
Unimedi Samtskhe, LLC	**100.00%**	100.00%	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
Unimedi Kakheti, LLC	**100.00%**	100.00%	100.00%	Georgia	20 Chavchvadze Ave Tbilisi	Medical services	29/6/2010	1/5/2012
LLC Caraps Medline	**–**	–	100.00%	Georgia	N/A	Medical services	26/8/1998	26/12/2013
LLC Medline +	**–**	–	–	Georgia	N/A	Medical services	13/12/2007	30/12/2013
Avante Hospital Management Group, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	5/8/2011	19/2/2014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. BASIS OF PREPARATION CONTINUED

SUBSIDIARIES AND ASSOCIATES CONTINUED

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2016	31 December 2015	31 December 2014					
Children's New Hospital, LLC	**–**	–	75.00%	Georgia	N/A	Medical services	18/7/2011	19/2/2014
New Life, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	21/9/1999	19/2/2014
Batumi Regional Healthcare Center for Mothers and Children, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	19/11/2004	19/2/2014
Sunstone Medical, LLC	**–**	–	100.00%	Georgia	N/A	Medical services	9/11/2012	21/5/2014
M. Iashvili Children's Central Hospital, LLC	**100.00%**	66.70%	66.70%	Georgia	2/6 Lubliana Street, Tbilisi	Medical services	3/5/2011	19/2/2014
Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	**100.00%**	100.00%	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Medical services	6/3/2000	19/2/2014
Referral Centre of Pathology, LLC	**100.00%**	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
EVEX Learning Center	**100.00%**	100.00%	100.00%	Georgia	#83A, Javakhishvili Street, Tbilisi	Education	20/12/2013	–
Georgian Global Utilities, LLC	**100.00%**	25.00%	25.00%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
Georgian Water and Power, LLC	**100.00%**	100.00%	100.00%	Georgia	33, Kostava Str. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
Rustavi Water, LLC	**100.00%**	100.00%	100.00%	Georgia	5, Str. Nino Str., Rustavi	Utilities	31/08/1999	31/12/2014
Gardabani Sewage Treatment, LLC	**100.00%**	100.00%	100.00%	Georgia	33, Kostava Str. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
Mtskheta Water, LLC	**100.00%**	100.00%	100.00%	Georgia	1, Gvinjilia Str., Mtskheta	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	**100.00%**	100.00%	100.00%	Georgia	3, Tkekultura Str., Tbilisi	Utilities	20/03/2011	31/12/2014
JSC Saguramo Energy	**100.00%**	100.00%	100.00%	Georgia	33, Kostava Str. 1st Lane, Tbilisi	Utilities	11/12/2008	31/12/2014
JSC Liberty Consumer	**98.25%**	87.64%	70.12%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Investments	24/5/2006	–
JSC Teliani Valley	**71.66%**	71.44%	50.92%	Georgia	3 Tbilisi Highway, Telavi.	Winery	30/6/2000	28/2/2007
Teliani Trading (Georgia), LLC	**100.00%**	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
Teliani Trading (Ukraine), LLC	**100.00%**	100.00%	100.00%	Ukraine	18/14 Khvoiki Str., Kiev	Distribution	3/10/2006	31/12/2007
Le Caucase, LLC	**100.00%**	100.00%	100.00%	Georgia	2 Marshal Gelovani Str., Tbilisi	Cognac production	23/9/2006	20/3/2007
Kupa, LLC	**70.00%**	70.00%	70.00%	Georgia	3 Tbilisi Highway, Telavi	Oak barrel production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	**100.00%**	100.00%	100.00%	Georgia	Vazisubani IV M/R, I KV, Building N21, App. N12, Tbilisi	Production and distribution of alcohol and non–alcohol beverages	24/12/2014	–
JSC Intertour	**99.94%**	99.94%	99.94%	Georgia	49a, Chavchavadze Ave., Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
JSC Prime Fitness	**100.00%**	100.00%	100.00%	Georgia	78 Chavchavadze Ave., Tbilisi, 0162	Fitness centre	7/3/2006	–
JSC BG Financial	**100.00%**	100.00%	–	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Investment	7/8/2015	–
JSC Galt & Taggart	**100.00%**	100.00%	100.00%	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Brokerage and asset management	19/12/1995	28/12/2004

2. BASIS OF PREPARATION CONTINUED
SUBSIDIARIES AND ASSOCIATES CONTINUED

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2016	31 December 2015	31 December 2014					
Branch Office of "BG Kapital" JSC in Azerbaijan	**100.00%**	100.00%	100.00%	Azerbaijan	1C Mikayil Mushvig, Kempinski Hotel Badamdar, 6th floor, Yasamal. AZ1006, Baku	Representative office	28/12/2013	–
Galt & Taggart Holdings Limited	**100.00%**	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8-th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	3/7/2006	–
BG Capital (Belarus), LLC	**100.00%**	100.00%	100.00%	Belarus	5A-3H, K.Chornogo lane, Minsk, 220012	Brokerage	19/2/2008	–
Georgian Leasing Company, LLC	**100.00%**	100.00%	100.00%	Georgia	3-5 Kazbegi Str.,Tbilisi	Leasing	29/10/2001	31/12/2004
Prime Leasing	**100.00%**	100.00%	–	Georgia	Didube-Chughureti district, 114, Ak. Tsereteli Ave., Tbilisi	Leasing	27/1/2012	21/1/2015
Solo, LLC	**100.00%**	100.00%	–	Georgia	79 D.Agmashenebeli Ave., Tbilisi, 0102	Trade	22/4/2015	–
JSC United Securities Registrar of Georgia	**100.00%**	100.00%	100.00%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Registrar	29/5/2006	–
JSC Express Technologies	**100.00%**	100.00%	100.00%	Georgia	1b, Budapest Str. Tbilisi, 0160	Investments	29/10/2007	–
JSC Georgian Card	**99.47%**	99.47%	98.23%	Georgia	221 Nutsubidze Street, Tbilisi, 0168	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	**100.00%**	100.00%	100.00%	Georgia	Luxemburg 25, Tbilisi, 0160	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Center	**100.00%**	100.00%	100.00%	Georgia	80-82, D.Agmashenebeli Street, Tbilisi, 0102	Communication services	23/4/2007	–
Metro Service +, LLC	**100.00%**	100.00%	100.00%	Georgia	74a Chavchavadze Ave.,Tbilisi, 0162	Business servicing	10/5/2006	–
Express Technologies CEE, LLC	**100.00%**	100.00%	100.00%	Hungary	H-1054 Budapest; Szabadsag Ter. 7. Bank Center Platina Tower; 2nd floor	Other financial service activities	5/3/2014	N/A
JSC Insurance Company Aldagi	**100.00%**	100.00%	100.00%	Georgia	#9 Ana Politkovskaya Str., Tbilisi	Insurance	31/7/2014	–
JSC Insurance Company Tao	**100.00%**	100.00%	–	Georgia	Old Tbilisi, Pushkini Str. #3, Tbilisi	Insurance	22/8/2007	21/1/2015
Aliance, LLC	**100.00%**	100.00%	100.00%	Georgia	1 Sanapiro Street, Tbilisi	Various	3/1/2000	5/1/2012
Green Way, LLC	**100.00%**	100.00%	100.00%	Georgia	Village Ratevani, Bolnisi District	Various	9/8/2008	5/1/2012
Premium Residence, LLC	**100.00%**	100.00%	100.00%	Georgia	King Parmavaz Str. # 48, Batumi	Hotel	9/7/2010	1/5/2012
JSC Agron Group	**100.00%**	100.00%	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Agro trade	3/11/2014	–
Agron Center, LLC	**–**	–	100.00%	Georgia	N/A	Agro trade	11/11/2014	–
Premium Compliance Advisory, LLC	**100.00%**	100.00%	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Various	17/2/2012	–

2. BASIS OF PREPARATION CONTINUED

SUBSIDIARIES AND ASSOCIATES CONTINUED

	Proportion of voting rights and ordinary share capital held							
Associates	**31 December 2016**	31 December 2015	31 December 2014	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Credit info (c)	**19.11%**	16.63%	16.63%	Georgia	2 Tarkhnishvili St., Tbilisi, Georgia	Financial intermediation	14/2/2005	14/2/2005
#5 Clinic hospital, LLC	**35.00%**	–	–	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	20/8/2013
JSC Tbilisi Stock Exchange	**21.59%**	–	–	Georgia	72 Vazha Pshavela Avenue, Tbilisi, Georgia	Financial intermediation	8/5/2015	23/12/2016

(a) Was discontinued in 2016.
(b) Merged to JSC Insurance Company Imedi L in 2016.
(c) On 22 December 2016 the Group obtained significant influence over JSC Credit info.

The Group recognised a liability in amount of GEL 21,692 in respect of a put notice for 15% of BNB's shares received in 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND VOLUNTARY CHANGES IN ACCOUNTING POLICIES

As required by IAS 1 Disclosure Initiative the Group now presents its share of associates and joint ventures accounted for using the equity method in aggregate as a single line item, and classifies it between those items that will or will not be subsequently reclassified to profit or loss.

During the year, the Group changed its accounting policy with respect to the hospitals and clinics. The Group now applies the revaluation model, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Prior to this change in policy, the Group applied the cost model, where hospitals and clinics were carried at cost less accumulated depreciation and any accumulated impairment in value.

The Group believes the new policy provides reliable and more relevant information as it more closely aligns the accounting for these transactions with the business model around these asset categories. The change of accounting policy has been accounted for prospectively starting from 1 July 2016. The Group recognised GEL 20,804 revaluation effect in other comprehensive income as at 1 July 2016.

No other new or revised IFRS during the year had a material 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 2016. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

BASIS OF CONSOLIDATION CONTINUED

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

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

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

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.
- 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. 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 other categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially 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 foreign currencies translation differences.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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; or
- 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.

OFFSETTING

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

CASH AND CASH EQUIVALENTS

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

BORROWINGS

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

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

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use of sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

SUBORDINATED DEBT

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

LEASES

I. FINANCE – GROUP AS LESSOR

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

II. OPERATING – GROUP AS LESSEE

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

III. OPERATING – GROUP AS LESSOR

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IMPAIRMENT OF FINANCIAL ASSETS

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

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

AMOUNTS DUE FROM CREDIT INSTITUTIONS, LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement in the respective impairment line with a negative sign as a reversal of impairment.

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

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

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

WRITE-OFF OF LOANS TO CUSTOMERS

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IMPAIRMENT OF FINANCIAL ASSETS CONTINUED

RENEGOTIATED LOANS

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

FINANCIAL LIABILITIES

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INVENTORIES

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

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

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

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

TAXATION

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which BGEO 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 an investment property is also classified as an 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 qualifications 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 net other banking income for Banking Business companies and within real estate revenue for Investment Business companies. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement within net other banking income for Banking Business companies and within real estate revenue or gross other investment profit for Investment Business companies, depending on weather the gains derive from active property development or passive appreciation respectively.

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

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increase in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

PROPERTY AND EQUIPMENT CONTINUED

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 once in every three years, unless there is a sign of material change in fair values on the market.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centres	Up to 100
Hospitals and clinics	Up to 100
Infrastructure assets	10-40
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

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

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

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

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

GOODWILL IMPAIRMENT

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

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

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

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

INTANGIBLE ASSETS

The Group's intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to ten 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 programmes 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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 in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% – additionally paid by the Group. When an employee reaches 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 15.

SHARE-BASED PAYMENT TRANSACTIONS

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

EQUITY-SETTLED TRANSACTIONS

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 BGEO or its subsidiaries purchase BGEO'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 and 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INCOME AND EXPENSE RECOGNITION CONTINUED

HEALTHCARE REVENUE

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

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

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

UTILITY REVENUE

The Group recognises revenue from utility services 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 be met before revenue is recognised:

- Revenue from water supply – includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.
- Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for the general population.

Revenue from connection service is recognised based on the completion of works in respect to connection services to the individual customers. In respect of long-term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

GROSS REAL ESTATE PROFIT AND GROSS OTHER INVESTMENT PROFIT

Gross real estate profit comprises revenue from sale of developed real estate property and revaluation gains on such developed properties.

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.

Gross other investment profit comprises revenue from sale of other finished goods and revaluation of other investment properties that were not developed by the Group.

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 put 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.

EBITDA

The Group separately presents EBITDA on the face of income statement for Investment Business. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation, as well as cost of credit risk and net non-recurring items for the Investment Business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INCOME AND EXPENSE RECOGNITION CONTINUED

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. Typical non-recurring income or expenses are but not limited to the following:

- Bankruptcy of a subsidiary or an associate or any other extraordinary and irregular event that causes material impairment of an investment in that subsidiary or associate or impairment of associated goodwill.
- Expenses incurred for the purposes of initial public offering (IPO) that are not directly attributable to issuance of new shares but are rather associated with the listing of existing shares.
- Gains from bargain purchases (negative goodwill) associated with business combinations.
- Impairment of property and equipment, which is an additional loss in excess of a regular depreciation charge caused by unexpected external factors.
- Gains or losses from hyperinflation.
- Gains or losses from breaches of borrowings before maturity.
- Redundancy expenses and costs of lay off of management and executives.
- Failure of a software or license provider to complete implementation of a software or license through a breach of agreement with the Group, resulting in legal disputes and/or litigations.
- Loss from early redemption of Eurobonds.

FUNCTIONAL, REPORTING CURRENCIES AND FOREIGN CURRENCY TRANSLATION

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

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2016, 31 December 2015 and 31 December 2014 were:

	Lari to GBP	Lari to US$	Lari to EUR	Lari to BYN
31 December 2016	3.2579	2.6468	2.794	1.3532
31 December 2015	3.5492	2.3949	2.6169	1.2904
31 December 2014	2.8932	1.8636	2.2656	1.5727

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 FINANCIAL INSTRUMENTS

INTRODUCTION

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 for annual periods on or after 1 January 2018, with early application permitted. In 2016, the Group set up a multidisciplinary implementation team with members from Risk, Finance and Operations teams and hired an external consultant to initiate the implementation of IFRS 9. The project is sponsored by Chief Risk and Chief Financial Officers who provide regular updates to the Group's Management Board. Implementation consists of six key phases: the initial assessment and analysis, design, build, testing, parallel running and go live. Initial assessment and analysis stage have been completed for all work streams and the Group is currently working on the design phase. The Group plans to adopt the new standard from the effective date and continues to assess IFRS 9 impact.

CLASSIFICATION AND MEASUREMENT

From a classification and measurement perspective, the new standard will require all financial assets, expect equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

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

IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 is expected to fundamentally change the current loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

IAS 12 INCOME TAXES

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statement.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach. The Group plans to early adopt new revenue recognition standard from 1 January 2017 using a modified retrospective approach. Anticipated impact of early adoption is expected to be approximately GEL 32,158 thousand decrease to shareholders' equity. Main revenue streams impacted by early adoption include the following: a) fees and commission income, b) real estate revenue and c) connection fees from utility services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

STANDARDS ISSUED BUT NOT YET EFFECTIVE CONTINUED

IFRS 16 LEASES

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. IFRS 16 can be adopted using either a full retrospective or a modified retrospective approach. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a “right of use” asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Leases must apply a single model for all recognised leases, but will have the option not to recognise “short-term” leases and leases of “low-value” assets. Lessor accounting remains substantially the same as in IAS 17. The Group does not anticipate early adoption of IFRS 16 and is currently assessing the impact of IFRS 16 on its financial statements.

IAS 7 STATEMENT OF CASH FLOWS

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities’ liquidity positions. Under the new requirements, the Group will need to disclose changes in its financial liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

IFRS 2 SHARE-BASED PAYMENTS

On 20 June 2016, the IASB issued amendments to IFRS 2 Share Based Payment that clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

ANNUAL IMPROVEMENTS 2014-2016 CYCLE

The improvements to IAS 28 are effective for annual periods beginning on or after 1 January 2018 and the improvements to IFRS 12 for annual periods beginning on or after 1 January 2017.

IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES

The amendment clarifies the scope of the standard by specifying that when an entity’s interest in a subsidiary, a joint arrangement (or a portion of its interest in a joint venture or an associate) is classified as asset held for sale or as held for distribution to owners in accordance with IFRS 5, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate in accordance with IFRS 12. This improvement is not expected to have any impact on the Group.

IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The amendment clarifies that the election to measure an investment in as associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, at fair value through profit or loss, is available for each investment in as associate or joint venture on an investment by investment basis, upon initial recognition. This improvement is not expected to have any impact on the Group.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 30).

