BGEO BECOME GEORGIA | INVESTMENT PLATFORM

UNLOCKING SHAREHOLDER VALUE

ANNUAL REPORT 2017

ABOUT US

BGEO GROUP

BGEO Group PLC (BGEO or the Group) is a UK incorporated holding company of a Georgia-focused investment platform. BGEO aims to deliver on its strategy of: (1) at least 20% ROAE from its Banking Business; (2) 15-20% growth of its Banking Business loan book; (3) at least 25% IRR; and (4) up to 20% of the Group's profit contribution from its Investment Business. On 3 July 2017 BGEO announced its intention to demerge BGEO Group PLC into a London-listed banking business (the Banking Business), Bank of Georgia Group PLC, and a London-listed investment business (the Investment Business), Georgia Capital PLC, by the end of the first half of 2018.

See page 14 for our current business model and page 19 for the demerger.

BANKING BUSINESS

Our Banking Business comprises: (a) retail banking and payment services, (b) corporate investment banking and wealth management operations and (c) banking operations in Belarus (BNB). JSC Bank of Georgia (BOG or the Bank) is the core entity of the Group's Banking Business. The Banking Business will continue to aim to benefit from the underpenetrated banking sector in Georgia, primarily through its retail banking services.

See page 4 for the overview of our Banking Business.

INVESTMENT BUSINESS

Our Investment Business comprises the Group's stakes in Georgia Healthcare Group PLC (Healthcare Business or GHG) – an LSE (a London Stock Exchange) premium-listed company, Georgia Global Utilities (Utility and Energy Business or GGU), m² Real Estate (Real Estate Business or m²), Aldagi (Property and Casualty Insurance Business or Aldagi) and Teliani Valley (Beverage Business or Teliani). Georgia's fast-growing economy provides opportunities in a number of underdeveloped local markets and the Investment Business will aim to capture growth opportunities in the Georgian corporate sector.

See page 5 for the overview of our Investment Business.

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www.bgeo.com

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FINANCIAL HIGHLIGHTS

The effectiveness of our strategy is reflected in the record 2017 financial results highlighted below.

REVENUE *(GEL million)*

BGEO

+23.7% y-o-y

1,080.6

2015	2016	2017
764.1	873.6	1,080.6

BASIC EARNINGS PER SHARE *(GEL)*

BGEO

+11.5% y-o-y

11.61

2015	2016	2017
7.93	10.41	11.61

PROFIT* *(GEL million)*

BGEO

+8.1% y-o-y

463.4

2015	2016	2017
310.9	428.6	463.4

RETURN ON EQUITY

Banking Business

+3 ppts y-o-y

25.2%

2015	2016	2017
21.9%	22.2%	25.2%

CLIENT DEPOSITS *(GEL million)*

Banking Business

+23.0% y-o-y

7,078.1

2015	2016	2017
5,011.3	5,755.8	7,078.1

NET LOANS *(GEL million)*

Banking Business

+15.9% y-o-y

7,741.4

2015	2016	2017
5,366.8	6,681.7	7,741.4

COST TO INCOME RATIO

Banking Business

flat y-o-y

37.7%

2015	2016	2017
35.5%	37.7%	37.7%

TIER 1 CAPITAL RATIO (NBG, BASEL II)**

Bank of Georgia

+1.2 ppts y-o-y

10.3%

2015	2016	2017
10.9%	9.1%	10.3%

EBITDA *(GEL million)*

Investment Business

+55.7% y-o-y

106.6

2015	2016	2017
30.4	68.4	106.6

PROFIT BEFORE NON-RECURRING ITEMS AND INCOME TAX*** *(GEL million)*

Investment Business

+21.4% y-o-y

105.5

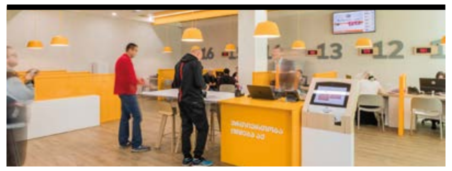
2015	2016	2017
55.9	86.8	105.5

* Profit from continuing operations — GEL 403.5 million (+9.0% y-o-y); Profit from discontinued operations — GEL 59.9 million (+2.8% y-o-y).
** Tier 1 Capital Ratio (NBG Basel III) at 31 December 2017 – 12.4%.
*** Including discontinued operations.
**** In 2017, we changed the Group's accounting policy in relation to subsequent measurement of office buildings and service centres from revaluation model to cost model. We have accordingly restated the balance sheet accounts for affected periods, while the change did not have any material impact on the income statement. In addition, we started presenting Aldagi as part of the Investment Business since 2Q17. Therefore, Banking Business balance sheet and income statement accounts, and the ratios have been updated accordingly for prior periods presented to reflect these changes.

OPERATING HIGHLIGHTS

2017 operating highlights reflect the expanding footprint of our banking and investment businesses in Georgia.

BANKING BUSINESS: NUMBER OF RETAIL BANKING CLIENTS



2,315,038

+173,809 (OVER 2016)

BANKING BUSINESS: NUMBER OF CARDS

2,227,000

+170,742 (OVER 2016)

BANKING BUSINESS: BANKING BRANCHES

286

+8 (OVER 2016)

BANKING BUSINESS: POS TERMINALS

13,291

+2,934 (OVER 2016)

BANKING BUSINESS: EXPRESS PAY TERMINALS

2,842

+113 (OVER 2016)

BANKING BUSINESS: ATMs

850

+49 (OVER 2016)

UTILITY AND ENERGY BUSINESS: WATER BILLED TO CUSTOMERS (M^3 MILLION)

174

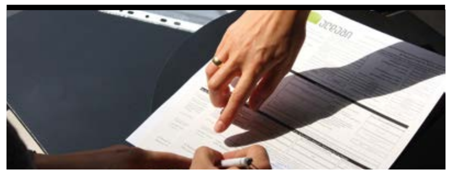
+10 (OVER 2016)

REAL ESTATE BUSINESS: NUMBER OF APARTMENTS SOLD

629

+222 (OVER 2016)

P&C INSURANCE BUSINESS: NEW INSURANCE POLICIES WRITTEN



155,332

+42,902 (OVER 2016)

BEVERAGE BUSINESS: DISTRIBUTION SALES POINTS

c.6,700

+2,100 (OVER 2016)

HEALTHCARE BUSINESS: NUMBER OF PHARMACIES

255

+12 (OVER 2016)*

HEALTHCARE BUSINESS: NUMBER OF HEALTHCARE BEDS

3,014

+457 (OVER 2016)

* 2016 includes Pharmadepot's pharmacies.

AT A GLANCE

RETAIL BANKING

CLIENT-CENTRIC, MULTI-BRAND STRATEGY FOR OUR C.2.3 MILLION CLIENTS.

We are the leading retail banking player in Georgia, serving c.2.3 million clients through the widest network of 281 retail branches, 850 ATMs and 2,842 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 component of our business, runs a client-centric, multi-brand strategy, which reaches the entire spectrum of retail clients through three well-established and recognised brands:

1. Express – designed to service emerging retail clients 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 long-established banking services to our mass retail clients; and

3. Solo – targeting mass affluent clients and providing a unique blend of banking and lifestyle products and services.

CORPORATE INVESTMENT BANKING

INTEGRATED SOLUTIONS FOR OUR CIB CLIENTS.

Our Bank is a 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 2,500 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 in terms of both reach and expertise that we have accumulated over the past several years through our corporate advisory, debt and equity capital market 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 various sectors of the Georgian economy and developments taking place in regional economies. In addition, since August 2017, Galt & Taggart publishes an extensive quarterly report on macroeconomic developments in the Georgian economy, followed by a conference call hosted by Galt & Taggart for interested stakeholders to discuss the developments (subscription to the research on www.galtandtaggart.com).

WEALTH MANAGEMENT

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

We have been active in asset and wealth management since 2005. Accommodating 1,434 local and international clients from 75 countries worldwide, 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 Eastern Europe, the Middle East and Great Britain. The unique offer of the Bank of Georgia provides our clients with the opportunity of investing in Georgia, which many foreign customers perceive as very attractive. 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.

In May 2017, we held the first regional conference of Wealth Management in Tbilisi. The event aimed to introduce Georgia as a regional hub for private banking services. The prospects and challenges of making Georgia a regional banking centre were discussed, including the investment climate in Georgia, the country's economy and the banking sector. The conference was attended by leading financial institutions from the countries of Europe and the Middle East, including Israel and Russia, as well as by international clients and professionals with legal and taxation backgrounds.

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 increased its ownership of BNB from 79.99% in 2016 to 99.98% in 2017. The Group is exploring options for realising value from BNB, as it is not located in our core region of focus.

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 has 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 Georgian cities: Tbilisi, Mtskheta and Rustavi. In the electric power business, GGU has a portfolio of three hydropower generating facilities (an additional 2.9MW facility under management) with a total of 149.3MW capacity. Generated power is primarily used by GGU's water business, with the excess amount sold to third parties. GGU is developing hydropower plants (HPPs), as well as solar and wind power sources in Georgia. In 2017, GGU commenced construction of the 50MW HPP in North-Western Georgia (Svaneti region) aiming for the HPP to be operational in December 2018. Moreover, 44.3MW Zoti HPP in Western Georgia (Guria region) is currently under development with a target to complete the construction by the end of 2020. c.100MW wind projects are currently at the feasibility stage and once complete, GGU expects to commence construction works.

m² REAL ESTATE (m²)

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

Our real estate business, the Group's wholly-owned subsidiary m² Real Estate, develops and sells residential and commercial properties in Georgia. For the past couple of years, m² has established itself as one of the most recognisable and trustworthy residential housing brands in the country.

m² also manages a yielding real estate asset portfolio, which it accumulated through its own developments, as well as opportunistic investments in high street real estate. m² has an exclusive agreement with Wyndham to develop its three-star brand Ramada Encore. First Ramada Encore hotel opened in Tbilisi in February 2018. m² is also developing a three-star Ramada Encore hotel in Kutaisi and a four-star Ramada hotel in Tbilisi. The hotel in Tbilisi is currently under construction.

In 2017, m² acquired BK Construction LLC, a local real estate construction company, with the aim to bring the construction works in-house to achieve cost and project development efficiencies. The vertical integration of the construction arm into m²'s business model enables the company to generate fee income from construction management from franchised deals and third party constructions. m² focuses on franchising the m² brand and uses its platform to develop third party land plots as part of its "asset light" strategy. m² Real Estate has sold 2,676 apartments worth US$ 222.3 million since 2011 with 99.1% of apartments sold in seven successfully completed projects and 83.2% pre-sales in four ongoing projects.

P&C INSURANCE (ALDAGI)

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 38.6% based on gross premiums earned as of and for the nine months ended 30 September 2017. The company offers a wide range of insurance products in Georgia to corporate and retail clients, covering more than 47,000 customers through five business lines: motor, property, credit life, liability and other insurance services. Aldagi's insurance products are offered through the offices in Tbilisi and large cities across Georgia, a network of insurance agents, local partner banks and non-financial institutions (such as major car dealerships), insurance brokers and online portals.

Aldagi aims to unlock the full potential of Georgia's significantly underpenetrated retail insurance segment by extending cooperation with local financial institutions to successfully diversify its multi-channel distribution network, uncover additional sources of high quality customers for its leading insurance products and consolidate its market leadership position in digital insurance, which will enable Aldagi to strengthen its presence in the fast-emerging retail insurance segment.

BEVERAGE BUSINESS (TELIANI VALLEY)

CREATING A LEADING BEVERAGE PRODUCER AND DISTRIBUTOR IN SOUTH CAUCASUS.

Teliani is a leading Georgian wine producer and beverage distributor with a wide distribution platform for a variety of imported beverages as well as own produced wine. Teliani sells around 3.5 million bottles of wine annually, with about 68% of sales coming from exports. Building on its existing distribution franchise of c.5,000 sales points, Teliani has expanded 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 c.17 million people. The construction of the beer brewing facility completed in 2016 and Teliani launched local mainstream beer and lemonade production in June and August 2017, respectively. The newly launched beer "ICY" was well received by the local market, which immediately earned 97% brand awareness and 16% market share upon launch. Teliani is on track to brew Heineken and Krushovice beers in 2018. With a strong management team and a proven track record, Teliani aims to become a leading beverages producer and distributor in South Caucasus.

GEORGIA HEALTHCARE GROUP (GHG)

THE LEADING INTEGRATED PLAYER IN THE GEORGIAN HEALTHCARE ECOSYSTEM WITH A VALUE OF GEL 3.5 BILLION.

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest healthcare services provider and the largest pharmaceuticals retailer and wholesaler 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 37 hospitals and 12 polyclinic clusters, including 16 district polyclinics and 24 express outpatient clinics, and 255 pharmacies as at 31 December 2017. GHG is the single largest market participant, accounting for 24.5% of total hospital bed capacity in the country as at 31 December 2017.

GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, with approximately 30% market share by revenue in 2017. GHG has approximately c.2.1 million client interactions per month, with 0.5 million loyalty card members. GHG is also the second largest provider of medical insurance in Georgia with a 29.0% market share based on gross revenue and has approximately 155,000 insurance customers at January 2018.

At 31 December 2017, in line with IFRS, GHG is classified as a "disposal group held for sale" and the results of its operations are reported under "discontinued operations". For details see Overview of Financial Results on page 52.

CHAIRMAN'S STATEMENT

NEIL JANIN
CHAIRMAN

Dear Shareholders,

This is expected to be the last BGEO annual report. The forthcoming demerger of the Group, announced in July 2017, reflects both the end of an era and the start of a new one. The Board and management team are convinced that we are on the right strategic path. In fulfilling our fiduciary duties to you, the Board regularly examines strategic options. We elected to split the Group into two independent businesses: the Bank and an investment vehicle, which we call Georgia Capital.

If we do it right, we could be at the eve of a major jump in value creation. We will have created three large groups, all quoted on the London Stock Exchange, each with their own Board, management, and strategic logic. It is an opportunity to deliver better service to our clients, better development to our employees, more growth of the corporate sector of the country, and finally significant financial return to our shareholders. Each management team and the Boards will focus on the development of one kind of business.

In my letter, I have traditionally followed a set structure. First, a few words on Georgia; then on the strategy of the Group; and then on people – Board and top management. Irakli Gilauri, our CEO, and others will expand on the detail of the businesses.

Economically, Georgia is doing exceptionally well in a difficult region and world. I believe three key factors make the Georgian situation positive in the long term:

1. Macroeconomic stability. Prudent monetary and fiscal policies have led to almost 5% real GDP growth during 2017. This has allowed the first ever issuance of offshore local currency bonds by Bank of Georgia.
2. Many healthy and developing sectors, in line with Government policies:
   a. The financial sector, of which we are part
   b. Infrastructure development, especially in the power sector
   c. Healthcare, where we participate in the universal healthcare access policies of Government
   d. Finally, and more long term, the Government has a programme to improve education, and to make the public sector more efficient.
3. Good Government
   a. Strong anti-corruption policies. According to Transparency International, Georgia has maintained its ranking as a low bribery environment — on a par with many European Union member states
   b. Georgia's ease of doing business ranking was 9th out of 190 countries in the world, in 2018, up from 16th last year. Here again an excellent result
   c. Fiscal development. The corporate tax reforms, effectively eliminating corporate income tax for all re-invested or retained earnings, started at the beginning of the year and have already yielded GEL 600-650 million cash buffer for corporate re-investment in the first year on the policy's adoption. The reform efforts also envisage capital market development and pension reform. Georgia is on the right path, and these are developments which take time
   d. Reduction of the fiscal deficit. The Government is determined to reduce its fiscal deficit, on the back of reducing non-essential current spending. The 2018 draft budget is an illustration that Government delivers on its commitments; as was the case in 2017.

The proof of this economic progress lies in the fact that we were able do the first ever Lari Eurobond issuance and that Moody's has upgraded both Georgia and Bank of Georgia to a level two notches below investment grade. The strategy of creating a "mini Singapore" within the region is moving forward day by day. Singapore was not created in one day.

Politically, things are as calm as they can be with Russia. The New York Times reported last year on Russia's attempts to provoke Georgia on the boundaries of Abkhazia and South Ossetia – all true; but we also see that Russia is doing more business with Georgia, specifically in terms of transport links and increased tourism flows. Elsewhere, Turkey remains Georgia's largest trade partner, whilst the development of trading links with Iran are likely to take more time than we originally thought. At the same time, Georgia signed a free trade agreement with China and now has access to a market of 1.4 billion consumers, with zero tariffs, without additional customs fees and without any transition period.

Internally, it is important to remember that Georgia is still a pluralist and free country. It is taking the habits of democracies, albeit with one party dominance: historically the UNM party, and Georgian Dream now. We have a Government which is supportive and has very competent public servants. Finally, investors should not forget that the United States and the European Union exercise strong external checks and balances – they do not want to lose Georgia as a rare democratic success story. They showed their confidence in the country by granting Georgia visa-free entry to the 26 countries of the Schengen Area.

The thinking behind our decision to break-up the Group into two separate businesses, each expected to be quoted on the premium segment of the London Stock Exchange, deserves to be explained.

It did not come from the analysis of a conglomerate discount, and the expectation that we would see a valuation bump because of the transaction. The value creation boost for the two entities is derived from our belief that we will run them better— with higher ROE and higher growth. The logic is simple: first, complexity creates confusion, simplicity creates focus. Second, each entity will be freer to pursue its own growth strategy without worrying about "the Group". We can already see the effects of this decision. One example is our insurance subsidiary which has already signed a number of distribution agreements with banks other than the Bank of Georgia. This might not have happened if we had decided to stay in the "previous structure".

Both entities have substantial potential of earnings and sales growth.

The Bank is repositioning its portfolio away from straight lending to corporates which require capital and see their margins diminishing. It behooves us to find innovative ways to serve the corporate segment much more profitably. We are also moving into the high net-worth segments, where we can attract wealth from the region. We will continue to reduce costs. Finally, digital technologies offer us an opportunity that we have not yet exploited. The Bank has a very good management team with Kaha Kiknavelidze as its leader, and they are at work on this strategy. I will become Chairman of the Bank and this will be my only Board appointment.

The non-banking business within BGEO will become an investment company — Georgia Capital — which will include real estate, energy, utility, beverages, and insurance. It will also have listed stakes in the healthcare business and the Bank. The value proposition to investors is "the best vehicle for emerging growth opportunities in Georgia, selected by people with unsurpassed understanding of the local landscape, and managers/entrepreneurs". Georgia Capital will be run like a private equity fund with one exception. The interest of its investors will be aligned with those of its "Partners". In fact, its CEO will be paid exclusively in shares vesting over six years, and his executive team will have a similar compensation structure. Irakli Gilauri will leave the Group and the Bank, to head this company as Chairman and CEO. The Board is made up of old hands, such as David Morrison and Kim Bradley and a number of new recruits: Caroline Brown, William Huyett, Massimo Salvadori and Jyrki Talvitie.

The healthcare company, GHG, is a stand-alone entity today, with its own Board and separate stock market listing. It has much potential that you can read about in its own annual report.

Board quality and composition have been one of my main preoccupations: we have an opportunity to build a new Board for Georgia Capital and to reinforce the Boards of the Bank and the healthcare company. We have tried to prioritise skills and experience as well as gender diversity. We need Board members who will spend time on the ground in Georgia. We have attracted Cecil Quillen to the Bank's Board and are actively seeking an additional member. All of our Board members are T-shaped, capable of broad judgement and all bring a speciality to the company. The composition of the two new Boards and the experience and qualifications of their members are set forth on page 19 of this Report.

Unfortunately, at the outset, we will still have only one woman on each of our boards. Our goal is to correct that yesterday. We are still seeking to achieve the diversity targets at board level expected of a company of our size, and as chairman, I make this a personal priority. It has been a war for talent.

Corporate culture and human capital have increasingly become the cornerstone of our success. We would not be able to breakup if we had not developed capable leaders to take over. 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: more than 85% of management's compensation is in shares that vest over a three-to-five-year period – discouraging quick earnings temptations.

This year we have moved further into changing our corporate culture in every one of the entities. We want to go from solo performance executives to executives who thrive on teamwork. We have instituted personal development programmes starting at the very top and cascading to the lower level of the hierarchy. Meritocracy and trust are what we aim to achieve. This starts with top managers' behaviour and talk. It is reinforced by training programmes which teach both self-development, how to give and receive feedback, as well as how to dialogue rather than impose. All this will not be enough if good behaviour is not encouraged and bad behaviour not tolerated. The Board and I take a particular interest in seeing this through.

Before closing, I would like to thank Irakli Gilauri for his leadership as Chief Executive Officer. During his tenure at BGEO, Irakli has taken a Georgia quoted bank and transformed it into the organisation with multiple businesses which we have today. He did not do it alone. He attracted and developed many executives who all lead their own businesses today, and are developing in turn a set of new leaders. His final act will be to achieve the break-up successfully. The Board of Directors and I are truly grateful for his leadership over the years he has been with the company.

In closing, I would like to thank our investors. It is because of your trust that we were able to achieve all that has been achieved. You will now have a choice of which parts of the business you will hold – I hope that you will continue to hold both.

Neil Janin
Chairman
7 March 2018

CHIEF EXECUTIVE OFFICER'S STATEMENT

IRAKLI GILAURI
CHIEF EXECUTIVE OFFICER

In what is expected to be my final letter to BGEO Group shareholders I would like to talk about three subjects:

1. The outstanding performance of the Group
2. Simplicity is a key ingredient to our future success, which drove our difficult decision to demerge
3. Our determined and high-achieving Board

PERFORMANCE
BGEO Group delivered another extremely strong performance during 2017 that resulted in record profit for the year of GEL 463 million, and earnings per share of GEL 11.61, an increase of 11.5% year-on-year. Group revenues increased by 23.7% to GEL 1.1 billion. Book value per share at the end of 2017 was GEL 65.22, up 15.2% year-on-year. This reflects excellent performance from our Banking Business as well as strong momentum and strategic delivery from our Investment Businesses, which were supported by Georgia's strong macroeconomic performance and business outlook.

In the **Banking Business**, 2017 was characterised by strong franchise growth in Retail Banking operations, particularly in the fourth quarter. This reflected the continued strong performance of our retail business in all segments and an increase in retail lending during the year of 29.3%. In addition, in 3Q17 we completed our three-year programme to reduce concentration risk in our Corporate Bank and consequently started to deliver corporate lending growth in the last quarter of the year. Loan yields have remained stable, and net interest margins have therefore stayed robust at 7.3%. Costs have remained well-controlled, whilst ensuring continued investment in building an increasingly strong customer franchise. The Banking Business cost of risk ratio in 2017 was 2.2%, in line with our medium-term cost of risk expectations, and a significant reduction from 2.7% in 2016. In addition, we have continued to improve our asset quality and provisions coverage ratios. The Return on Average Equity in the Banking Business continued to improve, and stood at 25.2% for the year, and 27.8% in the fourth quarter.

We have again delivered on all of our key strategic priorities. 2017 revenue growth of 17.5% was particularly supported by strong Retail Banking franchise growth, where revenue increased by 24.4% and customer lending continues to grow at more than 20% per annum. This offset the anticipated decline in the Corporate Investment Banking loan portfolio, as we wound down the banking relationship with a small number of significant corporate borrowers, earlier in 2017. Importantly, this helped us to make strong progress in reducing concentration risk in the Corporate Investment Banking, and we lowered the concentration of our top ten corporate borrowers to only 10.7% of our lending portfolio. We have now exceeded our targeted rebalancing of the retail/corporate portfolio mix to further improve the return profile of the Banking Business. Retail Banking now represents 68% of the Bank's customer lending and Corporate Investment Banking represents 32%.

In addition to the strong retail lending growth, Retail Banking made strong progress in implementing its customer-centric approach with the launch of its new loyalty reward programme Plus+ in July 2017, and continued investment in digital growth. Our product to client ratio also improved from 2.0 to 2.2 during the second half of 2017. In July 2017, we won the exclusive right to modernise public transport payment system in Tbilisi and continue as the sole provider of the Tbilisi Metro's payment support systems for the next ten years. In addition, Solo, our premium banking brand, has continued to deliver strong growth momentum, with customer numbers increasing to 32,104, up 66.6% over the last 12 months. Solo is on track to achieving its target of 40,000 Solo clients by the end of 2018.

The improving growth and strength of the Georgian economy continue to support asset quality. In addition to the reduction to 2.2% in the cost of risk ratio mentioned above, we were able to reduce the ratio of NPLs to Gross Loans, which fell from 4.2% in December 2016, to 3.8% in December 2017. Our NPL coverage ratio also improved – from 86.7% at the end of December 2016, to 92.7% at the end of 2017.

The Group's capital and funding position remain strong, with capital being held both in the regulated Banking Business and at the holding company level. At the end of 2017, liquid assets totalling GEL 310 million were held at the holding company level. Within the Banking Business, the NBG (Basel II) Tier 1 Capital Adequacy ratio increased by 120 basis points to 10.3% during the year, reflecting both the continued de-dollarisation of the Banking Business lending portfolio and the Banking Business' high return on average equity and internal capital generation.

The National Bank of Georgia is currently in the process of transitioning to Basel III standards, and introduced new capital adequacy requirements in December 2017. On the basis of new regulation, the NBG (Basel III) Tier 1 capital adequacy ratio was 12.4% at 31 December 2017, compared to a new minimum Tier 1 capital requirement of 9.9%, which is expected to increase to 11.4% on 31 December 2018. Bank of Georgia has strong capital ratios and high levels of internal capital generation. As a result, the transition to Basel III is not expected to affect the Bank's growth expectations or existing dividend payout policy.

The Group's **Investment Business** continued to deliver strong growth and performance, with EBITDA growing 55.7% year-on-year, and profit before non-recurring items and income tax, including discontinued operations, increasing by 21.4% over the same period.

We now expect that, in line with our planned exit strategy for the business, it is highly probable that the Group will own less than a 50% stake in Georgia Healthcare Group ("GHG") at the end of 2018. As a result, GHG is now reported under "discontinued operations" in the Group's consolidated income statement. Within the business, GHG delivered a year of strong progress towards its planned investment and business roll-out in all key areas of the Georgian healthcare system. GHG delivered net revenues of GEL 745.7 million during the year, an increase of 76.0%, reflecting a combination of solid organic growth and the impact of acquisitions. The healthcare services EBITDA margin continues to be strong at 26.4%, notwithstanding the dilutive effect of the significant roll-out of the two major hospital renovations – Tbilisi Referral Hospital and Deka – and the ongoing roll-out of a nationwide chain of polyclinics (outpatient clinics). In the pharmacy business, we have made significant progress towards the integration of our two recently acquired businesses, whilst avoiding any significant business disruption. As a result, the EBITDA margin of 8.6% for the year has already exceeded our target of a margin of "more than 8%".

Our water utility and energy business, GGU, continued to focus on improving efficiencies in the water utility business and delivered a 6.1% year-on-year growth in revenues during the year, whilst achieving a 52% EBITDA margin. GGU has also continued to achieve efficiencies in its own energy consumption, to free up electricity for third-party sales, and has started a number of investments in additional capacity for electricity generation with the goal to establish a renewable energy platform. During 2017, GGU commenced construction of one of two planned hydro power plants targeting c.100MW of additional capacity over the next few years.

Our real estate business, m^2 Real Estate, continues to demonstrate its strong execution skills to unlock value in the real estate development business. During 2017, m^2 sold 629 apartments with a total sales value of US$ 49.1 million, in addition to further increasing its portfolio of yielding assets. In addition, the real estate business continued to execute on its strategy of developing 1,000 hotel rooms by the end of 2020. In the fourth quarter of 2017, we acquired the shell of approximately 100-room hotel, and in February 2018 we launched a 152-room Ramada Encore hotel in central Tbilisi. As part of our "asset light" strategy, m^2 signed its largest ever franchise agreement to construct and develop a residential complex under the m^2 brand name on a third-party land plot in a densely populated Tbilisi suburb. Additionally, m^2's construction arm gained its first major third-party construction agreement to construct the shell and core of a new shopping mall and business centre in Tbilisi's Saburtalo district. These developments underpin an extremely successful year for the real estate business, and provide significant growth potential over the next few years.

Our property and casualty insurance business, Aldagi, continues development of a strong portfolio of new products, supporting 24.6% year-on-year growth in net earned premiums during 2017 and Aldagi's position as the clear market leader in the fast-developing Georgian P&C insurance market. Over the last few months, Aldagi has also enhanced its distribution capabilities by signing major third-party partnership agreements with two Georgian banks – Liberty Bank and Credo Bank – which will support the further diversification of Aldagi's multi-channel distribution network. These contracts would not have materialised had it not been for the proposed demerger.

Our beverage business, Teliani, increased its revenues by 102.5% year-on-year, continued to diversify its distribution portfolio and launched its mainstream beer and lemonade production during 2017.

The Group Board expects to recommend a regular annual dividend for 2017 totalling c.GEL 120 million. This is in the range of our regular dividend payout ratio target of 25-40% paid from the Banking Business profits. Since 2010, the Group has grown its annual dividend per share by 40% CAGR on a GEL basis, and by 32% CAGR on a Dollar basis. If the expected demerger is successfully implemented as planned, it is intended that Bank of Georgia Group PLC (the then new parent company of the Banking Business), will instead, shortly after the demerger is completed, declare and pay a dividend in a similar aggregate amount to shareholders then on the record. In the event that the demerger is for any reason not completed it is intended, subject to shareholder approval, that the Board would implement the payment of this dividend, which would represent a payment of GEL 3.1 per share, payable in British Pounds Sterling at the prevailing rate, a 19.2% increase over the 2016 dividend.

In addition to the regular annual dividend paid to shareholders, US$5.0 million was returned to shareholders by way of the buyback and cancellation of 115,608 shares during 2017, as part of the existing Board approved US$50 million buyback and cancellation programme. During 2017, the Group Employee Benefits Trust also purchased shares in the market totalling US$34.1 million.

SIMPLICITY
In July 2017, the Group announced its intention to demerge BGEO Group PLC into two separate London-listed businesses: a banking business, Bank of Georgia Group PLC, and an investment business, Georgia Capital PLC. On 12 February 2018, the Group announced that the Board has approved the implementation of the demerger, which is subject to shareholder approval at a General Meeting expected to be held in April 2018. The demerger is expected to complete before the end of June 2018. The main benefit of the demerger is to simplify the structure, which in turn will enable the Boards and management teams of the respective businesses greater focus on strategy setting and execution. It was not an easy decision to separate the Group, but simplicity will bring so much benefit that it has clearly out-weighed all the potential downsides.

In its final year before the forthcoming demerger, and supported by the continued macroeconomic performance of Georgia, BGEO Group has delivered a record breaking performance in terms of profitability and growth. Growth and return momentum is there for both the Banking and the Investment Businesses.

BOARD
Our Board's role in the success of the Group may not always be apparent to our shareholders or the broader community – but it is pivotal. Each Board member's dedication, vision, rationalism and collaboration have made an important contribution to our development into the world-class institution we have become. Special thanks go to Neil Janin, our Chairman whose leadership of the board and active involvement in strategy setting and mentoring of senior management has been critical in the success of our Group. The good news is that Neil will continue to be the Chairman of Bank of Georgia. We have continued our commitment to a strong and independent governance structure and have managed to put first-class independent Boards and management teams in both businesses and I am confident that under the proposed governance structure following the demerger both companies independently will prosper even more and will continue their excellent recent track record for many years to come.

In what is expected to be my final letter to shareholders, I would like to thank you for your continuous support and loyalty. I have very much enjoyed meeting you on roadshows, which served as very good guidance for me personally. I have learned a great deal over the past 13 years of being an executive of a publicly listed company and believe, with your help, a lot more learning will follow in the years ahead. I am very much looking forward to meeting you to discuss our strategy in my new capacity as CEO of the first publicly listed investment company from the region.

Sincerely yours,

Irakli Gilauri,
Chief Executive Officer
7 March 2018

This Strategic Report as set out on pages 2 to 75 was approved by the Board of Directors on 7 March 2018 and signed on its behalf by

Irakli Gilauri
Chief Executive Officer
7 March 2018

INDUSTRY AND MARKET OVERVIEW

Attractive place for doing business

Georgia is an open and resilient emerging market and its ambition to transform itself into a Regional Hub Economy has already produced tangible results: tourism is booming and trade integration has strengthened. These, coupled with a business friendly environment and policies aimed at further diversifying the economy, support to attract foreign investments and boost growth.

EASE OF DOING BUSINESS RANKED GEORGIA IN 2018

In protecting minority investors
2nd

In starting a business
4th

In registering property
4th

Overall ranking
9th

Up from 16th in 2017, ahead of Sweden, Ireland and Germany

Source: World Bank Doing Business.

ECONOMIC FREEDOM INDEX RANKED GEORGIA IN 2018

Up from 23rd in 2016, ahead of the Netherlands, the United States and Germany
16th

Source: Heritage Foundation.

GLOBAL CORRUPTION BAROMETER (% OF SURVEYED ADMITTING HAVING PAID A BRIBE)

Ahead of the Czech Republic, the Slovakia and Latvia
7%

Source: Transparency International 2017.

REFORMS-DRIVEN SUCCESS

Georgia has carried out genuine economic and structural improvements which have been institutionalised. As a result, corruption has decreased, doing business has become 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, with a ranking of 9, has implemented the highest number of business regulation reforms since the launch of the Ease of Doing Business report by the World Bank in 2003 – a total of 47 reforms – and Georgia is the only lower-middle-income country that made it in the top 20 countries ranked by Ease of Doing Business.

Furthermore, Georgia is ranked 16th out of 180 countries by Index of Economic Freedom measured by Heritage Foundation in 2018 and 25th out of 200 countries in the Trace International's 2017 Matrix of Business Bribery Risk. Georgia is a positive exception to the trend of high bribery rates in the regional economies and is on a par with European Union (EU) member states with only 7% of people admitting having paid a bribe, according to the 2017 Global Corruption Barometer study by Transparency International.

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 Gross Domestic Product (GDP), fiscal deficit at 3% of GDP and public debt at 60% of GDP. The Economic Liberty Act also requires electorates' approval through a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions. Furthermore, as of January 2017, corporate income tax is now applicable to only distributed profits; reinvested or retained, are exempted. Georgia has one of the world's friendliest tax regimes according to the Forbes Misery Tax Index, having slashed the number of taxes from 21 in 2004 to just six currently.