MEASUREMENT OF FAIR VALUE OF INVESTMENT PROPERTIES AND PROPERTY AND EQUIPMENT

The fair value of investment properties, hospitals, infrastructure assets 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 Group performs valuation of its investment properties, hospitals, infrastructure assets and office buildings and service centres included in property and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in Notes 11 and 12, while valuation inputs and techniques are presented in Note 30. The Group’s properties are specialised in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium-sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

ALLOWANCE FOR IMPAIRMENT OF LOANS AND FINANCE LEASE RECEIVABLES

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

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

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

5. BUSINESS COMBINATIONS

ACQUISITION OF GLOBAL UTILITIES LLC

On 21 July 2016, the Group completed acquisition of the remaining 75% equity stake in Georgian Global Utilities Limited (GGU), its utilities and energy business. As a result of this buy-out, BGEO owns 100% of GGU.

The provisional fair values of identifiable assets and liabilities of the acquiree as at the date of acquisition was:

	Provisional fair value recognised on acquisition
Cash and cash equivalents	3,760
Amounts due from credit institutions	2,922
Accounts receivable and other loans[1]	27,304
Inventories	4,429
Investment properties (Note 11)	19,417
Property and equipment (Note 12)	304,932
Intangible assets	1,060
Income tax assets	2,033
	365,857
Amounts due to credit institutions	84,632
Income tax liabilities	390
Other liabilities	24,969
	109,991
TOTAL IDENTIFIABLE NET ASSETS	**255,866**
Gain on bargain purchase (Note 27)	36,915
CONSIDERATION GIVEN[2]	**218,951**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(164,213)
Cash acquired with the subsidiary	3,760
NET CASH OUTFLOW	**(160,453)**

The Group decided to enter the utilities and energy business as it sees opportunities and value creation in this sector of Georgian economy. Additionally, the Group believes that there is a room to increase GGU's operational cash flows and EBITDA. Management considers that the deal will have a positive impact on the value of the Group.

GEL 62,742 and GEL 22,430 of revenue and profit, respectively, comes from the GGU during five months ended 31 December 2016. Had the acquisition occurred as of the beginning of the reporting period, the Group would have recorded GEL 1,079,466 and GEL 441,820 of revenue and profit, respectively. Fair value of any identifiable intangible assets was assessed as immaterial and thus, no such assets were recognised by the Group. The Group has recorded GEL 36,915 gain from bargain purchase.

The acquisition resulted in gain on bargain purchase due to large scale and specific nature of the business for which the Group was the only willing buyer at the time of planned sale.

1 Gross amount of receivables from utility business was GEL 63,929, of which GEL 36,625 is not expected to be collected.
2 Consideration comprised of GEL 218,951, which consists of GEL 164,213 cash payment and fair value of a previously owned 25% of GGU. At the acquisition date the Group performed fair valuation of 25% share of GGU and recognised GEL 5,145 loss in Non-recurring expenses (Note 27), the carrying value of 25% share as at the acquisition date was GEL 59,883.

5. BUSINESS COMBINATIONS CONTINUED

ACQUISITION OF A PHARMACEUTICAL SUBSIDIARY

On 4 May 2016 JSC GHG ("Acquirer"), a wholly-owned subsidiary of the Group, acquired 100% of shares in JSC GPC ("Acquiree") a pharmaceuticals company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of the acquiree as at the date of acquisition was:

	Fair value recognised on acquisition
Cash and cash equivalents	1,455
Accounts receivable and other loans[1]	7,885
Inventory	31,282
Property and equipment	8,105
Intangible assets	861
Income tax assets	552
Prepayments	1,723
Other assets	4,272
	56,135
Amounts due to credit institutions	15,198
Accruals and deferred income	1,331
Other liabilities	37,750
	54,279
TOTAL IDENTIFIABLE NET ASSETS	**1,856**
Goodwill arising on acquisition	29,025
CONSIDERATION GIVEN[2]	**30,881**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(26,686)
Cash acquired with the subsidiary	1,455
NET CASH OUTFLOW	**(25,231)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by entering the pharmaceuticals segment through the acquisition of GPC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, GPC has recorded GEL 133,002 and GEL 1,924 of revenue and profit respectively. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 1,081,696 and GEL 428,357 of revenue and profit respectively.

1 Gross amount of receivables from pharmaceutical business was GEL 10,884, of which, GEL 2,999 is not expected to be collected.
2 Consideration comprised of GEL 30,881, which consists of GEL 26,686 cash payment and a holdback amount with a fair value of GEL 4,195.

ACQUISITION OF HEALTHCARE SUBSIDIARIES

During year ended 31 December 2016 JSC Medical Corporation EVEX ("Acquirer"), a wholly-owned subsidiary of the Group, made following acquisitions:

- On 1 June 2016, obtained de-facto control on LLC Emergency Service, a healthcare company operating in Georgia.
- On 1 January 2016, obtained de-facto control on JSC Poti Central Clinical Hospital, a healthcare company operating in Georgia.
- On 6 July 2016, 76% share in JSC Pediatry, a healthcare company operating in Georgia was acquired from individual shareholders.
- On 1 August 2016, 100% share in Patgeo LLC, a healthcare company operating in Georgia was acquired from individual shareholders.

5. BUSINESS COMBINATIONS CONTINUED

ACQUISITION OF HEALTHCARE SUBSIDIARIES CONTINUED

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	74
Receivables from healthcare services[1]	1,435
Property and equipment	15,605
Intangible assets	19
Other assets	208
	17,341
Amounts due to credit institutions	159
Accruals and deferred income	518
Income tax liabilities	1,475
Other liabilities	4,118
	6,270
TOTAL IDENTIFIABLE NET ASSETS	**11,071**
Gain on bargain purchase	(3,206)
Goodwill arising on business combination	4,124
CONSIDERATION GIVEN[2]	**11,989**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	**(2,400)**
Cash acquired with the subsidiaries	**74**
NET CASH OUTFLOW	**(2,326)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC Emergency Service, JSC Poti Central Clinical Hospital, JSC Pediatry and Patgeo LLC. Management considers that the deal will have a positive impact on the value of the Group.

GEL 6,774 and GEL 3,851 of revenue and profit, respectively come from the acquirees after their respective acquisition dates. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 1,018,147 and GEL 429,013 of revenue and profit, respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 4,124 was added to the Healthcare cash-generating unit.

Prior to acquisition, owners of JSC Poti Central Clinical Hospital encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase.

1 Gross amount of receivables from healthcare services was GEL 2,006, of which, GEL 571 is not expected to be collected.
2 Consideration comprised GEL 11,989 which consists of cash payment of GEL 2,400, a holdback amount with a fair value of GEL 2,697 and of pre-existing loans to Poti with a fair value of GEL 6,892.

6. SEGMENT INFORMATION

In February 2016, the Group announced the combination of Corporate Banking and Investment Management businesses into Corporate Investment Banking business. The comparative amounts as at 31 December 2015 and year ended 31 December 2014 are re-grouped accordingly to reflect this change.

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

Banking Business	The Group's Banking Business segments, dedicated to delivery and enhancement of banking and related financial services.
RB	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, SMEs.
CIB	Corporate Investment Banking – principally providing loans and other credit facilities to large legal entities, larger than SME and micro, finance lease facilities provided by Georgian Leasing Company LLC, providing funds transfers and settlement services, trade finance services and documentary operations support, saving and term deposits for corporate and institutional customers; as well as providing private banking services to resident and non-resident wealthy individuals and their direct family members by ensuring an individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory, private equity and brokerage services.
P&C	Property and Casualty Insurance – principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals.
BNB	Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.
Investment Business	The Group's investment arm segments, with disciplined development paths and exit strategies.
GHG	Georgia Healthcare Group – principally providing wide-scale healthcare and health insurance services to clients and insured individuals.
m^2	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.
GGU	Comprising the Group's utility and energy subsidiaries – principally supplies water, electricity and provides a wastewater service.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2016, 2015 or 2014.

6. SEGMENT INFORMATION CONTINUED

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

	Banking Business						
	Retail Banking	Corporate Investment Banking	BNB	P&C	Other Banking Business	Banking Business eliminations	Banking Business
Net banking interest income	374,022	147,108	30,773	3,118	1,707	–	556,728
Net fee and commission income	90,193	27,963	7,462	436	(550)	(555)	124,949
Net banking foreign currency gain (loss)	26,086	48,643	8,452	(294)	22	–	82,909
Net other banking income	3,833	10,170	(738)	1,104	1	(1,603)	12,767
Gross insurance profit	–	–	–	25,788	–	(687)	25,101
Gross healthcare profit	–	–	–	–	–	–	–
Gross real estate profit	–	–	–	–	–	–	–
Gross utility profit	–	–	–	–	–	–	–
Gross other investment profit	–	–	–	–	–	–	–
REVENUE	**494,134**	**233,884**	**45,949**	**30,152**	**1,180**	**(2,845)**	**802,454**
Operating expenses	(197,627)	(69,100)	(20,905)	(12,284)	(5,156)	2,845	(302,227)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK/EBITDA	**296,507**	**164,784**	**25,044**	**17,868**	**(3,976)**	**–**	**500,227**
Investment Business-related income statement items	–	–	–	–	–	–	–
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK	**296,507**	**164,784**	**25,044**	**17,868**	**(3,976)**	**–**	**500,227**
Cost of credit risk	(75,690)	(76,266)	(15,797)	(808)	–	–	(168,561)
NET OPERATING INCOME (LOSS) BEFORE NON-RECURRING ITEMS	**220,817**	**88,518**	**9,247**	**17,060**	**(3,976)**	**–**	**331,666**
Net non-recurring (expense/loss) income/gain	(32,002)	(11,934)	(1,418)	3	–	–	(45,351)
PROFIT (LOSS) BEFORE INCOME TAX	**188,815**	**76,584**	**7,829**	**17,063**	**(3,976)**	**–**	**286,315**
Income tax (expense) benefit	20,475	11,698	(5,141)	(3,318)	(588)	–	23,126
PROFIT (LOSS) FOR THE YEAR	**209,290**	**88,282**	**2,688**	**13,745**	**(4,564)**	**–**	**309,441**
ASSETS AND LIABILITIES							
Total assets	6,078,581	4,596,897	549,132	118,449	2,834	(97,667)	11,248,226
Total liabilities	5,369,591	3,995,932	475,324	75,541	655	(97,668)	9,819,375
OTHER SEGMENT INFORMATION							
Property and equipment	31,705	4,855	1,407	1,241	64	–	39,272
Intangible assets	11,434	1,483	300	598	3	–	13,818
CAPITAL EXPENDITURE	**43,139**	**6,338**	**1,707**	**1,839**	**67**	**–**	**53,090**
Depreciation and amortisation	(30,943)	(5,124)	(1,140)	(774)	–	–	(37,981)

Investment Business							
GHG	m^2	GGU	Other Investment Business	Investment Busines eliminations	Investment Business	Inter-Business eliminations	Group total
–	–	–	–	–	–	(7,321)	549,407
–	–	–	–	–	–	(2,036)	122,913
–	–	–	–	–	–	–	82,909
–	–	–	–	–	–	(994)	11,773
11,489	–	–	–	(35)	11,454	(2,872)	33,683
134,467	–	–	–	395	134,862	–	134,862
1,316	19,146	–	–	–	20,462	(694)	19,768
–	–	39,075	–	(395)	38,680	(139)	38,541
1,321	1,798	6,395	11,323	(35)	20,802	124	20,926
148,593	**20,944**	**45,470**	**11,323**	**(70)**	**226,260**	**(13,932)**	**1,014,782**
(68,606)	(5,824)	(8,188)	(11,100)	70	(93,648)	5,087	(390,788)
79,987	**15,120**	**37,282**	**223**	**–**	**132,612**	**(8,845)**	**623,994**
(39,868)	(386)	(14,470)	(5,582)	–	(60,306)	8,845	(51,461)
40,119	**14,734**	**22,812**	**(5,359)**	**–**	**72,306**	**–**	**572,533**
(2,333)	–	6	(201)	–	(2,528)	–	(171,089)
37,786	**14,734**	**22,818**	**(5,560)**	**–**	**69,778**	**–**	**401,444**
1,158	(533)	31,770	1,432	–	33,827	–	(11,524)
38,944	**14,201**	**54,588**	**(4,128)**	**–**	**103,605**	**–**	**389,920**
21,155	(1,717)	(2,696)	(1,212)	–	15,530	–	38,656
60,099	**12,484**	**51,892**	**(5,340)**	**–**	**119,135**	**–**	**428,576**
910,310	371,332	417,405	715,634	(219,755)	2,194,926	(453,699)	12,989,453
370,222	234,382	139,162	676,348	(219,755)	1,200,359	(453,699)	10,566,035
110,550	4,181	33,446	62,442	–	210,619	–	249,891
10,707	87	676	429	–	11,899	–	25,717
121,257	**4,268**	**34,122**	**62,871**	**–**	**222,518**	**–**	**275,608**
(19,577)	(243)	(7,282)	(1,763)	–	(28,865)	–	(66,846)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. SEGMENT INFORMATION CONTINUED

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

	Banking Business						
	Retail Banking	Corporate Investment Banking	BNB	P&C	Other Banking Business	Banking Business eliminations	Banking Business
Net banking interest income	322,879	156,068	29,307	2,330	2,343	–	512,927
Net fee and commission income	78,218	34,335	9,198	310	(440)	(32)	121,589
Net banking foreign currency gain	17,108	41,763	17,036	993	26	–	76,926
Net other banking income	9,159	10,112	2,199	993	4	(2,630)	19,837
Gross insurance profit	–	–	–	21,180	–	(1,133)	20,047
Gross healthcare profit	–	–	–	–	–	–	–
Gross real estate profit	–	–	–	–	–	–	–
Gross other investment profit	–	–	–	–	–	–	–
REVENUE	427,364	242,278	57,740	25,806	1,933	(3,795)	751,326
Operating expenses	(172,296)	(63,358)	(19,731)	(11,199)	(5,070)	3,795	(267,859)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK/EBITDA	255,068	178,920	38,009	14,607	(3,137)	–	483,467
Investment Business-related income statement items	–	–	–	–	–	–	–
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK	255,068	178,920	38,009	14,607	(3,137)	–	483,467
Cost of credit risk	(75,407)	(56,158)	(19,270)	(710)	28	–	(151,517)
NET OPERATING INCOME (LOSS) BEFORE NON-RECURRING ITEMS	179,661	122,762	18,739	13,897	(3,109)	–	331,950
Net non-recurring (expense/loss) income/gain	(8,945)	(4,877)	1,478	(701)	(1)	–	(13,046)
PROFIT (LOSS) BEFORE INCOME TAX	170,716	117,885	20,217	13,196	(3,110)	–	318,904
Income tax (expense) benefit	(23,994)	(17,255)	(2,754)	(731)	87	–	(44,647)
PROFIT (LOSS) FOR THE YEAR	146,722	100,630	17,463	12,465	(3,023)	–	274,257
ASSETS AND LIABILITIES							
Total assets	4,612,775	4,044,731	475,483	102,886	2,011	(66,449)	9,171,437
Total liabilities	3,117,808	4,340,041	397,970	66,630	146	(66,449)	7,856,146
OTHER SEGMENT INFORMATION							
Property and equipment	43,990	6,870	1,193	442	186	–	52,681
Intangible assets	6,568	1,163	598	958	71	–	9,358
CAPITAL EXPENDITURE	50,558	8,033	1,791	1,400	257	–	62,039
Depreciation and amortisation	(27,714)	(4,612)	(1,038)	(834)	(1)	–	(34,199)

Investment Business							
GHG	m²	GGU	Other Investment Business	Investment Busines eliminations	Investment Business	Inter-Business eliminations	Group total
–	–	–	–	–	–	(11,537)	501,390
–	–	–	–	–	–	(3,183)	118,406
–	–	–	–	–	–	–	76,926
–	–	–	–	–	–	(1,309)	18,528
12,149	–	–	–	(33)	12,116	(2,256)	29,907
80,938	–	–	–	–	80,938	–	80,938
557	14,131	–	–	–	14,688	–	14,688
3,187	7,502	–	9,950	–	20,639	138	20,777
96,831	21,633	–	9,950	(33)	128,381	(18,147)	861,560
(37,633)	(5,860)	–	(7,402)	33	(50,862)	3,989	(314,732)
59,198	15,773	–	2,548	–	77,519	(14,158)	546,828
(30,791)	(2,905)	4,050	(2,033)	–	(31,679)	14,158	(17,521)
28,407	12,868	4,050	515	–	45,840	–	529,307
(3,449)	–	–	(411)	–	(3,860)	–	(155,377)
24,958	12,868	4,050	104	–	41,980	–	373,930
(1,676)	(137)	–	282	–	(1,531)	–	(14,577)
23,282	12,731	4,050	386	–	40,449	–	359,353
9	(1,974)	–	(1,796)	–	(3,761)	–	(48,408)
23,291	10,757	4,050	(1,410)	–	36,688	–	310,945
758,966	275,676	53,458	160,180	(320)	1,247,960	(303,658)	10,115,739
286,941	167,889	–	35,103	(320)	489,613	(303,658)	8,042,101
89,653	701	–	1,532	–	91,886	–	144,567
3,532	21	–	12	–	3,565	–	12,923
93,185	722	–	1,544	–	95,451	–	157,490
(12,666)	(191)	–	(1,368)	–	(14,225)	–	(48,424)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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:

	Banking Business						
	Retail Banking	Corporate Investment Banking	BNB	P&C	Other Banking Business	Banking Business eliminations	Banking Business
Net banking interest income	215,796	117,771	22,410	506	317	471	357,271
Net fee and commission income	58,858	33,571	9,443	312	(449)	110	101,845
Net banking foreign currency gain (loss)	18,622	26,280	9,932	(2,085)	3	–	52,752
Net other banking income	3,563	7,785	504	516	36	(2,514)	9,890
Gross insurance profit	–	–	–	17,752	–	(1,330)	16,422
Gross healthcare profit	–	–	–	–	–	–	–
Gross real estate profit	–	–	–	–	–	–	–
Gross other investment profit	–	–	–	–	–	–	–
REVENUE	296,839	185,407	42,289	17,001	(93)	(3,263)	538,180
Operating expenses	(127,627)	(60,795)	(18,390)	(9,403)	(4,812)	3,263	(217,764)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK/EBITDA	169,212	124,612	23,899	7,598	(4,905)	–	320,416
Investment Business-related income statement items	–	–	–	–	–	–	–
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK	169,212	124,612	23,899	7,598	(4,905)	–	320,416
Cost of credit risk	(9,241)	(41,703)	(4,187)	(601)	–	–	(55,732)
NET OPERATING INCOME (LOSS) BEFORE NON-RECURRING ITEMS	159,971	82,909	19,712	6,997	(4,905)	–	264,684
Net non-recurring (expense/loss) income/gain	(5,796)	(2,968)	(3,073)	–	–	–	(11,837)
PROFIT (LOSS) BEFORE INCOME TAX	154,175	79,941	16,639	6,997	(4,905)	–	252,847
Income tax (expense) benefit	(19,297)	(11,522)	(962)	(1,083)	521	–	(32,343)
PROFIT (LOSS) FOR THE YEAR	134,878	68,419	15,677	5,914	(4,384)	–	220,504
ASSETS AND LIABILITIES							
Total assets	3,269,069	3,350,847	403,764	86,750	73,120	(139,548)	7,044,002
Total liabilities	2,316,688	3,250,127	326,515	58,695	748	(139,548)	5,813,225
OTHER SEGMENT INFORMATION							
Property and equipment	19,540	6,523	2,101	1,477	313	–	29,954
Intangible assets	6,503	1,251	304	232	7	–	8,297
CAPITAL EXPENDITURE	26,043	7,774	2,405	1,709	320	–	38,251
Depreciation and amortisation	(19,525)	(4,225)	(1,318)	(570)	(3)	–	(25,641)

Investment Business							
GHG	m²	GGU	Other Investment Business	Investment Busines eliminations	Investment Business	Inter-Business eliminations	Group total
–	–	–	–	–		(7,313)	349,958
–	–	–	–	–		(2,053)	99,792
–	–	–	–	–		–	52,752
–	–	–	–	–		(620)	9,270
14,987	–	–	–	14,987		(1,979)	29,430
53,483	–	–	–	53,483		–	53,483
–	13,645	1	–	13,646		(80)	13,566
377	107	12,320	–	12,804		187	12,991
68,847	13,752	12,321	–	94,920		(11,858)	621,242
(30,077)	(5,136)	(6,932)	–	(42,145)		2,878	(257,031)
38,770	8,616	5,389	–	52,775		(8,980)	364,211
(22,041)	(1,752)	(2,769)	–	(26,562)		8,980	(17,582)
16,729	6,864	2,620	–	26,213		–	346,629
(2,872)	(66)	(350)	–	(3,288)		–	(59,020)
13,857	6,798	2,270	–	22,925		–	287,609
505	18	297	–	820		–	(11,017)
14,362	6,816	2,567	–	23,745		–	276,592
(1,345)	(1,022)	(1,115)	–	(3,482)		–	(35,825)
13,017	5,794	1,452	–	20,263		–	240,767
409,834	193,119	172,785	(231)	775,507		(240,364)	7,579,145
237,565	112,407	22,449	(230)	372,191		(240,364)	5,945,052
38,503	368	1,761	–	40,632		–	70,586
1,519	27	30	–	1,576		–	9,873
40,022	395	1,791	–	42,208		–	80,459
(7,714)	(332)	(1,118)	–	(9,164)		–	(34,805)

7. CASH AND CASH EQUIVALENTS

	2016	2015	2014
Cash on hand	**450,264**	442,293	393,315
Current accounts with central banks, excluding obligatory reserves	**150,152**	152,455	152,647
Current accounts with other credit institutions	**540,801**	475,779	138,243
Time deposits with credit institutions with maturity of up to 90 days	**432,393**	362,407	25,939
CASH AND CASH EQUIVALENTS	**1,573,610**	1,432,934	710,144

Cash and cash equivalents held by BGEO of GEL 105,248 (2015: GEL 32,435, 2014: GEL 88,005) is represented by placements on current accounts with Georgian and the Organisation for Economic Co-operation and Development (OECD) banks.

As at 31 December 2016, GEL 837,721 (2015: GEL 662,296, 2014: GEL 136,559) 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 0.90% interest per annum on these deposits (2015: up to 0.59%, 2014: up to 1.30%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

	2016	2015	2014
Obligatory reserves with central banks	**934,997**	620,287	382,963
Time deposits with maturity of more than 90 days	**113,035**	12,717	33,832
Deposits pledged as security for open commitments	**3,287**	96,405	–
Inter-bank loan receivables	**3,664**	1,956	1,486
AMOUNTS DUE FROM CREDIT INSTITUTIONS	**1,054,983**	731,365	418,281

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the NBRB). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the regulation. The Group earned up to 0.25% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2016 (2015: nil, 2014: nil).

As at 31 December 2016, inter-bank loan receivables include GEL 2,164 (2015: GEL 1,956, 2014: GEL 1,486) placed with non-OECD banks.

9. INVESTMENT SECURITIES

	2016	2015	2014
Georgian Ministry of Finance treasury bonds*	**811,532**	575,591	459,400
Georgian Ministry of Finance treasury bills**	**88,411**	165,545	169,796
Certificates of deposit of central banks***	**24,015**	76,807	92,547
Other debt instruments****	**360,597**	84,476	46,557
Corporate shares	**1,448**	1,448	1,412
INVESTMENT SECURITIES	**1,286,003**	903,867	769,712

* GEL 712,169 was pledged for short-term loans from the NBG (2015: GEL 229,800, 2014: GEL 341,681).
** GEL 55,842 was pledged for short-term loans from the NBG (2015: GEL 3,805, 2014: GEL 60,889).
*** GEL 9,402 was pledged for short-term loans from the NBG (2015: GEL 2,966, 2014: GEL nil).
**** GEL 286,832 was pledged for short-term loans from the NBG (2015: GEL 79,187, 2014: GEL 25,069).

Other debt instruments as at 31 December 2016 mainly comprises GEL-denominated bonds issued by European Bank for Reconstruction and Development of GEL 133,055 (2015: GEL 50,666, 2014: GEL 25,069), GEL-denominated bonds issued by the International Finance Corporation of GEL 28,402 (2015: GEL 28,460, 2014: GEL nil), GEL-denominated bonds issued by the Asian Development Bank of GEL 64,921 (2015: nil, 2014: nil), and GEL-denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,454 (2015: nil, 2014: nil).

10. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES

	2016	2015	2014
Commercial loans	**2,699,506**	2,397,781	2,181,427
Consumer loans	**1,367,228**	1,165,107	801,474
Micro and SME loans	**1,493,937**	1,041,929	772,283
Residential mortgage loans	**1,234,176**	814,344	604,143
Gold – pawn loans	**60,685**	61,140	53,785
LOANS TO CUSTOMERS, GROSS	**6,855,532**	5,480,301	4,413,112
Less – allowance for loan impairment	**(252,769)**	(198,894)	(103,780)
LOANS TO CUSTOMERS, NET	**6,602,763**	5,281,407	4,309,332
FINANCE LEASE RECEIVABLES, GROSS	**48,267**	42,912	39,248
Less – allowance for finance lease receivables impairment	**(2,548)**	(2,202)	(729)
FINANCE LEASE RECEIVABLES, NET	**45,719**	40,710	38,519
LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES, NET	**6,648,482**	5,322,117	4,347,851

ALLOWANCE FOR LOAN IMPAIRMENT

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

	Commercial loans 2016	**Consumer loans 2016**	**Residential mortgage loans 2016**	**Micro and SME loans 2016**	**Total 2016**
AT 1 JANUARY	**125,312**	**51,017**	**6,061**	**16,504**	**198,894**
Charge	**75,288**	**64,099**	**3,899**	**15,606**	**158,892**
Recoveries	**3,525**	**21,632**	**4,003**	**7,084**	**36,244**
Write-offs	**(41,442)**	**(65,597)**	**(8,597)**	**(10,317)**	**(125,953)**
Accrued interest on written-off loans	**(3,900)**	**(12,463)**	**(1,475)**	**(642)**	**(18,480)**
Currency translation differences	**976**	**97**	**–**	**2,099**	**3,172**
AT 31 DECEMBER	**159,759**	**58,785**	**3,891**	**30,334**	**252,769**
Individual impairment	**143,493**	**1,977**	**2,272**	**23,704**	**171,446**
Collective impairment	**16,266**	**56,808**	**1,619**	**6,630**	**81,323**
	159,759	**58,785**	**3,891**	**30,334**	**252,769**
GROSS AMOUNT OF LOANS, INDIVIDUALLY DETERMINED TO BE IMPAIRED, BEFORE DEDUCTING ANY INDIVIDUALLY ASSESSED IMPAIRMENT ALLOWANCE	**462,607**	**2,778**	**11,869**	**51,118**	**528,372**

	Commercial loans 2015	Consumer loans 2015	Residential mortgage loans 2015	Micro and SME loans 2015	Total 2015
AT 1 JANUARY	72,885	23,648	2,993	4,254	103,780
Charge	59,090	62,638	3,410	17,681	142,819
Recoveries	4,331	21,079	3,066	5,209	33,685
Write-offs	(10,324)	(47,075)	(2,847)	(10,694)	(70,940)
Accrued interest on written-off loans	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation differences	416	(238)	–	1,046	1,224
AT 31 DECEMBER	125,312	51,017	6,061	16,504	198,894
Individual impairment	118,960	1,850	4,380	13,745	138,935
Collective impairment	6,352	49,167	1,681	2,759	59,959
	125,312	51,017	6,061	16,504	198,894
GROSS AMOUNT OF LOANS, INDIVIDUALLY DETERMINED TO BE IMPAIRED, BEFORE DEDUCTING ANY INDIVIDUALLY ASSESSED IMPAIRMENT ALLOWANCE	330,084	3,136	15,902	27,421	376,543

10. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES CONTINUED

ALLOWANCE FOR LOAN IMPAIRMENT CONTINUED

	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

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2016 comprised GEL 31,433 (2015: GEL 22,234, 2014: GEL 17,021).

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

The main types of collateral obtained are as follows:

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

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

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

Without taking into account the discounted value of collateral, the allowance for loan impairment would be GEL 322,880 higher as at 31 December 2016 (2015: GEL 176,759 higher, 2014: GEL 145,838 higher).

CONCENTRATION OF LOANS TO CUSTOMERS

As at 31 December 2016, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 815,363 accounting for 12% of the gross loan portfolio of the Group (2015: GEL 708,839 and 13% respectively, 2014: GEL 711,647 and 16% respectively). An allowance of GEL 20,123 (2015: GEL 2,484, 2014: GEL 4,034) was established against these loans.

As at 31 December 2016, the concentration of loans granted by the Group to the ten largest third-party group of borrowers comprised GEL 1,242,944 accounting for 18% of the gross loan portfolio of the Group (2015: GEL 1,094,979 and 20% respectively, 2014: GEL 1,094,084 and 25% respectively). An allowance of GEL 51,831 (2015: GEL 41,413, 2014: GEL 18,324) was established against these loans.

10. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES CONTINUED

CONCENTRATION OF LOANS TO CUSTOMERS CONTINUED

As at 31 December 2016, 31 December 2015 and 31 December 2014, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2016	2015	2014
Individuals	**3,336,589**	2,482,389	1,831,479
Manufacturing	**925,333**	711,677	719,003
Trade	**812,141**	727,214	647,858
Real estate	**423,124**	354,331	244,134
Construction	**304,890**	178,642	114,891
Hospitality	**233,891**	168,011	166,214
Transport and communication	**166,288**	165,330	151,715
Service	**136,792**	223,088	156,399
Financial intermediation	**130,435**	77,662	109,201
Mining and quarrying	**114,115**	127,706	15,310
Electricity, gas and water supply	**34,835**	77,633	124,772
Other	**237,099**	186,618	132,136
LOANS TO CUSTOMERS, GROSS	**6,855,532**	5,480,301	4,413,112
Less – allowance for loan impairment	**(252,769)**	(198,894)	(103,780)
LOANS TO CUSTOMERS, NET	**6,602,763**	5,281,407	4,309,332

Loans have been extended to the following types of customers:

	2016	2015	2014
Private companies	**3,497,322**	2,958,145	2,531,689
Individuals	**3,336,589**	2,482,389	1,831,479
State-owned entities	**21,621**	39,767	49,944
LOANS TO CUSTOMERS, GROSS	**6,855,532**	5,480,301	4,413,112
Less – allowance for loan impairment	**(252,769)**	(198,894)	(103,780)
LOANS TO CUSTOMERS, NET	**6,602,763**	5,281,407	4,309,332

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2016, 31 December 2015 and 31 December 2014:

	2016			2015			2014		
	Individual impairment 2016	**Collective impairment 2016**	**Total 2016**	Individual impairment 2015	Collective impairment 2015	Total 2015	Individual impairment 2014	Collective impairment 2014	Total 2014
AT 1 JANUARY	**138,935**	**59,959**	**198,894**	71,381	32,399	103,780	91,799	28,986	120,785
Charge for the year	**74,051**	**84,841**	**158,892**	94,883	47,936	142,819	34,088	11,000	45,088
Recoveries	**7,880**	**28,364**	**36,244**	9,994	23,691	33,685	12,897	15,809	28,706
Write-offs	**(46,812)**	**(79,141)**	**(125,953)**	(34,722)	(36,218)	(70,940)	(51,774)	(20,201)	(71,975)
Interest accrued on impaired loans to customers	**(5,394)**	**(13,086)**	**(18,480)**	(3,617)	(8,057)	(11,674)	(14,846)	(3,128)	(17,974)
Currency translation differences	**2,786**	**386**	**3,172**	1,016	208	1,224	(783)	(67)	(850)
AT 31 DECEMBER	**171,446**	**81,323**	**252,769**	138,935	59,959	198,894	71,381	32,399	103,780

FINANCE LEASE RECEIVABLES

	2016	2015	2014
Minimum lease payments receivable	**60,715**	51,649	47,047
Less – unearned finance lease income	**(12,448)**	(8,737)	(7,799)
	48,267	42,912	39,248
Less – allowance for impairment	**(2,548)**	(2,202)	(729)
FINANCE LEASE RECEIVABLES, NET	**45,719**	40,710	38,519

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

10. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES CONTINUED

FINANCE LEASE RECEIVABLES CONTINUED

As at 31 December 2016, the concentration of investment in the five largest lease receivables comprised GEL 8,420 or 17% of total finance lease receivables (2015: GEL 15,234 or 36%, 2014: GEL 10,160 or 26%) and finance income received from them for the year ended 31 December 2016 comprised GEL 395 or 4% of total finance income from lease (2015: GEL 1,931 or 20%, 2014: GEL 909 or 11%).