The EU-Georgia Association Agreement, that came into force in July 2016, and related Deep and Comprehensive Free Trade Agreement (DCFTA), 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 a trust in prudent policy-making are also expected to attract foreign investments to Georgia. A visa-free travel to the EU, granted to Georgian passport holders in March 2017, is another major success of the Georgian foreign policy. While remaining committed to EU integration, Georgia has also managed to stabilise its relations with Russia, as the latter lifted its embargo on Georgian products in 2013. Tourism increasingly benefits from rising Russian arrivals, with Georgia being re-discovered by Russian as well as other visitors from regional countries. Moreover, Georgia-China economic ties are increasing and a free trade agreement signed in 2017 is expected to further expand the Chinese market for Georgia's exports. In 2017, China was the third largest consumer of Georgian wine, after Russia and Ukraine, and the fifth largest consumer of Georgia's exports overall. Georgia is participating in China's huge Belt and Road Initiative, that will have positive spillovers on the Georgian economy and the region overall. The number of countries now engaged in the Initiative stands at nearly 70 and may reach 100 or more and cumulative investment in the corridors could reach US$ 1 trillion over the next ten years according to International Monetary Fund (IMF).

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 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.

The ongoing US$ 285 million three-year IMF programme will help Georgia reduce economic vulnerabilities and promote economic growth. The programme includes ambitious structural reforms to generate higher and more inclusive growth and fully supports Government's four-point reform programme focusing on: improving education, investing in infrastructure, making public administration more efficient, and further developing the business environment to boost the private sector as a growth engine. In September 2017, Moody's upgraded the sovereign credit rating of Georgia to Ba2 from Ba3 and maintained the stable outlook. According to Moody's, the Georgian economy's resilience in the wake of the 2014 regional economic shock proves the country's economic and institutional strength and is the main driver behind the one-notch rating upgrade.

Government focuses on addressing the shortcomings in employment benefit schemes, further cutting non-essential expenditures, consolidating public sector institutions, making social and healthcare spending more targeted and increasing the efficiencies in capital expenditure.

In order to enhance external sustainability, National Bank of Georgia introduced a ten-point de-dollarisation action plan, including the 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.

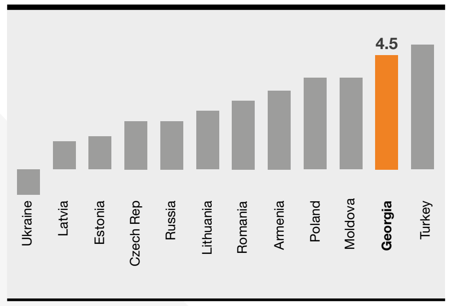
MEASURES TO STRENGTHEN GEORGIA'S POSITIONING TO BECOME THE REGIONAL HUB ECONOMY

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 2.8 billion 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 the 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. The Government's ongoing infrastructure investments and increased spending on roads, energy, tourism and municipal infrastructure will also reinforce the potential. To enhance Georgia's competitiveness the 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, EFTA, Turkey, and China) enable it to access a market of 2.8 billion customers and are expected to further strengthen Georgia's positioning as a platform to trade with, produce for and service regional markets.

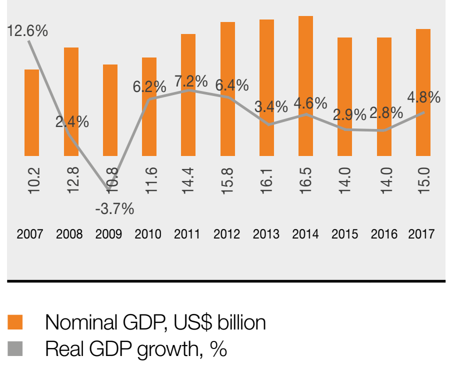
Established tourism destination. Georgia is already an established tourism destination. Travel inflows are a significant source of foreign currency for Georgia. The number of visitors to Georgia increased at a 21.7% compounded annual growth rate (CAGR) over 2008-2017 and tourism inflows stood at US$ 2.8 billion (18.2% of GDP) in 2017. 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 into their potential.

COMPARATIVE REAL GDP GROWTH RATES, % (2007-2017 AVERAGE)



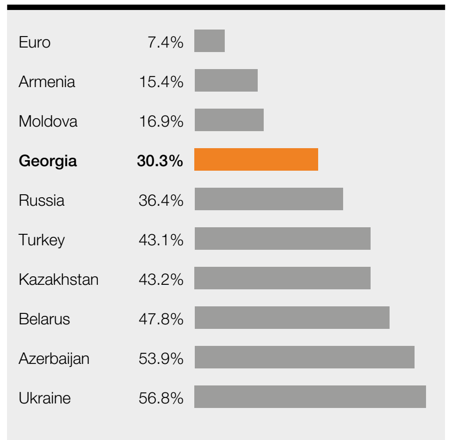
Source: IMF, GeoStat.

GROSS DOMESTIC PRODUCT (%)



Source: GeoStat.

CURRENCY WEAKENING VS. DOLLAR

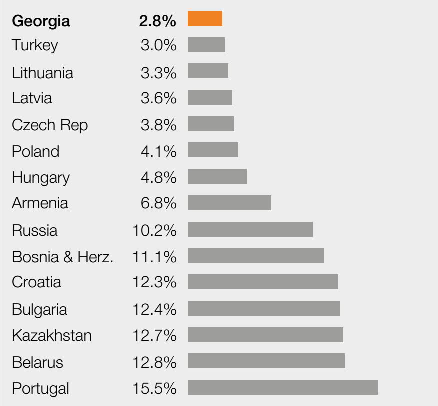


Source: Bloomberg;
Dollar per unit of national currency,
period 1 August 2014 – 14 February 2018.

Strategic Report Overview
Strategic Report Strategy
Strategic Report Performance
Governance
Financial Statements
Additional Information

INDUSTRY AND MARKET OVERVIEW CONTINUED

NON-PERFORMING LOANS (%), 2017 LATEST AVAILABLE DATA



Source: IMF, NBG.

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 (HPPs), improving transmission infrastructure and increasingly diversifying its natural gas imports from Azerbaijan, instead of from Russia. Energy needs of the country are growing steadily: on average by 3.6% for electricity and by 5.3% for natural gas. The needs are being addressed by constructing HPPs, renovating and rehabilitating internal and external electricity grid and natural gas pipelines. 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$ 4.4 billion in the next five to seven years, including US$ 2.5 billion for three large HPP projects: Nenskra, Khudoni and Tskhenistskali cascade. Currently, 43 power plants (1.5GW) are at various stages of construction or development, with 102 more (3.7GW) at feasibility study stage. Government policy over the last decade has encouraged investment in the hydropower sector, resulting in 28 new HPPs, with a total capacity of 509.9MW, being added to the system over 2012-2017. Georgia's transmission capacity is poised to increase and accommodate an additional installed capacity of 3.5GW by 2027 to meet the growth in export and domestic demand. Georgia is foreseen to be an electricity transit hub for neighbouring economies. In 2016-2017, already 1,104GWh was 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 and business-friendly environment 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 the recent economic turbulence, FDI into Georgia was relatively secure thanks to the business-friendly environment as well as strategic infrastructure projects – such as the British Petroleum gas pipeline construction project and the railway project connecting Azerbaijan-Georgia-Turkey. FDI was at all-time high during nine months 2017, reaching US$ 1.3 billion or 12.1% of GDP. FDI increased substantially in construction (+204.1% y-o-y), hotels and restaurants, (+287.1% y-o-y) and real estate (+68.9% y-o-y) sectors. Importantly, reinvestment by foreign companies almost doubled and reached c.US$ 600 million during nine months of 2017, indicating investors' trust in Georgia's growth model and the success of the profit tax reform introduced in 2017. Along with planned investment programmes of cross-country significance such as the Anaklia deep sea port and hydro energy projects, Georgia's business-supportive environment and the growing numbers of free trade agreements are expected to lead to further strong FDI inflows to Georgia in the medium term.

Growing number of free trade deals. There have been significant changes in Georgia's export structure and destination markets in recent years; however, Georgia has not yet tapped into international markets. 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 remain secondary. One of the biggest changes in destination markets has been a reorientation from the Russian market after the 2005 embargo, as the embargo forced Georgian producers to redirect exports to other Commonwealth of Independent States (CIS) countries, the EU and the Middle East. Exports to Russia picked up again in 2013 as Russia opened its borders to Georgian products. 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 which aim at further enhancing the platform for current and potential trade partners. Access to new large markets – EU and China – could increase market penetration and there is also scope for diversifying agricultural exports, once the quality and standards improve under EU-DCFTA. Georgia's existing free trade deals (with the EU, CIS, EFTA, Turkey, and China) enable it to access a market of 2.8 billion customers without customs duties. The prospective free trade agreements with Hong Kong and India also offer significant upside potential for Georgia's exports.

GEORGIAN ECONOMY – THE FASTEST GROWING ECONOMY IN THE REGION

Georgia continued to deliver positive results in 2017. It is the ninth easiest place to do business globally, according to the latest World Bank Doing Business report. The resilience of the economy has been acknowledged by a one-notch sovereign credit rating upgrade from Moody's. Trust in Georgia's growth model was demonstrated by record high reinvestment by foreign companies in 2017, on the back of which the economy grew by an estimated 4.8%. Increased external demand for goods and services originating in Georgia made net exports the main driver of growth in 2017 for the first time since 2013. Tourism demonstrated a stellar performance, with revenues in the sector totalling US$ 2.8 billion. The Government boosted capital expenditure, while the fiscal deficit reduced to 2.9% in 2017 under an IMF supported programme.

Annual inflation came in at 6.7% in December 2017 – above the National Bank of Georgia's (NBG) target of 4.0% – as the rising world commodity prices and increased excise tax on fuels and tobacco have been putting pressure on prices in 2017. Notably, 3ppts of the growth in prices was due to excise tax-related increases. With overall increase in prices driven broadly by fuel and food prices, core inflation remained below the headline figures throughout 2017 and came in at 4.7%. To curb inflationary expectations, the NBG increased the policy rate to 7.25% in 2017 from 6.5% at end of 2016. As the price pressures are transitory, inflation is expected to decline in 2018 close to the 3.0% target once the effects of the excise tax increases fade.

After a weak start in 2017, the Georgian Lari started appreciating in mid-February, reflecting stronger external earnings and the pick-up in economic activity. The NBG intervened in the FX market and purchased US$ 129.8 million during April-August 2017 boosting international reserves to US$ 3.0 billion. The currency then started weakening against the Dollar again in September 2017, predominantly driven by the negative expectations built up over the past three years. The lack of fundamental reasons behind this depreciation, coupled with a strong external inflow supported the Lari to partially regain its value without central bank intervention in December 2017.

The growth is expected to accelerate further in 2018 as an economic recovery in Georgia's major trading partners is gaining momentum and the public infrastructure investments and growing free trade deals are boosting growth prospects. Notably, the 2018 budget envisages a further decline in the fiscal deficit despite an increase in capital spending. Ongoing reforms in various directions – pension reform, capital market development and business enhancing measures – are expected to further support investments, thus reinforcing the country's economic potential. The IMF expects growth to average 4.9% annually in 2018-2022, making Georgia the fastest growing economy in the region.

WELL CAPITALISED BANKING SECTOR WITH LOW NON-PERFORMING LOANS (NPLS)

The banking sector has been one of the faster growing sectors of the Georgian economy. The banking sector's assets growth rate of 17.0% (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 70.8% of total assets as at the end of 2017. Amidst multiple downgrades by global rating agencies across the region in the face of the economic headwinds of 2015-2016, 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 2017, the average capital adequacy ratio remained above 16%, the share of NPLs. NPLs stood at 2.8% and the overall liquidity ratio remained high at close to 40%. Pick-up in economic activity along with improved confidence supported the solid credit portfolio growth at 17.9% y-o-y in 2017. Although Lari depreciation spurred loan and deposit ratios to GDP, the penetration rates still remain low with the retail loans estimated at 29.6% of GDP and the total loans at 54.8% of GDP as of 2017 (and 52.1% of GDP for the deposits). Due to the central bank's conservative regulations, liquidity and capitalisation rates in the banking sector have been historically high. Nevertheless, the sector's profitability has remained robust at 21.0% return of equity over the past three years.

CURRENT BUSINESS MODEL

The Group's current business model is simple and purpose-built to capture growth opportunities in Georgia.

BGEO Group is 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 85 times to c.US$ 1.8 billion as at 28 February 2018.

The Banking Business services are offered through Retail Banking, Corporate Investment Banking and Wealth Management, with ancillary business lines including leasing, payment and banking operations in Belarus through BNB.
The Investment Business includes the utility and energy, the real estate, the P&C insurance, the beverage and the healthcare businesses.

We believe that the Banking Business is the number one or two player on the market in all of its major business lines and that investment businesses are leading companies in their respective markets.

INVESTORS

▲ ▲

REGULAR DIVIDENDS | CAPITAL RETURNS

▲ ▲

BGEO
BECOME GEORGIA

CASH BUFFER

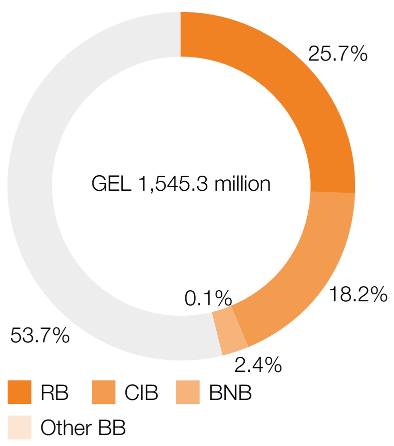
▼ ▼

BANKING BUSINESS	INVESTMENT BUSINESS
Retail Banking	GGU (Utility and Energy)
Corporate Investment Banking	m² (Real Estate)
Wealth Management	Aldagi (P&C Insurance)
BNB (Bank in Belarus)	Teliani Valley (Beverages)
	GHG (Healthcare)

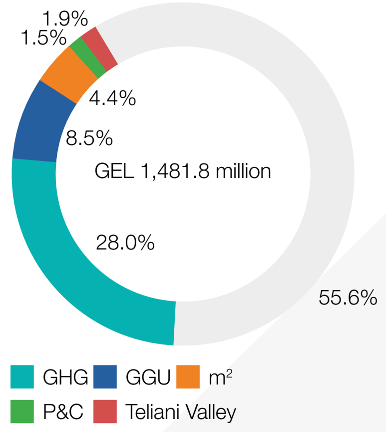
BGEO CAPITAL ALLOCATION

GEL 3,336.9 MILLION*

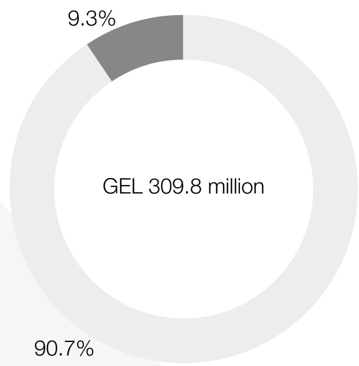
BANKING BUSINESS



INVESTMENT BUSINESS



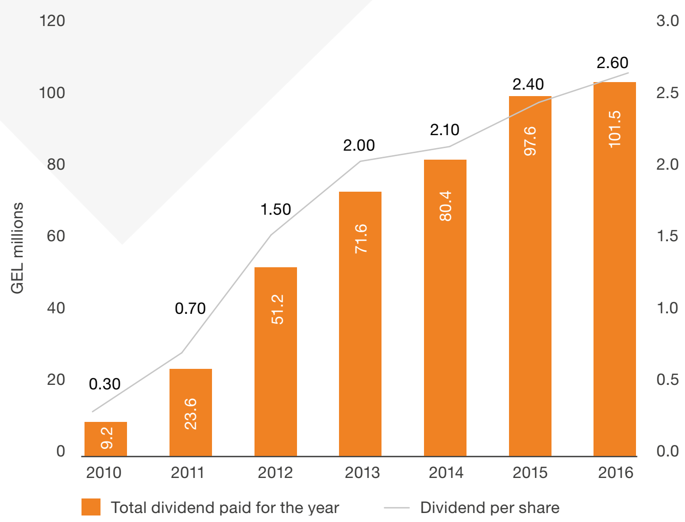
CASH BUFFER



* Comprises the sum of the following items: a book value of equity attributable to BGEO shareholders of GEL 2,420.6 million, GEL 653.7 million market value adjustment to GHG's equity book value, and long-term borrowing of GEL 262.7 million.

SOLID REGULAR DIVIDEND AND CAPITAL RETURN TRACK RECORD

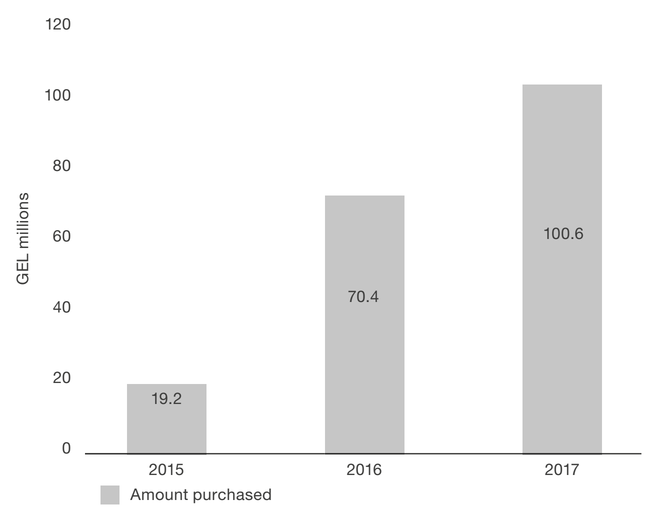
REGULAR DIVIDENDS



- Linked to recurring profit from the Banking Business. Aiming 25-40% dividend payout ratio
- **GEL 435.2 million** cash dividend paid since 2010 resulting in **DPS CAGR'2010-2016 of 43.3%** and **payout ratio above 30%** over the past five years

CAPITAL RETURN

Management Trust buybacks and share buyback and cancellation



- Share buyback and cancellation programme in place with **US$ 45 million** repurchases remaining as of 31 December 2017

BGEO'S SUPERIOR ACCESS TO CAPITAL MARKETS

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$ 150 million Eurobond issue in 2013
- US$ 114 million capital raised in 2014
- IPO on the LSE in 2015 of the healthcare subsidiary – GHG
- US$ 350 million Eurobond raised in 2016
- GEL 500 million local currency denominated bond issued in 2017 (first from Georgia and first from wider CIS region (excluding Russia) in the past ten years)

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

- GEL 1.0 billion local 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 translate 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 3.5% in 2017 down from 7.5% in 2010
- Cost of funds 4.7% in 2017 down from 8.2% in 2010

INVESTMENT BUSINESS

2015 → 2017

Nov 2015 — **IFC loan to m² Real Estate**
US$ 23,000,000 and US$ 7,000,000 loan for new residential project development with four- and 11-year maturities

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

May 2016 — **EBRD loan to GHG**
GEL 26,816,000 loan for renovation and development of Deka hospital with five-year maturity

Aug 2016 — **Proparco loan to GHG**
US$ 25,000,000 loan for renovation of hospital premises and development of ambulatory clinics with eight-year maturity

Sep 2016 — **IFC loan to GHG**
GEL 61,080,000 loan for corporate finance needs with 11-year maturity

Oct 2016 — **m² Real Estate issues local bonds**
US$ 25,000,000 with three-year maturity

Dec 2016 — **EBRD and DEG loan to Teliani Valley**
EUR 18,500,000 for brewery construction with nine-year maturity

Dec 2016 — **GGU issues local bonds**
GEL 30,000,000 with five-year maturity

Oct 2017 — **FMO and DEG loan to GGU**
GEL 100,000,000 and EUR 25,000,000 loans with 10- to 15-year maturities

Jul 2017 — **GHG issues local bonds**
GEL 90,000,000 for capital expenditures with five-year maturity

Dec 2017 — **EIB loan to GGU**
EUR 21,470,000 loan with ten-year maturity

BANKING BUSINESS

1995 → 2017

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

1998 — **EBRD becomes a shareholder**

Oct 2004 — **Firebird and East Capital**
become shareholders

Feb 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

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

Jan 2007 — **Issues Eurobonds**
US$ 200,000,000 9% five-year Eurobond

Feb 2008 — **Equity issuance**
US$ 100 million raised through an offering of new ordinary shares in the form of GDRs

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

Feb 2012 — **Premium listing**
on London Stock Exchange

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

Nov 2013 — **Issues Eurobonds**
US$ 150,000,000 7.75% Eurobond consolidated with US$ 250,000,000 2012 bond

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

May 2016 — **EBRD**
GEL 220,000,000 for MSME financing, with five-year maturity

Jul 2016 — **Issued Eurobonds**
US$ 350,000,000 6% seven-year Eurobond

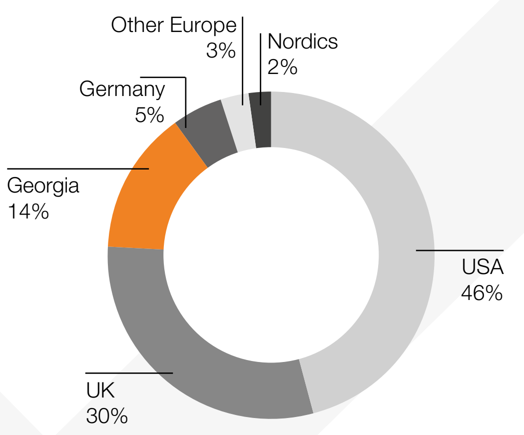
Aug 2016 — **BSTDB**
GEL 60,000,000 for MSME financing, with five-year maturity

May 2017 — **Issues local currency Eurobonds**
GEL 500,000,000 11% three-year GEL-denominated bond

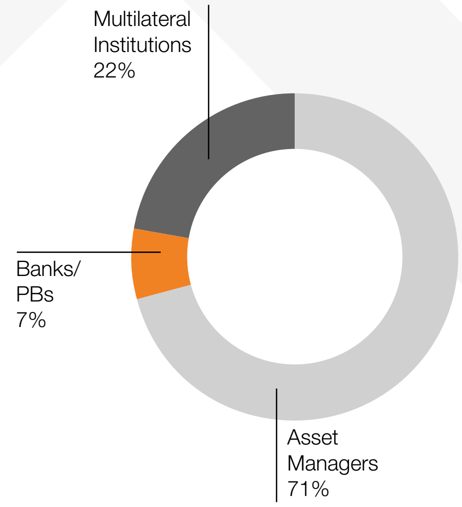
BANK OF GEORGIA 500 MILLION GEL INAUGURAL LARI EUROBOND ISSUANCE

Notes	GEL 500 million, 3 year, 11.00% Eurobonds settled in US dollar
Listing	Irish Stock Exchange
Notes rating	Moody's Ba3/Fitch BB-
Joint Lead Managers	J.P. Morgan, Renaissance Capital
Co-Manager	JSC Galt & Taggart

ALLOCATION BY GEOGRAPHY



ALLOCATION BY INVESTOR TYPE



DELIVERING ON CURRENT STRATEGY

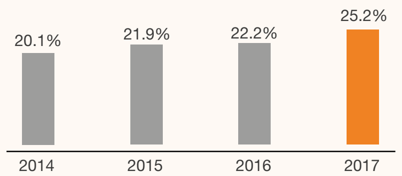
4x20 strategy – Georgia-focused investment platform – reflected the Group's competitive strengths and opportunities in the market

During 2017, BGEO's 4x20 strategy entailed a 20% metric for ROAE, retail loan growth, minimum IRR for the Investment Business and its profit contribution to the Group's profit. This strategy was built to allow the Group to capture compelling investment opportunities in Georgia's corporate sector, on top of its continued commitment to growing its strong Banking Business.

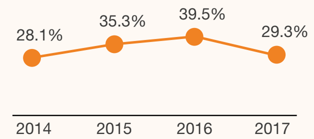
PERFORMANCE AGAINST STRATEGY IN 2017

BANKING BUSINESS

1 **ROAE** 20%+**



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

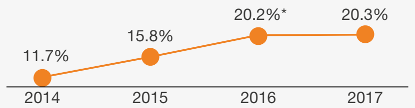


INVESTMENT BUSINESS

3 **Min. IRR of 20%**

121% IRR from GHG IPO
74% IRR from m² Real Estate projects

4 **Profit up to 20%****



* Excluding the impact of gains from deferred tax liability write-offs, bargain purchase gain recorded on GGU acquisition and other non-recurring items.
** The prior periods presented are updated as a result of Aldagi's results included under Investment Business and change of accounting policy from revaluation model to cost model for subsequent measurement of office buildings and service centres.

STRATEGIC TARGET		2017 PERFORMANCE
Banking Business	20%+ Return on Equity	**Record profitability:** • Revenue up 17.5% y-o-y to GEL 909.3 million • Profit up 25.0% y-o-y to GEL 369.5 million • Non-interest income up 7.7% y-o-y to GEL 237.2 million • NIM stood at 7.3% • ROAE stood at 25.2% **Operational efficiency and scale:** • Cost to Income ratio at 37.7% **Prudent risk management:** • Cost of risk of 2.2%
	20%+ Retail loan book growth	• Net Retail Banking loan book grew 29.3% y-o-y to GEL 5,044.4 million, while Retail Banking client deposits increased 35.4% y-o-y to GEL 3,267.3 million. Growth on constant currency basis was 30.6% and 37.4% for retail net loan book and retail deposits, respectively • Retail Banking Loan Yield was 16.1% in 2017 compared to 16.8% in 2016, Retail Banking Cost of Client Deposits decreased to 2.9% in 2017 from 3.3% in 2016
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 • 74% IRR from m² Real Estate projects
	Profit up to 20% of BGEO Group profit	• Profit from continuing operations was GEL 46.6 million or 11.5% of the Group's profit • Profit including GHG, which is classified as a discontinued operation, was GEL 93.9 million or 20.3% of the Group's profit
Dividend payout	Dividend payout ratio of 25-40% from Banking Business	• The Group Board expects to recommend a regular annual dividend for 2017 totalling c.GEL 120 million. This is in the range of our regular dividend payout ratio target of 25-40% paid from the Banking Business profits. Since 2010, the Group has grown its annual dividend per share by 40% CAGR on a GEL basis, and by 32% CAGR on a Dollar basis. If the expected demerger is successfully implemented as planned, it is intended that Bank of Georgia PLC (the then new parent company of the Banking Business), will instead, shortly after the demerger is completed, declare and pay a dividend in a similar aggregate amount to shareholders then on the record. In the event that the demerger is for any reason not completed it is intended, subject to shareholder approval, that the Group Board would implement the payment of this dividend, which would represent a payment of GEL 3.1 per share, payable in British Pounds Sterling at the prevailing rate, a 19.2% increase over the 2016 dividend • GEL 435.2 million cash dividend was paid since 2010 resulting in a dividend per share CAGR'2010-2016 of 43.3% and a payout ratio above 30% over the past five years
	Capital return from investment	• US$ 39.1 million capital was returned to shareholders, whereby: – 115,608 shares were repurchased and cancelled for a total consideration of US$ 5.0 million since the commencement of the share buyback and cancellation programme – US$ 34.1 million capital was spent on Employee Benefit Trust buybacks

DEMERGER

On 3 July 2017, the Group announced its intention to demerge BGEO Group PLC into two separate London-listed businesses: a banking business, Bank of Georgia Group PLC, and an investment business, Georgia Capital PLC.

Bank of Georgia Group will continue to be a fully-licensed and regulated, systemically important, universal banking business focused on Georgia with industry-leading characteristics. Georgia Capital will be the only professionally managed publicly listed Georgia-focused investment platform with a track record of over ten years of successfully investing in growing companies in the Georgian economy.

The Board believes the demerger of the businesses will deliver additional long-term value to shareholders by creating two distinct entities, each of which will have enhanced growth opportunities in the strongly growing Georgian economy. Both businesses are already leaders in their respective fields, with separate strategic, capital, and economic characteristics and strong and knowledgeable management teams. We expect the demerger to benefit the two businesses in a number of areas, most specifically by providing greater flexibility for each business to manage its own capital and human resources, and to pursue strategic options appropriate to its respective sector. The Board believes that the demerger is the best way to enable the individual businesses to grow faster and develop independently over the next few years. In February 2018, the Board approved the implementation of the demerger. The demerger is subject to shareholder approval at the 2018 AGM and the process is currently expected to complete by 30 June 2018.

For strategies of Bank of Georgia Group and Georgia Capital provided the demerger is approved, see pages 20 to 29. This annual report speaks for BGEO Group PLC for the year ended 31 December 2017 and its current strategy and position, and in the case of the demerger not being approved, the current strategy of the Group remains unchanged.

RATIONALE FOR DEMERGER

TWO DISTINCT ENTITIES TO UNLOCK ADDITIONAL LONG-TERM VALUE FOR SHAREHOLDERS

STRUCTURE POST DEMERGER

BANK OF GEORGIA
- Retail Banking
- Corporate Investment Banking
- Wealth Management
- BNB (Bank in Belarus)

GEORGIA CAPITAL

Private companies
- 100% GGU (Utility & Energy)
- 100% Aldagi (P&C Insurance)
- 76% Teliani Valley (Beverages)
- 100% m² (Real Estate)

Public companies
- 57% GHG (Healthcare)
- 19.9% Bank of Georgia

BENEFITS OF THE DEMERGER

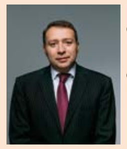
- Business flexibility
- Growth opportunities
- Regulatory clarity and flexibility
- Efficient capital structure
- Improved management focus
- Alignment of incentives
- Investor clarity and understanding

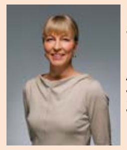
CORPORATE GOVERNANCE POST DEMERGER

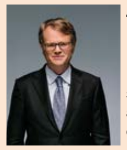
ROBUST AND TRANSPARENT CORPORATE GOVERNANCE FRAMEWORK TO BE PUT IN PLACE ON DEMERGER

BANK OF GEORGIA

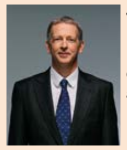

Neil Janin
Independent
Non-Executive Chairman
Formerly a Director of McKinsey & Company based in Paris, for over 27 years

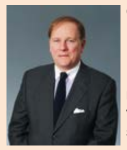

Kaha Kiknavelidze
Chief Executive Officer
Formerly managing partner of Rioni Capital. Executive Director at UBS


Hanna Loikkanen
Senior Independent
Non-Executive Director
Advisor to East Capital, 20+ years of experience working with financial institutions in Russia and Eastern Europe


Al Breach
Independent
Non-Executive Director
Formerly head of research, strategist and economist at UBS Russia and CIS, economist at Goldman Sachs

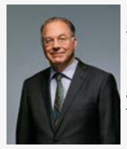

Tamaz Georgadze
Independent
Non-Executive Director
Formerly a partner at McKinsey & Company in Berlin. Founder of SavingGlobal GmbH


Jonathan Muir
Independent
Non-Executive Director
CEO of LetterOne. Formerly a Partner at Ernst & Young

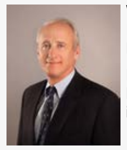

Cecil Quillen
Independent
Non-Executive Director
Partner at Linklaters LLP with nearly 29 years of experience in working on a broad spectrum of securities and finance matters

GEORGIA CAPITAL

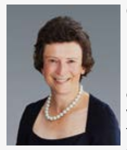

Irakli Gilauri
Chairman and Chief Executive Officer
BGEO CEO since 2011, previously BOG CEO since 2006. Formerly an EBRD banker

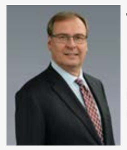

David Morrison
Senior Independent
Non-Executive Director
Formerly a senior partner at Sullivan & Cromwell LLP for over 28 years


Kim Bradley
Independent
Non-Executive Director
Formerly with Goldman Sachs for over 15 years. Senior Executive at GE Capital


William Huyett
Independent
Non-Executive Director
Formerly a Director of McKinsey & Company based in Boston for over 28 years


Massimo Gesua' sive Salvadori
Independent
Non-Executive Director
Currently an analyst at Odey Asset Management. Formerly with McKinsey & Company for over nine years


Caroline Brown
Independent
Non-Executive Director
Has managed divisions of FTSE 100 groups and worked as a corporate finance advisor to governments and corporations with Merrill Lynch, UBS and HSBC. Has chaired audit committees of listed companies for the past 15 years


Jyrki Talvitie
Independent
Non-Executive Director
Formerly in charge of strategic partners and investors at Sberbank. 29 years of experience in the banking sector (VTB Bank, BNP Paribas, Bank of New York)

BANK OF GEORGIA STRATEGY OVER THE NEXT TWO TO THREE YEARS

Bank of Georgia is a leading universal Georgian bank, which is well positioned to benefit from the underpenetrated banking sector in Georgia through providing best in class services.

Two key metrics we use to measure Banking Business performance are: (1) Return on Average Equity (ROAE) targeted at 20%, and (2) 15%-20% growth of our loan book. 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. In Retail Banking we aim to harness our optimised branch operating model to effectively serve each target segment of our emerging, mass and affluent clients based on their needs. In Corporate Investment Banking we have successfully achieved our risk de-concentration and loan portfolio repositioning targets and intend to resume the corporate loan book growth, as well as increase the share of fee and commission income in the medium term. Going forward, we expect the growth of the total loan book to be balanced between Retail Banking and Corporate Investment Banking. In Wealth Management, under Corporate Investment Banking, we will focus on strengthening and promoting our regional private banking franchise.

The Bank is well positioned to become a regional finance centre, where high net-worth individuals are confident to deposit their funds.

The Bank's strategic priorities are:

- In Retail Banking, to increase the mass retail product to client ratio from the current 1.8 to 3.0 in the next two years
- In Express Banking, to double the number of transactions over the next two years
- In Solo Banking, to increase the number of Solo clients to 40,000 by the end of 2018 (currently 32,104)
- In Investment Banking, to develop a significant regional private banking franchise to reach AUM of GEL 2.5 billion by the end of 2020 (currently GEL 1.9 billion)

In addition, over the medium to long term:

- The net interest margin is expected to exceed 7% (currently 7.3%)
- The Bank aims to manage a cost to income ratio of around 35% (currently 37.7%)
- The Bank will 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 92.7%) – with a normalised ratio of 100%
- Through the long-term economic cycle, the Bank's cost of risk ratio is expected to be c.2.0% per annum (currently 2.2%)
- The Bank aims for its dividend payout ratio to be in the range of 25%-40%. 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 18.