Future minimum lease payments to be received after 31 December 2016, 31 December 2015 and 31 December 2014 are as follows:

	2016	2015	2014
Within 1 year	**29,265**	28,807	29,901
From 1 to 5 years	**31,450**	22,842	17,146
More than 5 years	**–**	–	–
MINIMUM LEASE PAYMENT RECEIVABLES	**60,715**	51,649	47,047

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

	Finance lease receivables 2016	Finance lease receivables 2015	Finance lease receivables 2014
AT 1 JANUARY	**2,202**	729	643
Charge	**777**	1,958	476
Amounts written-off	**(511)**	(305)	(435)
Currency translation differences	**80**	(180)	45
AT 31 DECEMBER	**2,548**	2,202	729
Individual impairment	**1,702**	1,507	243
Collective impairment	**846**	695	486
	2,548	2,202	729
GROSS AMOUNT OF FINANCE LEASE RECEIVABLES, INDIVIDUALLY DETERMINED TO BE IMPAIRED, BEFORE DEDUCTING ANY INDIVIDUALLY ASSESSED IMPAIRMENT ALLOWANCE	**2,475**	3,725	1,487

11. INVESTMENT PROPERTIES

	2016	2015	2014
AT 1 JANUARY	**246,398**	190,860	157,707
Additions*	**36,123**	56,823	58,449
Disposals	**(8,599)**	(19,815)	(7,383)
Net gains from revaluation of investment property	**1,811**	20,737	1,909
Hyperinflation effect	**–**	–	394
Acuisition through business combination (Note 5)	**19,417**	705	–
Transfers (to) from property and equipment and other assets**	**(21,291)**	2,381	(31,025)
Currency translation differences	**14,368**	(5,293)	10,809
AT 31 DECEMBER	**288,227**	246,398	190,860

* GEL 9,799 and GEL 18,947 was paid in 2016 and 2015 respectively, for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2016, 2015 and full additions of 2014 comprise foreclosed properties, no cash transactions were involved.

** Comprised of GEL 351 transfer to property and equipment (2015: transfers to property and equipment GEL 669 and 2014: transfers to property and equipment GEL 6,389 respectively), GEL 19,402 transfer to other assets – inventories (2015: transfer from other assets – inventories GEL 2,357 and 2014: transfer to other assets – inventories GEL 25,132) and GEL 1,538 transfer to finance lease receivables (2015 and 2014: transfer from finance lease receivable GEL 693 and 496).

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. Refer to Note 30 for details on fair value measurements of investment properties.

The Group pledges its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2016 was GEL 77,148 (2015: nil, 2014: nil).

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.

12. PROPERTY AND EQUIPMENT

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

	Office buildings & service centres	Hospitals & clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Infrastructure assets	Other	Total
COST OR REVALUED AMOUNT										
31 DECEMBER 2015	233,435	332,775	174,334	197,274	9,586	22,147	9,033	–	–	978,584
Additions	5,298	47,950	21,714	69,897	3,394	2,299	98,211	1,098	30	249,891
Business combination, Note 5	109,863	13,296	3,528	2,605	6,689	1,063	21,659	169,939	–	328,642
Disposals	(330)	(5,412)	(1,530)	(1,700)	(2,958)	(2,970)	(917)	(670)	(64)	(16,551)
Transfers	3,196	194	(154)	(372)	3,580	3,716	(39,097)	28,937	–	–
Transfers from investment properties	351	–	–	–	–	–	–	–	–	351
Transfers (to) from other assets	–	–	(760)	(857)	1	–	504	–	2,170	1,058
Revaluation	(2,474)	12,990	–	–	–	–	–	–	–	10,516
Write off	–	–	(2,440)	(17,720)	(667)	(176)	–	–	–	(21,003)
Currency translation differences	2,275	–	111	312	64	158	143	–	–	3,063
31 DECEMBER 2016	**351,614**	**401,793**	**194,803**	**249,439**	**19,689**	**26,237**	**89,536**	**199,304**	**2,136**	**1,534,551**
ACCUMULATED IMPAIRMENT										
31 DECEMBER 2015	1,221	–	38	82	7	–	9	–	–	1,357
Impairment	1,403	–	–	–	–	–	–	–	–	1,403
Currency translation differences	302	–	2	(22)	–	–	–	–	–	282
31 DECEMBER 2016	**2,926**	**–**	**40**	**60**	**7**	**–**	**9**	**–**	**–**	**3,042**
ACCUMULATED DEPRECIATION										
31 DECEMBER 2015	3,849	6,844	91,421	68,591	5,345	6,495	–	–	–	182,545
Depreciation charge	3,421	1,965	17,976	24,285	2,572	3,726	–	5,738	74	59,757
Currency translation differences	1,008	–	54	167	66	8	–	–	–	1,303
Transfers	764	–	(204)	(319)	(241)	–	–	–	–	–
Transfers (to) from other assets	–	–	(414)	(694)	–	–	–	–	–	(1,108)
Revaluation	(369)	(7,814)	–	–	–	–	–	–	–	(8,183)
Write off	–	–	(2,440)	(17,720)	(667)	(176)	–	–	–	(21,003)
Disposals	(39)	(255)	(429)	(434)	(1,898)	(2,613)	–	–	(4)	(5,672)
31 DECEMBER 2016	**8,634**	**740**	**105,964**	**73,876**	**5,177**	**7,440**	**–**	**5,738**	**70**	**207,639**
NET BOOK VALUE:										
31 DECEMBER 2015	228,365	325,931	82,875	128,601	4,234	15,652	9,024	–	–	794,682
31 DECEMBER 2016	340,054	401,053	88,799	175,503	14,505	18,797	89,527	193,566	2,066	1,323,870

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. PROPERTY AND EQUIPMENT CONTINUED

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

	Office buildings & service centres	Hospitals & clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
COST OR REVALUED AMOUNT								
31 DECEMBER 2014	230,376	207,038	140,130	130,810	7,566	12,751	9,599	738,270
Additions	5,348	24,528	23,764	67,631	2,834	5,555	14,907	144,567
Business combination	10,388	94,096	8,317	22,806	870	1,790	7,347	145,614
Disposals	(2,555)	(1,425)	(389)	(21,096)	(581)	(1,872)	(140)	(28,058)
Transfers	3,090	8,538	3,124	(1,616)	(1,024)	4,000	(16,112)	–
Transfers to investment properties	(425)	–	–	–	–	–	–	(425)
Transfers (to) from other assets	–	–	(343)	(736)	4	–	(6,231)	(7,306)
Revaluation	(9,168)	–	–	–	–	–	–	(9,168)
Currency translation differences	(3,619)	–	(269)	(525)	(83)	(77)	(337)	(4,910)
31 DECEMBER 2015	233,435	332,775	174,334	197,274	9,586	22,147	9,033	978,584
ACCUMULATED IMPAIRMENT								
31 DECEMBER 2014	3,621	–	51	120	13	9	9	3,823
Reversal of impairment	(1,097)	–	–	–	–	–	–	(1,097)
Transfers to investment properties	(1,040)	–	–	–	–	–	–	(1,040)
Currency translation differences	(263)	–	(13)	(38)	(6)	(9)	–	(329)
31 DECEMBER 2015	1,221	–	38	82	7	–	9	1,357
ACCUMULATED DEPRECIATION								
31 DECEMBER 2014	3,208	2,646	75,530	55,402	4,023	5,125	–	145,934
Depreciation charge	3,059	4,264	15,787	15,920	1,770	2,676	–	43,476
Currency translation differences	(195)	–	(91)	(235)	(31)	(36)	–	(588)
Transfers	(199)	58	589	(315)	(60)	(73)	–	–
Transfers to investment properties	(54)	–	–	–	–	–	–	(54)
Transfers (to) from other assets	–	–	(233)	(606)	3	–	–	(836)
Revaluation	(1,945)	–	–	–	–	–	–	(1,945)
Disposals	(25)	(124)	(161)	(1,575)	(360)	(1,197)	–	(3,442)
31 DECEMBER 2015	3,849	6,844	91,421	68,591	5,345	6,495	–	182,545
NET BOOK VALUE:								
31 DECEMBER 2014	223,547	204,392	64,549	75,288	3,530	7,617	9,590	588,513
31 DECEMBER 2015	228,365	325,931	82,875	128,601	4,234	15,652	9,024	794,682

12. PROPERTY AND EQUIPMENT CONTINUED

The movements in property and equipment during the year ended 31 December 2014 were as follows:

	Office buildings & service centres	Hospitals & clinics	Furniture & fixtures	Computers & 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	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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. PROPERTY AND EQUIPMENT CONTINUED

Office buildings and service centres of the Group include freehold land and are subject to revaluation on a regular basis. The date of the latest revaluation is 31 December 2015 and was carried out by professional valuators. Refer to Note 30 for details on fair value measurements of the Group's premises.

The Group engaged an independent appraiser to determine the fair value of its hospitals and clinics. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's hospitals and clinics was dated 1 July 2016.

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property as at 31 December 2016 was GEL 482,001 (2015: GEL 330,224, 2014: GEL 221,478).

If the office buildings and service centres, hospitals and clinics and infrastructure assets had been measured using the cost model, the carrying amounts of the office buildings and service centres, hospitals and clinics and infrastructure assets as at 31 December 2016, 31 December 2015 and 31 December 2014 would have been as follows:

	Office buildings & service centres 2016	Hospitals & clinics 2016	Infrastructure assets 2016
Cost	**299,720**	388,803	199,304
Accumulated depreciation and impairment	**(24,126)**	(8,554)	(5,738)
NET CARRYING AMOUNT	**275,594**	380,249	193,566

	Office buildings & service centres 2015	Hospitals & clinics 2015	**Office buildings & service centres 2014**	Hospitals & clinics 2014
Cost	**179,067**	**332,775**	166,839	207,038
Accumulated depreciation and impairment	**(19,736)**	**(6,844)**	(16,896)	(2,646)
NET CARRYING AMOUNT	**159,331**	**325,931**	149,943	204,392

13. GOODWILL

Movements in goodwill during the years ended 31 December 2016, 31 December 2015 and 31 December 2014, were as follows:

	2016	2015	2014
Cost			
1 January	**101,434**	78,083	77,170
Business combinations	**34,002**	23,351	913
AT 31 DECEMBER	**135,436**	101,434	78,083
Accumulated impairment			
1 January	**28,450**	28,450	28,450
AT 31 DECEMBER	**28,450**	28,450	28,450
Net book value:			
1 January	**72,984**	49,633	48,720
AT 31 DECEMBER	**106,986**	72,984	49,633

IMPAIRMENT TEST FOR GOODWILL

Goodwill acquired through business combinations with indefinite lives have been allocated to seven individual cash-generating units, for impairment testing: Corporate Banking, Retail Banking, Property & Casualty Insurance, Health Insurance, Healthcare, Pharmacy and Liberty Consumer.

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

	2016	2015	2014
Pharmacy*	**29,025**	–	–
Retail banking	**23,488**	23,488	12,433
Healthcare**	**21,468**	16,491	4,195
P&C Insurance	**16,139**	16,139	16,139
Corporate banking	**9,965**	9,965	9,965
Health Insurance	**3,462**	3,462	3,462
Liberty Consumer	**3,439**	3,439	3,439
TOTAL	**106,986**	72,984	49,633

* GEL 29,025 increase in goodwill for 2016 is from acquisition of Pharmaceutical subsidiary (Note 5). Impairment test revealed no need for impairment as at 31 December 2016.

** GEL 4,977 increase in goodwill for 2016 is from acquisition of healthcare subsidiaries (Note 5), which was added to Healthcare CGU. Impairment test revealed no need for impairment as at 31 December 2016.

13. GOODWILL CONTINUED

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS

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

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

	Corporate Banking			Retail Banking		
	2016	2015	2014	**2016**	2015	2014
Discount rate	**5.3%**	5.8%	6.2%	**6.9%**	6.7%	6.5%

The following rates were used by the Group for P&C Insurance and Health Insurance:

	P&C Insurance			Health Insurance		
	2016	2015	2014	**2016**	2015	2014
Discount rate	**14.5%**	10.4%	10.9%	**13.0%**	11.2%	11.3%

The following rates were used by the Group for Healthcare, Pharma and Liberty Consumer:

	Healthcare			Liberty Consumer		
	2016	2015	2014	**2016**	2015	2014
Discount rate	**13.0%**	11.6%	10.5%	**14.9%**	9.4%	9.0%

	Pharmacy		
	2016	2015	2014
Discount rate	**13.0%**	–	–

DISCOUNT RATES

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

For the Healthcare CGU, the following additional assumptions were made over the first three-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 reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2016. Possible change was taken as +/-1% in discount rate and growth rate.

14. TAXATION

The corporate income tax credit (expense) comprises:

	2016	2015	2014
Current income expense	**(25,034)**	(38,959)	(24,493)
Deferred income tax credit (expense)	**63,690**	(9,449)	(11,332)
INCOME TAX CREDIT (EXPENSE)	**38,656**	(48,408)	(35,825)
Deferred income tax credit (expense) in other comprehensive income (loss)	**2,755**	1,637	(124)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2016, 2015 and 2014 was as follows:

	2016	2015	2014
Currency translation differences	**(2,171)**	1,276	(124)
Net losses on investment securities available-for-sale	**(21)**	–	–
Revaluation of buildings	**4,947**	361	–
INCOME TAX CREDIT (EXPENSE) IN OTHER COMPREHENSIVE INCOME	**2,755**	1,637	(124)

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15-27% (2015: from 15-25%, 2014: from 15-27%).

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

The UK Finance (No. 2) Bill 2016 was enacted in September 2016 reducing the standard rate of corporation tax from 20% to 19% effective from 1 April 2017 and 17% effective from 1 April 2020. There are no UK deferred tax balances at 31 December 2016. The deferred tax balances in other countries are recognised at the substantially enacted rates at the balance sheet date.

14. TAXATION CONTINUED

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2016, 31 December 2015 and 31 December 2014 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2016	2015	2014
PROFIT BEFORE INCOME TAX EXPENSE	**389,920**	359,353	276,592
Average tax rate	**15%**	15%	15%
THEORETICAL INCOME TAX EXPENSE AT AVERAGE TAX RATE	**(58,488)**	(53,903)	(41,489)
Non-taxable income	**19,711**	3,744	–
Correction of prior year declarations	**2,494**	1,472	5,802
Non-deductible expenses	**(1,645)**	(487)	(697)
Tax at the domestic rates applicable to profits in each country	**(143)**	(262)	193
Effect of changes in tax rate	**76,964**	–	(502)
Other	**(237)**	1,028	868
INCOME TAX BENEFIT (EXPENSE)	**38,656**	(48,408)	(35,825)

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2016, 31 December 2015 and 31 December 2014 income tax assets and liabilities consist of the following:

	2016	2015	2014
Current income tax assets	**22,329**	3,654	4,215
Deferred income tax assets	**1,714**	17,896	18,530
INCOME TAX ASSETS	**24,043**	21,550	22,745
Current income tax liabilities	**5,548**	20,083	11,093
Deferred income tax liabilities	**22,243**	104,312	86,471
INCOME TAX LIABILITIES	**27,791**	124,395	97,564

14. TAXATION CONTINUED

Deferred tax assets and liabilities as at 31 December 2016, 31 December 2015 and 31 December 2014 and their movements for the respective years are as follows:

	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	Origination and reversal of emporary differences: In the income statement	Origination and reversal of emporary differences: Business combination	Origination and reversal of emporary differences: In other comprehensive income	2015
TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:									
Amounts due to credit institutions	1,180	(175)	–	–	1,005	(523)	–	–	482
Investment securities:									
Available-for-sale	1,196	(1)	–	–	1,195	(1,194)	–	(1)	–
Investment properties	2,479	–	–	(1,499)	980	–	–	–	980
Insurance premiums receivables	886	624	–	–	1,510	650	–	–	2,160
Allowances for impairment and provisions for other losses	455	(257)	–	–	198	5,035	–	(367)	4,866
Tax losses carried forward	8,791	2,650	–	855	12,296	6,606	(1,992)	250	17,160
Property and equipment	942	(6)	–	–	936	50	–	(49)	937
Other assets and liabilities	3,169	751	–	(51)	3,869	(406)	982	2	4,447
DEFERRED TAX ASSETS	19,098	3,586	–	(695)	21,989	10,218	(1,010)	(165)	31,032
TAX EFFECT OF TAXABLE TEMPORARY DIFFERENCES:									
Amounts due to credit institutions	52	(5)	–	(3)	44	26	–	(2)	68
Amounts due to customers	1,325	–	–	–	1,325	(1,325)	–	–	–
Loans to customers	21,839	8,562	–	(165)	30,236	(763)	–	(517)	28,956
Other insurance liabilities and pension fund obligations	956	426	–	–	1,382	(1,160)	–	–	222
Property and equipment	32,611	4,473	4,929	(330)	41,683	18,653	9,666	(1,184)	68,818
Investment properties	2	69	–	(7)	64	6,500	–	(53)	6,511
Intangible assets	5,575	965	–	(8)	6,532	(1,122)	–	(7)	5,403
Other assets and liabilities	8,294	428	–	(58)	8,664	(1,142)	(13)	(39)	7,470
DEFERRED TAX LIABILITIES	70,654	14,918	4,929	(571)	89,930	19,667	9,653	(1,802)	117,448
NET DEFERRED TAX LIABILITIES	(51,556)	(11,332)	(4,929)	(124)	(67,941)	(9,449)	(10,663)	1,637	(86,416)

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	2016
(482)	–	–	–
–	–	–	–
431	–	(921)	490
(952)	–	–	1,208
1,090	–	535	6,491
(13,095)	–	(4,065)	–
(44)	–	(73)	820
(3,053)	1,497	168	3,059
(16,105)	1,497	(4,356)	12,068
1,162	–	–	1,230
–	–	–	–
(11,210)	–	720	18,466
(222)	–	–	–
(57,990)	1,915	(6,091)	6,652
(4,966)	–	(1,545)	–
(5,053)	–	102	452
(1,516)	140	(297)	5,797
(79,795)	2,055	(7,111)	32,597
63,690	(558)	2,755	(20,529)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. OTHER ASSETS AND OTHER LIABILITIES

OTHER ASSETS COMPRISE:

	2016	2015	2014
Foreclosed assets*	**50,821**	49,602	49,090
Operating tax assets	**50,227**	18,225	10,934
Defined contribution pension assets	**16,441**	13,706	11,201
Assets purchased for finance lease purposes	**11,378**	10,689	6,841
Reinsurance assets	**13,161**	10,381	11,289
Other receivables	**12,903**	19,380	4,811
Investments in associates	**12,814**	53,458	48,659
Derivative financial assets	**1,466**	42,212	45,733
Trading securities owned	**1,396**	1,977	1,034
Settlements on operations	**1,100**	5,060	2,869
Other	**27,177**	22,083	20,014
	198,884	246,773	212,475
Less – allowance for impairment of other assets	**(14,092)**	(10,000)	(2,764)
OTHER ASSETS	**184,792**	236,773	209,711

* Foreclosed assets represent movable repossessed assets. As at 31 December 2016 foreclosed assets are mostly represented by assets held for sale.

OTHER LIABILITIES COMPRISE:

	2016	2015	2014
Accounts payable	**111,766**	44,865	15,995
Other taxes payable	**34,662**	5,072	4,258
Defined contribution pension obligations	**16,441**	13,706	11,201
Derivative financial liabilities	**9,411**	3,243	7,505
Amounts payable for share acquisitions*	**8,491**	38,005	16,786
Other insurance liabilities	**8,235**	9,572	7,395
Creditors	**6,606**	7,729	10,436
Provisions	**4,086**	2,240	4,732
Dividends payable	**1,313**	815	2,419
Other	**30,611**	9,509	6,918
OTHER LIABILITIES	**231,622**	134,756	87,645

* 2016 amounts payable for share acquisitions fully comprise payables for healthcare business acquisitions. 2015 amounts payable for share acquisitions comprise GEL 28,757 payable for the healthcare subsidiaries acquired in 2015 and GEL 9,248 payable for the acquisition of JSC PrivatBank. 2014 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.

	2016		
	Notional amount	Fair value	
		Asset	Liability
FOREIGN EXCHANGE CONTRACTS			
Forwards and swaps – domestic	**234,969**	**954**	**1,734**
Forwards and swaps – foreign	**302,679**	**512**	**7,043**
INTEREST RATE CONTRACTS			
Forwards and swaps – foreign	**794,040**	**–**	**634**
TOTAL DERIVATIVE ASSETS/LIABILITIES	**1,331,688**	**1,466**	**9,411**

	2015			2014		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
FOREIGN EXCHANGE CONTRACTS						
Forwards and swaps – domestic	12,510	183	10	49,648	247	1,242
Forwards and swaps – foreign	145,055	41,994	510	494,206	45,486	6,263
Options foreign	56,768	35	2,723	–	–	–
TOTAL DERIVATIVE ASSETS/LIABILITIES	214,333	42,212	3,243	543,854	45,733	7,505

16. CLIENT DEPOSITS AND NOTES

The amounts due to customers include the following:

	2016	2015	2014
Time deposits	**2,787,419**	2,597,244	1,867,925
Current accounts	**2,521,051**	2,153,275	1,445,790
Promissory notes issued	**74,228**	868	25,010
AMOUNTS DUE TO CUSTOMERS	**5,382,698**	4,751,387	3,338,725
HELD AS SECURITY AGAINST LETTERS OF CREDIT AND GUARANTEES (NOTE 19)	**96,692**	64,534	53,393

As at 31 December 2016, 31 December 2015 and 31 December 2014, 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 16 months (2015: nine months, 2014: one month).

At 31 December 2016, amounts due to customers of GEL 635,303 (12%) were due to the ten largest customers (2015: GEL 782,146 (16%), 2014: GEL 424,103 (13%)).

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

	2016	2015	2014
Individuals	**3,134,251**	2,615,774	1,868,762
Private enterprises	**2,110,975**	1,945,233	1,284,955
State and state-owned entities	**137,472**	190,380	185,008
AMOUNTS DUE TO CUSTOMERS	**5,382,698**	4,751,387	3,338,725

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

	2016	2015	2014
Individuals	**3,134,251**	2,615,774	1,868,762
Trade	**420,402**	374,291	277,792
Financial intermediation	**365,515**	292,771	110,759
Construction	**272,351**	224,477	220,234
Service	**264,609**	289,485	275,504
Transport and communication	**213,301**	317,161	173,591
Manufacturing	**208,145**	236,238	107,813
Government services	**102,530**	141,007	128,046
Electricity, gas and water supply	**95,651**	74,125	21,275
Real estate	**66,207**	64,990	53,742
Hospitality	**22,248**	18,818	33,503
Other	**217,488**	102,250	67,704
AMOUNTS DUE TO CUSTOMERS	**5,382,698**	4,751,387	3,338,725

17. AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2016	2015	2014
Borrowings from international credit institutions	**1,221,070**	640,517	574,240
Short-term loans from the National Bank of Georgia	**1,085,000**	307,200	400,772
Time deposits and inter-bank loans	**397,506**	353,638	261,551
Correspondent accounts	**329,609**	92,617	32,606
SUBTOTAL	**3,033,185**	1,393,972	1,269,169
Non-convertible subordinated debt	**436,906**	395,090	140,045
AMOUNTS DUE TO CREDIT INSTITUTIONS	**3,470,091**	1,789,062	1,409,214

During the year ended 31 December 2016, the Group paid up to 5.79% on Dollar borrowings from international credit institutions (2015: up to 5.29%, 2014: up to 6.77%). During the year ended 31 December 2016, the Group paid up to 8.44% on Dollar subordinated debt (2015: up to 7.95% and 2014: up to 10.40%).

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 2016, 31 December 2015 and 31 December 2014 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2016	2015	2014
Eurobonds	**937,406**	908,183	779,445
Georgian local bonds	**140,965**	98,859	46,217
Certificates of deposit	**177,272**	32,762	31,033
DEBT SECURITIES ISSUED	**1,255,643**	1,039,804	856,695

On 26 July 2016, the Group completed the issuance of its US$ 350 million 6.00% notes due 2023 (the "Notes"). The Regulation S/Rule 144A senior unsecured Notes were issued and sold at an issue price of 99.297% of their principal amount. The Notes are rated BB- (Fitch) and B1 (Moody's). The Notes are listed on the Irish Stock Exchange. Following the issuance of the new Notes, the Bank fully redeemed the existing 7.75% Eurobonds due 2017. The Group has incurred a loss of GEL 43,919 (Note 27) from full redemption of Eurobonds.

In December 2016, the Group's utility subsidiary Georgian Water and Power LLC completed the issuance of five-year local bonds of GEL 30 million. The bonds were issued at par with an annual coupon rate of NBG refinance rate plus 3.5% payable quarterly with 5% withholding tax applying to individuals.

In October 2016, the Group's real estate subsidiary JSC m^2 Real Estate completed the issuance of three-year local bonds of US$ 25 million (GEL 66.8 million). The bonds were issued at par with an annual coupon rate of 7.5% payable semi-annually with a 5% withholding tax applying to individuals.

In 2016, the JSC Belarusky Narodny Bank completed the issuance of US$ 3.8 million (GEL 14.2 million) and EUR 5.1million (GEL 10.1 million). The bonds were issued at par with an average annual coupon rate of 5.94%.

19. COMMITMENTS AND CONTINGENCIES

LEGAL

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

FINANCIAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2016, 31 December 2015 and 31 December 2014 the Group's financial commitments and contingencies comprised the following:

	2016	2015	2014
CREDIT-RELATED COMMITMENTS			
Guarantees issued	**508,685**	473,839	465,527
Undrawn loan facilities	**231,704**	273,851	144,634
Letters of credit	**58,561**	43,126	95,669
	798,950	790,816	705,830
Less – Cash held as security against letters of credit and guarantees (Note 16)	**(96,692)**	(64,534)	(53,393)
Less – Provisions	**(4,086)**	(2,240)	(4,732)
OPERATING LEASE COMMITMENTS			
Not later than 1 year	**35,823**	17,056	12,382
Later than 1 year but not later than 5 years	**110,466**	31,216	21,943
Later than 5 years	**18,994**	5,553	3,178
	165,283	53,825	37,503
CAPITAL EXPENDITURE COMMITMENTS	**13,174**	27,624	10,035
FINANCIAL COMMITMENTS AND CONTINGENCIES, NET	**876,629**	805,491	695,243

As at 31 December 2016, capital expenditure commitment was for purchase of property and capital repairs of GEL 11,240 and software and other intangible assets of GEL 1,934. As at 31 December 2015, capital expenditure commitment was for purchase of property and capital repairs of GEL 25,915 and software and other intangible assets of GEL 1,709. 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.

20. EQUITY

SHARE CAPITAL

As at 31 December 2016, 2015 and 2014 issued share capital comprised 39,500,320 common shares, of which 39,500,320 were fully paid. Each share has a nominal value of one (1) British Penny (31 December 2015: one (1) British Penny, 31 December 2014: one (1) British Penny). Shares issued and outstanding as at 31 December 2016 are described below:

	Number of shares Ordinary	Amount of shares Ordinary
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
Effect of translation of equity components to presentation currency	–	11
31 DECEMBER 2015	39,500,320	1,154
31 DECEMBER 2016	**39,500,320**	**1,154**

In 2016 the Management Board has approved a US$ 50 million share buyback and cancellation programme over a two-year period. The Group expects to execute the programme during 2017.

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 2016 comprised 1,843,091 (31 December 2015: 1,521,752, 31 December 2014: 1,522,185).

Nominal amount of treasury shares of GEL 54 as at 31 December 2016 comprise the Group's shares owned by the Group (31 December 2015: GEL 44, 31 December 2014: GEL 46).

DIVIDENDS

Shareholders are entitled to dividends in British Pounds Sterling.

On 26 May 2016, the shareholders of BGEO declared a final dividend for 2015 of Georgian Lari 2.4 per share. The currency conversion date was set at 11 July 2016, with the official GEL:GBP exchange rate of 3.0376, resulting in a GBP-denominated final dividend of 0.7901 per share. Payment of the total GEL 97,604 final dividends was received by shareholders on 22 July 2016.

On 21 May 2015, the shareholders of BGEO declared a final dividend for 2014 of Georgian Lari 2.1 per share. The currency conversion date was set at 8 June 2015, with the official GEL:GBP exchange rate of 3.5110, resulting in a GBP-denominated final dividend of 0.5981 per share. Payment of the total GEL 80,411 final dividends was received by shareholders on 16 June 2015.

On 28 May 2014, the Shareholders of BGEO declared a final dividend for 2013 of Georgian Lari 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 final dividend of 0.6708 per share. Payment of the total GEL 71,633 final dividends was received by shareholders on 18 June 2014.

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, service centres and hospitals 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

This reserve records fair value changes on investment securities.

UNREALISED GAINS (LOSSES) FROM DILUTION OR SALE/ACQUISITION OF SHARES IN EXISTING SUBSIDIARIES

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

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements in other reserves during the years ended 31 December 2016, 31 December 2015 and 31 December 2014 are presented in the statements of other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20. EQUITY CONTINUED

NON-CONTROLLING INTEREST

Georgia Healthcare Group PLC is the only significant subsidiary of the Group that has a material non-controlling interest of 34.97% as at 31 December 2016 (31 December 2015: 32.30%, 31 December 2014: nil). The following table summarises key information relevant to Georgia Healthcare Group PLC.

	2016	2015	2014
Total assets	**910,310**	758,966	409,834
Total liabilities	**370,222**	286,941	237,565
Profit for the year	**60,099**	23,291	13,017
Net (decrease) increase in cash and cash equivalents	**(121,914)**	112,369	28,313

EARNINGS PER SHARE

	2016	2015	2014
BASIC EARNINGS PER SHARE			
Profit for the year attributable to ordinary shareholders of the Group	**398,538**	303,694	232,509
Weighted average number of ordinary shares outstanding during the year	**38,266,383**	38,314,369	34,584,751
Basic earnings per share	**10.4148**	7.9264	6.7228

	2016	2015	2014
DILUTED EARNINGS PER SHARE			
Effect of dilution on weighted average number of ordinary shares:			
Dilutive unvested share options	**1,233,937**	–	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**39,500,320**	38,314,369	34,584,751
Diluted earnings per share	**10.0895**	7.9264	6.7228

21. NET INTEREST INCOME

	2016				2015			
	Banking Business	Investment Business	Elimination	Total	Banking Business	Investment Business	Elimination	Total
From loans to customers	**822,695**	**491**	**(5,653)**	**817,533**	782,525	1,480	(12,289)	771,716
From investment securities: available-for-sale	**91,416**	**(54)**	**(747)**	**90,615**	69,670	11	(245)	69,436
From finance lease receivable	**10,420**	**–**	**–**	**10,420**	9,728	–	–	9,728
From amounts due from credit institutions	**9,184**	**2,795**	**924**	**12,903**	10,376	1,847	(985)	11,238
INTEREST INCOME	**933,715**	**3,232**	**(5,476)**	**931,471**	872,299	3,338	(13,519)	862,118
On client deposits and notes	**(192,581)**	**–**	**3,999**	**(188,582)**	(190,024)	–	2,767	(187,257)
On amounts owed to credit institutions	**(124,668)**	**(19,426)**	**2,435**	**(141,659)**	(100,714)	(22,395)	11,453	(111,656)
On debt securities issued	**(59,738)**	**(9,925)**	**566**	**(69,097)**	(68,634)	(3,098)	1,920	(69,812)
INTEREST EXPENSE	**(376,987)**	**(29,351)**	**7,000**	**(399,338)**	(359,372)	(25,493)	16,140	(368,725)
NET INTEREST INCOME	**556,728**	**(26,119)**	**1,524**	**532,133**	512,927	(22,155)	2,621	493,393

	2014			
	Banking Business	Investment Business	Elimination	Total
From loans to customers	546,668	628	(7,313)	539,983
From investment securities: available-for-sale	39,988	–	–	39,988
From finance lease receivable	8,370	–	–	8,370
From amounts due from credit institutions	5,899	1,232	(551)	6,580
INTEREST INCOME	600,925	1,860	(7,864)	594,921
On client deposits and notes	(133,835)	–	–	(133,835)
On amounts owed to credit institutions	(55,384)	(15,619)	9,063	(61,940)
On debt securities issued	(54,435)	(470)	468	(54,437)
INTEREST EXPENSE	(243,654)	(16,089)	9,531	(250,212)
NET INTEREST INCOME	357,271	(14,229)	1,667	344,709

22. NET FEE AND COMMISSION INCOME

	2016	2015	2014
Settlements operations	**129,792**	112,540	87,076
Guarantees and letters of credit	**18,893**	25,930	21,503
Cash operations	**12,965**	13,822	9,665
Currency conversion operations	**585**	1,550	3,204
Brokerage service fees	**1,328**	805	7,214
Advisory	**1,379**	465	–
Other	**5,121**	3,046	3,773
FEE AND COMMISSION INCOME	**170,063**	158,158	132,435
Settlements operations	**(34,304)**	(29,371)	(21,354)
Cash operations	**(5,807)**	(4,670)	(3,726)
Guarantees and letters of credit	**(2,880)**	(3,836)	(3,991)
Insurance brokerage service fees	**(2,475)**	(708)	(1,137)
Currency conversion operations	**(20)**	(62)	(108)
Other	**(1,664)**	(1,105)	(2,327)
FEE AND COMMISSION EXPENSE	**(47,150)**	(39,752)	(32,643)
NET FEE AND COMMISSION INCOME	**122,913**	118,406	99,792

23. GROSS INSURANCE PROFIT

Net insurance premiums earned, net insurance claims incurred and respective gross insurance profit for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 comprised:

	2016	2015	2014
Life insurance contracts premium written	**9,638**	9,830	5,381
General insurance contracts premium written	**117,254**	110,962	81,691
TOTAL PREMIUMS WRITTEN	**126,892**	120,792	87,072
Gross change in life provision	**(117)**	283	70
Gross change in general insurance contracts unearned premium provision	**(9,160)**	(7,006)	26,621
TOTAL GROSS PREMIUMS EARNED ON INSURANCE CONTRACTS	**117,615**	114,069	113,763
Reinsurers' share of life insurance contracts premium written	**(560)**	(530)	(53)
Reinsurers' share of general insurance contracts premium written	**(19,847)**	(20,402)	(18,328)
Reinsurers' share of change in life provision	**5**	1	(32)
Reinsurers' share of change in general insurance contracts unearned premium provision	**(128)**	(237)	500
TOTAL REINSURERS' SHARE OF GROSS EARNED PREMIUMS ON INSURANCE CONTRACTS	**(20,530)**	(21,168)	(17,913)
NET INSURANCE PREMIUMS EARNED	**97,085**	92,901	95,850
Life insurance claims paid	**(2,968)**	(2,046)	(1,364)
General insurance claims paid	**(64,404)**	(67,561)	(68,827)
TOTAL INSURANCE CLAIMS PAID	**(67,372)**	(69,607)	(70,191)
Reinsurers' share of life insurance claims paid	**181**	54	120
Reinsurers' share of general insurance claims paid	**7,530**	4,186	1,858
Gross change in total reserves for claims	**(6,643)**	3,045	443
Reinsurers' share of change in total reserves for claims	**2,902**	(672)	1,350
NET INSURANCE CLAIMS INCURRED	**(63,402)**	(62,994)	(66,420)
GROSS INSURANCE PROFIT	**33,683**	29,907	29,430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. GROSS HEALTHCARE AND PHARMACY PROFIT

	2016	2015	2014
Revenue from Government programmes	**166,988**	144,013	78,967
Revenue from pharma	**132,939**	–	–
Revenue from free flow (non-insured retail individuals)	**46,215**	36,102	33,854
Revenue from insurance companies	**16,444**	3,878	11,562
Other revenue from medical services	**–**	–	1,337
HEALTHCARE AND PHARMA REVENUE	**362,586**	183,993	125,720
Pharma direct materials	**(105,416)**	–	–
Direct salary expenses	**(75,998)**	(65,344)	(39,022)
Healthcare direct materials	**(44,569)**	(35,474)	(20,830)
Expenses on medical service providers	**(1,741)**	(2,017)	(12,042)
Other direct expenses	**–**	(220)	(343)
COST OF HEALTHCARE AND PHARMA SERVICES	**(227,724)**	(103,055)	(72,237)
GROSS HEALTHCARE AND PHARMA PROFIT	**134,862**	80,938	53,483

25. GROSS REAL ESTATE PROFIT AND GROSS OTHER INVESTMENT PROFIT

	2016	2015	2014
Revenue from affordable housing	**96,373**	44,917	56,993
Revaluation of investment property developed by the Group	**959**	7,083	1,910
Income from operating lease	**3,534**	2,409	1,473
REAL ESTATE REVENUE	**100,866**	54,409	60,376
Cost of real estate	**(81,098)**	(39,721)	(46,810)
GROSS REAL ESTATE PROFIT	**19,768**	14,688	13,566

	2016	2015	2014
Profit from wine production and distribution	**11,150**	10,079	12,449
Net gains from revaluation of other investment properties	**1,727**	7,267	–
Net gain from sale of PPE and IP	**431**	154	89
Other investment profit	**7,618**	3,277	453
GROSS OTHER INVESTMENT PROFIT	**20,926**	20,777	12,991

26. SALARIES AND OTHER EMPLOYEE BENEFITS, AND GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015	2014
Salaries and bonuses	**(217,434)**	(181,316)	(150,167)
Social security costs	**(3,545)**	(3,216)	(3,292)
Pension costs	**(836)**	(797)	(722)
SALARIES AND OTHER EMPLOYEE BENEFITS	**(221,815)**	(185,329)	(154,181)

The average number of staff employed by the Group for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 comprised:

	2016	2015	2014
The Bank	**4,729**	4,591	3,622
Insurance companies**	**699**	623	597
BNB	**575**	504	433
GGU	**2,326**	–	–
Other	**1,034**	1,062	840
AVERAGE NUMBER OF STAFF EMPLOYED EXCLUDING HEALTHCARE AND PHARMACY*	**9,363**	6,780	5,492
Healthcare and pharmacy companies***	**11,392**	8,229	7,242
AVERAGE TOTAL NUMBER OF STAFF EMPLOYED	**20,755**	15,009	12,734*

* Salary expenses on staff employed in the healthcare and pharmacy segment are included in cost of healthcare and pharmacy services.
** JSC Insurance Company Imedi L and JSC Insurance Company Aldagi.
*** JSC GHG and its subsidiaries.

26. SALARIES AND OTHER EMPLOYEE BENEFITS, AND GENERAL AND ADMINISTRATIVE EXPENSES CONTINUED

Salaries and bonuses include GEL 45,992, GEL 31,219 and GEL 27,193 of the Equity Compensation Plan costs for the years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 28 and 32).

	2016	2015	2014
Occupancy and rent	**(28,943)**	(18,077)	(11,351)
Marketing and advertising	**(20,298)**	(11,266)	(10,901)
Legal and other professional services	**(15,930)**	(12,183)	(9,742)
Repairs and maintenance	**(12,694)**	(10,785)	(9,065)
Operating taxes	**(8,951)**	(5,735)	(5,074)
Office supplies	**(8,667)**	(7,579)	(6,246)
Communication	**(6,613)**	(6,630)	(5,107)
Corporate hospitality and entertainment	**(6,486)**	(4,807)	(4,139)
Personnel training and recruitment	**(2,674)**	(1,703)	(1,697)
Travel expenses	**(2,315)**	(2,383)	(1,621)
Security	**(2,125)**	(2,074)	(2,577)
Insurance	**(1,676)**	(1,176)	(443)
Other	**(6,940)**	(6,521)	(5,496)
GENERAL AND ADMINISTRATIVE EXPENSES	**(124,312)**	(90,919)	(73,459)

Auditors' remuneration is included within legal and other professional services expenses above and comprises (as represented to comply with ICAEW guidance):

	2016	2015
Fees payable for the audit of the Company's current year annual report	**423**	405
Fees payable for other services:		
Audit of the Company's subsidiaries	**2,990**	2,057
TOTAL AUDIT FEES	**3,413**	2,462
Audit related assurance services		
Review of the Company's and subsidiaries' interim accounts	**637**	351
Other assurance services	**590**	1,237
TOTAL AUDIT RELATED FEES	**1,227**	1,588
Non-audit services		
Tax compliance services	**49**	–
Tax advisory services	**–**	194
Corporate finance services	**–**	1,724
Other non-audit services	**41**	–
TOTAL OTHER SERVICES FEES	**90**	1,918
TOTAL FEES	**4,730**	5,968

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 EY in respect of the audit of the Parent and Group's subsidiaries were GEL 111 (2015: GEL 40, 2014: GEL 17) and in respect of other services of the Group were GEL 328 (2015: GEL 200, 2014: GEL 327).

27. NET NON-RECURRING ITEMS

	2016	2015	2014
Gain on bargain purchase (Note 5)	**36,915**	5,361	1,003
Gain from the sale of Class C and Class B shares of Visa Inc. and MasterCard, respectively	**16,426**	–	–
Gain on reclassification of AFS investment to investment in associate	**9,626**	–	–
Loss from full redemption of debt securities issued	**(43,919)**	–	–
Termination benefits	**(9,820)**	(1,598)	–
Consulting costs	**(5,258)**	–	–
Loss from remeasurement of investment in associate	**(5,145)**	–	–
Write-off of miscellaneous healthcare related assets	**(2,973)**	(2,277)	–
Impairment of prepayments	**(2,205)**	(2,503)	–
Impairment of property and equipment and intangible assets	**(1,403)**	(426)	–
Reversal of impairment on property and equipment	**–**	1,524	–
Gain from building transferred to healthcare segment from the Government	**–**	–	524
Loss from early repayments of borrowings from international credit institutions and debt securities issued	**–**	(4,519)	(2,503)
JSC PrivatBank integration costs	**–**	(3,731)	–
Impairment of finance lease receivables	**–**	(1,969)	–
Foreign exchange loss on revaluation of holdback	**–**	(1,580)	–
Tax penalties from inspection of Revenue Services of Georgia	**–**	(1,340)	–
Impairment of investment securities available-for-sale	**–**	–	(3,837)
Loss from Belarus hyperinflation	**–**	–	(3,073)
Charity expenses	**–**	–	(210)
Other	**(3,768)**	(1,519)	(2,921)
NET NON-RECURRING EXPENSE/LOSS	**(11,524)**	(14,577)	(11,017)

28. SHARED-BASED PAYMENTS

EXECUTIVES' EQUITY COMPENSATION PLAN

In 2015 the Group founded Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan (EECP). In 2016 the Trustee has repurchased 768,953 shares (2015: 282,657 shares and 2014: nil).

In February 2016, BGEO's Remuneration Committee resolved to award 320,500 ordinary shares of BGEO to the members of the Management Board and 52,600 ordinary shares of BGEO to the Group's 19 executives. Shares awarded to the Management Board and the other 19 executives are subject to two-year vesting for Management Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Group considers 12 February 2016 as the grant date. The Group estimates that the fair value of the shares awarded on 12 February 2016 was Georgian Lari 57.83 per share.

In March 2015, BGEO's remuneration committee resolved to award 153,500 ordinary shares of BGEO to the members of the Management Board and 107,215 ordinary shares of BGEO to the Group's 24 executives. Shares awarded to the Management Board and the other 20 executives are subject to two-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 19 March 2015 as the grant date. The Group estimates that the fair value of the shares awarded on 19 March 2015 was Georgian Lari 57.41 per share.

In February 2014, the Bank's Supervisory Board resolved to award 135,500 ordinary shares of BGEO to the members of the Management Board and 88,775 ordinary shares of BGEO 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 Georgian Lari 67.90 per share.

In August 2015, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 934,000 ordinary shares of BGEO. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 24 August 2015 as the grant date for the awards. The Group estimates that the fair value of the shares on 24 August 2015 was Georgian Lari 59.17.

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

The Bank grants share compensation to its non-executive employees. In February 2016, March 2015 and February 2014, the Supervisory Board of the Bank resolved to award 91,851, 111,298 and 42,745 ordinary shares to its non-executive employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 12 February 2016, 19 March 2015 and 24 February 2014 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 12 February 2016, 19 March 2015 and 24 February 2014 were Georgian Lari 57.83, 57.41 and 67.90 per share, respectively.

28. SHARED-BASED PAYMENTS CONTINUED

SUMMARY

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

The weighted average fair value of share-based awards at the grant date comprised GEL 66.19 per share in year ended 31 December 2016 (31 December 2015: GEL 58.74 per share, 31 December 2014: GEL 67.90).

The Group's total share-based payment expenses for the year ended 31 December 2016 comprised GEL 45,992 (31 December 2015: GEL 31,219, 31 December 2014: GEL 27,193) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2016	2015	2014
Total number of equity instruments awarded*	**689,951**	1,536,013	267,020
– among them, to top management and Board of Directors	**545,500**	1,106,000	135,500
Weighted average value at grant date, per share (GEL in full amount)	**66.19**	58.74	67.90
VALUE AT GRANT DATE, TOTAL (GEL)	**45,671**	90,228	18,132
TOTAL EXPENSE RECOGNISED DURING THE YEAR (GEL)	**(45,992)**	(31,219)	(27,193)

* 2015 award includes fixed contingent share-based compensation of 1,164,000 ordinary shares per new employment agreements signed on 24 August 2015 for subsequent consecutive three year period, including 934,000 of the Management Board members.

During 2016, BGEO directors obtained 115,000 shares (2015: 147,500, 2014: 115,000) with fair value of GEL 10,760 (2015: 8,251, 2014: 7,437). Weighted average share price comprised GEL 93.57 per share (2015: GEL 55.94, 2014: GEL 64.67).

29. RISK MANAGEMENT

INTRODUCTION

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

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

RISK MANAGEMENT STRUCTURE

AUDIT COMMITTEE

The Audit Committee assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and IS (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

RISK COMMITTEE

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

MANAGEMENT BOARD

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

BANK ASSET AND LIABILITY MANAGEMENT COMMITTEE

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

INTERNAL AUDIT

The Internal Audit Department is responsible for the annual audit of the 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's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. RISK MANAGEMENT CONTINUED

INTRODUCTION CONTINUED

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.

RISK MITIGATION

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

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

EXCESSIVE RISK CONCENTRATION

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

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

CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

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

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to carrying value of respective instruments.

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.

29. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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 2016	**Notes**	**High Grade**	**Standard Grade**	**Sub-standard Grade**	**Past due or individually impaired**	**Total**
Amounts due from credit institutions	8	**1,049,889**	**5,094**	**–**	**–**	**1,054,983**
Debt investment securities available-for-sale	9	**1,284,555**	**–**	**–**	**–**	**1,284,555**
Loans to customers:	10					
Commercial loans		**1,617,466**	**588,526**	**17,814**	**475,700**	**2,699,506**
Consumer loans		**1,243,553**	**21,520**	**23,740**	**78,415**	**1,367,228**
Micro and SME loans		**1,225,610**	**113,565**	**37,761**	**117,001**	**1,493,937**
Residential mortgage loans		**1,134,266**	**49,285**	**15,052**	**35,573**	**1,234,176**
Gold – pawn loans		**56,977**	**–**	**–**	**3,708**	**60,685**
		5,277,872	**772,896**	**94,367**	**710,397**	**6,855,532**
Finance lease receivables	10	**28,756**	**9,925**	**3,089**	**6,497**	**48,267**
TOTAL		**7,641,072**	**787,915**	**97,456**	**716,894**	**9,243,337**

		Neither past due nor impaired				
31 December 2015	Notes	High Grade	Standard Grade	Sub-standard Grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	731,365	–	–	–	731,365
Debt investment securities available-for-sale	9	902,419	–	–	–	902,419
Loans to customers:	10					
Commercial loans		1,789,428	196,607	57,085	354,661	2,397,781
Consumer loans		1,047,775	22,810	22,642	71,880	1,165,107
Micro and SME loans		892,014	80,064	27,828	42,023	1,041,929
Residential mortgage loans		750,455	22,033	11,223	30,633	814,344
Gold – pawn loans		61,140	–	–	–	61,140
		4,540,812	321,514	118,778	499,197	5,480,301
Finance lease receivables	10	16,442	12,270	3,531	10,669	42,912
TOTAL		6,191,038	333,784	122,309	509,866	7,156,997

		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		1,635,707	138,115	159,074	248,531	2,181,427
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
		3,663,526	260,386	170,423	318,777	4,413,112
Finance lease receivables	10	19,437	4,684	2,150	12,977	39,248
TOTAL		4,869,544	265,070	172,573	331,754	5,638,941

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

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

29. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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 borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

AGING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS PER CLASS OF FINANCIAL ASSETS

31 December 2016	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Loans to customers:					
Consumer loans	**34,353**	**10,940**	**9,349**	**20,995**	**75,637**
Micro and SME loans	**20,035**	**9,494**	**6,479**	**29,874**	**65,882**
Residential mortgage loans	**10,074**	**4,472**	**1,840**	**7,319**	**23,705**
Commercial loans	**10,235**	**4,558**	**387**	**1,621**	**16,801**
Finance lease receivables	**2,565**	**368**	**349**	**740**	**4,022**
TOTAL	**77,262**	**29,832**	**18,404**	**60,549**	**186,047**

31 December 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	29,592	8,498	6,930	23,724	68,744
Micro and SME loans	5,196	4,148	1,000	4,259	14,603
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,727	1,227	25	1,596	24,575
Finance lease receivables	1,520	342	535	4,547	6,944
TOTAL	65,629	15,422	9,398	39,149	129,598

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	2,673	528	342	1,162	4,705
Micro and SME loans	19,266	4,758	2,703	9,222	35,949
Residential mortgage loans	3,822	788	304	1,832	6,746
Commercial loans	2,926	3,307	259	598	7,090
Finance lease receivables	1,977	9,154	156	203	11,490
TOTAL	30,664	18,535	3,764	13,017	65,980

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

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 293,054, GEL 166,224 and GEL 118,131 as at 31 December 2016, 31 December 2015 and 31 December 2014, 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.