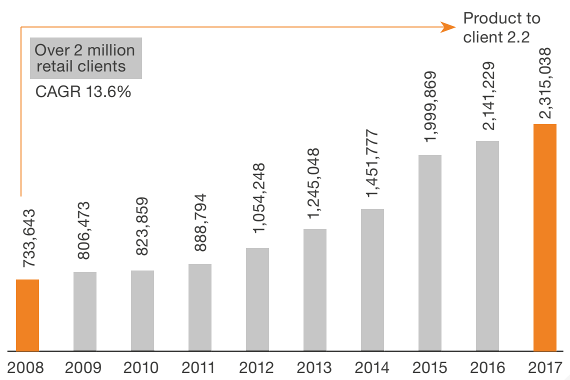
OUR TARGETS AND PRIORITIES GOING FORWARD

			TARGETS
KEY TARGETS	1	ROAE	20%+
	2	TOTAL BANKING BUSINESS LOAN BOOK GROWTH	15-20%
PRIORITIES	1	INCREASE MASS RETAIL PRODUCT TO CLIENT RATIO	3.0
	2	INCREASE NUMBER OF SOLO CLIENTS	to 40,000
	3	BECOME A REGIONAL PRIVATE BANKING HUB	AUM: GEL 2.5bn
FINANCIAL METRICS	1	NIM	7%+
	2	COST TO INCOME RATIO	~35%
	3	NPL COVERAGE RATIO	80-120%
	4	COST OF RISK (THROUGH THE CYCLE)	2.0%
	5	DIVIDEND PAYOUT RATIO	25-40%

Over two million retail clients

Over the past decade, Retail Banking demonstrated a stellar performance by reaching 2.3 million clients, delivering on loan book growth and ROAE targets. While we were targeting this milestone, the Bank was product-centric with a focused client acquisition approach. Having attracted over two million clients, we now target growth through increasing product to client ratio.

NUMBER OF RETAIL BANKING CLIENTS



In order to better connect with and efficiently serve 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. Out of the total current network of 281 retail branches, 156 have been transformed to Express, while a remaining 12 will follow in 2018.

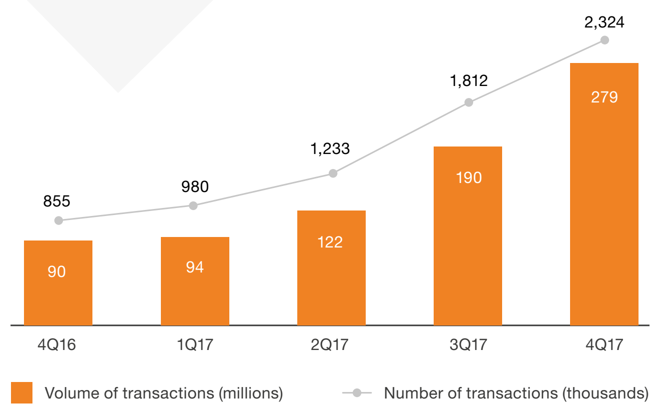
Under the Bank of Georgia brand we target the mass retail segment. This is our flagship brand and the most significant profit contributor. By the end of 2017, we completed the transformation process of our Retail Banking operations from a product-based model into a client-centric model, as well as the implementation of the client-centric model in our branches. As a result, 86 out of 113 mass retail branches now operate on a client-centric service model.

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

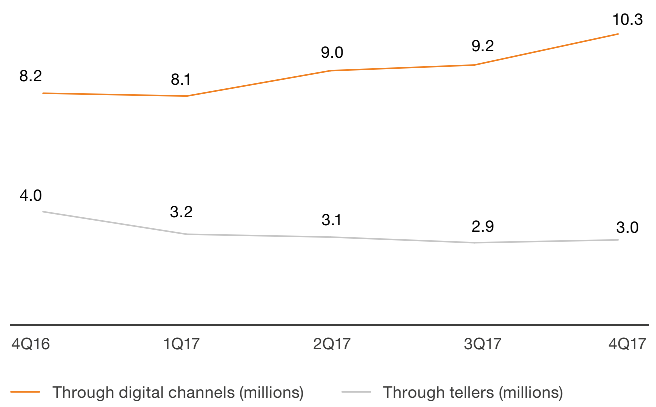
Continued investment in digital penetration growth

We are actively investing in information technology solutions in order to increase digital banking penetration for our services. In 2017, we launched a new fully-transformed, user-friendly, multi-feature mobile banking application – mBank – which continues to gain popularity. Since its launch on 29 May 2017, and over the course of the following seven months, over 261,000 downloads were made by the Bank's customers, while the previous application had less than 120,000 downloads since its launch. C.3.88 million online transactions were performed during the same period using the new application. The number of transactions have increased by c.140% since 2016.

TRANSACTIONS THROUGH MOBILE BANK



DIGITAL VS NON-DIGITAL TRANSACTIONS



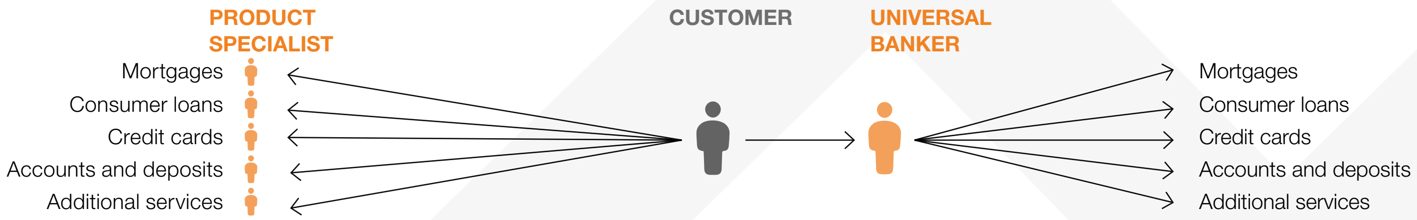
BANK OF GEORGIA STRATEGY OVER THE NEXT TWO TO THREE YEARS CONTINUED

RETAIL BANKING SEGMENTS MEDIUM TERM TARGETS AND PRIORITIES

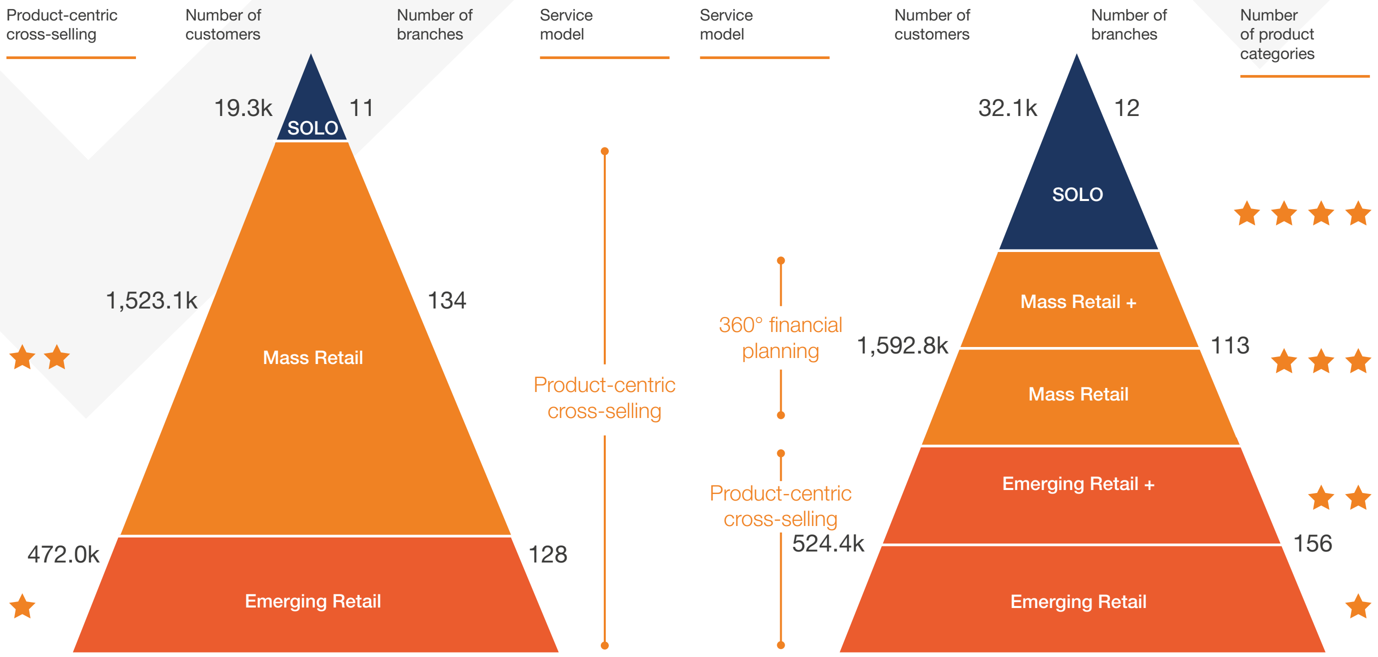
Segments	EXPRESS BANK Emerging Retail	BANK OF GEORGIA Mass Retail	SOLO Mass Affluent	BANK OF GEORGIA BUSINESS MSME
Strategic target	Double number of transactions	Product/client ratio growth to 3.0	Client growth to 40,000	Increase number of clients
Clients	524.4k	1,592.8k	32.1k	165.8k
Full year profit	GEL 39.3 million +27.0% y-o-y	GEL 110.2 million +0.5% y-o-y	GEL 42.8 million +32.6% y-o-y	GEL 50.2 million +34.1% y-o-y
Profit per client	GEL 78.0	GEL 70.7	GEL 1,704.4	GEL 342.9
Product to client ratio	3.4	1.8	6.1	1.4
Branches	156	113	12	n/a

BRANCH OPERATING MODEL NEW WAY OF THINKING: CUSTOMER FIRST!

...FROM	...TO
Product-centric approach	Customer-centric approach



NEW CUSTOMER SEGMENTATION AND SERVICE MODEL



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 2017, we installed 113 new Express Pay terminals, resulting in 2,842 total Express Pay terminals at the end of the year. We are leaders in Georgia in the payment systems market.

In 2017, we won a tender, organised by Tbilisi City Hall, for the modernisation of the public transportation payment system in Tbilisi. As a result, the Bank will continue to be the sole provider of payment support services to the public transport network, and operate Express branches in Tbilisi metro (i.e. subway) stations for the next ten years. As part of the tender mandate and the Bank's own digitilisation strategy, Bank of Georgia will implement a modern digital payment system across public transport network in Tbilisi, including payment processing using Visa and MasterCard cards, and create a digital platform for ticket reservations and purchases through mobile applications. The Bank's branch network presence in public transport services contributes c.2.1 million transactions per month.

We issued 388,567 Express cards in 2017 and had 1,258,940 Express cards outstanding at the end of the year. In 2017, the number of clients served and number of total transactions through Express cards increased by 48.3% and 15.2% y-o-y, respectively. We sell only a limited number of banking products to our Express Banking clients. Currently, 106 out of a total of 156 Express branches are located in Tbilisi.

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, for whom we have successfully optimised and redesigned the operating model of our mass retail branches around a client-centric approach. Mass retail is the largest segment of Retail Banking, where we aim to increase the product to client ratio from the current 1.8 to 3.0 in the medium term.

In 2017, we accelerated proactive interactions with our clients by advising and offering them the financial products and solutions that best serve their individual needs. We continue to see strong growth in sales volumes and the number of products sold to our clients in transformed branches, contributing to 29.3% y-o-y growth in the retail loan book. The number of products sold to mass retail customers has increased by 163.0%, compared to the sales before transformation of the retail segment.

In order to unlock the full potential of current customers and boost a product to client ratio, we launched a new loyalty programme called "*Plus+*" in 2017. The programme is part of the mass retail customer-centric approach and offers the customers different status levels and reward points. They accumulate based on their business with the Bank and can redeem points with partner companies' products and/or services. At 31 December 2017, the number of upgraded members reached 159,781 and active Plus+ cards outstanding were 250,307, while the total number of members grew to 586,870.

SOLO – A FUNDAMENTALLY DIFFERENT APPROACH TO PREMIUM BANKING

The Solo brand is used to serve the emerging mass affluent segment. Our new Solo model was introduced in 2015. It is 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 specially 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 attended 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 2017, Solo organised concerts with world famous artists. Such events are limited to Solo clients and create additional interest in the Solo franchise. Profit per Solo client reached GEL 1,704 in 2017, over 24 times what we have in the mass retail segment under the Bank of Georgia brand. Solo's gross loan book and deposit portfolio demonstrated impressive growth of 44.7% and 37.4% y-o-y.

We are well on track to achieve our target of 40,000 Solo customers by the end of 2018, from the current 32,104. The share of new customers acquired in 2017 accounted for 43.8% of the total of Solo clients at the end of the year, which clearly demonstrates the growing popularity of the franchise in our domestic market.

In 2017, we launched Solo Club, a membership group within Solo, which offers exclusive access to Solo's products and offers ahead of other Solo clients at a higher fee. This includes American Express Platinum cards, which were also launched in 2017 and are available to Solo Club members only. At 31 December 2017, Solo Club had 1,882 members.

Solo is actively diversifying the range of its lifestyle offerings in travel, entertainment, education and well-being to make the franchise even more distinguishable and enjoyable.

GEORGIA CAPITAL STRATEGY

Georgia Capital is a Georgia-focused, well diversified investment company targeting minimum IRR of 25% from its investments.

Georgia Capital seeks to capture growth opportunities in the sectors in which it currently operates and drive the development of new structurally attractive, high-growth businesses in Georgia, which it intends to add either by acquiring businesses in their early development stage or by establishing greenfield businesses, often consolidating fragmented or underdeveloped markets. Georgia Capital actively manages its portfolio companies to maturity, setting the strategy and business plan of each business and driving its execution. In order to unlock the value of the companies in which it invests and which it manages, Georgia Capital sets an exit strategy prior to making an investment.

GEORGIA CAPITAL'S KEY PRINCIPLES AROUND INVESTING AND MANAGING COMPANIES

1. INVESTMENT & CAPITAL MANAGEMENT

- Highly disciplined investing approach. The Georgian economy entered into a period of significant development and growth approximately ten years ago and different sectors and businesses are at an early stage of formation. Access to capital and management personnel is limited, owners of businesses are cash poor and, as a result, Georgia Capital can pursue attractive investment opportunities and acquire assets on relatively attractive terms with a view to consolidating fragmented and underdeveloped markets. Because the company is under no time pressure to invest, it takes a selective and opportunistic approach to new investments. Georgia Capital's capital return policy is a natural self-discipline mechanism for its capital allocation decisions
- 360º analysis when evaluating capital returns, new investment opportunities or divestments.

Georgia Capital does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time-frame. As such, it can focus on shareholder returns and on opportunities which meet its investment return and growth criteria. The company targets a minimum IRR of 25% for its existing and new businesses, to buy back and cancel its shares and/or pay special dividends linked to exits from its existing businesses and new investments

2. MANAGING PORTFOLIO COMPANIES

Georgia Capital sets the strategy and business plan of each business it acquires or establishes and then actively manages their implementation, particularly at early stages of development. As the availability of management personnel is limited, by developing top talent in Georgia the company can add value for the company's shareholders. Investing time in growing and developing management continues to be critical for the success of the company's strategy.

Georgia Capital will apply a hands-on management approach to the non-public portfolio companies at early stages of their development and acts as an advisor for the management of more mature companies. In the publicly listed companies, Georgia Capital will be represented on the Board at least until its ownership stake falls below 25%.

3. EXIT

As a business matures, Georgia Capital will normally seek to monetise its investment, including through initial public offering, strategic sale or other appropriate exit, typically within five to ten years from acquisition. As investments are monetised, Georgia Capital plans either to redeploy the proceeds to capture opportunities for growth in new sectors or in the company's existing businesses, or return proceeds to shareholders in accordance with its capital return policy.

KEY TO SUCCESS – ALIGNED SHAREHOLDER AND MANAGEMENT INTERESTS

	GEORGIA CAPITAL	PRIVATE EQUITY
2% management fee	n/a	✓
20% success fee	n/a	✓
c.2% operating expenses	✓	n/a

- Cash preservation is a key target for Georgia Capital and therefore two thirds of total operating expenses are related to share-based compensation
- Georgia Capital's senior management's compensation will be paid in long-vested shares only, with no cash component
- Portfolio company management will be paid in proxy shares of their respective companies

GEORGIA CAPITAL THREE PILLAR STRATEGIC FRAMEWORK

SUPERIOR ACCESS TO CAPITAL

- Only investment company in Georgia
- Uniquely positioned given the access to capital in a small frontier economy, where access to capital is limited:
  - c.US$ 500 million raised in equity at LSE
  - Issued four Eurobonds totalling US$ 1.2 billion
  - US$ 3 billion+ raised from IFIs (EBRD, IFC, etc.)
- Flexibility to use own shares as acquisition currency

ACCESS TO MANAGEMENT

- Reputation among talented managers as the "best group to work for"
- Attracted talent have demonstrated track record of successful delivery
- Proven DNA in turning around the companies and growing them efficiently
- Strong skillset in company exits
  - LSE IPO track record
  - Divestiture skills

STRONG CORPORATE GOVERNANCE

- Outstanding track record in:
  - Institutionalising businesses, creating independently run/managed institutions
  - investor reporting transparency and granularity
- Aligned shareholder and management interests
  - Management compensation linked to performance
  - Equity/performance dominating compensation structure
- Top class Board and governance

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

GGU has a significant opportunity to increase its operational cash flow over the next few years from a combination of improving cash collection rates, growing cost efficiencies from cutting technical and commercial water loss rates, and reducing energy consumption internally to preserve the supply available for sale to third parties, while also planning the construction of hydro, wind and solar power generation plants.

GGU is an established business with two business lines – water utility and electric power generation. In its water utility business, GGU has 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 its power usage for water transportation and invests in additional capacity for electricity generation with the goal to establish a renewable energy platform.

GGU has been investing heavily in its infrastructure, thereby replacing the depreciated asset base over time and achieving continuous growth in the Regulatory Asset Base (RAB). GGU plans to invest at least GEL 200 million over the next three years in the upgrade of existing and the development of substantial new water utility infrastructure. GGU's Investment in infrastructure is expected to significantly improve the rendering of water supply and wastewater services to customers and achieve cost efficiencies through reduced water losses. In 2017, GGU's regulatory body approved increased tariffs for water supply and wastewater services based on a new methodology, which is in line with international best practices. New tariffs provide fair return on investment, as well as compensating for eligible operating expenses.

In 2017, GGU commenced construction of a 50MW HPP in North-Western Georgia (Svaneti region) with a target to have the HPP operational in December 2018. Construction of 2.5MW Bodorna HPP also started in 2017, which is expected to become fully operational from September 2018. Moreover, 44.3MW Zoti HPP in Western Georgia (Guria region) is currently under development with a target to complete the construction of this plant by the end of 2020. c.100MW wind projects are currently at the feasibility stage and once complete, GGU expects to commence construction works.

The key elements of GGU's business strategy are outlined below:

- **Reducing water loss rates and increasing energy efficiency.** GGU aims to achieve efficiencies in operating and maintaining its network by heavily investing in the refurbishment of its existing and the development of new infrastructure. As a result, GGU plans to substantially reduce technical and commercial water losses in the medium term, thereby reducing water and energy consumed internally. Asa result of achieving efficiencies in its own energy consumption, GGU expects to free up electricity for third-party sales. GGU intends to achieve additional cost efficiencies through reduced maintenance costs for existing water infrastructure, which management expects to result in increased profitability
- **Establishing a renewable energy platform.** GGU plans to establish a renewable energy platform by developing hydro, wind and solar power plants. Currently, GGU owns and operates 149.3MW installed capacity, has c.100MW HPPs at a construction stage and c.100MW wind projects at feasibility stage. Additionally, GGU is constantly identifying new renewable projects that it aims to develop in the medium term
- **Preparing for IPO in the medium term.** As part of preparing for a potential IPO, GGU aims to achieve EBITDA of more than GEL 115 million in 2019. GGU plans to use IPO proceeds to fund new development initiatives, including renewable energy projects

GGU has been successfully growing EBITDA and reaching its targets for several years in a row and the company is well on track to further increase it to more than GEL 115 million in 2019 by increasing its renewable energy portfolio and tapping into additional efficiencies in the water business. Strong and stable cash flow generation is expected to enable GGU to sponsor steadily increasing dividend payouts to shareholders and to prepare the combined utility and renewable energy business for an IPO in approximately two to three years.

TARGETS AND PRIORITIES FOR THE NEXT TWO YEARS

		CURRENT STANDING	MEDIUM TERM GOAL	TARGETING
1	UTILITY	**REVENUE 2017:** GEL 125 million **EBITDA 2017:** GEL 62 million	**EBITDA 2019:** GEL 70 million+	DIVIDEND PROVIDER
2	ENERGY	**REVENUE 2017:** GEL 14 million **EBITDA 2017:** GEL 9 million 149.3MW capacity	**EBITDA 2019:** GEL 45 million+ 200MW capacity	VALUE CREATION UPSIDE

IPO in 2-3 years' time

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

m^2 Real Estate develops residential and commercial property, including hotels, in Georgia. Over the past ten years, m^2 has established itself as one of the most recognised and trustworthy residential housing brands in the country. m^2 is also in the process of building on its strong market reputation, vertically-integrated operating model and brand franchise to create a third business line that develops third-party land plots and generates fee income. 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 of US$ 25 million in 2020 by:

Developing remaining residential land bank. As a residential real estate developer, m^2 targets mass market customers by introducing high quality and comfortable living standards in Georgia and making them affordable through its well established branch network and sales force. The total value we are aiming to unlock from the remaining residential land bank by 2020 is US$ 27.8 million with 4,690 apartments (in addition to 217 remaining apartments to be sold in the existing 11 projects, both completed and ongoing). m^2 does not expect the land bank to grow, as the company's strategy is to utilise its existing land plots within three to four years and, in parallel, start developing third-party land plots under franchise agreements.

Franchising real estate development in Georgia. m^2 focuses on franchising its well established brand to develop third-party land plots and generate a fee income. While following its "asset light" strategy, m^2 will capitalise 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. Moreover, owing to a vertical integration of its construction arm, m^2 has control over the largest part of a development's cost base, which enables m^2 to achieve construction and project development efficiencies
- *Sales.* m^2 is distinguished by its ability to accomplish strong sales performance through dedicated sales personnel and access to finance. Pre-sale reduces the equity needed to finance the projects. The top three banks provide mortgages under the m^2 completion guarantee
- *Execution.* m^2 has an excellent track record for projects completed on time and to budget. The company manages the entire process from development and construction through to apartment handover and property management services
- *Access to finance.* m^2 has successfully cooperated with Development Financial Institutions (DFIs), has also been active in local fixed income instruments market and has issued Dollar-denominated bonds in the local market. Since 2012, m^2 has raised approximately US$ 100 million of debt financing, of which US$ 45 million is from international financial institutions

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

- *Commercial space:* enhancing the income-generating asset portfolio by incorporating commercial elements in its residential developments and opportunistically acquiring and/or developing high street retail, commercial and office space. In addition to rental income, these assets can also deliver capital appreciation
- *Hotel development:* m^2 launched a three-star Ramada Encore hotel in Tbilisi under Wyndham's seven-year Ramada Encore brand exclusivity in February 2018. The company is currently constructing a four-star Ramada hotel in the centre of Tbilisi and another three-star Ramada Encore hotel in Kutaisi is in pipeline. Both are expected to launch in 2019. All Wyndham brand hotels cater to the growing number of budget travellers and will offer c.400 rooms in total by 2019. m^2 finances the equity needs of the mixed-use hotel from the profits and land value unlocked through the sale of the apartments in the development. The Ramada four-star hotel in Tbilisi will be constructed in-house by the company's recently acquired construction subsidiary. In addition, in 2017, m^2 acquired a controlling stake in a lifestyle boutique hotel, which is expected to launch in 2019

Construction management. m^2 Real Estate historically outsourced construction and architecture works and focused on project management and sales. In 2017, m^2 acquired BK Construction LLC, a local real estate construction company, with the aim to bring the construction works in-house and achieve cost and project development efficiencies. m^2 plans to fully utilise the benefits of this vertical integration and boost fee income generation from franchise deals and third-party constructions.

TARGETS AND PRIORITIES FOR THE NEXT TWO YEARS

1 **Unlock land value by developing own land bank**

- Fully develop land bank valued at US$ 27.8 million by 2020
- Use part of the proceeds to distribute dividends to shareholders

2 **Franchise m^2 brand**

- Harness m^2 brand name as a platform to develop third-party land plots and generate fee income
- Increase the awareness of m^2 franchise among land owners

3 **Grow yielding portfolio**

- Grow portfolio of rent-earning assets by retaining commercial space in residential buildings developed by m^2 and opportunistically purchase yielding real estate in prime locations
- Develop hotels with a total of 500 rooms to increase yielding business

4 **Construction management**

- Utilise benefits of most recent vertical integration of a construction arm and achieve cost and project development efficiencies
- Generate fee income from construction management from both franchised deals (exclusive contractor) and third-party constructions

- NAV (Net Asset Value) – US$ 59.5 million
- Land bank – US$ 28.1 million
- Yielding assets – US$ 16.3 million
- Deferred revenue – US$ 18.0 million

- Capital management discipline – aim to pay US$ 25 million dividends to the shareholders in 2020
- Possibility to spin off yielding properties as a listed REIT managed by m^2

ALDAGI – UNDISPUTED LEADER IN GEORGIA'S FAST-DEVELOPING P&C INSURANCE MARKET

Over nearly three decades in the Georgian P&C insurance market, Aldagi has achieved almost universal brand awareness, leading positions in retail insurance services, the largest product portfolio and exceptional financial strength. The company has doubled its retail portfolio over the last three years, outperformed market growth by 5% and achieved a ROAE of 38.5%. Based on the latest available market data as at 30 September 2017, Aldagi continues to be the most profitable insurance company in the local market with 89.4% share of the insurance industry profit and a market share of 38.6% based on gross premiums earned.

The current low level of insurance market penetration in Georgia (1.2%, of which 0.6% relates to P&C insurance and 0.6% to medical insurance) provides enormous potential of growth and Aldagi is well equipped to capture these opportunities.

Aldagi aims to triple its current net profit and become a GEL 50 million net profit company by 2022. The company plans to achieve this by strategically focusing on each of its three main business lines set out below:

Retail customers. The Georgian retail insurance market offers ample room for growth, as most of its potential is yet to be unlocked.

Motor insurance accounts for 50% of the total retail insurance market in Georgia, of which Aldagi's share is 42%. The motor insurance segment has great potential to increase, as only 4% of registered cars are insured on the local market. Moreover, compulsory Border Motor Third Party Liability (MTPL) insurance will be effective from March 2018, and Aldagi expects it to increase the size of the existing P&C market by approximately GEL 30-50 million (15-25% of the existing P&C insurance market). Furthermore, a new law requiring a mandatory local MTPL for all vehicles registered in Georgia is expected to launch in 2019 and significantly boost retail market penetration.

In 2017, Aldagi actively worked on developing new products and introduced livestock insurance to underpenetrated rural areas. The company came up with an online travel insurance product, with a unique combination of coverage and competitive pricing. Aldagi partnered with Public Service Hall, whose clients can electronically acquire affordable insurance for any property registered on the public registry.

Aldagi aims to further strengthen its market leadership position by harnessing its digital insurance platform over the next five years. The company intends to execute all of its processes and procedures, including issuance of e-policies, remote claims regulation and building web/mobile customer profiles, principally through digital channels. Aldagi plans to increase the percentage of retail sales conducted online to approximately 20% of total retail sales, and the percentage of motor claims processed online to 25% of total motor claims.

The company actively diversifies its distribution channels by forming partnerships with financial institutions. Extended cooperations with leading financial institutions in Georgia will enable Aldagi to uncover additional sources of high quality deals for its leading insurance products and continue to successfully diversify its multi-channel distribution network.

SME segment. Georgia's insurance market for small and medium sized enterprises is currently in its infancy. Aldagi's strategy is to focus the attention of its experienced retail sales force (in addition to the corporate sales department) towards entering this underpenetrated segment. Aldagi sees significant potential to grow this segment of the portfolio by developing tailor-made products and providing them through digital portals, created especially for SME clients, and its multi-channel distribution network.

Large corporates. Although the level of insurance penetration within the corporate segment is relatively high compared to retail and SME segments, a combination of favourable Georgian macroeconomic conditions, a good investment climate, stable economic growth and an increase in infrastructure projects will further increase customer demand for insurance products.

TARGETS AND PRIORITIES FOR THREE BUSINESS DIRECTIONS

GEL c.16 MILLION
2017

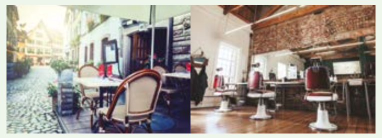
ALDAGI PROFIT

GEL 50 MILLION
2022

Retail | Penetration Low

- No mandatory lines, border and local MTPL, also GTPL mandatory insurance to be introduced
- Develop simple products for mass retail
- Digitilisation of all processes
- More partnership with financial institutions after demerger

SME | Penetration Zero



- Underpenetrated market
- Developing tailored products
- Digital portal for SME

Corporate | Penetration ↑

- Good investment climate
- Stable economic growth
- Increase in infrastructural projects

TELIANI – CREATING A LEADING BEVERAGE PRODUCER AND DISTRIBUTOR IN SOUTH CAUCASUS

Teliani Valley aims to become a leading beverage producer and the biggest distribution company not only in Georgia, but in South Caucasus. The company is well equipped to leverage its strong existing production and excellent sales and distribution franchise.

Teliani Valley is an established leading beverage producer and distributor in Georgia with three major business lines: wine production, beer production, and distribution of its own and third-party brands in Georgia.

The company is a leading wine producer in Georgia, selling around 3.5 million bottles of wine in 14 countries globally per annum, with about 68%* of its revenue coming from exports. Teliani intends to not only retain its leading position on the local wine market, but also to become a top exporter by 2019. Teliani aims to grow its domestic and international wine sales by benefiting from favourable market trends in Georgia and expanding exports through new sales channels in high-growth countries, including China.

Teliani has an established distribution franchise, which has contracts with a number of international beverage brands. Teliani plans to diversify the products in its distribution portfolio and eventually become the largest third-party distribution company.

Teliani's strong production and distribution franchise led the company to establish a partnership with Heineken. Teliani will produce Heineken brands in Georgia under a ten-year exclusive license agreement and sell them in the countries of the South Caucasus region (population of c.17 million). Teliani is well on track to brew Heineken and Krušovice Beers in its brand new brewery in 2018.

In line with its strategy to diversify its distribution portfolio, Teliani obtained exclusive rights to import and distribute Lavazza coffee in Georgia, and won other non-alcoholic beverage distribution contracts in 2017.

In 2017, Teliani launched production of a lemonade and local mainstream beer. The newly launched beer "ICY" was well received by the local market, which immediately earned 97% brand awareness and 16% market share upon launch. Both products are planned to be exported to CIS countries.

Of the US$ 49.3 million investment in the beer project, US$ 29.5 million is equity, of which US$ 23.3 million is BGEO's share. Teliani expects EBITDA to grow to c.US$ 5.5 million in 2020, up from the current US$ 0.6 million, with growth primarily driven by the expansion into the beer segment.

LOCAL MAINSTREAM BEER PRODUCTION LAUNCHED IN 2017



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

BUSINESS SEGMENTS

Wine
- c.3.5 million bottles sold annually
- GEL 24.3 million* revenue in 2017
- GEL 5.5 million* EBITDA in 2017
- 68%* of sales from exports

Distribution
- c.5,000 sales points
- New distribution lines – "LAVAZZA" coffee and "BAGRATIONI 1882" sparkling wine
- Exporting wine to 14 countries, including all FSU, Poland, Sweden, USA, Canada and China

Beer
- Launched mainstream beer and lemonade production under ICY and Berika brands in June and August 2017, respectively
- Beer and lemonade sales amounted to GEL 17.5 million* and GEL 1.5 million* in 2017, respectively
- c.6,700 sales points as of 2017 year-end
- Ten-year exclusivity with Heineken to sell in Georgia, Armenia and Azerbaijan (c.17 million population)

PRIORITIES FOR 2018

Wine
- Grow in line with a local market
- Enhance exports

Distribution
- Enhance product portfolio and become the leading FMCG distributor in Georgia

Beer
- Achieve 23% market share

* The results are presented excluding the IFRS 15 impact.

GHG – LEADING IN ALL SEGMENTS OF GEORGIA'S 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 polyclinics business GHG's aim is to:

- Rebound healthcare services EBITDA margin up to c.30% in the medium to long term
- Achieve a c.25% market share by revenues and c.28% market share by beds by 2018, and 30% market share by both in the long term (currently 21.0% share of revenues and 24.5% share of hospital beds)
- Roll out a network of polyclinics to achieve a c.5% market share of revenues in 2018 and a 15%+ market share of revenues in the long term (currently 2%)
- Enhance digital channels

The key strategic focus in the hospital business over the next few years will be to enhance the company'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 pharmaceuticals business GHG's aim is to:

- Achieve a 30%+ market share in 2018, whilst targeting an 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 initiatives, increasing the number of loyalty programme users and expanding sales to hospitals
- Enhance digital channels

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

- Reduce the combined ratio to less than 97% over the next few years (currently 102.5%*)
- Improve synergies by seeking to retain the number of claims of more than 70% (currently 59.1%)

GHG HAS FULL PRESENCE IN GEORGIA'S HEALTHCARE ECOSYSTEM

SEGMENT		HOSPITALS	POLYCLINICS	PHARMACY	INSURANCE
ADDRESSABLE MARKET (2017)		GEL 1.2bn**	GEL 0.7bn***	GEL 1.5bn	GEL 0.2bn****
		By revenue | beds	By revenue	By revenue	By revenue
MARKET SHARES	In 2015	18% | 27%	<1%	–	38%
MARKET SHARES	In 2017	21% | 25%	2%	30%	29%
TARGET MARKET SHARES	For 2018	c.25% | 28%	c.5%	30%+	30%+
TARGET MARKET SHARES	Long-term	30%+	15%+	30%+	30%+
PROGRESS TOWARD STRATEGIC GOALS IN 2017		• Renovated and launched Tbilisi Referral Hospital • Renovated Deka Hospital which opened in 2018 • Launched 50 new services in referral hospitals	• Added three new district polyclinics, bringing the total number of clusters to 12	• Successfully integrated two major retailers • Improved profitability margins	• Increased claims retained within the group by 11.4% y-o-y • Turning the corner in profitability

* Excluding depreciation and amortisation expenses.
** Addressable market – excluding the revenue from speciality beds.
*** Addressable market – excluding the revenue from dental and aesthetic services.
**** ISSSG, 9M17 annualised.

KEY PERFORMANCE INDICATORS

Record results driven by strong performance across all businesses.

The Group's KPIs for 2017 reflect a continuing strong performance in each of the Group's Banking and Investment Businesses, demonstrating excellent customer lending growth with stable margins, a strong balance sheet and strong profitability, together with substantial further progress in the Group's Investment Businesses.

PROFITABILITY KPIs

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

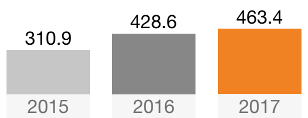
The resilience of Net Interest Margin (NIM) is a function of our distribution capabilities and pricing power. The substantial growth of the loan book, as well as shift to GEL-denominated loan portfolio, and stable cost of funds during 2017 enabled our NIM to withstand downward pressures from increased competition on the market. The resulting outstanding growth in interest and non-interest income, strong margins and well controlled asset quality and costs translated into 25.0% growth in profit.