	2016	2015	2014
Loans to customers:			
Commercial loans	**235,026**	141,294	115,155
Micro and SME loans	**37,003**	20,890	8,734
Residential mortgage loans	**38,757**	28,594	3,446
Consumer loans	**29,828**	18,243	617
Finance lease receivables	**5,829**	2,684	4,957
TOTAL	**346,443**	211,705	132,909

29. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

IMPAIRMENT ASSESSMENT

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

	2016			
	Georgia	OECD	CIS and other foreign countries	Total
ASSETS:				
Cash and cash equivalents	661,207	837,721	74,682	1,573,610
Amounts due from credit institutions	1,048,136	3,287	3,560	1,054,983
Investment securities	914,446	286,832	84,725	1,286,003
Loans to customers and finance lease receivables	6,286,382	–	362,100	6,648,482
All other assets	2,373,880	16,455	36,040	2,426,375
	11,284,051	1,144,295	561,107	12,989,453
LIABILITIES:				
Client deposits and notes	3,872,607	560,582	949,509	5,382,698
Amounts owed to credit institutions	1,676,312	1,682,934	110,845	3,470,091
Debt securities issued	200,055	1,031,462	24,126	1,255,643
All other liabilities	436,785	13,403	7,415	457,603
	6,185,759	3,288,381	1,091,895	10,566,035
NET BALANCE SHEET POSITION	5,098,292	(2,144,086)	(530,788)	2,423,418

29. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

	2015				2014			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
ASSETS:								
Cash and cash equivalents	623,904	662,296	146,734	1,432,934	475,858	136,559	97,727	710,144
Amounts due from credit institutions	630,217	97,242	3,906	731,365	393,975	1,686	22,620	418,281
Investment securities	824,820	79,047	–	903,867	726,880	25,069	17,763	769,712
Loans to customers and finance lease receivables	5,002,004	–	320,113	5,322,117	4,081,898	–	265,953	4,347,851
All other assets	1,625,445	63,265	36,746	1,725,456	1,266,904	10,069	56,184	1,333,157
	8,706,390	901,850	507,499	10,115,739	6,945,515	173,383	460,247	7,579,145
LIABILITIES:								
Client deposits and notes	3,522,316	422,649	806,422	4,751,387	2,163,559	515,879	659,287	3,338,725
Amounts owed to credit institutions	508,287	1,063,404	217,371	1,789,062	582,906	770,838	55,470	1,409,214
Debt securities issued	98,859	940,945	–	1,039,804	46,216	810,479	–	856,695
All other liabilities	446,820	8,296	6,732	461,848	324,846	3,709	11,863	340,418
	4,576,282	2,435,294	1,030,525	8,042,101	3,117,527	2,100,905	726,620	5,945,052
NET BALANCE SHEET POSITION	4,130,108	(1,533,444)	(523,026)	2,073,638	3,827,988	(1,927,522)	(266,373)	1,634,093

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 stand-alone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December 2016, 31 December 2015 and 31 December 2014 these ratios were as follows:

	2016	2015	2014
Average liquidity ratio	**43.6%**	38.1%	39.3%
Maximum liquidity ratio	**62.5%**	48.0%	46.8%
Minimum liquidity ratio	**34.1%**	28.9%	31.7%

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.

29. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	1,892,485	3,066,596	503,357	49,205	5,511,643
Amounts owed to credit institutions	1,745,625	578,801	1,173,071	451,051	3,948,548
Debt securities issued	91,251	127,073	493,251	947,050	1,658,625
Derivative financial liabilities	2,188	6,589	634	–	9,411
Other liabilities	68,780	108,734	23,519	22	201,055
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	3,800,329	3,887,793	2,193,832	1,447,328	11,329,282

Financial liabilities As at 31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	2,968,883	1,258,421	613,914	60,094	4,901,312
Amounts owed to credit institutions	318,902	376,323	628,932	524,874	1,849,031
Debt securities issued	51,564	24,695	1,070,369	–	1,146,628
Other liabilities	53,099	36,939	19,266	4	109,308
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	3,392,448	1,696,378	2,332,481	584,972	8,006,279

Financial liabilities As at 31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	2,064,563	903,041	461,975	22,098	3,451,677
Amounts owed 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	2,764,167	1,239,723	1,894,693	211,591	6,110,174

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 2016	**401,159**	**230,831**	**303,451**	**41,966**	**977,407**
31 December 2015	411,175	300,894	142,915	17,281	872,265
31 December 2014	320,945	257,065	162,858	12,500	753,368

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 client deposits and notes are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 16).

MARKET RISK

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

INTEREST RATE RISK

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the year ended 31 December 2016, year ended 31 December 2015 and year ended 31 December 2014, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. RISK MANAGEMENT CONTINUED

MARKET RISK CONTINUED

Currency	Increase in basis points 2016	Sensitivity of net interest income 2016	Sensitivity of other comprehensive income 2016
GEL	**2.06%**	**261**	**(1,758)**
EUR	**0.01%**	**1**	**–**
USD	**0.03%**	**69**	**–**

Currency	Decrease in basis points 2016	Sensitivity of net interest income 2016	Sensitivity of other comprehensive income 2016
GEL	**2.06%**	**(261)**	**1,758**
EUR	**0.01%**	**(1)**	**–**
USD	**0.03%**	**(69)**	**–**

Currency	Increase in basis points 2015	Sensitiity of net interest income 2015	Sensitivity of other comprehensive income 2015
GEL	0.63%	1,887	(5,080)
EUR	0.20%	81	–
USD	0.05%	187	–

Currency	Decrease in basis points 2015	Sensitivity of net interest income 2015	Sensitivity of other comprehensive income 2015
GEL	0.63%	(1,887)	5,080
EUR	0.20%	(81)	–
USD	0.05%	(187)	–

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	–

29. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

CURRENCY RISK

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2016 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). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the 12 months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2016, year ended 31 December 2015 and year ended 31 December 2014, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

	2016		2015		2014	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
EUR	**11.6%**	**(3,336)**	2.9%	1	14.3%	11
GBP	**15.8%**	**–**	2.5%	–	22.9%	(6)
USD	**9.3%**	**3,507**	1.1%	(1,329)	23.4%	(4,745)

PREPAYMENT RISK

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

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

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 is as follows:

	Effect on net interest income
2016	**(27,487)**
2015	(19,341)
2014	(16,744)

OPERATIONAL RISK

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

OPERATING ENVIRONMENT

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

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

29. RISK MANAGEMENT CONTINUED

INSURANCE RISK

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Group establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

30. 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 2016	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	288,227	288,227
Land	–	–	118,765	118,765
Residential properties	–	–	82,003	82,003
Non-residential properties	–	–	87,459	87,459
Investment securities	–	1,283,606	2,397	1,286,003
Other assets – derivative financial assets	–	1,466	–	1,466
Other assets – trading securities owned	1,396	–	–	1,396
Total revalued property	–	–	936,739	936,739
Office buildings	–	–	248,277	248,277
Hospitals and clinics	–	–	401,053	401,053
Service centres	–	–	93,843	93,843
Infrastructure assets	–	–	193,566	193,566
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,573,610	–	1,573,610
Amounts due from credit institutions	–	1,054,983	–	1,054,983
Loans to customers and finance lease receivables	–	–	6,725,662	6,725,662
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	9,411	–	9,411
Liabilities for which fair values are disclosed				
Client deposits and notes	–	5,388,768	–	5,388,768
Amounts owed to credit institutions	–	3,272,454	197,637	3,470,091
Debt securities issued	–	996,164	318,236	1,314,400

30. FAIR VALUE MEASUREMENTS CONTINUED

FAIR VALUE HIERARCHY CONTINUED

31 December 2015	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	246,398	246,398
Land	–	–	94,476	94,476
Residential properties	–	–	40,873	40,873
Non-residential properties	–	–	111,049	111,049
Investment securities	–	902,419	1,448	903,867
Other assets – derivative financial assets	–	42,212	–	42,212
Other assets – trading securities owned	1,977	–	–	1,977
Total revalued property	–	–	228,365	228,365
Office buildings	–	–	96,455	96,455
Service centres	–	–	131,910	131,910
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,432,934	–	1,432,934
Amounts due from credit institutions	–	731,365	–	731,365
Loans to customers and finance lease receivables	–	–	5,284,299	5,284,299
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	3,243	–	3,243
Liabilities for which fair values are disclosed				
Client deposits and notes	–	–	4,777,093	4,777,093
Amounts owed to credit institutions	–	–	1,789,062	1,789,062
Debt securities issued	–	938,894	131,621	1,070,515

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	–	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 and finance lease receivables	–	–	4,447,978	4,447,978
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	7,505	–	7,505
Liabilities for which fair values are disclosed				
Client deposits and notes	–	–	3,366,109	3,366,109
Amounts owed to credit institutions	–	–	1,409,214	1,409,214
Debt securities issued	–	779,445	77,250	856,695

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

TRADING SECURITIES AND INVESTMENT SECURITIES

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

30. FAIR VALUE MEASUREMENTS CONTINUED

FAIR VALUE HIERARCHY CONTINUED

ASSETS-HELD-FOR-SALE

In the fair value hierarchy table above is not included the assets-held-for-sale with a fair value of GEL 31,235. Assets-held-for-sale is sensitive to haircuts applied against comparative information, which vary from 0-15%. 15% Increase (decrease) in the existing haircuts will result in (decrease) increase in fair value by GEL 187k.

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:

	At 31 December 2013	Impairment of Investment	Purchase of AFS securities	At 31 December 2014	Purchase of AFS securities	At 31 December 2015	Other Comprehensive income	Reclassification to associates	Purchase of AFS securities	**At 31 December 2016**
Level 3 financial assets										
Equity investment securities available-for-sale	5,222	(3,837)	27	1,412	36	1,448	9,626	(9,626)	949	**2,397**

MOVEMENTS IN LEVEL 3 NON-FINANCIAL ASSETS MEASURED AT FAIR VALUE

All investment properties and revalued properties of property and equipment are Level 3. Reconciliations of their opening and closing amounts are provided in Notes 11 and 12, 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:

	2016		2015		2014	
	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	**2,397**	**+/- 359**	1,448	+/- 217	1,412	+/- 212

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.

30. FAIR VALUE MEASUREMENTS CONTINUED

FAIR VALUE HIERARCHY CONTINUED

DESCRIPTION OF SIGNIFICANT UNOBSERVABLE INPUTS TO VALUATIONS OF NON-FINANCIAL ASSETS

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

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**288,227**						
Land	**118,765**	Market approach	Price per square metre	51-1,332 (457)	Square metres, land	8,165-230,398 (116,236)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	**82,003**	Market approach	Price per square metre	933-1,939 (1,405)	Square metres, building	80-3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	**87,459**						
	15,397	Market approach	Price	2.8-5.5mln (4.1mln)	Square metres, land	8,383-18,635 (11,826)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	2,293-6,702 (3,774)	
			Rent per square metre	29.2-45.5 (38.1)	Square metres, building	418-4,868 (2,798)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
	62,138	Income approach	Occupancy rate	35-90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12-218 (26)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
			Land price per square metre	34-67 (57)	Square metres, land	7,939-13,946 (9,672)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
	9,924	Cost approach	Depreciated replacement cost per square metre	366-1,054 (778)	Square metres, building	836-1,639 (1,851)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

30. FAIR VALUE MEASUREMENTS CONTINUED

FINANCIAL INSTRUMENTS OVERVIEW CONTINUED

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Property and equipment	**936,739**						
Office buildings	**248,277**	Income approach	Rent per square metre	53-108 (83)	Square metres, building	243-17,647 (12,670)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
			Occupancy Rate	60-95% (84%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
Service centres	**93,843**						
	21,899	Market approach	Price per square metre	1,926-3,996 (3,170)	Square metres, building	66-1,589 (1,076)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
			Rent per square metere	26.3-115.0 (52.4)	Square metres, building	196-2,283 (952)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
	63,775	Income approach	Occupancy Rate	40-95% (83%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	16-256 (29)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	8,169	Cost approach	Depretiated Replacement cost per square metre	501-501 (501)			Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value
Infrastructure assets	**193,566**						
		Discounted cash flows (DCF)	WACC; terminal period growth rate	16.6%	Pipes and wells, equipment	N/A	increase (decrease) in terminal growth rate would result in increase (decrease) in fair value; increase (decrease) in WACC would result in decrease (increase) in fair value
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	84			increase (decrease) in the price of comparable would result in increase (decrease) in fair value
Hospitals and clinics	**401,053**	Market approach	Price per square meter, land, building	3-1,106	Square meters, building	151-30,700	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

30. FAIR VALUE MEASUREMENTS CONTINUED

FINANCIAL INSTRUMENTS OVERVIEW CONTINUED

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 2016, 31 December 2015 and 31 December 2014:

	31 December 2016		
	Loans and receivables	**Available-for-sale**	**Fair value through profit or loss**
Financial assets			
Amounts due from credit institutions	**1,054,983**	**–**	**–**
Loans to customers and finance lease receivables	**6,648,482**	**–**	**–**
Accounts receivable and other loans	**128,506**	**–**	**–**
Equity instruments	**–**	**1,448**	**261**
Debt instruments	**–**	**1,284,555**	**1,135**
Foreign currency derivative financial instruments	**–**	**–**	**1,466**
TOTAL	**7,831,971**	**1,286,003**	**2,862**
Financial liabilities			
Client deposits and notes	**5,382,698**	**–**	**–**
Amounts owed to credit institutions	**3,470,091**	**–**	**–**
Debt securities issued	**1,255,643**	**–**	**–**
Trade and other payables (in other liabilities)	**171,519**	**–**	**–**
Foreign currency derivative financial instruments	**–**	**–**	**9,411**
TOTAL	**10,279,951**	**–**	**9,411**

	31 December 2015			31 December 2014		
	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	731,365	–	–	418,281	–	–
Loans to customers and finance lease receivables	5,322,117	–	–	4,347,851	–	–
Accounts receivable and other loans	87,972	–	–	70,207	–	–
Equity instruments	–	1,448	1,505	–	1,412	41
Debt instruments	–	902,419	472	–	768,300	993
Foreign currency derivative financial instruments	–	–	42,212	–	–	45,733
TOTAL	6,141,454	903,867	44,189	4,836,339	769,712	46,767
Financial liabilities						
Client deposits and notes	4,751,387	–	–	3,338,725	–	–
Amounts owed to credit institutions	1,789,062	–	–	1,409,214	–	–
Debt securities issued	1,039,804	–	–	856,695	–	–
Trade and other payables (in other liabilities)	106,128	–	–	57,295	–	–
Foreign currency derivative financial instruments	–	–	3,243	–	–	7,505
TOTAL	7,686,381	–	3,243	5,661,929	–	7,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. FAIR VALUE MEASUREMENTS CONTINUED

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

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

	Carrying value 2016	Fair value 2016	Unrecognised gain (loss) 2016
Financial assets			
Cash and cash equivalents	**1,573,610**	**1,573,610**	**–**
Amounts due from credit institutions	**1,054,983**	**1,054,983**	**–**
Loans to customers and finance lease receivables	**6,648,482**	**6,725,662**	**77,180**
Financial liabilities			
Client deposits and notes	**5,382,698**	**5,388,768**	**(6,070)**
Amounts owed to credit institutions	**3,470,091**	**3,470,091**	**–**
Debt securities issued	**1,255,643**	**1,314,400**	**(58,757)**
TOTAL UNRECOGNISED CHANGE IN UNREALISED FAIR VALUE			**12,353**

	Carrying value 2015	Fair value 2015	Unrecognised loss 2015	Carrying value 2014	Fair value 2014	Unrecognised loss 2014
Financial assets						
Cash and cash equivalents	1,432,934	1,432,934	–	710,144	710,144	–
Amounts due from credit institutions	731,365	731,365	–	418,281	418,281	–
Loans to customers and finance lease receivables	5,322,117	5,284,299	(37,818)	4,347,851	4,447,978	100,127
Financial liabilities						
Client deposits and notes	4,751,387	4,777,093	(25,706)	3,338,725	3,366,109	(27,384)
Amounts owed to credit institutions	1,789,062	1,789,062	–	1,409,214	1,409,214	–
Debt securities issued	1,039,804	1,070,515	(30,711)	856,695	856,695	–
TOTAL UNRECOGNISED CHANGE IN UNREALISED FAIR VALUE			(94,235)			72,743

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.

31. 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 29 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2016							
	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	**1,115,012**	**458,598**	**–**	**–**	**–**	**–**	**–**	**1,573,610**
Amounts due from credit institutions	**944,403**	**14,334**	**19,913**	**69,842**	**5,094**	**–**	**1,397**	**1,054,983**
Investment securities	**109,868**	**1,080,617**	**38,414**	**11,488**	**6,269**	**38,971**	**376**	**1,286,003**
Loans to customers and finance lease receivables	**–**	**1,124,962**	**501,429**	**1,520,939**	**1,765,099**	**810,045**	**926,008**	**6,648,482**
TOTAL	**2,169,283**	**2,678,511**	**559,756**	**1,602,269**	**1,776,462**	**849,016**	**927,781**	**10,563,078**
Financial liabilities								
Client deposits and notes	**1,004,823**	**876,865**	**550,296**	**2,462,509**	**408,091**	**54,055**	**26,059**	**5,382,698**
Amounts owed to credit institutions	**330,899**	**1,373,489**	**176,065**	**358,190**	**582,783**	**299,309**	**349,356**	**3,470,091**
Debt securities issued	**–**	**82,247**	**34,338**	**70,208**	**271,276**	**87,892**	**709,682**	**1,255,643**
TOTAL	**1,335,722**	**2,332,601**	**760,699**	**2,890,907**	**1,262,150**	**441,256**	**1,085,097**	**10,108,432**
NET	**833,561**	**345,910**	**(200,943)**	**(1,288,638)**	**514,312**	**407,760**	**(157,316)**	**454,646**
ACCUMULATED GAP	**833,561**	**1,179,471**	**978,528**	**(310,110)**	**204,202**	**611,962**	**454,646**	

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

	2015							
	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	1,072,361	360,573	–	–	–	–	–	1,432,934
Amounts due from credit institutions	617,673	702	28,338	82,393	309	–	1,950	731,365
Investment securities	560,120	241,481	31,247	6,531	60,244	3,057	1,187	903,867
Loans to customers and finance lease receivables	–	796,765	537,690	1,024,619	1,586,728	705,152	671,163	5,322,117
TOTAL	2,250,154	1,399,521	597,275	1,113,543	1,647,281	708,209	674,300	8,390,283
Financial liabilities								
Client deposits and notes	847,003	810,072	541,142	2,008,160	444,591	80,012	20,407	4,751,387
Amounts owed to credit institutions	92,617	528,644	108,023	247,414	403,528	139,573	269,263	1,789,062
Debt securities issued	–	51,457	–	53,703	934,644	–	–	1,039,804
TOTAL	939,620	1,390,173	649,165	2,309,277	1,782,763	219,585	289,670	7,580,253
NET	1,310,534	9,348	(51,890)	(1,195,734)	(135,482)	488,624	384,630	810,030
ACCUMULATED GAP	1,310,534	1,319,882	1,267,992	72,258	(63,224)	425,400	810,030	

	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	327,846	383,657	7,361	9,698	34,008	1,966	5,176	769,712
Loans to customers and finance lease receivables	–	695,719	510,881	734,149	1,282,395	624,387	500,320	4,347,851
TOTAL	1,402,133	1,098,755	522,216	770,171	1,318,889	626,353	507,471	6,245,988
Financial liabilities								
Client deposits and notes	272,235	603,510	366,000	1,686,080	355,892	39,995	15,013	3,338,725
Amounts owed 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	(133,501)	63,582	(1,113,182)	(89,792)	433,616	383,684	641,354
ACCUMULATED GAP	1,096,947	963,446	1,027,028	(86,154)	(175,946)	257,670	641,354	

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 below. 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 2016 client deposits and notes amounted to GEL 5,382,698 (2015: GEL 4,751,387, 2014: GEL 3,338,725) and represented 51% (2015: 59%, 2014: 56%) 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 2016 amounts owed to credit institutions amounted to GEL 3,470,091 (2015: GEL 1,789,062, 2014: GEL 1,409,214) and represented 33% (2015: 22%, 2014: 24%) of total liabilities. As at 31 December 2016 debt securities issued amounted to GEL 1,255,643 (2015: GEL 1,039,804, 2014: GEL 856,695) and represented 12% (2015: 13%, 2014: 14%) of total liabilities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

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

	31 December 2016		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,573,610	–	1,573,610
Amounts due from credit institutions	1,048,492	6,491	1,054,983
Investment securities	1,240,387	45,616	1,286,003
Loans to customers and finance lease	3,147,330	3,501,152	6,648,482
Accounts receivable and other loans	128,222	284	128,506
Insurance premiums receivable	46,379	44	46,423
Prepayments	57,465	18,812	76,277
Inventories	88,375	99,969	188,344
Investment properties	–	288,227	288,227
Property and equipment	–	1,323,870	1,323,870
Goodwill	–	106,986	106,986
Intangible assets	–	58,907	58,907
Income tax assets	22,329	1,714	24,043
Other assets	137,258	47,534	184,792
TOTAL ASSETS	7,489,847	5,499,606	12,989,453
Client deposits and notes	4,894,493	488,205	5,382,698
Amounts owed to credit institutions	2,238,643	1,231,448	3,470,091
Debt securities issued	186,793	1,068,850	1,255,643
Accruals and deffered income	58,726	71,593	130,319
Insurance contracts liabilities	62,247	5,624	67,871
Income tax liabilities	5,548	22,243	27,791
Other liabilities	213,063	18,559	231,622
TOTAL LIABILITIES	7,659,513	2,906,522	10,566,035
NET	(169,666)	2,593,084	2,423,418

	31 December 2015			31 December 2014		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,432,934	–	1,432,934	710,144	–	710,144
Amounts due from credit institutions	729,106	2,259	731,365	413,820	4,461	418,281
Investment securities	839,379	64,488	903,867	728,562	41,150	769,712
Loans to customers and finance lease receivables	2,359,074	2,963,043	5,322,117	1,940,749	2,407,102	4,347,851
Accounts receivable and other loans	87,955	17	87,972	70,207	–	70,207
Insurance premiums receivable	39,177	49	39,226	31,764	76	31,840
Prepayments	25,371	32,957	58,328	17,848	15,926	33,774
Inventories	98,387	28,640	127,027	30,184	71,258	101,442
Investment properties	–	246,398	246,398	–	190,860	190,860
Property and equipment	–	794,682	794,682	–	588,513	588,513
Goodwill	–	72,984	72,984	–	49,633	49,633
Intangible assets	–	40,516	40,516	–	34,432	34,432
Income tax assets	3,654	17,896	21,550	–	22,745	22,745
Other assets	106,129	130,644	236,773	88,734	120,977	209,711
TOTAL ASSETS	5,721,166	4,394,573	10,115,739	4,032,012	3,547,133	7,579,145
Client deposits and notes	4,206,377	545,010	4,751,387	2,927,825	410,900	3,338,725
Amounts owed to credit institutions	976,698	812,364	1,789,062	833,385	575,829	1,409,214
Debt securities issued	105,160	934,644	1,039,804	118,219	738,476	856,695
Accruals and deffered income	113,134	33,718	146,852	36,241	72,382	108,623
Insurance contracts liabilities	51,273	4,572	55,845	43,166	3,420	46,586
Income tax liabilities	20,083	104,312	124,395	11,093	86,471	97,564
Other liabilities	120,082	14,674	134,756	49,422	38,223	87,645
TOTAL LIABILITIES	5,592,807	2,449,294	8,042,101	4,019,351	1,925,701	5,945,052
NET	128,359	1,945,279	2,073,638	12,661	1,621,432	1,634,093

32. 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:

	2016			2015			2014		
	Share-holders*	**Associates**	**Key management personnel****	Share-holders*	Associates	Key management personnel**	Share-holders*	Associates	Key management personnel**
LOANS OUTSTANDING AT 1 JANUARY, GROSS	**–**	**13,541**	**1,258**	–	78,592	2,048	–	–	1,484
Loans issued during the year	**–**	**337**	**2,035**	–	4,000	4,511	–	85,933	4,853
Loan repayments during the year	**–**	**(640)**	**(1,236)**	–	(84,033)	(6,188)	–	(16,376)	(4,474)
Other movements	**–**	**2,009**	**(51)**	–	14,982	887	–	9,035	185
LOANS OUTSTANDING AT 31 DECEMBER, GROSS	**–**	**15,247**	**2,006**	–	13,541	1,258	–	78,592	2,048
Less: allowance for impairment at 31 December	**–**	**–**	**–**	–	(116)	–	–	(743)	(1)
LOANS OUTSTANDING AT 31 DECEMBER, NET	**–**	**15,247**	**2,006**	–	13,425	1,258	–	77,849	2,047
Interest income on loans	**–**	**1,243**	**148**	–	3,986	173	–	1,767	86
Loan impairment charge	**–**	**–**	**–**	–	–	–	–	(743)	–
DEPOSITS AT 1 JANUARY	**–**	**1,419**	**20,129**	–	4,975	17,500	–	50	11,455
Deposits received during the year	**–**	**1,163**	**14,447**	–	195,316	40,774	–	132,087	33,646
Deposits repaid during the year	**–**	**–**	**(446)**	–	(199,048)	(41,548)	–	(128,859)	(31,225)
Other movements	**–**	**(1,341)**	**(5,711)**	–	176	3,403	–	1,697	3,624
DEPOSITS AT 31 DECEMBER	**–**	**1,241**	**28,419**	–	1,419	20,129	–	4,975	17,500
Interest expense on deposits	**–**	**–**	**(614)**	–	(33)	(477)	–	(2)	(513)
Other income	**–**	**–**	**115**	–	15	77	–	2	92
BORROWINGS AT 1 JANUARY	**–**	**–**	**–**	–	–	–	233,209	–	–
Borrowings received during the year	**–**	**–**	**–**	–	–	–	–	–	–
Borrowings repaid during the year	**–**	**–**	**–**	–	–	–	1,453	–	–
Other movements	**–**	**–**	**–**	–	–	–	(234,662)	–	–
BORROWINGS AT 31 DECEMBER	**–**	**–**	**–**	–	–	–	–	–	–
Interest expense on borrowings	**–**	**–**	**–**	–	–	–	(6,750)	–	–
INTEREST RATE SWAPS AT 1 JANUARY	**–**	**–**	**–**	–	–	–	1,453	–	–
Payments during the year	**–**	**–**	**–**	–	–	–	(1,453)	–	–
Other movements	**–**	**–**	**–**	–	–	–	–	–	–
INTEREST RATE SWAPS AT 31 DECEMBER	**–**	**–**	**–**	–	–	–	–	–	–
Net loss from interest rate swaps	**–**	**–**	**–**	–	–	–	–	–	–

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

Details of Directors' emoluments are included in the Remuneration Report on pages 98 to 113. Compensation of key management personnel comprised the following:

	2016	2015	2014
Salaries and other benefits	**7,735**	6,464	4,143
Share-based payments compensation*	**40,679**	19,435	14,763
Social security costs	**51**	55	43
TOTAL KEY MANAGEMENT COMPENSATION	**48,465**	25,954	18,949

* Share-based payments compensation includes termination benefits in the amount of GEL 9,820 for key management personnel reflected in the non-recurring items Note 27.

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 28). The number of key management personnel at 31 December 2016 was 18 (31 December 2015: 16, 31 December 2014: 16).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. 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.

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

During year ended 31 December 2016, 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 10.8% 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 2016, 31 December 2015 and 31 December 2014, the Bank's capital adequacy ratio on this basis was as follows:

	2016	2015	2014
Core capital	**676,692**	728,139	895,318
Supplementary capital	**669,940**	649,607	398,598
Less: deductions from capital	**(79,059)**	(60,311)	(365,487)
TOTAL REGULATORY CAPITAL	**1,267,573**	1,317,435	928,429
RISK-WEIGHTED ASSETS	**9,360,857**	7,811,398	6,719,169
TOTAL CAPITAL ADEQUACY RATIO	**13.5%**	16.9%	13.8%

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 10.5% of risk-weighted assets, computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II/III requirements. As at 31 December 2016 the Bank's capital adequacy ratio on this basis was as follows:

	2016	2015	2014
Tier 1 capital	**892,613**	914,784	800,465
Tier 2 capital	**519,726**	479,176	217,100
TOTAL CAPITAL	**1,412,339**	1,393,960	1,017,565
RISK-WEIGHTED ASSETS	**9,790,282**	8,363,369	7,204,080
TOTAL CAPITAL RATIO	**14.4%**	16.7%	14.1%

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

34. EVENTS AFTER THE REPORTING PERIOD

JSC ABC PHARMACY ACQUISITION

On 6 January 2017 the Group acquired 67% of the shares of JSC ABC Pharmacy (ABC), a pharmaceuticals company operating in Georgia from individual investors. As a result of acquisition, the Group increased its presence and investment in the Georgian healthcare market through the acquisition of ABC. Management considers that the deal will have a positive impact on the value of the Group. Subsequent to acquisition, GHG will merge ABC with GPC, the existing pharmaceuticals subsidiary of the Group, and the name of the merged company will be JSC Georgian Pharmacy (GEPHA).

Consideration comprised cash payment of GEL 32,554, a holdback amount with a fair value of GEL 30,041 (payable in five traches over the five-year period) and non-cash consideration comprising 33% shares in GPC. In accordance with the terms of the deal, the selling shareholders are required to invest 33% of cash proceeds from sale of ABC in GHG shares that will be locked up during the three years following the purchase. In addition, the Group and the selling shareholders entered in a call and put options over remaining 33% minority stake in the combined pharma business. Upon exercise of either option, 33% of the cash proceeds received by the selling shareholders will be used to purchase GHG shares, with a lock-up that expires annually in a straight line over two years.

Provisionally estimated unaudited net assets of ABC at acquisition date comprised GEL 39,937. The goodwill is expected to arise from the acquisition consisting largely of the synergy that is expected to be brought into the Group's operations. The Group continues a thorough examination of the net assets and if identified, adjustments will be made to the net assets and amount of the goodwill and accounting for business combination will be complete during the 12-month period from the acquisition date, as allowed by IFRS 3 "Business Combinations".

DE-DOLLARISATION PROGRAMME

On 11 January 2017, the Government of Georgia approved a "de-dollarisation" programme. The purpose of the programme is to increase the disposable income of individuals, reduce their dependency on foreign exchange rate fluctuations and promote financial stability in Georgia. Under the programme rules, all Georgian commercial banks were required to convert eligible Dollar-denominated loans into GEL, at a discount that is compensated by the Government, until 25 March 2017 at clients' sole discretion, i.e. clients had an option to convert the loans at their own will. Additionally, NBG introduced new regulation, according to which, borrowings that are less than GEL 100 thousands would be issued in local currency effective from 15 January 2017. The conversion programme did not affect the Group's 2017 financial results significantly and the Group is currently assessing long-term business impact of the de-dollarisation initiative.

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
BNB	Belarusky Narodny Bank
CAGR	Compounded annual growth rate
CAR	Capital Adequacy ratio
CEO	Chief Executive Officer
CRO	Chief Risk Officer
DCFTA	Deep and Comprehensive Free Trade Agreement
DEG	Deutsche Investitions – und Entwicklungsgesellschaft – German Investment and Development Corporation
DFI	Development Finance Institutions
EBRD	European Bank for Reconstruction and Development
EECP	Executives' Equity Compensation Plan
EFSE	European Fund For Southeast Europe
EIB	European Investment Bank
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: The Netherlands Development Bank
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
IAS	International Accounting Standards
IASB	International Accounting Standards Board
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

MSME	Micro, small and medium enterprise
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
PLC	Public limited company
POS	Point of Sale
PPP	Purchasing power parity
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SMEs	Small and medium size enterprises
TSR	Total Shareholder Return
UK	United Kingdom of Great Britain and Northern Ireland
US$	The 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
Constant currency basis	Changes assuming constant exchange rate
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.
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
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
m² 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
New NBG (Basel 2/3) Tier I Capital Adequacy ratio	Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions
New NBG (Basel 2/3) Total Capital Adequacy ratio	Total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions
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
Proparco	A subsidiary of the Agence Française de Développement (AFD)
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
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

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 BGEO at http://www.bgeo.com.

OUR REGISTERED ADDRESS

BGEO Group PLC
84 Brook Street
London W1K 5EH
United Kingdom

ANNUAL GENERAL MEETING

The Annual General Meeting of BGEO (the "AGM") will be held at 12 noon (London time) on 1 June 2017 at Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. 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 2 May 2017 and will be available on the BGEO's website: http://bgeo.com/page/id/83/shareholder-meetings.

SHAREHOLDER ENQUIRIES

BGEO'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 or by calling the Shareholder Helpline on +44 (0)370 873 5866.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZY
United Kingdom
+44 (0)870 873 5866

DIVIDENDS

On 20 February 2017, the Directors of BGEO declared their intention to recommend an annual dividend in the amount of GEL 2.6 per share (payable in British Pounds Sterling at the prevailing rate), subject to approval by the shareholders at BGEO's AGM. As a holding company whose principal assets are the shares of its subsidiaries, BGEO 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 BGEO's AGM on 1 June 2017, BGEO expects the following dividend timetable:

Ex-Dividend Date: 22 June 2017
Record Date: 23 June 2017
Currency Conversion Date: 26 June 2017
Payment Date: 7 July 2017

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although BGEO Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 36 to 39. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in BGEO Group PLC or any other entity and must not be relied upon in any way in connection with any investment decision. BGEO Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

NOTES

NOTES

MIX
Paper from responsible sources
FSC® C003379
www.fsc.org

Designed and produced by emperor
Visit us at emperor.works


CASINO
NIGHT CLUB
TBILISI