In 2018 and beyond, we will continue to focus on profitable earnings growth, to be driven by sustainable levels of customer lending growth without compromising asset quality, to increase the share of income from fee-generating operations and to enhance cost efficiencies.

For more information on our financial results, see pages 52 to 75.

PROFIT (BGEO)
(GEL million)

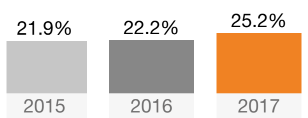
463.4



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

RETURN ON AVERAGE EQUITY
(Banking Business) (%)

25.2%



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.

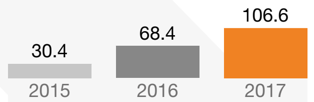
BASIC EARNINGS PER SHARE (BGEO)
(GEL)

11.61

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

INVESTMENT BUSINESS EBITDA
(GEL million)

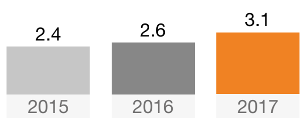
106.6



EBITDA from the Investment Business for the year ended.

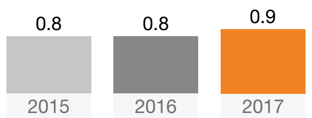
DIVIDEND PER SHARE (BGEO)
(GEL)

3.1



DIVIDEND PER SHARE (BGEO)
(GBP)

0.9



The following GEL/GBP exchange rates are used for presenting GBP amounts: 2017: 3.5005/GBP at 31 December 2017, 2017 dividends to be approved by shareholders at the 2018 AGM; 2016: 3.0690/GBP at 26 June 2017, the currency conversion date for the year 2016; 2015: 3.0376/GBP at 11 July 2016, the currency conversion date for the year 2015.

For further details, see page 216.

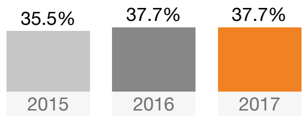
* In 2017, we changed the Group's accounting policy in relation to subsequent measurement of office buildings and service centres from revaluation model to cost model. We have accordingly restated the balance sheet accounts for affected periods, while the change did not have any material impact on the income statement. In addition, we started presenting Aldagi as part of the Investment Business since 2Q17. Therefore, Banking Business balance sheet and income statement accounts, and the ratios, have been updated accordingly for prior periods presented to reflect these changes.

EFFICIENCY KPIs

In 2017 operating expenses broadly kept pace with revenue growth, reflecting organic growth of our Retail Banking business and increase in administrative expenses. Express Banking, a technology-intensive remote banking channel, is the main driver of efficiency for our Banking Business. Other measures, such as various investments in IT aimed at optimising of workflow processes and 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) (%)

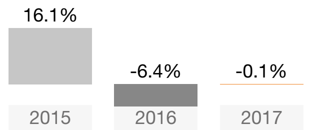
37.7%



Operating expenses divided by revenue.

OPERATING LEVERAGE
(Banking Business) (%)

-0.1%



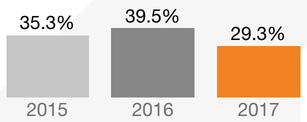
Operating leverage is measured as the percentage change in revenue less the percentage change in operating expenses.

GROWTH KPIs

The 15.9% loan book growth was driven by our Retail Banking business, which posted a 29.3% growth in the loan book in 2017. The Corporate Investment Banking loan book decreased by 5.6% in 2017, which marked the end of successful risk de-concentration and loan portfolio repositioning. CIB resumed its growth in the fourth quarter of 2017 and q-o-q growth on constant currency basis reached 9.2%. Going forward, we will be targeting growth of 15-20% in the Banking Business loan book.

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

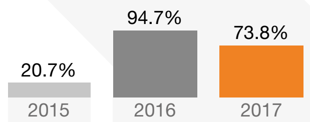
29.3%



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

REVENUE GROWTH
(Investment Business) (% y-o-y)

73.8%



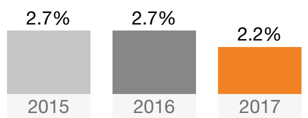
Revenue from the Investment Business at the end of the year compared to the previous year.

ASSET QUALITY KPIs

Our asset quality improved in 2017, as a result of our prudent application of the Group's risk management policies. Cost of risk decreased from 2.7% in 2016 to 2.2% in 2017. NPLs to gross loans improved from 4.2% as at 31 December 2016 to 3.8% at the end of 2017. NPL coverage ratio increased in 2017 to 92.7%.

COST OF RISK
(Banking Business) (%)

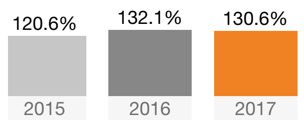
2.2%



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

NPL COVERAGE RATIO ADJUSTED FOR DISCOUNTED VALUE OF COLLATERAL
(Banking Business) (%)

130.6%



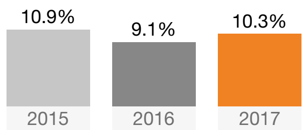
NPL Coverage Ratio adjusted for discounted value of collateral equals allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment).

CAPITAL KPIs

In 2017, our Tier I Capital Adequacy ratio (NBG, Basel II) stood at 10.3%. The risk weighted assets increased by 13.5%, reflecting the increase in interest earning assets during the year. Tier I Capital Adequacy ratio (NBG Basel III) stood at 12.4% at 31 December 2017, above the minimum 9.9% requirement.

TIER I CAPITAL ADEQUACY RATIO, BASEL II** *(%)*

10.3%

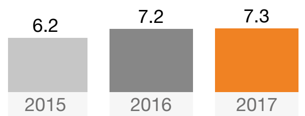


NBG, Basel II Tier I Capital Adequacy ratio: Tier I Capital divided by risk weighted assets.

** Tier 1 Capital Ratio (NBG Basel III) – 12.4%.

LEVERAGE
(Banking Business) (times)

7.3



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 ingrained 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. The Board is 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.

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. Each business participates in the risk management process by identifying the key risks applicable to its business. The principal risks and uncertainties faced by the Group are identified through this process.

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.

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, 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 the above processes.

A description of these principal risks and uncertainties, including to recent trends and outlook, as well as mitigation efforts, can be found on pages 34 to 37 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 38 to 43 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, 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 the Group 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 Deputy CEO, Chief Risk Officer and the Head of AML and 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 risk unit. 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 reports from the Head of AML and 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 2017 and the period from year-end to the approval of this Annual Report. We obtained assurance from management and Internal Audit.

The Board is able to conclude with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively throughout 2017 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 2016 (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 key risks, especially as they evolve. We will also 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 91 to 94 and pages 95 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 75. 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 viability review was conducted in respect of the Group in case the demerger is not approved by AGM, as well as its underlying businesses post demerger. The Board performed this review over a three-year period beginning 1 January 2018, 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 strategic plans and financial forecasts, which are usually set and prepared for the three year period, the diverse nature of the Group's activities, the evolving nature of the regulatory environment in which the Group's businesses operate, demerger of the Group, as well as recent trends relating to Lari volatility. A period of three years beyond the balance sheet date was therefore considered the most appropriate viability period 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 29;
- the Group's principal risks and uncertainties, principally those related to adverse economic conditions, the depreciation of the Lari, IT and/or information security (including cyber-security) control failures, Investment Business strategy, demerger risk and how these risks and uncertainties are managed, as set out on pages 34 to 37;
- 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 included 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 for consolidated BGEO Group PLC, including Banking and Investment Businesses. Principal risks and uncertainties identified by the Group are currency volatility, global and regional economic instability, market competition and interest rate volatility. 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 Group has examined following stress scenarios over the assessment period: GEL depreciation against US Dollar, market competition driven shrinkage of net interest margin, increase in operating expenses resulting in higher Banking Business cost to income ratio, impairment of loan portfolio quality, possible underperformance of Investment Business entities. The stress test scenarios were then reviewed against the Group's and its businesses' 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, such as decline in lending activity, reduction of operating expenses, as well as the assumption that the Group will be able to prolong or refinance existing borrowings, or increase the financing from DFIs, at the terms similar to existing ones, that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group and its businesses are 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 Group and its businesses will be able to continue operation and meet its liabilities as they fall due over the three-year period from 1 January 2018 to 31 December 2020.

If the demerger is implemented successfully then the new Boards of the demerged businesses will make their own viability statement in their respective annual reports next year and the Group, as it is currently comprised, will cease to exist.

PRINCIPAL RISKS AND UNCERTAINTIES

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

We outline the principal risks and uncertainties that may have an impact on our strategic objectives, business model, operations, future performance, solvency and liquidity. These principal risks are described in the table that follows, together with the relevant strategic business objectives, key drivers/trends, material controls which have been put in place to mitigate the risks and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. We disclose those which we believe are likely to have had 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.

The order in which the Principal Risks and Uncertainties appear does not denote their order of priority. 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	**Macroeconomic factors relating to Georgia, including depreciation of the Lari against the Dollar, may have a material impact on our loan book.**
KEY DRIVERS/ TRENDS	The Group's operations are primarily located, and most of its revenue is sourced from, Georgia. Macroeconomic factors relating to Georgia, such as GDP, inflation and interest rates, may have a material impact on the quality of our loan portfolio, loan losses, our margins and customer demand for our products and services. Real GDP growth in Georgia increased to 4.8% in 2017, compared to 2.8% in 2016 and 2.9% in 2015, according to Geostat. Uncertain and volatile global economic conditions could have substantial political and macroeconomic ramifications globally which in turn could impact the Georgian economy. In 2017, the Lari appreciated against the Dollar by 2.1%. The volatility of Lari against Dollar has 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, MSME and mortgage loan books are largely Dollar-denominated and the majority of our customers' income is Lari-denominated. The creditworthiness of our customers may be adversely affected by the depreciation of the Lari against the Dollar, which could result in them having difficulty repaying their loans. The depreciation of Lari may also adversely affect the value of our customers' collateral. As at 31 December 2017, in the Banking Business, approximately 83% and 49% of our corporate investment banking and retail loans respectively were denominated in foreign currency (predominantly Dollars), while Dollar income revenue loans covered 9.5% of retail gross loans and 43.1% of corporate investment banking gross loans. In 2017, our Banking Business cost of credit risk was at 2.2% compared to 2.7% in 2016.
MITIGATION	The Group continually monitors market conditions and reviews market changes, and also performs stress and scenario testing to test its position under adverse economic conditions, including adverse currency movements. 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% additional capital to the foreign currency loans of clients whose source of income is denominated in Lari. Our Credit Committees and Credit Risk Management department set counterparty limits by using a credit risk classification and scoring system for 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. Furthermore, in June 2017, we completed the inaugural local currency denominated international bond issuance in the amount of GEL 500 million to support local currency lending. 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. As a result, as of 31 December 2017, in the Banking Business, our Lari-denominated loan book increased by 54.6%, while our foreign currency-denominated loan book increased by 0.2% in constant currency terms. The trend was supported by the Georgian Government's "de-dollarisation" initiatives: a) a one-off programme, effective from 15 January 2017 until 25 March 2017, allowing qualified borrowers to convert eligible Dollar-denominated loans into Lari, at a discount compensated by the Government, at the client's election and b) a new regulation, effective from 15 January 2017, restricting issuance of new loans in foreign currency with amounts less than GEL 100,000 (equivalent).

REGIONAL INSTABILITY

PRINCIPAL RISK/ UNCERTAINTY	**The Georgian economy and our business may be adversely affected by regional tensions and instability.** The Group's operations are primarily located, and most of its revenue is sourced from, Georgia. The Georgian economy is dependent on economies of the region, in particular Russia, Turkey, Azerbaijan and Armenia who are key trading partners. There has been ongoing geopolitical tension, political instability, economic instability and military conflict in the region, which may have an adverse effect on our business and financial position.
KEY DRIVERS/ TRENDS	Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions and tensions between Russia and Georgia persist. Russia is opposed to the eastward enlargement of NATO, potentially, including former Soviet republics such as Georgia. The introduction of a preferential trade regime between Georgia and the EU in July 2016 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017, may intensify tensions between countries. The Government has taken certain steps towards improving relations with Russia, but, as of the date of this Annual Report, these have not resulted in any formal or legal changes in the relationship between the two countries. Relations between Russia and Turkey remain uncertain, as despite Russia repealing sanctions on Turkey in March 2017, certain sanctions and legal limitations on Turkish nationals remain. In April 2017, amendments to the Turkish constitution were approved by voters in a referendum. The amendments which grant the president wider powers are expected to transform Turkey's system of government away from a parliamentary system. These amendments could have a negative impact on political stability in Turkey, which is already tense after a failed coup against the president in July 2016. Conflict remains unabated between Azerbaijan and Armenia.
MITIGATION	The Group actively monitors regional and local market conditions and risks related to political instability, and performs stress and scenario tests in order to assess our financial position. Responsive strategies and action plans are also developed. 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. In April 2017, the IMF approved a new three-year US$ 285 million economic programme, aimed at preserving macroeconomic and financial stability and addressing structural weaknesses in the Georgian economy to support higher and inclusive growth. During 2017, Georgia delivered real GDP growth of 4.8% from 2.8% in 2016.

REGULATORY RISK

PRINCIPAL RISK/ UNCERTAINTY	**The Group operates across a wide range of industries, principally banking, but also healthcare services, pharmacy, insurance, real estate, water and energy utility, hydro power, 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 an increase in the Bank's risk-weighted assets, our ability to raise capital, losses resulting from deterioration in our asset quality and/or a reduction in income levels and/or an increase in expenses, decline in the value of the Bank's securities portfolio, as well as weakening of global and Georgian economies. Each of our Investment Businesses is subject to different regulators and regulation. Legislation in certain industries, such as healthcare, 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.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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, or failures in our banking activity processes or systems or human error, 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, and internal processes including those related to data protection, IT and information security in order to manage these threats.
KEY DRIVERS/ TRENDS	During 2017, we saw a number of major organisations subjected to cyber-attacks, although fortunately, our operations were not materially affected. The external threat profile is continuously changing and we expect threats to 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 been significant. Money laundering has also increased globally in recent years which the bank has certain responsibilities to guard against.
MITIGATION	We have an integrated control framework encompassing operational risk management, IT systems, corporate and other data security each of which is managed by a separate department. We also have an Anti-Money Laundering (AML) officer and controls. We identify and assess operational risk categories within our risk management framework, identifying critical risk areas or groups of operations with an increased risk level and develop 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 help protect against 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 in 2016 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 Audit Committee's regular agenda and are also frequently discussed at Board level.

INVESTMENT BUSINESS STRATEGY

PRINCIPAL RISK/ UNCERTAINTY	**Market conditions may adversely impact our Investment Business strategy and all our Investment Businesses have their own risks specific to their industry.** Our Investment Businesses have growth and expansion strategies and we face execution risk in implementing these strategies. Our Investment Business strategy is to achieve an internal rate of return of at least 25% from investments. The Invesment Business will normally seek to monetise its investments, including through initial public offering, strategic sale or other appropriate exit, typically within five to ten years of acquisition. Macroeconomic conditions and the financial and economic environment, and other market conditions in international capital markets may limit the Group's ability to achieve a partial or full exit from its existing or future businesses. It may not be possible or desirable to divest, including whether suitable buyers can be found at the appropriate times or cases where there may be difficulties in obtaining favourable terms or prices.
KEY DRIVERS/ TRENDS	Each investment business – GGU, m^2, Aldagi, Teliani, Georgia Healthcare Group – faces their own risks. These include risks inherent to their industry, or to their industry particularly in Georgia, and each faces significant competition. They also face the principal risks and uncertainties referred to throughout this table, such as macroeconomic and regulatory risk.
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 regularly on the agenda for the Nomination Committee and 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 the regulatory environment. We have also sought and continue to seek advice from experienced global professionals in our industries.

DEMERGER AND FUTURE PERFORMANCE RISK

PRINCIPAL RISK/ UNCERTAINTY	**The Group is implementing a demerger of its Banking Business and Investment Business, subject to shareholder approval.** The demerger is dependent on a number of conditions and steps to complete and there is a risk that it may not go ahead despite extensive management time having been focused on the initiative. There is also risk that the demerger will go ahead but that the full anticipated benefits are not realised.
KEY DRIVERS/ TRENDS	On 3 July 2017, the Group announced its intention to demerge the Group into a London-listed banking business and a London-listed investment business. On 12 February 2018 the Group announced that the Board had approved the implementation of the demerger and gave an update on its structure. The Board has stated that it believes a demerger of the businesses will deliver additional long-term value to shareholders by creating two distinct entities, each of which will have enhanced growth opportunities in the strongly growing Georgian economy. The Board has stated that it believes the demerger will benefit the two businesses in the following areas: business flexibility, pursuing growth opportunities, regulatory clarity and flexibility, efficient capital structure, improved management focus, alignment of incentives, and investor clarity and understanding. More detail is expected to be included in the circular to be sent to shareholders relating to the demerger.
MITIGATION	We continue to monitor the businesses as usual through the processes and risk framework outlined in this Risk Management and Principal Risks and Uncertainties section. The Board and management also receive major progress updates on the demerger. The project team for the demerger, which includes some of our executives, steers the process and helps ensure the implementation plans are in place. We are seeking advice from experienced professionals in respect of the demerger. More detail is expected to be included in the circular to be sent to shareholders relating to the demerger.

BANK RISK MANAGEMENT

The Banking Business is the principal driver of the Group's revenue and operates in the financial services sector – its risk management and internal control framework are 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, to explain the way risks need to be systematically identified, assessed, quantified, managed and monitored.

Clearly delegated authority levels and reporting lines have been established, which together with the comprehensive reporting process, form 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 32 to 33 of the Strategic Report.

The work undertaken by the Bank's risk management bodies feeds back directly to BGEO. Certain banking-related risks have been identified in the Group's Principal Risks and Uncertainties, which can be found on pages 34 to 37 of the Strategic Report.

Given the significance of the Banking Business, the risk management and internal control framework are in place at the Bank as 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 quantitative assessment of a particular risk
- determination of an acceptable risk level
- risk monitoring and mitigation
- 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 the 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, Credit Committee, Asset and Liability Management Committee (the "ALCO"), AML and 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, only at Bank level. Please refer to the diagram at the bottom of this page.

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.

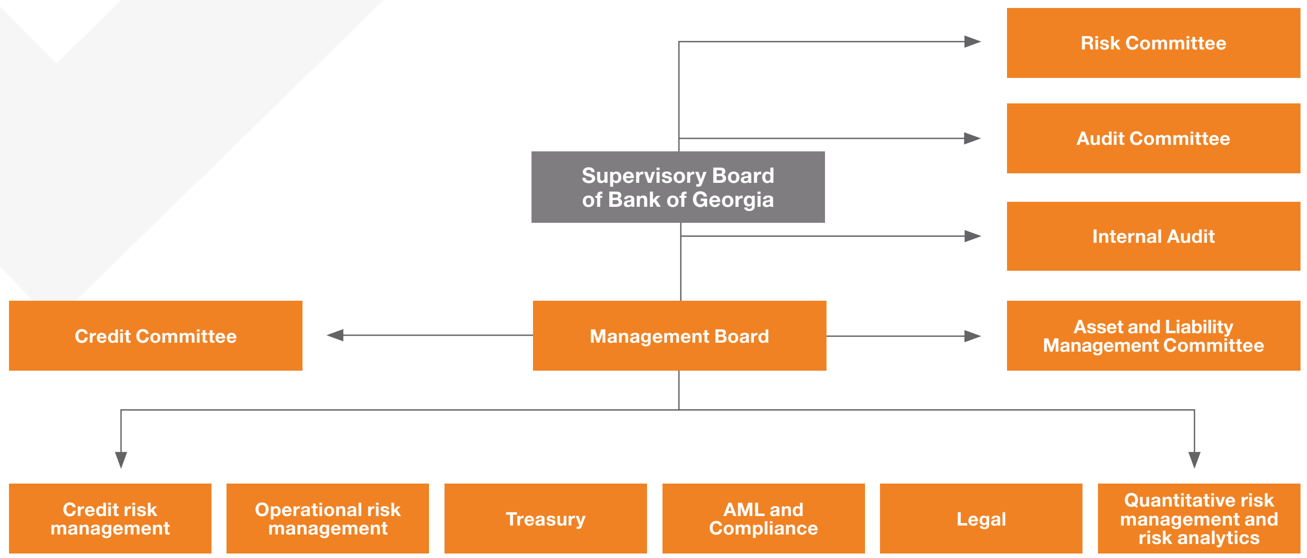
Internal Audit department. The Internal Audit department is responsible for the regular review/audit of the Bank's operations, activities, systems and processes, in order to evaluate and provide reasonable, independent and objective assurance and consulting services designed to add value and improve the Bank's operations.

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 discusses the results of all assessments with the Bank's Management Board and reports its findings and recommendations to the Bank's Audit Committee.

The purpose of the Internal Audit department is to determine whether the Bank's risk management, internal controls and corporate governance processes, which are designed and implemented by the Management Board, are adequate such that:

- material risks including strategic, credit, market, liquidity and operational risks, are appropriately identified, measured, assessed and managed across the Bank including its outsourced activities
- interaction with the various internal governance groups occurs appropriately

RISK MANAGEMENT BODIES OF BANK OF GEORGIA



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$ 10.0 million for existing and new borrowers
Tier III	CEO/CRO	Greater than US$ 10.0 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

- significant financial, managerial, and operating information is accurate, reliable and timely
- the Bank and its employees act with integrity and their actions are in compliance with the policies, standards, procedures and applicable laws and regulations
- resources are acquired economically, used efficiently, and protected adequately
- programmes, plans and objectives are achieved, and
- significant legislative or regulatory issues that impact the organisation are recognised and addressed in a timely fashion and properly.

In order to fulfil its function the Bank's Internal Audit department has unrestricted access to all the Bank's functions, records, property and personnel.

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 responsible for 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 in relation to financial and Governmental counterparties of the Bank. 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 six members – Deputy CEO, Chief Risk Officer, Deputy CEO, Finance, Deputy CEO, Corporate Investment Banking, Head of Quantitative Risk Management Department, Head of Treasury and Head of Trade Finance. 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 2017, Micro and SME loan applications are approved by credit risk managers.

The Problem Assets Committee is chaired by one of the following: the Head of the Problem Loan Management Department (first level pertains to loans of up to GEL 250,000), Deputy CEO, Operations (second level pertains to the loans in the range of GEL 250,000-500,000) and Deputy CEO, Chief Risk Officer (third level pertains to loans above GEL 500,000). The Problem Loan Management Department manages the Bank's exposures to problem loans and reports to the Deputy CEO, Operations.

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 managed by the Corporate Recovery department. The Corporate Recovery department reports to the Deputy CEO, Corporate Investment 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. ALCO designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the preset 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 attract funding, and
- reviews different stress tests and capital adequacy models prepared by the Finance Department and FGCRMC

The ALCO is chaired by the CEO and meets 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 Investment Banking, Deputy CEO, Retail Banking, Deputy CEO, SOLO & MSME, Deputy CEO, Operations, the Head of the Finance department and the Head of the Treasury department. The ALCO reviews financial reports and indices including the Bank's limits/ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, total cash flow analysis, 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 standalone basis. NBG requires the Bank to maintain minimum Capital Adequacy ratios computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements.

In order to transition to Basel III, NBG introduced new capital adequacy requirements in December 2017. As a result of the changes, Bank of Georgia became subject to the following minimum capital requirements at 31 December 2017:

- Common Equity Tier 1 ratio 8.1%, expected to increase to 9.5% on 31 December 2018
- Tier 1 ratio 9.9%, expected to increase to 11.4% on 31 December 2018, and
- Total Capital ratio 12.4%, expected to increase to 16.0% on 31 December 2018

BANK RISK MANAGEMENT CONTINUED

At 31 December 2017, Bank of Georgia's Common Equity Tier 1 and Tier 1 ratios were 12.4%, while Total Capital ratio was 17.9%. Transition to Basel III is not expected to affect the Bank's growth prospects or its ability to maintain dividend distributions within the existing dividend policy payout range.

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 and 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, Basel I and Basel II/III capital adequacy actual reports, as well as their forecasts and budgets and different stress scenarios for both regulations, while ALCO and the Management Board regularly review them, identify risks, issue recommendations and, if applicable, 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) and Compliance. The Bank's AML and 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, directives and requirements of international organisations, including FATF/Basel, the European Parliament, the US department of treasury on sanctions programmes, as well as local regulations. The Bank's Internal Audit department makes annual assessments of the Bank's AML systems and controls and provides independent assurance of internal controls.

The Bank has adopted a risk-based approach towards ML/FT risks, including a general anti-money laundering policy, customer acceptance policy and financial sanctions compliance policy. The Bank's risk-based approach means that it applies enhanced due diligence towards ML/FT risks, it determines high-risk categories of products, customers, services and jurisdictions.

The Bank is obliged to notify the Financial Monitoring Service of Georgia of all transactions that are subject to monitoring in accordance with Georgian legislation. These reports are currently filed in electronic form in an offline mode by the AML and Compliance department. The reporting process is fully automated and is supported by a special software application. Furthermore, the Bank operates special AML software, which meets the industry requirements. The programme covers every sanctions list, as well as debarred and banned individuals and organisations as identified by OFAC, EU, UN and other similar bodies. It allows fully-automated monitoring of all transactions against special lists. In pursuance of identifying suspicious transactions the AML and Compliance department has implemented a centralised solution that links transactions, accounts and customers so that the Bank can see the enterprise-wide risk associated with each customer.

BODIES IMPLEMENTING THE RISK MANAGEMENT SYSTEM

The Bank's risk management system is implemented by the Credit Risk Management, Quantitative Risk Management and Risk Analytics department, Treasury, Operational Risk Management, Legal, AML and Compliance and Security departments, Finance department and other departments. The Credit Risk Management (CB Portfolio Analysis), Quantitative Risk Management and Risk Analytics department and Operational Risk Management departments report to the Deputy CEO, Chief Risk Officer and the Legal department is under supervision of the General Legal Counsel, who directly reports to the CEO. The Finance department and the Treasury department report to the Deputy CEO, Finance. The AML and Compliance department reports to Deputy CEO, Operations.

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 department identifies and assesses operational risk 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 redesign 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 Reporting and Tax Risks Management Unit 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's Management Board and/or the 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 light of extreme events.

Monitoring and controlling of 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 overall risk-bearing capacity in relation to aggregate risk exposure across all risk types and activities.

The Bank maintains a management reporting system which requires the Credit Risk Management, Quantitative Risk Management and Analytics, Finance and Treasury 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 correspondent accounts with other banks) 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 quarterly report of the Bank's Supervisory Board 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's Management Board and the 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 to 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's Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, as well as 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. Identified concentrations of credit risks are controlled and managed accordingly. 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 are 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 establishes 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 review the credit quality of the portfolio and set 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 to take corrective action. The Bank makes available to its customers guarantees/letters of credit, which may require that the Bank makes 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 and/or the Management Board of the Bank. The Credit Committees approve individual transactions. The Bank evaluates Corporate Investment 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, the Credit Risk Manager's report. The loan approval procedures for Retail Banking loans depend on the type of retail lending products.

Applications for consumer loans, including credit cards and auto loans up to GEL 20,000 are approved by the scoring system. Applications for mortgage loans of 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, loan 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 2017, 83.3% of the Banking Business 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 a collective basis and on an 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.

BANK RISK MANAGEMENT CONTINUED

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 excess of US$ 150,000 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 (such as 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 as 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 to CIG.

Loans up to US$ 500,000 secured by real estate are subject to a write-off once overdue for more than 365 days. Unsecured loans or the loans secured by collateral other than real estate are subject to a write-off once overdue for more than 150 days. Corporate loans and loans above US$ 500,000, secured by real estate, may be written off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk department, in consultation with the Bank's CEO and Deputy CEO, Finance.

The Group has completed its IFRS 9 implementation programme and adopted IFRS 9, Financial Instruments from 1 January 2018. For further information see page 159 in the Consolidated Financial Statements of this Annual Report.

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 crisis. 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 secure 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's Management Board.

The Treasury and Funding departments also undertake 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 2017, 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 and Certificates of Deposits, 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. There is no minimum reserves requirement for Georgian Lari Certificates of Deposits.

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 2017, the Group's total consolidated client deposits and notes were GEL 6,712.5 million (US$ 2,589.5 million) (as compared to GEL 5,382.7 million and GEL 4,751.4 million as of 31 December 2016 and 2015, respectively) and represented 54.0% (as compared to 50.9% and 59.1% as of 31 December 2016 and 2015, 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 2017, total amounts due to credit institutions and debt securities issued were GEL 4,865.0 million (US$ 1,876.8 million) (as compared to GEL 4,725.7 million and GEL 2,828.9 million as of 31 December 2016 and 2015, respectively) and represented 39.1% (as compared to 44.7% and 35.2% as of 31 December 2016 and 2015, 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 the Bank's liquidity is sufficient to meet the 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 31 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 department monitor 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 98.0% "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 any 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. The Quantitative Risk Management and Risk Analytics department analyses duration gap and capital sensitivity to interest rate changes.

As of 31 December 2017, the Banking Business floating rate borrowings accounted for 11.5% of the Banking Business 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 Bank 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 31 of the Notes to the 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 elaborated a framework, which is in compliance with normative acts defined by Georgian legislation and international standards. Regular review of and amendments to the policy are performed by the Risk Committee, which is also responsible for setting an overall risk appetite.

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

The Operational Risk Management department is responsible for development of policies, processes and procedures for managing operational risks in all products, activities, processes and systems, consistently implementing operational risk framework throughout the Bank. The department is responsible for identification and assessment of operational risks, detecting critical risks areas or groups of operations with an increased risk level, developing escalation process, considering business recommendations and mitigation action plans.

The Operational Risk Management Committee is responsible for setting and overseeing qualitative and quantitative parameters of operational risk appetite and tolerance.

Operational risks are identified and assessed by using several methodologies, such as: internal loss database collection and analysis, scenario analysis, Risk and Control Self-Assessment (RCSA), new products assessment, Key Risk Indicators (KRIs) analysis, etc. To mitigate an impact of operational risk, the Bank applies a number of approaches, including the implementation of control elements in a business process, segregation of duties, and development of preventive control tools within operating systems.

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 REPAYMENT SCHEDULE (BANKING BUSINESS)

US$ million	2018	2019	2020	2021	2022	2023	2024	2025	2026
Eurobonds	–	–	193	–	–	250	–	–	–
Senior loans	165	73	67	67	34	6	4	4	2
Subordinated loans	10	–	4	–	–	65	–	90	–
TOTAL	**175**	**73**	**260**	**67**	**34**	**321**	**4**	**94**	**2**
% OF TOTAL ASSETS	3.5%	1.5%	5.2%	1.3%	0.7%	6.4%	0.1%	1.9%	0.0%

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 develop 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.

The Group continues to be included in the global responsible investment index FTSE4Good. The index is designed to demonstrate strong Environmental, Social and Governance (ESG) practices measured against international standards.

SOCIAL MATTERS

The Group considers the interests of its main stakeholders (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 prioritised the integration of sustainable finance principles into its credit risk management procedures. In 2012, in order to effectively manage the Bank's direct and indirect impact on society and the environment, the Board of Directors adopted an Environmental and Social (E&S) Policy. In 2013, the Bank updated its Environmental and Social Risk Management (ESRM) procedures in order to ensure a 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 the environmental, human health and safety risks of its 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 clients and minimise negative impacts on the social and natural environments.

ESRM procedures were further updated in 2017. The purpose of the review was to ensure that the policy remains fit for purpose and reflects experience and changes in the relevant legislation. In 2017, the Bank updated the assessment procedures of low, medium and high risk projects and refined the monitoring procedures of the projects.

The main objective of the E&S Policy is to increase environmental and social benefits for our clients. Through the ESRM procedures, 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, along with other tools necessary for their implementation, comprise the core components of the Bank's Environmental and Social Risk Management System (ESMS). Under this concept, the Bank endeavours to become an environmentally friendly financial institution. In 2014, the Bank won the "Green Service" award at the "Georgian Green Business Awards" ceremony organised by the Ministry of Environmental and Natural Resources Protection of Georgia.

In May 2017, the European Bank for Reconstruction and Development (EBRD) awarded the Bank "The Deal of the Year 2016" prize for having financed a project aimed at boosting the renewable energy capacity of one of the hydropower plants in Georgia. The EBRD's Green Trade Facilitation Programme (TFP) allows partner banks to use existing TFP facilities to finance exports, imports and local distribution of imported green technologies and services in line with the EBRD's Green Economy Transition approach.

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 selected a Social and Environmental Risk Specialist who will oversee the practical, day-to-day implementation of the Bank's ESMS.

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

- We refrain from financing environmentally or socially sensitive business activities mentioned in the exclusion lists of 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 assess clients' compliance with the terms of respective agreements

Through ensuring comprehensive environmental and social assessment and action plans, as a part of stable due diligence, the Bank encourages its customers to fulfil their environmental and social obligations and establishes a framework for them to achieve good environmental and social standards. In many cases, the Bank's proper and timely management of 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 project sites in cooperation with the facility staff, providing ongoing advice and guidance on good practice and standards and monitoring compliance with the requirements. For environmental and social due diligence of certain high risk projects, the Bank contracts independent external experts. As part of monitoring, the Bank requires each high risk client to provide the Bank with an annual report on their environmental and social performance and the implementation of applicable Environmental and Social Action Plans. Alternatively, the Bank's staff visits high risk clients on a regular basis. In 2017, the Bank held extensive Environmental and Social Due Diligence (ESDD), where the Bank monitored clients and developed action plans for noncompliant clients. Thanks to the Bank's efforts, some clients conducted an environmental audit and obtained the necessary environmental impact permits to continue their business operations. Those clients started to identify, avoid, mitigate and manage environmental and social risks and their impact 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. Others implemented environmental and social management systems in accordance with international standards.

Procedures for addressing external queries and concerns, developed within the framework of ESMS, provide a means for the public to submit queries or concerns related to the Bank's E&S Policy, and have these inquiries responded to by the Bank in a timely manner. 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 to strengthen public knowledge and capacity in the area of environmental and social protection.

Training activities play an important role in enhancing the implementation of the policy. In 2017, the Bank provided training opportunities for the Head of Social and Environmental Risk and the staff involved in environmental and social risk management process. The Head of Unit participated in the 11th 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. Trainings was also held for staff and focused on strengthening 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 the trainings in the future.

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 as an essential element for sustainable development and economic growth.

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 its clients benefit from a proper and diligent implementation of the E&S Policy.

Bank of Georgia also continues to support Georgia's emerging economy by financing industries that are of strategic importance for the development of the country.

ENERGY

Electricity consumption growth in Georgia has averaged 3.6% over the last five years. The Bank finances electricity generation and transmission companies to support the country's sustainable growth. In 2017, the Bank, in collaboration with two other local banks, provided a long-term credit facility to the electricity distributor in Tbilisi. The total financing amounted to GEL 36.0 million.

The Bank financed the construction of a hydro power plant (HPP) in Svaneti, in the North West of Georgia. The plant has an installed capacity of 10.0MW and will contribute on average 43.0GWh to local energy generation annually. Out of the total investment of US$ 10.2 million, the Bank financed US$ 9.1 million with EBRD's credit line to SMEs that comply with DCFTA requirements. The Bank channels the facility to support the companies that are willing to upgrade their facilities and invest in modern and environmentally-friendly technologies.

HEALTHCARE

In 2017, the Bank financed the Georgian-German Oncology Research Centre LLC, known as "Mardaleishvili Medical Centre", which is one of the leading diagnostic clinics in Georgia. With the financing provided by the Bank, the company will open a state-of-the-art diagnostic centre in Tbilisi, equipped with the latest medical facilities acquired from General Electric.

The Bank financed the rehabilitation of Zugdidi's hospital for infectious diseases – the only clinic where patients can receive Hepatitis C and HIV treatment in Western Georgia's Samegrelo region. The hospital has been fully rehabilitated in line with modern standards. With a 25-bed capacity, the clinic also serves patients from Abkhazia, occupied region of Georgia. The treatment of Hepatitis C and HIV is supported by the Global fund.

TOURISM

Tourism remains one of the most rapidly developing sectors of the Georgian economy. The Bank actively provides financing for hotel constructions throughout the country. The Bank has financed the construction of a hotel in Akhasheni, in Georgia's Kakheti region to the East. The hotel is scheduled to open in the first half of 2018 and will be run by local management. The hotel is located in the heart of a vineyard and will be a part of the Wine Route. This will make the hotel a popular destination not only among the tourists, but also the local population.

The Bank has recently financed a land acquisition in one of the most popular Winter resorts in Georgia. The acquired area is reserved for a full-scale Winter ski resort development. In 2017, a contract was signed with Georgian Airports Union for the construction of a new terminal in Kutaisi International Airport. Total project size is GEL 23 million and the Bank issued a guarantee in the amount of GEL 4.6 million for financing the construction works. With this project, the capacity of Kutaisi International Airport will double. In addition to the Bank's financial support, the Group's real estate business m^2 started developing hotels and signed an exclusive agreement with Wyndham Group to develop Wyndham's three-star Ramada Encore hotel in Georgia. First Ramada Encore opened in Tbilisi in February 2018. m^2 is also developing a four-star Ramada hotel in Tbilisi and a three-star Ramada Encore in Kutaisi where the international airport serves low-cost airlines and makes the city popular with tourists visiting Georgia.

EDUCATION

In 2017, the Bank issued financing for a Georgian university of GEL 10 million and US$ 4 million. Due to increasing demand, the university decided to build its fourth campus, which will increase its capacity from 7,000 to 12,000 students. The project includes the construction and refurbishment of a ten-floor building with a net usable area of 25,000 square metres, including 112 new auditoriums, an exam centre, a conference hall for 500 guests, a library, a swimming pool, a fitness centre among others.

INFRASTRUCTURE

Infrastructure development remains one of the most important objectives for Georgia. In 2017, the Bank financed several important projects and among them is Caucasus Roads Project (CRP) – a leading Georgian construction company with its main focus on core infrastructure. The Bank has partnered with CRP for many years and supported the company's various projects. In 2017, CRP won a public tender for the design, construction and rehabilitation of the Tskneti-Samadlo and Tskneti-Akhaldaba roads, affected by the natural disaster in Tbilisi on 13 June 2015. The Bank supported the project by issuing a letter of guarantee for US$ 3 million to finance the works.

In 2017, the Bank financed several small and medium-sized roads, water supply systems and other construction projects. The Bank issued guarantees for around GEL 130 million to support two new projects announced by the Department of Roads of the Ministry of Regional Development and Infrastructure of Georgia. One of the projects is the construction of Batumi Bypass Road with a contractual value of around GEL 330 million, and another is the construction of the E-60 highway section from Zemo Osiauri to Chumateleti (central Georgia) with a contractual value of GEL 130 million. Both projects are part of improving Georgia's transit capacity and increasing the potential of the "Silk Road". In collaboration with EBRD, the Bank financed more than 50 kilometres of road rehabilitation with GEL 2.7 million in Western Georgia's Samegrelo and Imereti regions.

PRODUCTION AND EXPORT

In 2017, the Bank financed a textile manufacturing plant in Western Georgia's Adjara region. The plant produces apparel for internationally recognised brands, employing more than 2,500 workers from the local population.

The Bank supported Atlantic Group, a French manufacturer of heating systems and home appliance products, with around US$ 2 million credit line. The company entered the Georgian market in 2017 and intends to commence a production process in Kutaisi Free Industrial Zone.

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 segments of the population.

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

- As at 31 December 2017, a network of 156 Express branches and 2,842 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 2017, the Bank had attracted 524,366 clients, of which 52,399 became clients of the Bank in 2017.

As a part of the Express Banking service, we prioritise the development of self-service skills. We plan to expand services offered by Express Pay terminals. All of these changes will provide a more accessible banking service to our clients. In 2017, the Bank developed web-based application processing tools that enable completion of a full lending cycle remotely.

In 2017, we enhanced the functions of an Express Student Card. It now offers special discounts on public transport and free distance banking services, among other benefits. Moreover, students can get special #StudentBreak discounts in various stores, cafes and entertainment centres. Students are automatically involved in the PLUS Loyalty Scheme – the Bank's initiative that offers different status levels to customers and reward points that accumulate based on the client's business with the Bank and can be redeemed into partner companies' products and/or services, at the client's request. PLUS points can also be converted into mobile phone top-ups and used to pay public transport, utility bills and other products. The programme encourages the student population to use financial services and supports them financially during their studies.

In 2017, Express Bank launched a Student Loan, a product with a nine-month grace period on principle payments. The application process for a Student Loan is fully web-based and once it's approved, the funds get automatically transferred to the account of the selected university.

Youth support. We have developed a wide range of financial products to support young people in Georgia. For example, via 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 (10.2% for Georgian Lari and 1.0%-3.5% for foreign currency) is added to the initial deposit. In 2017, we opened approximately 11,855 Child Deposit accounts.

The Bank also offers special products that allow young people to get a 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 amounted to GEL 790,456 by the end of 2017, while loans with a total value of GEL 400,852 were issued in 2017.

In 2016, the Bank partnered with the International Educational Centre (IEC) and created a new opportunity for students to study abroad. Students can apply for the loans to finance the tuition, living and insurance expenses abroad. The loans have a grace period of maximum 27 months. With a recommendation letter from IEC, the Bank finances the students without requesting a confirmation of income. In 2017, the Bank extended the contract with IEC and will continue to support students' education.

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 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 transport in Tbilisi (metro, buses) and Batumi (buses), discounts for entertaining centres popular among children, bookstores, toyshops, children cafes, as well as the accumulation of points (sCoola) with 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: "The importance of money", "Bank and me", "Family budget", "I am a manager", etc. Bank of Georgia and the sCool Card are the finalists of the Child Friendly Banking Award 2017, The Global Inclusion Awards 2017 (Berlin, Germany).

SME SUPPORT

We continue to provide financing to SMEs, a backbone of the Georgian economy that helps to ensure the sustainable development of Georgia. In addition to our own micro-financing and SME loan programmes, we also participate in various programmes that support entrepreneurs. Since 2015, the Bank has partnered with the non-profit Agricultural Projects Management Agency (APMA), which supports SMEs in the agricultural sector. Together, we have co-financed agricultural loans at fixed annual interest rates, which are partially subsidised by APMA. In 2017, the total amount of loans that the Bank issued to SMEs amounted to GEL 1.3 billion, of which GEL 85 million was issued through the Preferential Agriculture Lending Programme. In 2017, the Bank continued to reinforce financing micro business owners and considers this segment as one of the main areas of its portfolio growth.

The Bank has dedicated staff and established processes for its new product "micro-express loans" that targets the micro business segment and offers loans under GEL 10,000. Increasing the automation and digitilisation is one of the cornerstones of the Bank's micro lending strategy. In 2016, the Bank partnered with the 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 and to provide essential financial support for micro, small and medium-sized enterprises in adhering to DCFTA requirements, as well as underserved women entrepreneurs.

In addition to assisting the SMEs financially, the Bank launched an SME portal in September 2017. The portal provides financial and business-related advice to entrepreneurs in order to upgrade their financial literacy and management skills and ensure the sustainable development of their businesses. The portal provides entrepreneurs with information on trainings and equips them 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 assessments and the necessary action plans are undertaken, we encourage our SME clients to be in compliance with national environmental and social legislation. During site visits, we provide our clients with advice and guidance on good practice and standards in these areas. We update them on environmental, health and safety, as well as labour issues and monitor their compliance with environmental and social legislation. In many cases of noncompliance, our proper and timely management of the environmental and social risks of our SME clients has helped them to address issues that would otherwise have resulted in financial and legal sanctions from 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 and to young families especially. Nowadays, m^2 is a major player in Georgia's real estate market, offering its customers turnkey apartments with fine-tuned infrastructure: fire-alarm systems in accordance with international standards, round-the-clock security service, maintenance of elevators, as well as common and green areas. m^2 Real Estate has completed seven projects so far and has delivered them to its customers within, and frequently, ahead of the agreed deadlines.

The company plans the design and construction processes so that each square metre is distributed efficiently. m^2 uses energy efficient construction components, thus bringing energy efficiency of its buildings up to 43%, which in turn translates into lower utility expenses incurred by the tenants. The level of energy savings in m^2's buildings is significantly above that of the average residential properties in Tbilisi. m^2 tailors the apartments to its customers' needs and wishes, allowing them to choose interior design and materials for a fit-out themselves. Since only a few customers can afford to buy large flats with an area exceeding 100 square metres, the company continuously works to optimise the size of its apartments to meet the current demand without compromising convenience and usability of the apartments. In June 2017, m^2 acquired BK construction LLC, a local real estate construction company, which is expected to reduce m^2's construction costs and improve the design management process through vertical integration.

A large segment of m^2's customers is made up of young Georgian families (more than 50% of the company's customers are 23-42 years old). We believe that by continuing to offer affordable housing products, we are helping them to significantly enhance the quality of their lives and enjoy modern living standards.

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, supporting people with disabilities and special needs, developing social enterprises and facilitating innovative projects that focus on social goods. The Group's Sponsorship and Charity Policy encourages partnerships with various foundations and Non-governmental Organisations (NGOs) to deliver sustainable results and bring positive change. Sponsorship and charity funds are channelled through the Bank's Tree of Life Foundation that, in its turn, distributes funding by means of grant competitions in order to ensure transparent and fair methods of financing. The Group also implements its own social projects.

Tree of Life has allocated around GEL 2.5 million to support education, nature conservation, people with disabilities and special needs, social platforms, and development of social entrepreneurship.

Bank of Georgia together with the Tree of Life Foundation established a charity platform www.donate.ge, which connects the people in need with those who are willing to donate items, clothes, books, etc. The platform offers collection, sorting and delivery of items.

Bank of Georgia recognises the impact it can have on the country's social-economic development. Therefore, the Bank launched a grant programme to support socially driven enterprises in Georgia. In 2017 and 2016, Bank of Georgia supported five social enterprises with up to GEL 200,000 and GEL 50,000 per project, respectively. At the same time, the Bank provided pro-bono services by helping the businesses in areas such as marketing, public relations, information technology, etc. The Bank partners with various NGOs to maximise its role in the social cause.

GGU regularly runs charitable activities for the social service agency Child and Environment and international humanitarian network Catharsis in Tbilisi. 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.

Aldagi supports many socially vulnerable people by one-time help upon special requests. The company traditionally provides a home for at least one family every Christmas. Aldagi's employees are engaged in various programmes that supply socially vulnerable people with food and first aid kits.

As part of its sponsorship activities, Teliani Valley focuses on promoting a healthy lifestyle. As the sponsors of the Georgian Rugby Union and National Olympic Committee, the company aims to attract more youngsters to healthy activities. The company is a main sponsor of the Georgian Tag Rugby initiative that is the biggest platform for raising awareness of a healthy lifestyle among school children.

GHG supported the construction of a children's hospice, which aims to create a friendly and comfortable atmosphere, where, in addition to caring personnel, a great importance is attached to the environment and the interior. GHG traditionally participates in the state Children's Oncology Programme, under which the company offers cancer-related conditions treatment for children with different cancer disorders (leukaemia, tumours, and lymphomas) in GHG's Iashvili Paediatric Tertiary Referral Hospital, a multi-profile paediatric medical establishment.

Promoting and enhancing access to education. Bank of Georgia University has offered a top quality master's degree programme since its foundation in 2014. The university welcomed its fourth intake of MBA students in 2017 and simultaneously launched a bachelor's degree programme. The cost of studies in 2017 were again largely subsidised by the Bank with GEL 350,250. Up to 20 students study at no cost, while 40 students benefit from a 0% loan with grace period until graduation. Bank of Georgia University provides its students with 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. This cooperation provides Georgian students with an opportunity to pursue education in the UK. In 2017, the Group provided GBP 89,532 to finance a master's degree programme for three students. The partnership with Chevening will continue next year and the Group is looking forward to selecting students who will continue their 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, a selected number of students from Georgia are able to enrol in a two-year master's degree programme at a US university. In 2017, the funding provided to the students for their two-year degrees amounted to US$ 50,000. Since 2014, the Bank has granted US$ 250,000 to the US Fulbright scholarship programme.

For the last four years the Bank has been supporting a public speaking competition organised by the English Speaking Union Georgia. The competition allows high school senior year or university freshman students to prepare a speech on a pre-selected topic and present it in front of a competent jury. The winner is granted a fully paid trip to London to attend a global public speaking competition. We aim to support this competition in 2018 as well.

The Bank has been supporting every single TEDx Tbilisi conference since they were 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 topics, which are important to society.

In 2017, m^2 Real Estate's subsidiary BK Construction signed a memorandum of cooperation with the Ministry of Education and Science of Georgia. According to the memorandum, m^2 will build an institute for vocational education in the Municipality of Zestaponi (Western Georgia). The institute will offer more than 20 short-term vocational courses in engineering to more than 200 students annually. The studies will include both theoretical and practical courses. The latter will be conducted on m^2's construction sites. Most of the alumna will be employed by m^2 and its subsidiary BK Construction.

Supporting people with disabilities. Since 2014, the Bank has focused its efforts on supporting people with disabilities – one of the most vulnerable social groups in Georgia. In 2017, the Bank donated GEL 78,200 to the Tree of Life Foundation for this cause. The Foundation distributed the funds through grant competitions – one intended for the relevant NGOs that work with people with disabilities and another with the specific aim of promoting social entrepreneurship. In order to qualify for the competition, the proposals had to focus on the creation of a small enterprise with a social component aimed at improving the livelihood of people with disabilities.

The Bank continues to focus on the adaptation of its own infrastructure. In 2017, an additional nine service centres became available for people with disabilities.

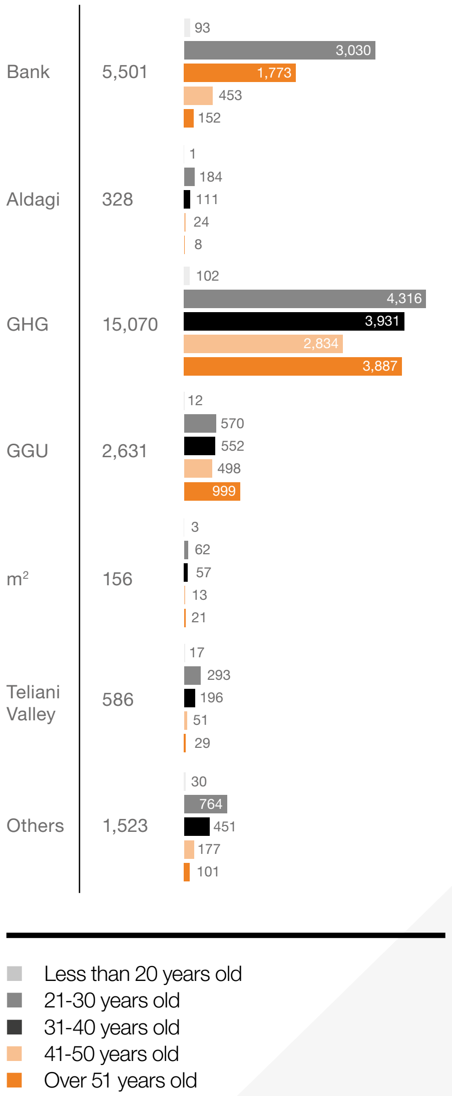
m^2 is in the process of constructing a new specialised family-type home for children with severe disabilities. The project is built in Tbilisi within the framework of Protection of Children with Disabilities – a project run by the United States Agency for International Development (USAID). The project is being carried out by the Ministry of Labour, Health and Social Affairs, USAID and United Nations Children's Fund (UNICEF) since 2015. The goal of the specialised home is to ensure that the children receive care in a family-like environment and are provided with all the services necessary for their adequate growth, individual development and smooth integration into society. After construction and renovation works are completed, seven children with severe forms of disability will be moved to live in the house. It is worth noting that all m^2 buildings are friendly to people with special needs.

Conserving nature. Another priority of the Group's charitable activities is the preservation of wildlife diversity. In 2017, the Bank granted US$ 100,000 to the Caucasus Nature Fund (CNF)* to provide support to the Protected Areas of Georgia. Bank of Georgia allocated GEL 1 million for restoration of the forests destroyed by the wildfires in the summer of 2017.

RESOURCES AND RESPONSIBILITIES CONTINUED

TOTAL HEADCOUNT BY AGE CATEGORY

25,795



* David Morrison, BGEO Board member serves as the Chairman of the Board of Directors of CNF. The management concluded that the fund is not a related party in accordance with the IFRS and the payment does not constitute director's remuneration.

In 2017, Bank of Georgia launched a car pooling app "Gzad" for its employees. The application enables them to share a ride to and from the Bank, which in turn helps reduce air pollution and ease the traffic in Tbilisi.

In 2017, GGU granted GEL 250,000 to restore a forest in Borjomi Gorge after a massive wildfire in August 2017.

In 2017, m² committed to restoring a landscape and a burnt territory of 20,000 square metres on Tbilisi's Mtatsminda slope. The works are conducted jointly with Tbilisi City Hall, Caucasus Environmental NGO Network (CENN), Regional Environmental Centre for the Caucasus (REC Caucasus), the Greens Movement of Georgia (GMG), botanical institute of Ilia State University and the Ministry of Environment and Natural Resources of Georgia. m² was also one of the sponsors of the all-time football stars charity game held at Tbilisi Dinamo Arena, dedicated to the restoration of the forest burnt in Borjomi Gorge in August 2017.

Air quality is an immediate and acute problem in Georgian cities, affecting people's quality of life. In order to increase awareness of climate change and contribute to a healthier environment, m² actively promotes electric vehicles. As part of its spring campaign, the company offered its customers electric scooters as a gift. Moreover, throughout 2017 m² contributed to developing infrastructure for electric vehicles by financially supporting a start-up company E-space with the installation of up to 50 charging stations in the country (Tbilisi, Batumi, Kutaisi, Rustavi, Kvareli and Telavi).

GHG contributed GEL 500,000 to rehabilitate the damaged area and to help restore the remarkable nature in Borjomi. With the support of the CNF, the company is involved in the Project on Maintenance of Caucasus Natural and Cultural Heritage. The fund is meant for effective long-term management of the protected territories of Armenia, Azerbaijan and Georgia. In 2017 GHG donated GEL 52,800 to support the project.

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 of 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
- 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 and includes 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 approach.

In order to ensure pay is competitive, the Bank monitors employee pay satisfaction via labour market compensation surveys in the banking industry. The results of the 2017 survey confirm that the Bank remains a competitive employer.

In 2017, the Bank conducted Barrett Organisational Values assessment. The results enable us to measure and manage organisational culture. In 2017, we focused on identifying the personal, current and desired organisational cultures in the Bank. Cultural alignment ensures positive outcomes such as job satisfaction, employee retention and engagement. Based on the survey results, our cultural entropy is currently 7% (cultural entropy score ≤10% is considered healthy). We are in the process of creating a holistic view of the cultural factors in performance indicators.

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 employment 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 2017, 266 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. In 2012, Bank of Georgia established a new format for its traditional internship programme and constantly develops it. The programme attracts promising graduates and provides them with the opportunity to participate in professional trainings. Interns are directly coached by the Bank's executives and middle managers 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 and launched it in 2017 as well. The project selects a number of young and talented candidates for various assignments within BGEO Group. In 2017, the number of young professionals (under 30 years old) represented 32% of the total headcount.

In 2017, GGU, in collaboration with Georgia's Innovation and Technology Agency, organised a project for talented and motivated young people with technical academic backgrounds for the second consecutive year since its initial launch in 2016. Participants had the 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. Twelve authors of the best projects were offered a job and they are successfully continuing their work and development within the company. GGU has been working in collaboration with the country's leading universities, professional colleges and their career services to attract new talent. The collaborations are bound by the memoranda with Free University and, the latest, with San Diego State University, according to which the students will engage in GGU's traineeship programmes and benefit from practical experience received at the company.

In 2017, a GHG's human resources department organised job fairs for students in leading medical universities and nursing colleges in Tbilisi and other regions. The company's healthcare services business attracted more than 300 students to its nursing course. GHG has memoranda of understanding with various nursing colleges and universities. In 2017, GHG's Evex Learning Centre conducted six-month free nursing courses for 278 students from nursing colleges. 72 graduates were offered jobs at the company's healthcare services facilities.

In 2017, GHG signed a special memorandum with "Panatsea" – the biggest nursing college in Tbilisi, whose students will undergo 18 months of practical training at GHG's hospitals. The top five students will get a grant from Evex.

TRAINING AND DEVELOPMENT

To manage our employees in a way that best supports our business strategy, we seek to help them contribute to business performance through personal and professional development. Following our aspiration to develop strong leaders, we have developed an extensive leadership development programme.

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, energy and utilities, real estate development, healthcare and insurance. Middle – and senior-level employees are given the opportunity to receive external training in well known training institutions outside of Georgia.

In 2014-2015, Bank of Georgia launched a Leadership Development Executive Coaching programme. It provides an individual approach towards developing leadership skills. The programme continued to run successfully throughout 2017 and further expanded to lower leadership levels, having benefited its participants with a personally tailored development experience. Employees involved in the programme gained a greater awareness of their leadership strengths and opportunities for future growth. Based on its previous years' experience, the Bank has refined its Leadership Development System together with the 360 degree feedback process.

The Bank highly values the talent of its employees and provides various talent retention activities engaging them through leadership development and various professional certification programmes. BOG creates different development opportunities for employees in terms of career and personal growth. Internal promotions are part of the talent attraction and retention system and also create a basis for employee loyalty and retention. The Bank also offers competitive remuneration and benefit 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 evaluation. Through this programme, we aim to provide individual support to our employees in achieving their professional goals.

In 2017, the Bank launched an online Learning Management System (LMS), enabling employees to easily and comfortably access corporate learning opportunities. The Bank also started updating the managerial induction and onboarding programmes, which will cover employees at all levels.

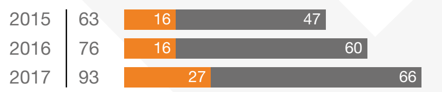
GENDER DIVERSITY

DIRECTORS

8

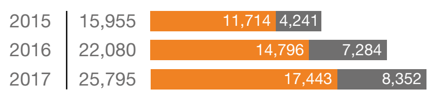
SENIOR MANAGERS

93



ALL EMPLOYEES

25,795



GHG offers continuous medical education through Evex Learning Centre. Apart from modern training methods, the centre offers up-to-date equipment, auditoria, computer labs and other facilities that conform to the highest international standards. In 2017, the centre trained a total of 2,046 nurses, 1,510 physicians and 1,508 administrative employees.

In 2017, GHG's healthcare services business spent about GEL 2 million on training and development. Most of the expenditures went towards training nurses, ER specialists and the advancement of specialists in various medical fields.

HUMAN RIGHTS POLICY

The Human Resources and Human Rights Policies are an integral part of the employee on-boarding package. It is available for employees on the intranet and the updates are communicated electronically.

RESOURCES AND RESPONSIBILITIES CONTINUED

The Human Rights Policy covers the following:

- Equal opportunities and anti-discrimination
- Work environment free of harassment
- Grievance policy

CODE OF ETHICS AND ANTI-BRIBERY POLICIES

The Group has a Code of Ethics, as well as Anti-Bribery Policy, which are also applicable to the Group companies. In BOG, the Corporate and Information Security department is in charge of implementing and monitoring controls related to anti-bribery issues. The department has the procedures in place, which define the process of establishing relationships with vendors, undertaking public tenders, etc. The Corporate and Information Security department provides annual online training for employees on anti-bribery issues, which are also included in induction trainings.

As an organization that is fully committed to prevention of bribery and corruption, the Bank ensures that appropriate internal controls are in place and operating effectively.

Anti-bribery and anti-corruption policy enforcement processes include:

- Operating an internal whistleblowing and hotline system;
- Disclosure of gifts or other benefit, including hospitality, offered to, or received by the Bank personnel;
- Voluntary disclosure of corrupt conduct;
- Third party screening to identify the level of risk third parties might pose;
- Informing the banks/partners/counterparties about anti-corruption and anti-bribery principles before commencement of business relations;
- Ensuring that anti-bribery and anti-corruption clauses are incorporated in the agreements with customers and third parties
- Ensuring that anti-bribery and anti-corruption matters are included in contractual agreements with partners /counterparties
- Online training programs aiming raising awareness in corruption and bribery issues among employees

As part of the Group's third party screening to identify the level of risk the third parties might pose, the Group carries out the following due diligence processes: indirect investigations which includes general research of the activities undertaken by the proposed business partners, their reputation and information whether the company is a related party.

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 construction work, the company conducts regular training and educational seminars. In 2015, 2016 and 2017, the number of health and safety training hours amounted to approximately 110, 70 and 86, respectively. 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 has a comprehensive reporting procedure for health and safety concerns. With regard to emergency preparedness and response, m^2 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 leading financial institution in Georgia, the Bank, through the projects it finances, produces significant indirect impacts on the environment. 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. "Green Boxes" are placed on every floor of the Bank's headquarters and are designated to collect paper for recycling purposes. In 2017, the lighting system in all of the Bank's service centres was replaced with energy efficient LED lamps, which consume far less electricity than traditional economical ones. 30W lamps were replaced with more energy efficient 12W lamps, and 40-60W light bulbs with 11W. Furthermore, installation of modern computer technology resulted in reduction of energy consumption from 500-800W per unit to 150-300W. Centralised uninterruptible power supply is being installed in the Bank's service centres, which will save considerable energy resources compared to individual systems. 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. The company's projects are constructed with impeccable attention to energy efficient design for sustainable development, which achieves energy savings over the long term. Aiming to increase efficient use of energy, water and materials, m^2 installs energy efficient lighting systems and uses low emissivity window glasses and other modern insulation materials to cover a facade of the buildings. This reduces a U-value of constructed buildings to 0.21W/m^{2}K. As a result, it is expected that utility costs in these buildings will be cut by up to 43%, compared to average residential buildings in Georgia.

GGU is currently in the process of implementing 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 is in compliance with the Georgian legislation and IFC performance standards (Environmental, Health and Safety guidelines for Water and Sanitation). As part of the ESMS, environmental and social audit of the company has been performed. The audit report covers the environmental issues that are mainly associated with water treatment, water distribution, sanitation (sewerage system) and wastewater treatment and discharge, as well as occupational health and safety issues related to accidents and injuries, chemical exposure, noise, etc. To manage and mitigate the risks associated with GGU's business, the company has elaborated ESMS procedures and topical management plans, which are implemented according to the Environmental and Social Action Plan (ESAP) in the set timeframe. ESMS will facilitate the process of obtaining the ISO14000 standard for environmental management and the ISO26000 standard for social responsibility.

GHG's most significant environmental impact is associated with the generation of medical waste. The company developed medical waste management record keeping standards. GHG's personnel is responsible for filling out daily and weekly forms, such as: waste registration form, waste information form and hazardous waste transportation form. Special storing rooms were set up in GHG's hospitals, to place waste before final disposal. To prevent human and environmental harm, the company's clinics collect and dispose of medical and biological waste through an outsourced service specialising in medical waste disposal. For waste collection, GHG uses plastic bags that have sufficient strength and are secured with staples to safely retain waste. Also, the company does not fill more than two-thirds of the bags' capacity. Further, steam sterilisation is used to decontaminate biological and bio hazardous waste, including blood. All used sharps are placed only in the labelled, hermetic single-use special containers made of hard plastic. Waste is collected from GHG's sites daily, or twice a day when required. The maximum on-site storage time of waste is up to 24 hours.

METHODOLOGY

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (Scopes 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 118 to 212. We do not have responsibility for any emission sources that are not included in our Consolidated Financial Statements.

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 six 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 m^2 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
- Beverage business, represented by Teliani Valley, which includes all of its offices and operational sites
- 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 aeroplanes)

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.

GROUP POLICIES

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

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 reducing 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 purchase	• 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 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/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

TOTAL GREENHOUSE GAS EMISSIONS DATA FOR THE PERIOD BEGINNING 1 JANUARY 2017 AND ENDED 31 DECEMBER 2017 (TONNES OF CO_2E)*

	2015	2016	2017
Scope 1 (emissions fuel combustion and facility operations)	6,679	10,567	**19,165**
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	12,183	30,826	**47,869**
Scope 3 (emissions from air travel and ground transportation)	4,487	10,266	**16,229**
TOTAL GREENHOUSE GAS EMISSIONS	23,349	51,660	**83,264**
FTEs	15,955	21,278	**25,900**
TOTAL GREENHOUSE GAS EMISSIONS PER FTE	1.46	2.43	**3.21**

* Due to the nature of their operations, GHG, GGU and Teliani contributed to the increase in greenhouse gas emissions in 2017.

OVERVIEW OF FINANCIAL RESULTS

Record annual results driven by strong performance across all businesses

In its final year before the forthcoming demerger, supported by the continued macroeconomic performance of Georgia, BGEO Group has delivered another year of strong earnings momentum. Growth and returns in both the Banking Business and the Investment Businesses, now renamed Georgia Capital, continue to be high. Following the completion of the demerger, we are confident both companies are independently extremely well positioned to continue their excellent recent track record for many years to come.

In line with IFRS requirements, the Group reviewed the classification of its operating segments at 31 December 2017. Given the expectation, in line with Georgia Capital's strategy it is highly probable the Group will own less than a 50% stake in GHG at the end of 2018. As a result, and in line with IFRS, the Group classified GHG as "disposal group held for sale" and its results of operations are reported under "discontinued operations" line as a single amount in the consolidated income statement. Comparative periods have been restated accordingly to reflect reclassification of GHG from "continuing operations" into "discontinued operations." Assets and liabilities held by GHG are also presented separately in the consolidated balance sheet as of 31 December 2017 under "assets of disposal group held for sale" and "liabilities of disposal group held for sale."*

INCOME STATEMENT

GEL thousands unless otherwise noted	BGEO Consolidated 2017	2016	Change y-o-y
Net banking interest income	**672,535**	548,121	22.7%
Net fee and commission income	**130,050**	122,477	6.2%
Net banking foreign currency gain	**79,106**	89,480	-11.6%
Net other banking income	**18,645**	10,667	74.8%
Gross insurance profit	**27,265**	24,569	11.0%
Gross real estate profit	**34,390**	18,485	86.0%
Gross utility and energy profit	**88,010**	38,541	128.4%
Gross other investment profit	**30,630**	21,288	43.9%
REVENUE	**1,080,631**	873,628	23.7%
OPERATING EXPENSES	**(413,045)**	(322,806)	28.0%
OPERATING INCOME BEFORE COST OF CREDIT RISK/EBITDA	**667,586**	550,822	21.2%
Profit from associates	**1,311**	4,074	-67.8%
Depreciation and amortisation of investment business	**(28,235)**	(10,062)	NMF
Net foreign currency loss from investment business	**(4,937)**	(3,134)	57.5%
Interest income from investment business	**5,415**	3,745	44.6%
Interest expense from investment business	**(29,660)**	(11,220)	NMF
OPERATING INCOME BEFORE COST OF CREDIT RISK	**611,480**	534,225	14.5%
Cost of credit risk	**(170,711)**	(168,756)	1.2%
PROFIT BEFORE NON-RECURRING ITEMS AND INCOME TAX	**440,769**	365,469	20.6%
Net non-recurring items	**(4,923)**	(12,682)	-61.2%
PROFIT BEFORE INCOME TAX (EXPENSE) BENEFIT	**435,846**	352,787	23.5%
Income tax (expense) benefit	**(32,340)**	17,500	NMF
PROFIT FROM CONTINUING OPERATIONS	**403,506**	370,287	9.0%
Profit from discontinued operations	**59,943**	58,289	2.8%
PROFIT	**463,449**	428,576	8.1%
EARNINGS PER SHARE (BASIC)	**11.61**	10.41	11.5%
EARNINGS PER SHARE (DILUTED)	**11.07**	10.09	9.7%

BALANCE SHEET

GEL thousands unless otherwise noted	BGEO Consolidated Dec-17	Dec-16	Change y-o-y
Liquid assets	**4,373,251**	3,914,596	11.7%
Cash and cash equivalents	**1,582,435**	1,573,610	0.6%
Amounts due from credit institutions	**1,225,947**	1,054,983	16.2%
Investment securities	**1,564,869**	1,286,003	21.7%
Loans to customers and finance lease receivables	**7,690,450**	6,648,482	15.7%
Property and equipment	**988,436**	1,288,594	-23.3%
Assets of disposal group held for sale	**1,136,417**	–	NMF
TOTAL ASSETS	**15,168,669**	12,954,176	17.1%
Client deposits and notes	**6,712,482**	5,382,698	24.7%
Amounts due to credit institutions	**3,155,839**	3,470,091	-9.1%
Borrowings from DFI	**1,624,347**	1,403,120	15.8%
Short-term loans from NBG	**793,528**	1,085,640	-26.9%
Loans and deposits from commercial banks	**737,964**	981,331	-24.8%
Debt securities issued	**1,709,152**	1,255,643	36.1%
Liabilities of disposal group held for sale	**516,663**	–	NMF
TOTAL LIABILITIES	**12,436,299**	10,565,963	17.7%
TOTAL EQUITY	**2,732,370**	2,388,213	14.4%

* The Group held 57% of GHG's equity stake as of 31 December 2017 (65% as of 31 December 2016).

The Group delivered another extremely strong performance that resulted in record profit for the year of GEL 463 million and earnings per share of GEL 11.61, an increase of 11.5% year-on-year. This strength reflects an excellent performance from our Banking Business as well as growth momentum and strategic delivery from our Investment Businesses, which were supported by Georgia's strong macroeconomic performance and business outlook.

Strong economic activity in Georgia has continued. Georgian economic growth has accelerated to 4.8% in 2017, from 2.8% in 2016

Holding company liquidity remains high. As of 31 December 2017, liquid assets of GEL 310 million were held at the holding company level

Solid distributions to shareholders continue. US$39.1 million capital was returned to shareholders during 2017

BANKING BUSINESS HIGHLIGHTS
OUTSTANDING PROFITABILITY AND BALANCE SHEET GROWTH MOMENTUM

- **The Banking Business generated a record profit of GEL 369.5 million in 2017** (up 25.0% y-o-y), while **ROAE reached 25.2% in 2017** (up 300 bps y-o-y)
- **Asset quality improved during 2017.** NPLs to gross loans ratio decreased to 3.8% at 31 December 2017 (4.2% at 31 December 2016). NPL coverage ratio was strong at 92.7% at 31 December 2017 (86.7% at 31 December 2016), while the NPL coverage ratio adjusted for discounted value of collateral stood at 130.6% at 31 December 2017 (132.1% at 31 December 2016). The asset quality improvement positively impacted the cost of risk ratio, which stood at 2.2% in 2017 (2.7% in 2016)
- **Retail Banking ("RB") continued to deliver strong growth across all its business lines.** Retail Banking revenue reached GEL 614.7 million in 2017, up 24.4% y-o-y. The number of **Retail Banking clients** reached 2.3 million at the end of 2017, up 8.1% from 2.1 million at the end of 2016
- **Our Retail Banking product to client ratio increased to 2.2 in 2017 from 2.0 in 2016.** In 4Q17 we completed the transformation of our Retail Banking operations from a product-based model into a client-centric model, as well as the implementation of the client-centric model in our branches. As of 31 December 2017, we had 86 transformed branches. We continue to see outstanding growth in sales volumes and the number of products sold to our clients in these branches, contributing to 29.3% y-o-y growth in the retail loan book
- **The loan book growth on a constant-currency basis reached 17.4% at 31 December 2017.** As a result, Retail Banking's loan book share in the total loan portfolio was 68.0% at 31 December 2017 (60.9% at 31 December 2016). The Retail Banking net loan book reached GEL 5,044 million at 31 December 2017, up 29.3% y-o-y. The growth on a constant-currency basis was 30.6% y-o-y
- **Retail Banking client deposits** increased to GEL 3,267.3 million at 31 December 2017, up 35.4% y-o-y. Growth on a constant-currency basis was 37.4% y-o-y
- **Corporate Investment Banking ("CIB") resumed growth in 4Q17 after delivering on its risk de-concentration and loan portfolio repositioning targets in 3Q17.** CIB's net loan book amounted to GEL 2,260.1 million at 31 December 2017, down 5.6% y-o-y, but up 13.4% q-o-q. The top ten CIB client exposure was 10.7% at 31 December 2017, down from 11.8% at 31 December 2016. Consequently, CIB's profit increased to GEL 105.9 million in 2017 (up 19.9% y-o-y) and CIB ROAE reached 17.6% in 2017 (up from 14.7% in 2016)
- **Investment Management's Assets Under Management ("AUM") increased to GEL 1,857.5 million,** up 17.9% y-o-y, reflecting higher bond issuance activity by our brokerage arm Galt & Taggart
- **IFRS 9 implementation delivered – no impact on capital adequacy ratios.** The Group has completed its IFRS 9 implementation programme and adopted IFRS 9 Financial Instruments from 1 January 2018. The Banking Business will recognise the estimated impact from IFRS 9 adoption of approximately GEL 31.5 million, gross of income tax, as a reduction to shareholders' equity at the transition date on 1 January 2018. As allowed by IFRS 9, the Group will not be restating prior-period data. IFRS 9 does not have any impact on regulatory capital and capital adequacy ratios. Through-the-cycle cost of risk is expected to remain unchanged. NPL coverage ratio, adjusted for additional IFRS 9 allowance, was 102.9% as at 31 December 2017
- **Amendments to Capital Adequacy requirements.** In order to transition to Basel III, the National Bank of Georgia ("NBG") introduced new capital adequacy requirements in December 2017. As a result of the changes, Bank of Georgia became subject to the following minimum capital requirements at 31 December 2017:
  - Common Equity Tier 1 ratio 8.1%, expected to increase to 9.5% on 31 December 2018
  - Tier 1 ratio 9.9%, expected to increase to 11.4% on 31 December 2018
  - Total Capital ratio 12.4%, expected to increase to 16.0% on 31 December 2018

  At 31 December 2017, both of Bank of Georgia's Common Equity Tier 1 and Tier 1 ratios were 12.4%, while Total Capital ratio was 17.9%. Transition to Basel III is not expected to affect the Bank's growth prospects or its ability to maintain dividend distributions within the existing dividend policy payout range.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

INVESTMENT BUSINESS HIGHLIGHTS

- **Our utility and energy business, GGU, delivered a stable performance in 2017.** GGU continued its investments in water pipeline infrastructure, leading to continued growth in the regulated asset base and reduction of the respective water losses. Due to successfully implemented efficiency projects, GGU was able to significantly reduce its own electricity consumption in 2017. GGU also continued the construction works on the 50MW Mestiachala HPPs in North-Western Georgia, while the 44.3MW Zoti HPPs entered their construction phase
- In December 2017, the Georgian National Energy and Water Supply Regulatory Commission ("GNERC") approved new tariffs for water and waste-water services, which have been updated according to the new Regulatory Asset Base methodology adopted by GNERC in August 2017. The new tariffs have been set for a three-year regulatory period, effective from 1 January 2018. As a result, tariffs in Tbilisi have increased by 23.8% for residential customers and decreased by 0.4% for legal entities
- **Our real estate business, m², achieved the best sales performance in its history during 2017.** 2017 was record-breaking for m² in terms of square metres sold, number of apartments sold and sales revenue. m² sold a total of 629 apartments with a total sales value of US$ 49.1 million during 2017, compared to 407 apartments sold with total sales value of US$ 34.4 million in 2016. m² successfully completed the construction of its first luxury residential project – Skyline – in 4Q17
- **In 2017, m² signed its largest ever franchise agreement** as part of its "asset light" strategy and will construct and develop a residential complex under the m² brand name on a third-party land plot to generate construction fees, sales commissions and a share from the project's overall profit
- **In 2017, m² acquired a controlling stake in an upcoming lifestyle boutique hotel** in a prime location of Tbilisi, which is expected to add at least 100 rooms to m²'s portfolio and is expected to complete in the first quarter of 2019. The acquisition is in line with m²'s strategy to increase its presence in the hospitality sector and capitalise on growing tourist activities in the country
- **In 2017, m²'s construction arm was awarded its first major third-party construction agreement** to construct the shell and core of a new shopping mall and business centre located in Tbilisi. The total amount of the contract is US$ 11.6 million and completion is planned for the first half of 2019
- **Aldagi delivered its best ever year as it continued organic growth** primarily in the motor insurance, property insurance and credit life lines, as Aldagi shifted its focus more to the retail market. New product development initiatives and enhancements of existing products resulted in more than 19,000 livestock insurance policies and 3,334 travel and trip insurance policies sold across the country in 2017
- **In 2017 Aldagi signed major third-party partnership agreements with two Georgian banks,** JSC Liberty Bank and JSC Credo Bank to successfully diversify its multi-channel distribution network, which will enable Aldagi to successfully tap into Georgia's underpenetrated retail insurance segment
- **Our beverage business, Teliani, achieved significant milestones during 2017 and launched its mainstream beer and lemonade production in June 2017 and August 2017, respectively.** Teliani is on track to brew Heineken and Krusovice beers in 2018 under a ten-year exclusive license agreement to produce Heineken brands in Georgia, and to sell into the Caucasus region countries. Teliani also continued to diversify its distribution portfolio, with the addition of the exclusive right to import and distribute Lavazza coffee in Georgia, and winning other non-alcoholic beverage distribution contracts in 2017
- **In February 2018, we acquired a 100% equity stake in a leading Georgian craft beer producer, Black Lion LLC (Black Lion).** Black Lion is the largest producer of a premium class craft beer in Georgia that launched sales in the beginning of 2016 and sold approximately 300,000 litres of craft beer in 2017, primarily targeting restaurants and bars in Tbilisi
- **Our healthcare business, GHG, continued to deliver on its strategic priorities across its businesses.** Healthcare services EBITDA margin continued to be high at 26.4% in 2017, notwithstanding the dilutive effect of the significant roll-out of the two major hospital renovations and the ongoing roll-out of a nationwide chain of polyclinics (outpatient clinics). In the pharmacy business we have made significant progress towards the integration of our two recently acquired businesses, whilst avoiding any significant business disruption. As a result, the EBITDA margin of 8.6% for the year has already successfully exceeded our target of "more than 8%" margin
- **In January 2018, GHG's medical insurance arm signed a new medical insurance agreement with the Georgian Ministry of Internal Affairs**, the country's largest insurance client by number of insured customers of c.65,000. As a result, the number of GHG's insured individuals reached approximately 155,000

Discussion of Banking Business results

The Group's **Banking Business** is primarily comprised of three segments. (1) **Retail Banking** operations in Georgia principally provide 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. Retail Banking targets the emerging retail, mass retail and mass affluent segments, together with small and medium enterprises and micro businesses. (2) **Corporate Investment Banking** comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfer 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. (3) **BNB**, comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services to clients in Belarus.

REVENUE

GEL thousands, unless otherwise noted	2017	2016	Change, y-o-y
Banking interest income	**1,140,292**	932,063	22.3%
Banking interest expense	**(468,192)**	(378,452)	23.7%
NET BANKING INTEREST INCOME	**672,100**	553,611	21.4%
Fee and commission income	**192,499**	172,630	11.5%
Fee and commission expense	**(61,025)**	(47,720)	27.9%
NET FEE AND COMMISSION INCOME	**131,474**	124,910	5.3%
Net banking foreign currency gain	**86,060**	83,203	3.4%
Net other banking income	**19,701**	12,183	61.7%
REVENUE	**909,335**	773,907	17.5%
Net Interest Margin	**7.3%**	7.4%	
Average interest earning assets	**9,234,600**	7,441,186	24.1%
Average interest bearing liabilities	**9,922,414**	7,984,426	24.3%
Average net loans and finance lease receivables, currency blended	**6,856,802**	5,640,611	21.6%
Average net loans and finance lease receivables, GEL	**2,414,121**	1,592,987	51.5%
Average net loans and finance lease receivables, FC	**4,442,681**	4,047,624	9.8%
Average client deposits and notes, currency blended	**6,146,052**	5,040,486	21.9%
Average client deposits and notes, GEL	**1,706,726**	1,243,028	37.3%
Average client deposits and notes, FC	**4,439,326**	3,797,458	16.9%
Average liquid assets, currency blended	**3,854,019**	3,099,731	24.3%
Average liquid assets, GEL	**1,527,420**	1,205,982	26.7%
Average liquid assets, FC	**2,326,599**	1,893,749	22.9%
Excess liquidity (NBG)	**289,942**	418,016	-30.6%
Liquid assets yield, currency blended	**3.4%**	3.2%	
Liquid assets yield, GEL	**7.1%**	7.3%	
Liquid assets yield, FC	**0.9%**	0.5%	
Loan yield, currency blended	**14.2%**	14.2%	
Loan yield, GEL	**21.9%**	23.3%	
Loan yield, FC	**10.0%**	10.6%	
Cost of Funds, currency blended	**4.7%**	4.7%	
Cost of Funds, GEL	**6.9%**	6.5%	
Cost of Funds, FC	**3.7%**	4.2%	
Cost/Income	**37.7%**	37.7%	

PERFORMANCE HIGHLIGHTS

In the Banking Business, 2017 was characterised by strong franchise growth in the Retail Banking operations, particularly in the fourth quarter, reflecting the continued strong performance of our business in all segments, and an increase in retail lending. In addition, we completed our three-year programme to reduce concentration risk in the Corporate Investment Banking and consequently, started to deliver corporate lending growth in the last quarter of the year.

- **Strong Banking Business revenue. We recorded revenue of GEL 909.3 million (up 17.5% y-o-y).** Y-o-y revenue growth in 2017 was primarily driven by a strong increase in net banking interest income, which resulted from strong loan book growth, and increase in net other banking income. Additionally, net fee and commission income contributed to increase of Banking Business revenues in 2017
- **Net banking interest income.** Our net banking interest income was up 21.4% y-o-y in 2017. The increase was primarily driven by the strong growth of our Retail Banking loan book, which experienced 30.6% constant currency growth during 2017
- **Our NIM was 7.3% in 2017.** While both loan yield and cost of funds stayed flat and liquid assets yield was up 20 bps compared to 2016, NIM was down 10 bps y-o-y as a result of the NBG's decision in 2Q16 mandating an increase in minimum reserve requirements
- **Loan yield.** Currency blended loan yield was stable at 14.2% in 2017 (flat y-o-y). While local and foreign currency loan yields decreased y-o-y, the overall stable trend in the loan yield primarily reflected a continued shift towards high-yielding local currency denominated loans in the total loan portfolio mix
- **Liquid assets yield.** Our liquid assets yield was 3.4% in 2017 (up 20bps y-o-y). The foreign currency denominated liquid assets yield increased by 40pbs y-o-y in 2017 as a result of the US Federal Reserve's decisions in December 2016, March 2017 and June 2017 to raise interest rates by 75 bps in aggregate, which triggered similar increases on interest rates paid by a) The National Bank of Georgia (the "NBG") on the Bank's obligatory reserves (foreign currency only) and b) correspondent banks on deposits placed by the Bank. On the other hand, local currency denominated liquid assets yield decreased by 20 bps y-o-y in 2017. The currency blended liquid assets yield increased only by 20 bps y-o-y in 2017 on the back of decreasing yields on higher return local currency denominated liquid assets, while the total liquid assets portfolio composition remained largely the same during the period

OVERVIEW OF FINANCIAL RESULTS CONTINUED

- **Cost of funds.** Cost of funds stood at 4.7% in 2017 (flat y-o-y). Despite the significant increase in cost of debt securities issued in 2017 following the issuance of GEL 500 million 11.0% Lari-denominated notes in 2Q17 (up 60bps y-o-y in 2017), cost of funds remained largely flat as a result of a decrease in the cost of client deposits and notes (down 30 bps y-o-y in 2017)
- **Continued shift to the GEL-denominated loan book, which increased to 38.3% of the total book at 31 December 2017, compared to 28.7% a year ago.** The dollarisation of our loan book has decreased since last year as the demand for local currency denominated loans outpaced the demand for foreign currency denominated loans. The trend was supported by the Georgian Government's de-dollarisation initiatives: a) a one-off programme, effective from 15 January 2017 to 25 March 2017, allowing qualified borrowers to convert eligible Dollar-denominated loans into GEL, at a discount compensated by the Government, at the client's election and b) a new regulation, effective from 15 January 2017, restricting issuance of new loans in foreign currency with amounts less than GEL 100,000 (equivalent)
- **Net loans to customer funds and DFI ratio.** Customer funds (client deposits and notes) increased by 23.0% y-o-y to GEL 7,078.1 million driven by strong deposit generation in both the Retail and Corporate Investment Banking operations. Retail Banking client deposits and notes grew by 35.4% y-o-y to GEL 3,267.3 million, while CIB client deposits grew by 13.0% y-o-y to GEL 3,457.3 million. As a result, our Net loans to customer funds and DFI ratio, which is closely monitored by management, remained strong at 92.4% (94.9% at 31 December 2016) despite the strong growth of the loan book
- **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 CIB's fees from guarantees and letters of credit reflecting the de-concentration of our corporate risk
- **Net banking foreign currency gain**. In line with the volatility of the GEL exchange rate, the net banking foreign currency gain was up 3.4% y-o-y in 2017. RB and CIB businesses together contributed 87.4% to the total 2017 net banking foreign currency gain
- **Net other banking income.** Net other banking income increased to GEL 19.7 million in 2017 (up 61.7% y-o-y). The y-o-y increase in 2017 was largely driven by a) GEL 1.5 million net gains on derivative financial instruments recorded in 2017, and b) GEL 7.3 million revaluation gain from investment properties recorded in 2017

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

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
Salaries and other employee benefits	(198,213)	(168,374)	17.7%
Administrative expenses	(100,291)	(82,113)	22.1%
Banking depreciation and amortisation	(40,974)	(37,207)	10.1%
Other operating expenses	(3,458)	(3,854)	-10.3%
OPERATING EXPENSES	(342,936)	(291,548)	17.6%
Profit from associate	1,311	–	NMF
OPERATING INCOME BEFORE COST OF CREDIT RISK	567,710	482,359	17.7%
Impairment charge on loans to customers	(155,210)	(158,892)	-2.3%
Impairment charge on finance lease receivables	(496)	(777)	-36.2%
Impairment charge on other assets and provisions	(11,590)	(8,083)	43.4%
COST OF CREDIT RISK	(167,296)	(167,752)	-0.3%
PROFIT BEFORE NON-RECURRING ITEMS AND INCOME TAX	400,414	314,607	27.3%
Net non-recurring items	(4,300)	(45,355)	-90.5%
PROFIT BEFORE INCOME TAX	396,114	269,252	47.1%
Income tax (expense) benefit	(26,592)	26,444	NMF
PROFIT	369,522	295,696	25.0%

- **Operating expenses increased to GEL 342.9 million in 2017 (up 17.6% y-o-y).** The growth in operating expenses minimally outpaced growth in revenues, and consequently y-o-y operating leverage was negative in 2017 at 0.1 percentage points. 2017 y-o-y changes in operating expenses were driven by:
  - an increase in salaries and employee benefits by 17.7% y-o-y in 2017, which mainly reflects the strong organic growth of Retail Banking operations; and
  - an increase in administrative expenses by 22.1% y-o-y in 2017, primarily driven by increased marketing, personnel training, rent and repair and maintenance costs. The increase was attributable to the combined effect of the larger branch network and the higher average quarterly and annual exchange rate during 2017 as the vast majority of branch rental agreements are denominated in Dollars
- **Cost of risk ratio.** The Banking Business cost of risk ratio was 2.2%, down 50 bps y-o-y, primarily driven by 160 bps decrease in the CIB cost of risk ratio driven by overall improvement in the CIB loan portfolio quality, offset by 20 bps increase in the RB cost of risk ratio
- **Quality of the Banking Business loan book remains strong** as evidenced by the following closely monitored metrics:

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
NON-PERFORMING LOANS			
NPLs	301,268	294,787	2.2%
NPLs to gross loans	3.8%	4.2%	
NPLs to gross loans, RB	1.3%	1.4%	
NPLs to gross loans, CIB	7.5%	8.0%	
NPL coverage ratio	92.7%	86.7%	
NPL coverage ratio adjusted for the discounted value of collateral	130.6%	132.1%	
PAST DUE DATES			
Retail loans – 15 days past due rate	0.9%	1.2%	
Mortgage loans – 15 days past due rate	0.6%	0.6%	

- **Income tax (expense) benefit.** The 2017 y-o-y movement in income taxes mostly reflects the impacts of changes in corporate taxation model, approved by the Parliament of Georgia in May 2016, which resulted in the write-off of Banking Business net deferred tax liabilities in 2016
- **BNB – the Group's banking subsidiary in Belarus – generated a profit of GEL 10.3 million in 2017 (up from GEL 2.7 million in 2016)**. BNB's earnings were positively impacted by decreased levels of cost of risk in 3Q17 and 4Q17. While Belarus experienced weak macroeconomic conditions in 2016 and 1Q17, starting from 2Q17 the Belarus economy started to show early signs of stabilisation. As a result, BNB's cost of credit risk significantly improved in 2017
- BNB's loan book reached GEL 399.5 million at 31 December 2017, up 10.3% y-o-y, mostly reflecting an increase in corporate and consumer loans. Client deposits were GEL 310.1 million at 31 December 2017, up 32.8% y-o-y. The y-o-y increase in client deposits was primarily attributable to the agreement signed with BelSwissBank in June 2017, which allowed BNB to manage and service current and term deposit accounts and card operations of BelSwissBank's customers
- **BNB continues to remain strongly capitalised,** with Capital Adequacy Ratios well above the requirements of its regulating Central Bank. At 31 December 2017, total CAR was 13.9%, well above the 10% minimum requirement of the National Bank of the Republic of Belarus ("NBRB"), while Tier I CAR was 8.1%, above NBRB's 6% minimum requirement. Return on Average Equity ("ROAE") was 14.6% in 2017 (2.8% in 2016). Strong capitalisation and improved profitability allowed BNB to make a dividend payment in the amount of GEL 1.2 million in 3Q17, the first capital return to the Bank since the BNB acquisition in 2008
- **As a result, the Banking Business profit reached GEL 369.5 million in 2017** (up 25.0% y-o-y), while **ROAE increased to 25.2% in 2017** (up 300 bps y-o-y)

Our Banking Business balance sheet remains highly liquid (NBG Liquidity ratio of 34.4%) and strongly capitalised (Tier I ratio, NBG Basel II of 10.3% and NBG Basel III of 12.4%) with a well diversified funding base (Client deposits and notes to total liabilities of 62.3%).

- **Liquidity.** Liquid assets increased to GEL 4,346.5 million at 31 December 2017, up 17.3% y-o-y, largely driven by proceeds from the GEL 500 million Lari-denominated bonds in June 2017 and increase in local currency bonds, which are used by the Bank as collateral for short-term borrowings from the NBG. Management successfully continued to deploy excess liquidity, accumulated as a result of proceeds from issuance of local currency Eurobonds during the second half of the year. As a result, the NBG liquidity ratio stood at 34.4% at 31 December 2017, compared to 37.7% at 31 December 2016, and above the regulatory minimum requirement of 30.0%
- In addition, in May 2017, NBG introduced a **Liquidity Coverage Ratio** requirement for commercial banks, which became effective from 1 September 2017. Banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The ratio should be in excess of 100% for assets denominated in all currencies, cumulatively, at all times. In addition, liquidity coverage ratio is applicable to local and foreign currency denominated assets, separately, and should be in excess of 75% and 100%, respectively, at all times. NBG liquidity coverage ratio was 112.4% at 31 December 2017 (129.8% at 30 September 2017)
- **Diversified funding base**. Debt securities issued grew by 61.6% y-o-y primarily due to the issuance of GEL 500 million Lari-denominated bonds in June 2017, which positively contributed to GEL liquidity, allowing the Banking Business to significantly reduce short-term borrowings from the NBG (down 26.9% y-o-y)
- **Loan book.** Our net loan book and finance lease receivables reached GEL 7,741.4 million at 31 December 2017, up 15.9% y-o-y. As of 31 December 2017, retail book represented 68.0% of the total loan portfolio (60.9% at 31 December 2016). While both local and foreign currency portfolios experienced y-o-y growth, the local currency loan portfolio demonstrated an outstanding increase of 54.6% y-o-y, partially driven by the Georgian Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio

BANKING BUSINESS BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	Dec-17	Dec-16	Change y-o-y
Liquid assets	4,346,509	3,705,171	17.3%
Liquid assets, GEL	1,791,708	1,450,269	23.5%
Liquid assets, FC	2,554,801	2,254,902	13.3%
Net loans and finance lease receivables	7,741,420	6,681,672	15.9%
Net loans and finance lease receivables, GEL	2,968,832	1,920,422	54.6%
Net loans and finance lease receivables, FC	4,772,588	4,761,250	0.2%
Client deposits and notes	7,078,058	5,755,767	23.0%
Amounts due to credit institutions	2,778,338	3,067,651	-9.4%
Borrowings from DFIs	1,297,749	1,281,798	1.2%
Short-term loans from central banks	793,528	1,085,640	-26.9%
Loans and deposits from commercial banks	687,061	700,213	-1.9%
Debt securities issued	1,386,412	858,036	61.6%
LIQUIDITY AND CAR RATIOS			
Net loans/client deposits and notes	109.4%	116.1%	
Net loans/client deposits and notes + DFIs	92.4%	94.9%	
Liquid assets as percent of total assets	33.7%	33.3%	
Liquid assets as percent of total liabilities	38.3%	37.9%	
NBG liquidity ratio	34.4%	37.7%	
Excess liquidity (NBG)	289,942	418,016	-30.6%
NBG (Basel II) Tier I Capital Adequacy Ratio	10.3%	9.1%	
NBG (Basel II) Total Capital Adequacy Ratio	14.8%	14.4%	
NBG (Basel III) Tier I Capital Adequacy Ratio	12.4%	–	
NBG (Basel III) Total Capital Adequacy Ratio	17.9%	–	

OVERVIEW OF FINANCIAL RESULTS CONTINUED

In 2017, we changed the Group accounting policy in relation to subsequent measurement for office buildings and service centres. Effective 31 December 2017, we switched to the cost model, whereby office buildings and service centres are carried at cost less accumulated depreciation and accumulated impairment. Prior to this change, we applied the revaluation model, where office buildings and service centres were carried at their fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations were performed once every three years. We believe that cost model provides more reliable and more meaningful presentation to our investors as it (1) enhances comparability for the investors since the application of cost model is a market practice and global standard across the banking industry (2) more closely aligns the accounting with the business model around these asset categories. The switch to cost model resulted in GEL 33.3 million decrease to Banking Business equity attributable to shareholders. We have accordingly restated the balance sheet accounts for affected periods, while the change did not have any material impact on the income statement. Banking Business ratios have been updated for the prior periods.

On 13 September 2017, Moody's upgraded JSC Bank of Georgia's local-currency deposit rating to Ba2 from Ba3, and the Bank's foreign-currency deposit rating to Ba3 from B1. The Bank's senior unsecured foreign-currency rating was also upgraded to Ba2 from Ba3 with a stable outlook. The Bank's credit rating action followed Moody's upgrade of Georgia's sovereign local and foreign currency issuer ratings to Ba2 from Ba3 on 11 September 2017.

Amendments to Capital Adequacy requirements. To transition to Basel III, National Bank of Georgia ("NBG") introduced new capital adequacy requirements in December 2017. Bank of Georgia is required to maintain the following minimum capital requirements:

- Common Equity Tier 1 ("CET 1") ratio at 4.5%
- Tier 1 ratio at 6%
- Total Capital ratio at 8%

The combined buffer requirement has also been introduced and Bank of Georgia is required to hold the following:

- Capital Conservation Buffer set at 2.5%
- Countercyclical Buffer set at 0%
- Systemic Capital Buffer of 0% for 2018, which will increase to 1% on 31 December 2018 and by an additional 0.5% annually until it reaches 2.5% on 31 December 2021

NBG also introduced Pillar 2 requirements. The new regulation applicable to Bank of Georgia includes:

- Currency Induced Credit Risk ("CICR") buffer, which substitutes current additional 75% weighting of FX denominated exposure. A 56% of CICR buffer should be held on CET1 level, 75% on Tier 1 level and 100% on total capital
- Net GRAPE buffer expected to be set at 2.2% according to NBG's annual General Risk Assessment Program ("GRAPE"). The GRAPE buffer will be reviewed annually and phased-in on different levels of capital according to the below schedule:

	Feb-18	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21
CET 1	0%	15%	30%	45%	56%
Tier 1	0%	20%	40%	60%	75%
Total Capital	100%	100%	100%	100%	100%

- Credit Portfolio Concentration buffer, effective from 1 April 2018 and phased in over the four year period on different levels of capital according to the above schedule
- Net Stress Test buffer effective from 1 January 2020

In view of the above, the following overall capital requirements apply to Bank of Georgia at 31 December 2017:

- CET 1 ratio 8.1%, expected to increase to 9.5%* on 31 December 2018
- Tier 1 ratio 9.9%, expected to increase to 11.4%* on 31 December 2018
- Total Capital ratio 12.4%, expected to increase to 16.0%* on 31 December 2018

Bank of Georgia's capital ratios calculated as of 31 December 2017 were at 12.4% CET1 and Tier 1 and 17.9% Total Capital.

Transition to Basel III is not expected to affect the Bank's growth prospects or its ability to maintain dividends distributions within the existing dividend policy payout range.

* Indicated minimum Capital Adequacy Ratio contains CICR and Credit Portfolio Concentration buffers estimate for 31 December 2018.

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 (SME and micro businesses only). RB is itself represented by the following four sub-segments: (1) the emerging retail segment (through our Express brand); (2) retail mass market segment; (3) SME and micro businesses – "MSME" (through our Bank of Georgia brand); and (4) the mass affluent segment (through our Solo brand).

INCOME STATEMENT HIGHLIGHTS

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
Net banking interest income	**480,955**	374,022	28.6%
Net fee and commission income	**99,790**	90,193	10.6%
Net banking foreign currency gain	**28,937**	26,086	10.9%
Net other banking income	**5,029**	3,833	31.2%
REVENUE	**614,711**	494,134	24.4%
Salaries and other employee benefits	**(125,668)**	(106,396)	18.1%
Administrative expenses	**(72,464)**	(57,743)	25.5%
Banking depreciation and amortisation	**(34,741)**	(30,943)	12.3%
Other operating expenses	**(2,279)**	(2,545)	-10.5%
OPERATING EXPENSES	**(235,152)**	(197,627)	19.0%
Profit from associate	**1,311**	–	NMF
OPERATING INCOME BEFORE COST OF CREDIT RISK	380,870	296,507	28.5%
Cost of credit risk	**(110,800)**	(75,690)	46.4%
PROFIT BEFORE NON-RECURRING ITEMS AND INCOME TAX	**270,070**	220,817	22.3%
Net non-recurring items	**(2,358)**	(32,002)	-92.6%
PROFIT BEFORE INCOME TAX	**267,712**	188,815	41.8%
Income tax (expense) benefit	**(18,046)**	20,475	NMF
PROFIT	**249,666**	209,290	19.3%

BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
Net loans, currency blended	**5,044,372**	3,902,306	29.3%
Net loans, GEL	**2,582,677**	1,530,661	68.7%
Net loans, FC	**2,461,695**	2,371,645	3.8%
Client deposits, currency blended	**3,267,276**	2,413,569	35.4%
Client deposits, GEL	**910,878**	603,149	51.0%
Client deposits, FC	**2,356,398**	1,810,420	30.2%
of which:			
Time deposits, currency blended	**1,829,433**	1,437,644	27.3%
Time deposits, GEL	**361,775**	228,047	58.6%
Time deposits, FC	**1,467,658**	1,209,597	21.3%
Current accounts and demand deposits, currency blended	**1,437,843**	975,925	47.3%
Current accounts and demand deposits, GEL	**549,103**	375,102	46.4%
Current accounts and demand deposits, FC	**888,740**	600,823	47.9%

OVERVIEW OF FINANCIAL RESULTS CONTINUED

KEY RATIOS

	2017	2016
ROAE Retail Banking	**31.6%**	31.2%
Net interest margin, currency blended	**8.5%**	9.2%
Cost of risk	**2.5%**	2.3%
Cost of funds, currency blended	**5.7%**	5.7%
Loan yield, currency blended	**16.1%**	16.8%
Loan yield, GEL	**23.6%**	25.4%
Loan yield, FC	**9.1%**	10.2%
Cost of deposits, currency blended	**2.9%**	3.3%
Cost of deposits, GEL	**4.5%**	4.5%
Cost of deposits, FC	**2.3%**	2.9%
Cost of time deposits, currency blended	**4.3%**	4.9%
Cost of time deposits, GEL	**8.8%**	9.3%
Cost of time deposits, FC	**3.3%**	4.0%
Current accounts and demand deposits, currency blended	**1.0%**	0.9%
Current accounts and demand deposits, GEL	**1.6%**	1.2%
Current accounts and demand deposits, FC	**0.6%**	0.6%
Cost/income ratio	**38.3%**	40.0%

PERFORMANCE HIGHLIGHTS

- **Retail Banking delivered another outstanding annual result across all of its segments and generated total revenue of GEL 614.7 million in 2017 (up 24.4% y-o-y)**
- RB's net banking interest income experienced 28.6% y-o-y growth in 2017 as a result of the strong growth in the Retail Banking loan portfolio. Higher net banking interest income also reflects the benefits from the increase in the local currency loan portfolio, which generated 14.5 ppts higher yield than the foreign currency loan portfolio during 2017
- **The Retail Banking net loan book reached GEL 5,044.4 million, up 29.3% y-o-y.** Our local currency denominated loan book grew at a faster pace (up 68.7% y-o-y) than the foreign currency denominated loan book (up 3.8% y-o-y). As a result, the loan book dollarisation decreased to 48.8% at 31 December 2017 from 60.8% at 31 December 2016
- **The loan book growth was a product of continued strong loan origination levels delivered across all major Retail Banking segments:**

RETAIL BANKING LOAN BOOK BY PRODUCTS

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
LOAN ORIGINATIONS			
Consumer loans	**1,384**	1,019	35.8%
Mortgage loans	**1,062**	718	48.0%
Micro loans	**1,018**	800	27.2%
SME loans	**594**	509	16.6%
POS loans	**244**	221	10.4%
OUTSTANDING BALANCE			
Consumer loans	**1,242**	887	40.1%
Mortgage loans	**1,706**	1,228	39.0%
Micro loans	**1,031**	857	20.3%
SME loans	**607**	490	23.9%
POS loans	**131**	121	7.9%

- **Retail Banking client deposits increased to GEL 3,267.3 million, up 35.4% y-o-y**, despite a decrease in the cost of deposits of 40 bps y-o-y in 2017. The dollarisation level of our deposits decreased to 72.1% at 31 December 2017 from 75.0% at 31 December 2016. This is in line with the current decreasing trend of cost on FC denominated deposits (down 60 bps y-o-y in 2017). The spread between the cost of RB's client deposits in GEL and foreign currency widened to 2.2 ppts (GEL: 4.5%; FC: 2.3%) compared to 1.6 ppts in 2016 (GEL: 4.5%; FC: 2.9%). Local currency denominated deposits increased at a faster pace to GEL 910.9 million (up 51.0% y-o-y), as compared to foreign currency denominated deposits that grew to GEL 2,356.4 million (up 30.2% y-o-y)
- **Retail Banking NIM was 8.5%, down 70 bps y-o-y.** The lower NIM was a result of a 70 bps decrease in loan yield, as cost of funds remained flat in 2017
- **Strong growth in Retail Banking net fee and commission income.** The 10.6% y-o-y growth in 2017 was driven by an organic increase in our fee and commission income and the strong underlying growth in both our Express Banking and Solo platforms
- **RB cost to income ratio remained well controlled at 38.3% in 2017 (down 170 bps y-o-y).** The significant y-o-y improvement resulted from the increasing utilisation of our Solo lounges coupled with the growth of the Express Banking franchise, which has the most cost-efficient model among our four Retail Banking segments
- **RB cost of credit risk was GEL 110.8 million in 2017 (up 46.4% y-o-y).** The cost of risk ratio was 2.5% in 2017, up from 2.3% in 2016 due to higher cost of risk levels in 1H17, mainly reflecting a) an increased pace of loan growth in express and micro express loan portfolio during 1H17, which are characterised with the highest cost of risk ratios in the RB's loan portfolio and the highest loan yields and b) impact from a major fire at one of the largest shopping centres located in downtown Tbilisi, which destroyed the inventory of some of RB's Micro and SME clients and negatively affected their creditworthiness in 1Q17
- The number of Retail Banking clients reached 2.3 million, up 8.1% y-o-y, while the number of total cards outstanding amounted to 2,227,000, up 8.3% y-o-y
- **to deliver strong growth as we further develop our strategy,** as demonstrated by the following performance indicators
  - **Growth in the client base was due to the increased offering of cost-effective remote channels.** The strong increase to 2,315,038 customers in 2017 (up 8.1% y-o-y) reflects the sustained growth in our client base over recent periods and was the main driver of the increase in our Retail Banking net fee and commission income
  - **The number of outstanding cards** increased in 2017. The increase reflects the launch of new loyalty programme Plus+ in July 2017 (see details below). Since the programme launch Bank customers who sign up for the programme are issued Plus+ cards. We had 250,307 active Plus+ cards outstanding at 31 December 2017

RETAIL BANKING PERFORMANCE INDICATORS

Volume information in GEL thousands	2017	2016	Change y-o-y
RETAIL BANKING CUSTOMERS			
Number of new customers	**198,488**	141,360	40.4%
Number of customers	**2,315,038**	2,141,229	8.1%
CARDS			
Number of cards issued	**1,022,283**	955,549	7.0%
Number of cards outstanding	**2,227,000**	2,056,258	8.3%
EXPRESS PAY TERMINALS			
Number of Express Pay terminals	**2,842**	2,729	4.1%
Number of transactions via Express Pay terminals	**104,021,767**	117,518,668	-11.5%
Volume of transactions via Express Pay terminals	**4,748,036**	3,167,369	49.9%
POS TERMINALS			
Number of desks	**9,934**	8,516	16.7%
Number of contracted merchants	**5,341**	4,514	18.3%
Number of POS terminals	**13,291**	10,357	28.3%
Number of transactions via POS terminals	**46,177,412**	30,897,709	49.5%
Volume of transactions via POS terminals	**1,405,800**	926,318	51.8%
INTERNET BANKING			
Number of active users	219,496	122,456	79.2%
Number of transactions via Internet Banking	6,415,427	5,797,851	10.7%
Volume of transactions via Internet Banking	1,402,969	1,094,260	28.2%
MOBILE BANKING			
Number of active users	177,243	74,796	137.0%
Number of transactions via Mobile Banking	6,348,533	2,648,779	139.7%
Volume of transactions via Mobile Banking	685,470	246,300	178.3%

  - **The utilisation of Express Pay terminals continued to grow in 2017.** The volume of transactions increased to GEL 4,748.0 million in 2017 (up 49.9% y-o-y), while the number of transactions was down y-o-y in 2017. This trend was largely driven by management's decision to introduce transaction fees on non-banking transactions processed through Express Pay terminals in 4Q16. However, while this introduction negatively affected the number of transactions, the decrease was more than offset by the fees charged to clients leading to a 31.2% y-o-y increase in 2017 in fee income from Express Pay terminals
  - **Digital penetration growth.** The number of transactions and the volume of transactions carried out through our mobile banking app continue to show outstanding growth, primarily due to the introduction of our new mobile banking application in May 2017. The new fully-transformed, user-friendly, multi-feature mobile banking application continues to gain popularity. Since its launch on 29 May 2017, and over the course of the following seven months, approximately 261,000 downloads were made by the Bank's customers, while the previous application had less than 120,000 downloads since its launch. During the same period c.3.88 million online transactions were performed using the new application
  - **Significant growth in loans issued and deposits opened through Internet Banking.** During 2017, we started to actively offer loans and deposit products to our customers through Internet Banking. As a result, 5,798 loans were issued with the value of GEL 15.1 million and 7,458 deposits were opened with the value of GEL 19.1 million through Internet Bank in 2017 (445 loans with the value of GEL 1.9 million and 3,546 deposits with the value of GEL 7.3 million in 2016)
- **On 15 September 2017, Bank of Georgia signed an agreement with Tbilisi City Hall for the exclusive right to operate the public transport payment system in Tbilisi.** In accordance with the agreement, Bank of Georgia will continue as the sole provider of payment support services to the public transportation network, and operate retail branches in Tbilisi metro stations for the next ten years. Bank of Georgia will implement a modern payments system for public transport network in Tbilisi, including payment processing using Visa and MasterCard cards, and create a digital platform for ticket reservations and purchases through mobile applications. This further strengthens the Bank's leading position in the express segment by maintaining branch network presence across Tbilisi's public transport network
- **We launched the new loyalty programme Plus+ on 5 July 2017.** Plus+ is part of RB's customer-centric approach and offers different status levels to customers and reward points that accumulate based on the client's business with the Bank. Points can be redeemed into partner companies' products and/or services. We launched the programme as part of our efforts to increase the Mass Retail segment's product to client ratio from current 1.8 to 3.0
- **Solo, our premium banking brand, continues its strong growth momentum and investment in its lifestyle brand. The number of Solo clients reached 32,104 at 31 December 2017 (19,267 at 31 December 2016), up 287.6% since its re-launch in April 2015.** We are on track to achieving our target of 40,000 Solo clients by the end of 2018. We have now launched 12 Solo lounges, of which nine are located in Tbilisi, the capital of Georgia, and three in major regional cities of Georgia. In 2017, annualised profit per Solo client was GEL 1,704 compared to a profit of GEL 78 and GEL 71 per Express and mass retail client, respectively. Product to client ratio for Solo was 6.1, compared to 3.4 and 1.8 for Express and mass retail, respectively. While Solo clients currently represent 1.4% of our total retail client base, they contributed 24.3% to our retail loan book, 37.4% to our retail deposits, 13.9% and 16.9% to our net interest income and to our net fee and commission income, respectively, in 2017. The fee and commission income from Solo segment increased from GEL 8.3 million in 2016 to GEL 14.4 million in 2017. Solo Club, launched in 2Q17, a membership group within Solo which offers exclusive access to Solo products ahead of other Solo clients at a higher fee, continues to gain popularity. At 31 December 2017, Solo Club had 1,882 members, up 23.2% q-o-q
- **MSME banking delivered solid growth.** The number of MSME clients reached 165,781 at 31 December 2017, up 30.7% y-o-y. MSME's loan portfolio was GEL 1,739.2 million at 31 December 2017 (up 29.2% y-o-y). The MSME segment generated revenue of GEL 125.3 million in 2017 (up 51.0% y-o-y)
- **As a result, Retail Banking profit reached GEL 249.7 million in 2017 (up 19.3% y-o-y). Retail Banking continued to deliver an outstanding ROAE, which reached 31.6% in 2017 (31.2% in 2016)**

OVERVIEW OF FINANCIAL RESULTS CONTINUED

CORPORATE INVESTMENT BANKING (CIB)

CIB provides (1) loans and other credit facilities to Georgia's large corporate clients and other legal entities, excluding SME and micro businesses; (2) services such as fund transfers and settlements services, currency conversion operations, trade finance services and documentary operations as well as handling savings and term deposits; (3) finance lease facilities through the Bank's leasing operations arm, the Georgian Leasing Company; (4) brokerage services through Galt & Taggart; and (5) Wealth Management private banking services to high net-worth individuals offering investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv.

INCOME STATEMENT HIGHLIGHTS

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
Net banking interest income	156,171	147,108	6.2%
Net fee and commission income	22,717	27,963	-18.8%
Net banking foreign currency gain	46,276	48,643	-4.9%
Net other banking income	14,256	10,170	40.2%
REVENUE	239,420	233,884	2.4%
Salaries and other employee benefits	(54,573)	(47,731)	14.3%
Administrative expenses	(16,190)	(15,214)	6.4%
Banking depreciation and amortisation	(5,134)	(5,124)	0.2%
Other operating expenses	(761)	(1,031)	-26.2%
OPERATING EXPENSES	(76,658)	(69,100)	10.9%
OPERATING INCOME BEFORE COST OF CREDIT RISK	162,762	164,784	-1.2%
Cost of credit risk	(47,403)	(76,266)	-37.8%
PROFIT BEFORE NON-RECURRING ITEMS AND INCOME TAX	115,359	88,518	30.3%
Net non-recurring items	(1,882)	(11,934)	-84.2%
PROFIT BEFORE INCOME TAX	113,477	76,584	48.2%
Income tax (expense) benefit	(7,584)	11,698	NMF
PROFIT	105,893	88,282	19.9%

BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	2017	2016	Change y-o-y
Net loans and finance lease receivables, currency blended	2,260,107	2,394,876	-5.6%
Net loans and finance lease receivables, GEL	383,058	400,395	-4.3%
Net loans and finance lease receivables, FC	1,877,049	1,994,481	-5.9%
Client deposits, currency blended	3,457,331	3,059,150	13.0%
Client deposits, GEL	1,276,401	772,253	65.3%
Client deposits, FC	2,180,930	2,286,897	-4.6%
Time deposits, currency blended	1,297,984	1,230,627	5.5%
Time deposits, GEL	470,288	135,002	NMF
Time deposits, FC	827,696	1,095,625	-24.5%
Current accounts and demand deposits, currency blended	2,159,347	1,828,523	18.1%
Current accounts and demand deposits, GEL	806,113	637,251	26.5%
Current accounts and demand deposits, FC	1,353,234	1,191,272	13.6%
Letters of credit and guarantees, standalone*	644,750	511,615	26.0%
Assets under management	1,857,495	1,575,521	17.9%

RATIOS

GEL thousands, unless otherwise noted	2017	2016
ROAE, Corporate Investment Banking	17.6%	14.7%
Net interest margin, currency blended	3.4%	3.6%
Cost of risk	1.5%	3.1%
Cost of funds, currency blended	4.6%	4.7%
Loan yield, currency blended	10.7%	10.4%
Loan yield, GEL	12.8%	13.2%
Loan yield, FC	10.3%	10.1%
Cost of deposits, currency blended	4.0%	3.9%
Cost of deposits, GEL	6.6%	6.3%
Cost of deposits, FC	2.7%	3.1%
Cost of time deposits, currency blended	5.8%	5.9%
Cost of time deposits, GEL	8.4%	9.5%
Cost of time deposits, FC	5.0%	5.3%
Current accounts and demand deposits, currency blended	2.8%	2.6%
Current accounts and demand deposits, GEL	5.9%	5.4%
Current accounts and demand deposits, FC	1.0%	0.9%
Cost/income ratio	32.0%	29.5%
Concentration of top ten clients	10.7%	11.8%

* Off-balance sheet item.

PERFORMANCE HIGHLIGHTS

- **CIB resumes growth after achieving targets on loan portfolio risk de-concentration initiatives.** During 4Q17 CIB started to rebound and resume growth after delivering on its risk de-concentration and loan portfolio repositioning targets in 3Q17
  - Net loan book amounted to GEL 2,260.1 million at 31 December 2017, down 5.6% y-o-y and up 13.4% q-o-q. The y-o-y decrease was largely driven by winding down lending relationships with several large borrowers in 2017 as a result of risk de-concentration and loan portfolio repositioning targets. Starting from 4Q17 the CIB gradually resumed growth, resulting in a q-o-q increase in loan portfolio. The concentration of top ten CIB clients stood at 10.7% at 31 December 2017, down from 11.8% at 31 December 2016
  - CIB's net banking interest income increased by 6.2% y-o-y in 2017. The y-o-y growth in 2017 net banking interest income reflects an increase in the currency blended loan yields, as well as the significant decline in cost of funds
  - CIB's net fee and commission income was GEL 22.7 million in 2017, compared to GEL 28.0 million in 2016. The y-o-y decline in 2017 was driven by decrease in net fee and commission income from guarantees and letters of credit. The 26.0% y-o-y increase in guarantees and letters of credit portfolio in 2017 was offset by a decline in yields on these products during the same periods as a result of increased competition on the market and increased exposure to lower yielding cross-guarantees of highly rated institutions to manage the risk, driving the y-o-y decline in the net fees and commission income from guarantees and letters of credit in 2017
- In 2017, dollarisation of our CIB deposits decreased to 63.1% as at 31 December 2017 from 74.8% a year ago, which was partially due to the State Treasury of Georgia's decision to place part of their GEL funds on deposits with local commercial banks in 3Q17. Another driver of GEL-denominated deposits increase was the significant decrease in interest rates on foreign currency deposits (2.7% in 2017, down from 3.1% in 2016). In contrast, the cost of deposits in local currency in 2017 reached 6.6%, up from 6.3% in 2016, and remained well above foreign currency deposit yields. Consequently, total deposits amounted to GEL 3,457.3, up 13.0% y-o-y. On a constant currency basis, total deposits were up 14.5% y-o-y
- **CIB recorded a NIM of 3.4% in 2017 (down 20 bps y-o-y).** Loan yield was up 30 bps y-o-y and cost of funds was down 10 bps y-o-y. The y-o-y decrease in NIM was primarily driven by the increased share of liquid assets in the total interest earning assets portfolio during the period
- **Net banking foreign currency gain.** In line with the volatility of the GEL exchange rate, CIB net banking foreign currency gain was GEL 46.3 million in 2017 (down 4.9% y-o-y)
- **Net other banking income.** Net other banking income increased significantly to GEL 14.3 million in 2017 (up 40.2% y-o-y). The y-o-y increase in 2017 was largely driven by revaluation gain of investment properties recorded in 4Q17
- **Cost of credit risk.** Cost of credit risk decreased significantly in 2017 (down 37.8% y-o-y), primarily driven by overall improvement in the CIB loan portfolio quality, as a result of successful risk de-concentration and loan portfolio repositioning initiatives
- CIB's cost to income ratio increased to 32.0%, up from 29.5% in 2016. CIB's operating expenses were up 10.9% y-o-y in 2017. The increase was primarily driven by 14.3% y-o-y increase in 2017 in staff costs, as a result of CIB's efforts to restructure its corporate recovery and sales teams. The benefits of these undertakings are positively reflected in CIB's lower cost of risk ratio of 1.5% in 2017 (down from 3.1% in 2016)
- As a result, **Corporate Investment Banking profit reached GEL 105.9 million in 2017** (up 19.9% y-o-y) and **CIB ROAE increased to** 17.6% compared to 14.7% in 2016

PERFORMANCE HIGHLIGHTS OF WEALTH MANAGEMENT OPERATIONS

- **The AUM of the Investment Management segment increased to GEL 1,857.5 million in 2017, up 17.9% y-o-y**. This includes a) deposits of Wealth Management franchise clients, b) assets held at Bank of Georgia Custody, c) Galt & Taggart brokerage client assets, and d) Global certificates of deposit held by Wealth Management clients
- **Wealth Management deposits were GEL 1,111.0 million in 2017, up 0.8% y-o-y, growing at a compound annual growth rate (CAGR) of 12.9% over the last five-year period.** The cost of deposits stood at 3.8% in 2017, down 70 bps y-o-y. Wealth Management deposit balances were negatively impacted by clients switching from deposits to local bonds, as Galt & Taggart has offered a number of local bond issuances, yielding higher rates than deposits
- We served 1,434 wealth management clients from 75 countries as of 31 December 2017 as compared to 1,383 clients from 68 countries as of 31 December 2016
- **Galt & Taggart, which brings under one brand corporate advisory, debt and equity capital markets research and brokerage services, continues to develop local capital markets in Georgia**
- During 2017 Galt & Taggart acted as:
  - a co-manager of the Bank's inaugural GEL 500 million Lari-denominated international bond issuance in June 2017
  - a lead manager of GEL 108 million local bonds due 2020 of International Finance Corporation in June 2017
  - a lead manager for Evex Medical Corporation, a subsidiary of Georgia Healthcare Group, facilitating a private placement of GEL 90 million local bonds due 2022, in July 2017
  - a lead manager for Georgian Water and Power, a subsidiary of Georgia Global Utilities, facilitating a private placement of GEL 40 million local bonds with a maturity of six months, in August 2017
  - a lead manager for Georgian Leasing Company, a subsidiary of JSC Bank of Georgia, facilitating a public placement of US$ 10mln bonds due 2020, in September 2017
  - a lead manager of GEL 135 million local bonds due 2022 of European Bank for Reconstruction and Development in December 2017
  - a lead manager for JSC MFO Crystal, facilitating a public placement of GEL 10 million unsubordinated unsecured notes due 2019, in December 2017
- During 2Q17 Galt & Taggart was mandated through a competitive tender process to actively manage the private pension fund of a corporate client. This is the first private pension fund ever established in Georgia by a non-financial institution. The fund is expected to accumulate approximately GEL 3 million contributions annually
- Galt & Taggart was mandated by a blue chip corporate to restructure its liabilities and the project was successfully completed in 4Q17
- **Quarterly update on recent developments in the Georgian economy.** In August 2017, Galt & Taggart launched a new research covering the quarterly macroeconomic developments in Georgian economy. The report was followed by the conference call hosted by Galt & Taggart for interested stakeholders to discuss the developments. 2Q17 and 3Q17 reports are available on the Galt & Taggart website at www.galtandtaggart.com. Additionally, Galt & Taggart continues to provide full coverage of various sectors of the Georgian economy and developments taking place in regional economies through Regional Fixed Income Market Watch and Galt & Taggart macro portal, available on its website

OVERVIEW OF FINANCIAL RESULTS CONTINUED

Discussion of Investment Business results

The Group's **Investment Business** is primarily comprised of five segments: Utility and Energy Business (GGU), Real Estate Business (m²), Property and Casualty Insurance Business (Aldagi), Beverage Business (Teliani) and Healthcare Business (GHG). The Group has renamed its Investment Business as Georgia Capital.

In line with IFRS requirements, the Group reviewed the classification of its operating segments at 31 December 2017. Given the expectation, in line with Georgia Capital's strategy, it is highly probable the Group will own less than a 50% stake in its healthcare business GHG at the end 2018*. As a result, and in line with IFRS, the Group classified GHG as "disposal group held for sale" and its results of operations are reported under "discontinued operations" line as a single amount in the consolidated income statement. Comparative periods have been restated accordingly to reflect reclassification of GHG from "continuing operations" into "discontinued operations". Assets and liabilities held by GHG are also presented separately in the consolidated balance sheet as of 31 December 2017 under "assets of disposal group held for sale" and "liabilities of disposal group held for sale".

INCOME STATEMENT

GEL thousands; unless otherwise noted	2017	2016	Change y-o-y
Gross insurance profit	27,049	25,256	7.1%
Gross real estate profit**	35,367	19,066	NMF
Gross utility and energy profit	88,370	38,680	128.5%
Gross other investment profit	30,583	21,334	43.4%
REVENUE	181,369	104,336	73.8%
Operating expenses	(74,792)	(35,893)	108.4%
EBITDA	106,577	68,443	55.7%
Profit from associates	–	4,074	NMF
Depreciation and amortisation	(28,235)	(10,062)	180.6%
Net foreign currency loss	(4,937)	(3,134)	57.5%
Interest income	12,970	4,144	NMF
Interest expense	(30,014)	(13,410)	123.8%
OPERATING INCOME BEFORE COST OF CREDIT RISK	56,361	50,055	12.6%
Cost of credit risk	(3,415)	(1,004)	NMF
PROFIT BEFORE NON-RECURRING ITEMS AND INCOME TAX	52,946	49,051	7.9%
Net non-recurring items	(623)	32,673	NMF
PROFIT BEFORE INCOME TAX	52,323	81,724	-36.0%
Income tax expense	(5,748)	(8,944)	-35.7%
(LOSS)/PROFIT FROM CONTINUING OPERATIONS	46,575	72,780	-36.0%
Profit from discontinued operations	47,352	60,100	-21.2%
PROFIT	93,927	132,880	-29.3%
Earnings per share (basic)	1.85	2.75	-32.7%
Earnings per share (diluted)	1.77	2.67	-33.8%

PERFORMANCE HIGHLIGHTS

- **As a result of strong performance across all segments, the Investment Business recorded EBITDA from continuing operations of GEL 106.6 million in 2017 (up 55.7% y-o-y). Investment Business EBITDA, adjusted to include EBITDA of the discontinued operations, was GEL 220.0 million in 2017 (up 48.2% y-o-y)**
- **Aldagi recorded gross insurance profit of GEL 27.0 million in 2017** (up 7.1% y-o-y). The growth in revenues from introduction of new products, enhancements of existing products and strong growth in the retail segment more than outpaced the increased levels of insurance claims expense, driving gross profit up 7.1% y-o-y
- **Gross real estate profit increased significantly as a result of m²'s strong sales record and revaluation gains from commercial properties during 2017.** 629 apartments were sold with a total sales value of US$ 49.1 million in 2017 compared to 407 apartments sold with a total sales value of US$ 34.4 million in 2016. In 2017, gross real estate profit was GEL 35.4 million, which was attributable to record sales of apartments and GEL 22.6 million gain from revaluation of investment properties, of which, GEL 21.4 million was the revaluation of three investment properties under construction (high street retail)
- **GGU delivered stable organic growth with a 52% EBITDA margin in 2017 (54% in 2016).** The y-o-y increase in gross utility and energy profit in 2017 was driven by higher water supply revenues across both commercial and residential customers, which was slightly offset by decreased revenues from electric power generation and sales as a result of exceptionally low levels of water inflow during the year. In addition, 2016 results include consolidation of GGU's gross utility and energy profit since 21 July 2016, while 2017 results include a full year of operations
- **Gross other investment profit increased by 43.4% y-o-y in 2017.** The growth was largely attributable to significant growth in Teliani's gross profit due to the launch of mainstream beer and lemonade production in 2017, as well as outstanding performance of the wine business, where revenues reached GEL 60.3 million in 2017 (up 102.5% y-o-y), excluding the IFRS 15 impact. Additionally, Teliani's 2017 gross profit was positively impacted by continued diversification of its distribution portfolio, whereby Teliani tapped into the exclusive right to import and distribute Lavazza coffee in Georgia and won other non-alcoholic beverage distribution contracts in 2017. We expect to begin reporting separately the results of our beverage business operations in 2018
- **Increase in operating expenses** was significantly impacted by Teliani's launch of beer operations and consolidation of GGU's results for a full year
- **Net non-recurring items in 2016** primarily relates to GEL 31.8 million gain from the purchase of GGU, while no such material non-recurring items were noted in 2017
- **2017 profit from discontinued operations, which relates to results of GHG's operations, decreased y-o-y by 21.2%.** The decline was mainly due to the absence of GEL 24.0 million one-off income tax gains recorded in 2016 from the change in Georgian corporate tax legislation

* The Group held 57% of GHG's equity stake as of 31 December 2017 (65% as of 31 December 2016).

** The gross real estate profit trend between 2017 and 2016 is not comparable given the early adoption of IFRS 15 from 1 January 2017. Prior to 1 January 2017, m² recognised revenues from sales of residential units upon completion and handover of the units to customers in line with IAS 18, while under IFRS 15 revenue is recognised according to the percentage of completion method. Accordingly, we will not comment on y-o-y comparisons.

Investment Business segment result discussion

The segment results discussion is presented for the Utility and Energy Business (GGU), Real Estate Business (m²), Property and Casualty Insurance Business (Aldagi) and Healthcare Business (GHG*).

UTILITY AND ENERGY BUSINESS (GEORGIA GLOBAL UTILITIES – GGU**)

Natural monopoly in the water business, with upside in electricity generation. 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. 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.

Portfolio of three hydropower generation facilities (an additional facility under management) with a total capacity of 149.3MW. Average annual production is c.400GWh, depending on the level of rainfall during the year. GGU's average annual electricity self-consumption is up to 300GWh with a decreasing trend, which provides GGU with sufficient internally generated power for water transportation purposes and additional revenue from third-party electricity sales. Over the course of the last three years, GGU has managed to achieve efficiencies in its own energy consumption, thus freeing up electricity for third-party sales. The involvement in hydropower production also provides revenue diversification.

Investment in additional capacity for electricity generation with the goal to establish a renewable energy platform. GGU is developing hydro power plants (HPP) as well as solar and windpower sources in Georgia. During 2Q17, GGU commenced construction of 50MW Mestiachala HPPs in the North-Western part of Georgia (Svaneti region) with a target to have the HPPs operational in December 2018. In 4Q17, GGU commenced construction of a 2.5MW Bodorna HPP on its own infrastructure near Tbilisi, which is expected to become fully operational from September 2018. Additionally, a 44.3MW Zoti HPPs, located in the Western part of Georgia (Guria region), officially entered its construction phase based on the construction agreement signed with the Government of Georgia during 4Q17. GGU targets completion of Zoti HPP construction in 4Q20. 100MW wind projects are currently at the feasibility stage and once complete, GGU expects to commence construction works.

Room for efficiencies in water business from improving the worn-out infrastructure. The poor condition of pipeline infrastructure is the main reason for leaks and accidents, causing on average 70% water loss annually, out of which 50% is attributable to technical losses and 20% to commercial losses. The current level of water losses is higher than the international peer average and represents a strong potential efficiency upside for the business. GGU owns and operates a water supply network of around 3,150km and about 2,000km of wastewater pipelines. It also has 55 pumping stations, 101 service reservoirs with a total capacity of 305,000 m³ and a water treatment plant. Around 560 million m³ of potable water is supplied from water production/treatment facilities annually. By investing in the pipeline infrastructure, the depreciated asset base is replaced over time, leading to continuous growth in the regulated asset base. Moreover, through the reduction of the water supplied to its customers and respective water losses, GGU expects to reduce its own electricity consumption, which can be sold to third parties.

Water tariff and regulation. In December 2017, GNERC (Georgian National Energy and Water Supply Regulatory Commission), the independent body that regulates GGU's water and wastewater tariffs, has approved new tariffs for GGU for a three-year regulatory period, effective from 1 January 2018. This is the first time the tariff has been set based on the new water and wastewater services tariff methodology adopted by GNERC in August 2017, which is based on international best practice and represents a hybrid method of "cost plus" and "incentive based" methodologies. Revenue is determined based on a company's Regulatory Asset Base (RAB) and compensates for investment and maintenance of new and existing regulatory assets, stimulates efficiency in the network through incentivising reduction in controllable operating expenses and delivers fair returns to investors in the utility business. The return on investment, referred to as WACC in the methodology, for the first regulatory period is set at 15.99% (up from 13.54% in 2017). As a result, new water and wastewater tariffs for residential customers in Tbilisi, the largest contributor to water utility revenue, increased by 23.8% to GEL 3.89 (per month, per capita) for non-metered customers and to GEL 0.33 (per m³) for metered customers. New tariffs for GGU's commercial customers, all of which are metered, decreased by 0.4% to GEL 4.40 (per m³).

Strong and stable cash flow generation has enabled GGU to distribute dividends of GEL 28.0 million (US$ 11.0 million) from its water utility business to the Investment Business during 4Q17. This was the first dividend distribution since the acquisition of a controlling stake in GGU in July 2016, which has decreased the Group's net investment in GGU, excluding the renewable energy business, to US$ 84.0 million.

GWP, a wholly-owned subsidiary of GGU, which operates the water business in Tbilisi, has a credit rating of BB – with stable outlook from Fitch.

* Healthcare Business (GHG) is classified as discontinued operations.

** Prior to 2Q17, GGU's standalone results excluded the Group's renewable energy business results due to its absence from GGU's legal structure and insignificant size. Effective from 2Q17, we are reporting GGU results on a pro-forma basis together with renewable energy business and have retrospectively revised the comparable information accordingly. The Group owns 65% of renewable energy business.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

Standalone results

The Investment Business acquired 75% of GGU's equity interests that it did not own on 21 July 2016 and has consolidated its results since then. Prior to this, the net income from the Group's 25% stake in GGU was reported under "profit from associates". The results below refer to GGU's standalone numbers. GGU's standalone results, including the related comparative information, reflect the utility and energy business performance.

INCOME STATEMENT

GEL thousands; unless otherwise noted	2017	2016	Change y-o-y
Revenue from water supply to legal entities	**85,983**	78,140	10.0%
Revenue from water supply to individuals	**32,921**	31,263	5.3%
Revenue from electric power sales	**9,755**	10,112	-3.5%
Revenue from technical support	**2,604**	4,571	-43.0%
Other income	**3,738**	3,161	18.3%
REVENUE	**135,001**	127,247	6.1%
Provisions for doubtful trade receivables	**(1,675)**	(2,198)	-23.8%
Salaries and benefits	**(19,125)**	(16,760)	14.1%
Electricity and transmission costs	**(18,303)**	(17,746)	3.1%
Raw materials, fuel and other consumables	**(3,077)**	(2,856)	7.7%
Infrastructure assets maintenance expenditure	**(2,254)**	(2,402)	-6.2%
General and administrative expenses	**(3,881)**	(3,125)	24.2%
Operating taxes	**(4,457)**	(3,312)	34.6%
Professional fees	**(2,698)**	(2,502)	7.8%
Insurance expense	**(1,104)**	(793)	39.2%
Other operating expenses	**(7,586)**	(7,400)	2.5%
OPERATING EXPENSES	**(64,160)**	(59,094)	8.6%
EBITDA	**70,841**	68,153	3.9%
EBITDA margin	**52%**	54%	
Depreciation and amortisation	**(20,419)**	(17,911)	14.0%
EBIT	**50,422**	50,242	0.4%
EBIT margin	**37%**	39%	
Net interest expense	**(12,354)**	(10,201)	21.1%
Net non-recurring expenses	**(1,332)**	–	NMF
Foreign exchange (loss) gain	**(580)**	(1,076)	-46.1%
EBT	**36,156**	38,965	-7.2%
Income tax expense	**(934)**	(3,671)	-74.6%
PROFIT	**35,222**	35,294	-0.2%
Attributable to:			
– Shareholders of the Group	**35,306**	35,275	0.1%
– Non-controlling interests	**(84)**	18	NMF

PERFORMANCE HIGHLIGHTS

- **GGU recorded total revenue of GEL 135.0 million in 2017 (up 6.1% y-o-y)**
  - Revenue from the water supply to legal entities and individuals reached GEL 118.9 million in 2017 (up 8.7% y-o-y). Water supply revenue represented 88.1% of the total revenue in 2017 (86.0% in 2016). Revenue from legal entities is generally the largest element of GGU's total revenue and their water consumption pattern is reflected in GGU's revenues. The y-o-y increase in revenue from water supply to both legal entities and individuals in 2017 reflects enhanced measurement results based on an efficient new metering programme (the new metering programme entails replacement of amortised or obsolete meters for legal entities, metering of residential customers and detection of illegal connections)
  - Revenue from electricity power sales amounted to GEL 9.8 million in 2017 (down 3.5% y-o-y). 2017 was characterised by exceptionally low levels of water inflows in Zhinvali reservoir (the lowest over the past five years), resulting in low electricity generation and respective decline in revenue from electricity power sales, compared to 2016
  - The significant y-o-y decrease in the technical support revenue in 2017 was due to the early adoption of IFRS 15 from 1 January 2017 which led to deferral of revenues from technical support services. The accounting change was applied prospectively from 1 January 2017 in line with IFRS
- **GGU's operating expenses continued to be well contained in 2017 and amounted to GEL 64.2 million in 2017 (up 8.6% y-o-y):**
  - Salaries and employee benefits were up 14.1% y-o-y in 2017. The increase was primarily driven by recruitment of additional and more qualified personnel in the technical support department as well as increased performance-related compensation in water utility segment as a result of successfully delivering on all key operational and financial targets for 2017
  - Starting from 1Q17, as part of an ongoing process of reviewing receivable provisioning methodology, GGU revisited certain estimates to enhance the method of provision estimation. Under the enhanced method GGU was able to identify the customers who were able to pay all their monthly bills on time, i.e. who tended to have no overdue bill balance. This change in accounting estimate had a positive impact on the provision of doubtful receivables in 1Q17, resulting in lower receivables provision expenses in 2017
  - Electricity and transmission costs were up 3.1% y-o-y in 2017 due to the increased electricity transmission fee (guaranteed capacity fee) effective from 1 January 2017. The low y-o-y growth is attributable to the savings from electricity consumption throughout the year
  - The y-o-y increase in 2017 in general and administrative expenses is primarily driven by the expenditures on a new marketing campaign targeted at raising the awareness of the importance of potable water resources in the population
  - Operating taxes were up 34.6% y-o-y in 2017, reflecting an increase in GGU's property tax base due to the company's continued investments in its own infrastructure
  - Professional fees increased in 2017 primarily due to the advisory services received from independent subject matter experts in relation to the assessment of certain operational parameters
  - The y-o-y decline in income taxes in 2017 reflects the impact of changes in the corporate income tax model
- **As a result of the developments described above, GGU reported EBITDA of GEL 70.8 million in 2017 (up 3.9% y-o-y) and a profit of GEL 35.2 million in 2017 (flat y-o-y)**
- GGU has an outstanding receivables collection rate within the 95-98% range from water supply. During 2017, the collection rate for legal entities and households was 98% and 95%, respectively. As a result, GGU had only GEL 6.9 million overdue receivables outstanding at 31 December 2017. While the Georgian water utility sector has historically had low receivables collection rates, as a result of GGU's arrangement with electricity suppliers since 2011, which allows disconnection of non-paying water customers from the electricity network, GGU's collection rates remain very strong at around 96%. In return, electricity suppliers receive flat monetary compensation from GGU
- In 2017, GGU drew down less expensive funding from international financial institutions in order to finance capital expenditures and refinance more expensive funding from local financial institutions

STATEMENT OF CASH FLOW

GEL thousands; unless otherwise noted	2017	2016	Change y-o-y
Cash received from customers	**153,937**	139,886	10.0%
Cash paid to suppliers	**(46,069)**	(46,106)	-0.1%
Cash paid to employees	**(16,737)**	(18,608)	-10.1%
Interest received	**1,593**	216	NMF
Interest paid	**(12,831)**	(10,388)	23.5%
Taxes paid	**(6,272)**	(11,087)	-43.4%
Restricted cash in Bank	**–**	(2,355)	NMF
CASH FLOW FROM OPERATING ACTIVITIES	**73,621**	51,558	42.8%
Maintenance capex	**(23,203)**	(22,432)	3.4%
OPERATING CASH FLOW AFTER MAINTENANCE CAPEX	**50,418**	29,126	73.1%
Purchase of PPE and intangible assets	**(190,169)**	(35,552)	NMF
Restricted cash in Bank	**(2,399)**	–	NMF
TOTAL CASH USED IN INVESTING ACTIVITIES	**(192,568)**	(35,552)	NMF
Proceeds from borrowings	**314,284**	45,226	NMF
Repayment of borrowings	**(122,837)**	(14,032)	NMF
Contributions under share-based payment plan	**(4,941)**	–	NMF
Dividends paid	**(28,244)**	(13,008)	117.1%
Capital increase	**16,801**	7,331	129.2%
TOTAL CASH FLOW FROM FINANCING ACTIVITIES	**175,063**	25,517	NMF
Effect of exchange rates changes on cash	**4,969**	(69)	NMF
TOTAL CASH INFLOW/(OUTFLOW)	**37,882**	19,022	99.1%
CASH BALANCE			
Cash, beginning balance	**32,379**	13,357	142.4%
Cash, ending balance	**70,261**	32,379	117.0%

OVERVIEW OF FINANCIAL RESULTS CONTINUED

BALANCE SHEET

GEL thousands; unless otherwise noted	Dec-17	Dec-16	Change y-o-y
Cash and cash equivalents	**70,261**	32,379	117.0%
Trade and other receivables	**23,754**	26,402	-10.0%
Prepaid taxes other than income tax	**4,053**	3,115	30.1%
Prepayments	**3,305**	288	NMF
Inventories	**3,787**	3,048	24.2%
Other current assets	**4,339**	240	NMF
Current income tax prepayments	**62**	735	-91.6%
TOTAL CURRENT ASSETS	**109,561**	66,207	65.5%
Property, plant and equipment	**489,509**	335,877	45.7%
Investment property	**11,286**	18,728	-39.7%
Intangible assets	**2,222**	1,383	60.7%
Restructured trade receivables	**133**	307	-56.7%
Restricted cash	**7,657**	5,094	50.3%
Other non-current assets	**44,118**	1,757	NMF
TOTAL NON-CURRENT ASSETS	**554,925**	363,146	52.8%
TOTAL ASSETS	**664,486**	429,353	54.8%
Current borrowings	**3,832**	22,617	-83.1%
Trade and other payables	**33,618**	25,625	31.2%
Provisions for liabilities and charges	**3,102**	706	NMF
Other taxes payable	**391**	7,101	-94.5%
TOTAL CURRENT LIABILITIES	**40,943**	56,049	-27.0%
Long-term borrowings	**308,373**	83,651	NMF
Deferred income	**20,753**	–	NMF
TOTAL NON-CURRENT LIABILITIES	**329,126**	83,651	NMF
TOTAL LIABILITIES	**370,069**	139,700	NMF
Share capital	**17,561**	8,070	117.6%
Additional paid-in capital	**(2,837)**	(588)	NMF
Retained earnings	**87,229**	96,564	-9.7%
Other reserve	**182,338**	182,417	0.0%
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE GROUP	**284,291**	286,463	-0.8%
Non-controlling interest	**10,126**	3,190	NMF
TOTAL EQUITY	**294,417**	289,653	1.6%
TOTAL LIABILITIES AND EQUITY	**664,486**	429,353	54.8%

- The increase in property, plant and equipment is primarily due to the additional investments into the company's infrastructure carried out during 2016 and 2017 in order to upgrade the network, further reduce water losses and achieve cost efficiencies. Additionally, c.GEL 40.0 million increase is attributable to the development and construction of renewable energy projects
- c.GEL 7.4 million y-o-y decrease in investment property is related to reclassification of investment properties into property, plant and equipment, as well as the sale of a land plot
- The significant increase in other non-current assets is driven by additional prepayments to suppliers in relation to the development and construction of 50MW Mestiachala HPPs
- The increase in borrowings and cash and cash equivalents at 31 December 2017 is due to additional funding obtained from international financial institutions and local banks in order to support the capital expenditures for developments of water supply network and renewable energy projects
- During 2017, GGU secured long-term financing from international financial institutions (IFIs) for efficiency-related capital expenditures purposes. In 3Q17, GWP signed long-term loan facility agreements with the European Investment Bank (EIB), The Netherlands Development Finance Company (FMO) and German Investment Corporation (DEG) and attracted c.EUR 81.5 million in total, of which, c.40% is denominated in local currency. This was the first IFI financing for GGU's water utility arm and a significant milestone for GGU, as it enables the company to develop and modernise the water infrastructure by tapping efficiencies in the network. GGU utilised the IFI funding from October 2017
- In 4Q17, GGU distributed dividends totalling GEL 28.0 million (US$ 11.0 million) from its water utility business to the Investment Business

REAL ESTATE BUSINESS (m² REAL ESTATE OR m²)

Standalone results*

Our Real Estate business is operated through the Group's wholly-owned subsidiary m², which develops residential and commercial properties and hotel properties in Georgia. m² Real Estate has historically outsourced the construction and architecture works, whilst itself focusing on project management and sales. In June 2017, m² acquired BK Construction LLC, a local real estate construction company, with the aim of bringing construction works in-house to achieve cost and project development efficiencies. m² targets to meet the unsatisfied demand in Tbilisi for housing through its well established branch network and sales force. Additionally, in line with its "assets light" strategy, m² targets to transition into a franchise platform and develop third-party land plots to generate fee income.

INCOME STATEMENT**

GEL thousands; unless otherwise noted	2017	2016	Change y-o-y
Revenue from sale of apartments	**92,643**	96,347	NMF
Cost of sold apartments	**(84,607)**	(82,403)	NMF
GROSS PROFIT FROM SALE OF APARTMENTS	**8,036**	13,944	NMF
Revenue from operating leases	**3,599**	2,778	29.6%
Cost of operating leases	**(557)**	(224)	148.7%
GROSS PROFIT FROM OPERATING LEASES	**3,042**	2,554	19.1%
Revaluation of commercial property	**22,563**	2,381	NMF
GROSS REAL ESTATE PROFIT	**33,641**	18,879	78.2%
Gross other profit	**277**	29	NMF
GROSS PROFIT	**33,918**	18,908	79.4%
Salaries and other employee benefits	**(2,818)**	(1,498)	88.1%
Administrative expenses	**(5,761)**	(4,364)	32.0%
Operating expenses	**(8,579)**	(5,862)	46.3%
EBITDA	**25,339**	13,046	94.2%
Depreciation and amortisation	**(508)**	(243)	109.1%
Net foreign currency gain/(loss)	**(117)**	1,143	-110.2%
Interest income	**816**	715	14.1%
Interest expense	**(186)**	(210)	-11.4%
NET OPERATING INCOME BEFORE NON-RECURRING ITEMS	**25,344**	14,451	75.4%
Net non-recurring items	**(128)**	(73)	75.3%
PROFIT BEFORE INCOME TAX	**25,216**	14,378	75.4%
Income tax expense	**(1,554)**	(3,474)	-55.3%
PROFIT	**23,662**	10,904	117.0%

PERFORMANCE HIGHLIGHTS

- **During 2017 m² continued to unlock value through real estate development.**
- Gross profit from the sale of apartments is by its nature variable and depends on the number of projects underway at a given time. We also adopted a new accounting treatment in 2017, which applies a completely different basis for recognising revenue. Accordingly, y-o-y comparisons are not meaningful and will not be commented upon
- **During 2017, m² sold a total of 629 apartments with total sales value of US$ 49.1 million, compared to 407 apartments sold with total sales value of US$ 34.4 million during 2016**
- Net revenue from operating leases increased by 19.1% y-o-y in 2017, supported by the growth in the commercial real estate portfolio. Consequently, the portfolio of yielding assets represented 22.0% of m² Real Estate's total assets at 31 December 2017, compared to 11.2% a year ago
- **During 2017, m² recorded a gain from the revaluation of investment property under construction of GEL 21.4 million. As a result, its portfolio of yielding assets, including the revaluation gain, increased by 85.8% y-o-y to GEL 77.2 million at 31 December 2017.** Revaluation of commercial property increased materially in 2Q17 primarily due to the GEL 21.4 million revaluation of three investment properties under construction (high street retail). m² previously measured investment property under construction at cost, as allowed by IFRS, on the basis that fair value determination was difficult due to lack of comparable data and reliability of alternative fair value measurements. During 2Q17, management reassessed the approach and concluded that given a) the recent transactions of properties under construction on the local market, b) management's track record in building and renting out commercial properties and c) availability of increased statistical information, reliable measurement of fair value was warranted. Accordingly, management hired an independent, internationally recognised, valuation company to determine the fair values of properties under construction in 2017 and recorded a total revaluation gain of GEL 22.6 million on investment properties during 2017
- **As a result, m² recognised total gross profit of GEL 33.9 million in 2017, while profit totalled GEL 23.7 million**
- The y-o-y movement in income tax expense relates to previous period tax return adjustment as a result of submission of final 2016 tax returns during 3Q17

* Prior to 2017, m² Real Estate results presented were segment results, i.e. including Group elimination and consolidation adjustments. Effective 2017, and similar to other Investment Business entities, we are reporting standalone results for m² Real Estate.

** The net revenue trend between 2017 and 2016 is not comparable given the early adoption of IFRS 15 from 1 January 2017. Prior to 1 January 2017, m² recognised revenues from sales of residential units upon completion and handover of the units to customers in line with IAS 18, while under IFRS 15 revenue is recognised according to the percentage of completion method. Accordingly, we will not comment on y-o-y comparisons.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

BALANCE SHEET

GEL thousands; unless otherwise noted	Dec-17	Dec-16	Change y-o-y
Cash and cash equivalents	**34,751**	93,210	-62.7%
Amounts due from credit institutions	**114**	–	NMF
Investment securities	**3,329**	2,842	17.1%
Accounts receivable	**1,338**	703	90.3%
Prepayments	**34,932**	20,746	68.4%
Inventories	**59,683**	113,009	-47.2%
Investment property, of which:	**150,143**	113,829	31.9%
Land bank	**72,902**	72,251	0.9%
Commercial real estate	**77,241**	41,578	85.8%
Property and equipment	**49,641**	7,050	NMF
Other assets	**16,898**	20,839	-18.9%
TOTAL ASSETS	**350,829**	372,228	-5.7%
Amounts due to credit institutions	**58,992**	42,818	37.8%
Debt securities issued	**65,122**	103,077	-36.8%
Deferred income	**46,660**	77,925	-40.1%
Other liabilities	**15,425**	14,725	4.8%
TOTAL LIABILITIES	**186,199**	238,545	-21.9%
Share capital	**4,180**	4,180	–
Additional paid-in capital	**82,793**	85,467	-3.1%
Other reserves	**14,460**	15,538	-6.9%
Retained earnings	**52,779**	28,498	85.2%
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE GROUP	**154,212**	133,683	15.4%
Non-controlling interest	**10,418**	–	NMF
TOTAL EQUITY	**164,630**	133,683	23.1%
TOTAL LIABILITIES AND EQUITY	**350,829**	372,228	-5.7%

- **m^2 continued to have a strong, diversified and well managed balance sheet.** At 31 December 2017, total assets were GEL 350.8 million (down 5.7% y-o-y), comprising of 9.9% cash, 10.0% prepayments, 17.0% inventories (apartments in development), 42.8% investment property, 14.1% property, plant and equipment (including hotel) and 6.2% all other assets. Borrowings, which consist of debt raised from Development Financial Institutions (**"DFIs"**) and debt securities issued on the local market, represent 35.4% of the total balance sheet
- m^2 has a land bank with a total value of GEL 72.9 million on its balance sheet. We do not expect the land bank to grow, as the company's strategy is to utilise its existing land plots within three to four years and, in parallel, start development of third-party land plots under franchise agreements
- In December 2017, m^2 acquired a 60% stake from a third-party in an upcoming lifestyle boutique hotel in Tbilisi for a total cash consideration of US$ 6.0 million, of which US$ 4.1 million was paid to acquire a 50% stake from a third-party and US$ 1.9 million was injected into the hotel's capital in exchange for an additional 10% stake

OPERATING HIGHLIGHTS

2017 was record-breaking for m^2 with regard to the number of apartments sold, square metres sold and sales revenue. In 4Q17, all remaining apartments of the Optima line project on Moscow Avenue were sold. Moreover, m^2 continued to build up its portfolio of yielding assets, including hotels, to match the growing demand for accommodation generated by the robust growth of the tourism sector. In 3Q17 m^2 commenced construction works on a mixed-use development on Melikishvili Avenue, where it plans to open a four-star Ramada hotel, which is expected to be the first construction project undertaken in-house by m^2 subsidiary, BK Construction LLC. Existing income-generating properties are successfully leased at an 88% occupancy rate with an average yield of 9.1%. m^2 continued its outstanding performance in construction with more than 180,000 square metres (more than 95,700 square metres of net sellable area) currently under construction across four ongoing projects, all of which are on schedule.

As noted above, in 4Q17 m^2 acquired a controlling stake in an upcoming lifestyle boutique hotel in a prime location of Tbilisi. The hotel is expected to add at least 100 rooms to m^2's portfolio and the construction works are being carried out by m^2's construction arm. The skeleton of the building is already finished and the full construction completion is expected in the first quarter of 2019.

In December 2017, m^2 signed its largest ever franchise agreement as part of its "asset light" strategy to construct and develop a residential complex under the m^2 brand name on a third-party land plot in a densely populated Tbilisi suburb. m^2 plans to build a residential complex, with a total of 190,000 square metres and 3,600 residential units, in ten phases over the course of four to five years and generate construction fees, sales commissions and share profits from the project's overall economics.

Finally, in December 2017, m^2's construction arm was awarded its first major third-party construction agreement to construct the shell and core of a new shopping mall and business centre located in Tbilisi's Saburtalo district. Total amount of the contract is US$ 11.6 million and is planned to be carried out over the 16 months following the planned project commencement in January 2018.

- **m^2 has started 11 projects since its establishment in 2010, of which, seven projects have already been completed, while the construction of four projects is ongoing. m^2 has completed all of its projects on or ahead of scheduled time and within budget.** The four ongoing projects have the following characteristics:
  - **Kartozia Street project:** the largest ever project carried out by m^2, with a total of 801 apartments in a central location in Tbilisi, of which 703 units are sold
  - **Kazbegi Avenue II project** – a mixed-use development with 303 residential apartments and a hotel (m^2 has the exclusive right to develop Wyndham Ramada Encore hotels in Georgia) with a capacity of 152 rooms. The construction started in June 2016, with 217 apartments sold to date
  - **50 Chavchavadze Avenue project** – the project is located in the central part of Tbilisi with a total of 82 apartments, of which 69 are sold
  - **Melikishvili Avenue project** – a mixed-use four-star development with a capacity of 125 hotel rooms and 16 residential apartments, of which 11 are already sold
- **m^2 has a very good track record of selling apartments.** Out of the 1,691 apartments completed to date since inception, only 15 or 0.9% remain in stock as available for sale. m^2 retains ownership of some of the apartments leased out to high quality strategic tenants, such as the US Embassy in Georgia. The four ongoing projects have a total capacity of 1,202 apartments, of which, 1,000 apartments or 83.2% are sold as of 31 December 2017. A total of 217 units remain available for sale, out of the total of 2,893 apartments either already developed or under development phase
- Since its inception, m^2 Real Estate unlocked US$ 19.5 million in total land value from the seven completed projects, while an additional US$ 14.2 million in land value is expected to be unlocked from the four ongoing projects
- The number of apartments financed with BOG mortgages in all m^2 projects reached 1,181 or GEL 148.6 million at 31 December 2017

OPERATING DATA
FOR COMPLETED AND ONGOING PROJECTS, AS OF 31 DECEMBER 2017

#	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)	Actual/Planned completion date (construction)	Construction completed %
COMPLETED PROJECTS		1,691	1,676	99.1%	15			
1	Chubinashvili Street	123	123	100.0%	–	Sep-10	Aug-12	100%
2	Tamarashvili Street	525	523	99.6%	2	May-12	Jun-14	100%
3	Kazbegi Street	295	295	100.0%	–	Dec-13	Feb-16	100%
4	Nutsubidze Street	221	221	100.0%	–	Dec-13	Sep-15	100%
5	Tamarashvili Street II	270	266	98.5%	4	Jul-14	Jun-16	100%
6	Moscow Ave.	238	238	100.0%	–	Sep-14	Jun-16	100%
7	Skyline	19	10	52.6%	9	Dec-15	Dec-17	100%
ONGOING PROJECTS		1,202	1,000	83.2%	202			
8	Kartozia Street	801	703	87.8%	98	Nov-15	Oct-18	78%
9	Kazbegi Street II	303	217	71.6%	86	Jun-16	Nov-18	43%
10	50 Chavchavadze Ave.	82	69	84.1%	13	Oct-16	Oct-18	61%
11	Melikishvili Ave.	16	11	68.8%	5	Sep-17	May-19	6%
TOTAL		2,893	2,676	92.5%	217			

FINANCIAL DATA
FOR COMPLETED AND ONGOING PROJECTS, AS OF 31 DECEMBER 2017

#	Project name	Total sales (US$ million)	Recognised as revenue (US$ million)	Deferred revenue (US$ million)	Deferred revenue expected to be recognised as revenue in 2017	Land value unlocked (US$)	Realised and expected IRR
COMPLETED PROJECTS		144.3	144.3	–	–	19.5	
1	Chubinashvili street	9.9	9.9	–	–	0.9	47%
2	Tamarashvili street	48.6	48.6	–	–	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	24.3	24.3	–	–	2.7	71%
6	Moscow Ave.	12.3	12.3	–	–	1.6	31%
7	Skyline	4.6	4.6	–	–	3.1	329%
ONGOING PROJECTS		78.0	50.2	27.8	21.5	14.2	
8	Kartozia Street	48.8	33.4	15.3	13.0	5.8	60%
9	Kazbegi Street II	18.6	10.7	8.0	5.5	4.3	51%
10	50 Chavchavadze Ave.	8.1	5.1	3.0	2.8	3.3	75%
11	Melikishvili Ave.	2.5	1.0	1.5	0.2	0.8	101%
TOTAL		222.3	194.5	27.8	21.5	33.7	

OVERVIEW OF FINANCIAL RESULTS CONTINUED

PROPERTY AND CASUALTY BUSINESS (ALDAGI OR P&C)

Standalone results

Our Property and Casualty (P&C) Insurance business is operated through the Group's wholly-owned subsidiary Aldagi, which is a leading player in the local P&C insurance market with a market share of 38.6% based on gross premiums earned at 30 September 2017. The company offers a wide range of insurance products in Georgia to corporate and retail clients, covering more than 47,000 customers through five business lines: motor, property, credit life, liability and other insurance services. Aldagi's insurance products are offered through its offices in Tbilisi and large cities across Georgia, a network of insurance agents, local partner banks and non-financial institutions (such as major car dealerships), insurance brokers and online portals.

INCOME STATEMENT

GEL thousands; unless otherwise noted	2017	2016	Change y-o-y
Gross premiums written	88,474	75,379	17.4%
Earned premiums, gross	85,922	70,937	21.1%
EARNED PREMIUMS, NET	62,770	50,390	24.6%
Insurance claims expenses, gross	(40,652)	(25,227)	61.1%
Insurance claims expenses, net	(25,098)	(17,858)	40.5%
ACQUISITION COSTS, NET	(9,100)	(6,744)	34.9%
NET UNDERWRITING PROFIT	28,572	25,788	10.8%
Investment income	2,965	3,118	-4.9%
Net fee and commission income	525	436	20.4%
NET INVESTMENT PROFIT	3,490	3,554	-1.8%
Salaries and other employee benefits	(8,701)	(7,907)	10.0%
Selling, general and administrative expenses	(3,263)	(3,201)	1.9%
Depreciation and amortisation	(855)	(774)	10.5%
Impairment charges	(671)	(808)	-17.0%
Net other operating income	495	698	-29.1%
OPERATING PROFIT	19,067	17,350	9.9%
Foreign exchange gain/(loss)	208	(294)	NMF
PRE-TAX PROFIT	19,275	17,056	13.0%
Income tax expense	(2,975)	(3,318)	-10.3%
NET PROFIT	16,300	13,738	18.6%

PERFORMANCE HIGHLIGHTS

- **Aldagi recorded net underwriting profit of GEL 28.6 million in 2017 (up 10.8% y-o-y) as a result of the following:**
  - **Net earned premiums.** Net premiums earned reached GEL 62.8 million in 2017 (up 24.6% y-o-y). The y-o-y increase in 2017 was supported by organic growth of the motor insurance, property insurance and credit life insurance business lines (representing approximately 35.0%, 24.0% and 10.0% of Aldagi's total insurance portfolio, respectively), which contributed to approximately 23.0%, 21.0% and 15.0% y-o-y increase in net premiums earned in 2017, respectively. New product introductions and enhancements of existing products described under *Operating Highlights* below resulted in a further 4.0% y-o-y increase to net premiums earned in 2017. Net premiums earned from agricultural insurance increased by approximately 44.0% on a y-o-y basis in 2017, leading to a 54.0% market share in this product (37.0% market share in 2016)
  - **Net insurance claims.** The net insurance claims amounted to GEL 25.1 million in 2017 (up 40.5% y-o-y). The y-o-y increase in net insurance claims expenses in 2017 were primarily driven by property insurance claims following a major fire incident in 1H17 and a number of accidents from flooding and bad weather conditions in 4Q17. Additionally, the motor insurance business experienced an overall increase in loss severity and frequency in 2017.
  - These increases were partially compensated by improved loss ratios in liability insurance, life insurance and other insurance products in 2017. Finally, the increase in insurance claims expenses was also driven by the business shift towards the retail segment, which is historically characterised by a higher loss ratio than the corporate segment
  - **Net acquisition costs** were GEL 9.1 million in 2017 (up 34.9% y-o-y). The y-o-y increase was attributable to the introduction of new insurance product lines and enhancements of existing ones in 2017, which led to higher average commission rates. Overall, commission ratio was up by 1 ppts y-o-y in 2017.
- **Aldagi's key ratios remain healthy despite increased number of accidents during 2017** as evidenced by the following closely monitored metrics:

KEY RATIOS

	2017	2016
Combined ratio	75.2%	72.6%
Expense ratio	35.2%	37.2%
Loss ratio	40.0%	35.4%

- **Net investment profit**. Investment income amounted to GEL 3.0 million in 2017 (down 4.9% y-o-y). Y-o-y decrease in investment income in 2017 was primarily driven by the dividend payouts of GEL 7.1 million in 3Q16 and GEL 7.0 million in 2Q17, which were partially compensated by 20.4% y-o-y increase in AUM fees in 2017. Investment yield remained high at 10.0% in 2017
- **Salaries and employee benefits** reached GEL 8.7 million in 2017 (up 10.0% y-o-y) primarily as a result of the new Strategic Development department as described under Operating Highlights below, as well as the organic growth of the property and casualty insurance business and the related increase in headcount
- **Corporate income tax expense.** The y-o-y decrease in income taxes in 2017 reflects the absence of one-off impact from changes in the corporate taxation model, which were recorded in 2016 (GEL 0.8 million write-off in 2016)
- **Aldagi's operating profit reached GEL 19.1 million in 2017, up 9.9% y-o-y. Aldagi's net profit was GEL 16.3 million in 2017 (up 18.6% y-o-y)**
- **Aldagi continued to have a very strong balance sheet.** As of 31 December 2017, total assets reached GEL 135.2 million. The y-o-y growth in assets was largely driven by 23.9% y-o-y increase in net insurance premiums receivable and 57.1% y-o-y increase in ceded share of technical provisions. The 14.5% y-o-y increase in total liabilities was driven by two large claims incurred as a result of a) a major fire incident in 1Q17 and b) floods in 4Q17, both of which contributed to 21.0% y-o-y increase in gross technical provisions at 31 December 2017
- **Aldagi has demonstrated outstanding dividend payment track record.** Aldagi has distributed dividends totaling GEL 14.1 million since 1H16, of which GEL 7.1 million was paid in 3Q16 and GEL 7.0 million in 2Q17

BALANCE SHEET

GEL thousands, unless otherwise noted	Dec-17	Dec-16	Change y-o-y
Cash and cash equivalents	4,186	4,349	-3.7%
Amounts due from credit institutions	25,968	24,928	4.2%
Investment securities: available-for-sale	4,180	3,389	23.3%
Insurance premiums receivable, net	28,491	22,997	23.9%
Ceded share of technical provisions	20,671	13,161	57.1%
Premises and equipment, net	10,627	8,717	21.9%
Intangible assets, net	1,272	1,409	-9.7%
Goodwill	13,051	13,051	–
Deferred acquisition costs	3,047	1,611	89.1%
Pension fund assets	18,536	16,441	12.7%
Other assets	5,129	4,867	5.4%
TOTAL ASSETS	135,158	114,920	17.6%
Gross technical provisions	50,272	41,542	21.0%
Other insurance liabilities	11,147	8,612	29.4%
Current income tax liabilities	30	1,273	-97.6%
Pension benefit obligations	18,536	16,441	12.7%
Other liabilities	6,426	7,611	-15.6%
TOTAL LIABILITIES	86,411	75,479	14.5%
Share capital	1,889	1,889	–
Additional paid-in capital	5,405	5,405	–
Retained earnings	25,153	18,409	36.6%
Net profit	16,300	13,738	18.6%
TOTAL EQUITY	48,747	39,441	23.6%
TOTAL LIABILITIES AND EQUITY	135,158	114,920	17.6%

* Aldagi's P&C products principally include the following: a) motor insurance covering vehicle damage and third-party liability with 23,646 active clients and a 41% market share, b) property insurance including commercial property coverage, contractor's performance and damage risks coverage with 12,317 active clients and a 37% market share, c) credit life insurance covering loan-linked life insurance services with a group of three active clients and a 30% market share, d) liability insurance covering financial risks, employer's liability, professional indemnity, general third-party liability, etc. with 1,026 active clients and a 44% market share. Aldagi's other products include agro insurance, cargo insurance, livestock insurance, bankers blanket bond insurance, and directors' and officers' liability insurance services with 13,314 active clients and a 38% market share.

- Insurance companies in Georgia are subject to regulatory requirements. Since 31 December 2016, Aldagi is required to maintain a solvency ratio in excess of 100%. At 31 December 2017, Aldagi's solvency ratio was 180% as compared to 160% at 31 December 2016

OPERATING HIGHLIGHTS

Aldagi achieved significant milestones in 2017 as the company managed to exceed its annual targets for new product developments. Along with tapping into regional markets through launching livestock insurance, Aldagi introduced online travel insurance with a unique combination coverage and competitive pricing. Aldagi's product development initiatives resulted in more than 19,000 livestock insurance and 3,334 travel and trip insurance policies sold across the country.

Aldagi set-up a Strategic Development department in 2017 in order to focus on improving market intelligence through more direct communication and targeting of the Georgian insurance market's emerging trends and demands. These efforts led to a major milestone, whereby Aldagi signed an exclusive memorandum with Public Service Hall in 3Q17, which allows customers of the Public Service Hall to electronically acquire affordable insurance products for any type of property registered in the public registry.

Aldagi targets solidifying its market leadership position in digital insurance over the next five years by having all its processes/ procedures, including issuance of e-policies, remote claims regulation and building web/mobile customer profiles, executed principally through digital channels. As at 31 December 2017, Aldagi had 11,044 online agents, who sell and promote retail insurance products through unique web-portal onjob.ge, a digital platform that helps Aldagi attract new customers.

Through extensive cooperation with the Insurance State Supervision Service of Georgia (ISSSG), the insurance market regulator in Georgia, **the Parliament of Georgia approved Border Motor Third Party Liability Insurance** (MTPL insurance for vehicles visiting Georgia either on a temporary or transit basis) in December 2017. Compulsory MTPL insurance will become mandatory from 1 March 2018. Aldagi expects that MTPL insurance will increase the size of the existing property and casualty market by approximately GEL 30-50 million (15-25% of the existing P&C insurance market). Aldagi is working closely with ISSSG to support drafting of the new law requiring mandatory local MTPL for all vehicles registered in Georgia. The new law is expected to be launched in 2019 and will be a major boost to retail market penetration. The current low level of insurance market penetration of 1.1% in Georgia (of which, 0.6% relates to P&C insurance market penetration and 0.5% to medical insurance market) provides highly untapped retail growth potential.

- Based on the latest available market data as of 30 September 2017, Aldagi continues to be the most profitable insurance company in the local market with 89.4% share of the insurance industry profit
- Aldagi continues to lead the market with a powerful distribution network of 284 points of sale and 547 sales agents at 31 December 2017
- At 31 December 2017, Aldagi had 47,702 insured customers (up 36.5% y-o-y). The y-o-y increase in number of insured customers was driven by organic growth of motor insurance and introduction of new product lines in 2017. The number of new insurance policies written reached 155,332 in 2017 (112,430 policies written in 2016)

Aldagi signed major third-party partnership agreements with two Georgian banks, JSC Liberty Bank and JSC Credo Bank to successfully diversify its multi-channel distribution network. The partnership agreement between Aldagi and JSC Liberty Bank, the third largest bank in Georgia by total assets and with the largest branch and service outlet network in the country, will enable Aldagi to enhance distribution capabilities of its motor third-party liability insurance business. The three-year partnership agreement with JSC Credo Bank marks the continuation of already established successful relationship between the companies. Aldagi will have rights to offer its retail insurance products to the bank's retail and small and medium-sized business clients through its wide network of branches, which will enable Aldagi to successfully tap Georgia's underpenetrated retail insurance segment.

OVERVIEW OF FINANCIAL RESULTS CONTINUED

HEALTHCARE BUSINESS (GEORGIA HEALTHCARE GROUP OR GHG)*

Standalone results

GHG is the largest integrated player in the fast-growing predominantly privately-owned Georgia Healthcare ecosystem with an aggregated value of GEL 3.5 billion. GHG is comprised of three different business lines: healthcare services business (consisting of a hospital business and polyclinics (ambulatory clinics)), pharmacy business and medical insurance business. BGEO Group owns 57.0% of GHG at 31 December 2017, with the remaining shares being held by the public (largely institutional investors). GHG's shares are listed on the London Stock Exchange. The results below refer to GHG standalone numbers and are based on GHG's reported results, which are published independently of the Group and available on GHG's website: ghg.com.ge

INCOME STATEMENT

GEL thousands; unless otherwise noted	2017	2016	Change y-o-y
REVENUE, GROSS	747,750	426,439	75.3%
Corrections and rebates	(2,039)	(2,686)	-24.1%
REVENUE, NET	745,711	423,753	76.0%
Revenue from healthcare services	263,357	243,453	8.2%
Revenue from pharmacy	450,315	133,002	NMF
Net insurance premiums earned	53,710	61,494	-12.7%
Eliminations	(21,671)	(14,196)	52.7%
COSTS OF SERVICES	(517,712)	(277,735)	86.4%
Cost of healthcare services	(150,572)	(130,369)	15.5%
Cost of pharmacy	(340,210)	(105,472)	NMF
Cost of insurance services	(48,583)	(55,772)	-12.9%
Eliminations	21,653	13,878	56.0%
GROSS PROFIT	227,999	146,018	56.1%
Salaries and other employee benefits	(75,430)	(39,750)	89.8%
General and administrative expenses	(48,618)	(26,149)	85.9%
Impairment of receivables	(4,175)	(2,332)	79.0%
Other operating income	8,372	240	NMF
EBITDA	108,148	78,027	38.6%
Depreciation and amortisation	(25,704)	(19,577)	31.3%
Net interest expense	(30,941)	(13,736)	125.3%
Net (losses) from foreign currencies	(397)	(5,657)	NMF
Net non-recurring (expense) income	(4,780)	1,118	NMF
PROFIT BEFORE INCOME TAX EXPENSE	46,326	40,175	15.3%
Income tax (expense) benefit	(386)	21,156	NMF
of which: Deferred tax adjustments	–	23,992	NMF
PROFIT FOR THE PERIOD	45,940	61,331	-25.1%
Attributable to:			
– shareholders of GHG	29,050	50,203	-42.1%
– non-controlling interests	16,890	11,128	51.8%
of which: Deferred tax adjustments	–	4,541	NMF

PERFORMANCE HIGHLIGHTS

- **GHG delivered gross revenue of GEL 747.8 million in 2017 (up 75.3% y-o-y).** The y-o-y revenue growth in 2017 was mainly attributable to the pharmacy business (GPC and Pharmadepot were acquired in and consolidated from May 2016 and January 2017, respectively)
- **GHG achieved a well diversified revenue mix,** spread across all three segments of the Georgian healthcare ecosystem. In 2017, 34% of the GHG's revenue came from the healthcare services business, 59% from pharmacy business and the remaining 7% from medical insurance business. The high level of diversification was achieved through GHG's entrance and further expansion into the pharmacy business, which is funded almost entirely out-of-pocket and therefore, helped GHG to further diversify its revenue by payment sources. As a result, 54% of total revenue was received from out-of-pocket payments, 24% from Georgia's Universal Health Programme and 22% from other sources in 2017
- **In 2017, GHG continued to focus on extracting operating efficiencies and synergies across the business lines.** The gross margin in the pharmacy business continued to improve in 2017, mainly as a result of realising previously announced procurement synergies as the largest purchaser of pharmaceuticals in Georgia. The loss ratio of medical insurance business remained largely flat y-o-y in 2017. As anticipated, healthcare services business margins are temporarily reduced due to launches of new healthcare facilities and services, which are currently in their rapid build-out phase. In 2018, the main goal will be the continued successful roll-out of newly launched hospitals and services, while, at the same time, focusing on implementing efficiency measures across healthcare facilities, as well as GHG-wide
- **GHG reported strong EBITDA of GEL 108.1 million in 2017 (up 38.6% y-o-y).** The EBITDA margin for the healthcare services business was 26.4% in 2017 (30.2% in 2016). The temporary y-o-y reduction in the EBITDA margin in 2017 was due to the launch of new healthcare facilities and services, which are currently in their initial roll-out phase. Excluding the dilutive effects of roll-outs, the healthcare services business EBITDA margin was 29.2% in 2017. GHG expects further margin improvements gradually
- **GHG's profit amounted to GEL 45.9 million in 2017 (up 16.1% y-o-y on a normalised* basis).** The healthcare services business was the main driver of 2017 profit by contributing GEL 27.4 million, followed by the pharmacy business with a GEL 21.2 million contribution
- GHG's balance sheet increased substantially over the last 12 months, reaching GEL 1,167.8 million as at 31 December 2017 (up 27.6% y-o-y). The 27.6% y-o-y growth in total assets was largely driven by the increase in property and equipment, reflecting investments in the renovation of hospitals, roll-out of polyclinics and the consolidation of the pharmacy business, Pharmadepot. The pharmacy businesses consolidation primarily affected inventories and goodwill. Out of the GEL 118.8 million inventory balance at 31 December 2017, GEL 98.9 million was attributable to the pharmacy business, while the balance of goodwill from the acquisitions of the pharmacy businesses amounted to GEL 77.8 million at 31 December 2017. Borrowed funds increased y-o-y as a result of the following factors: 1) From the first quarter of 2017, GHG sourced longer-term and less expensive funding from both local commercial banks and Development Financial Institutions ("DFIs") and used the proceeds for the development of healthcare facilities; 2) At the beginning of 2017, GHG raised GEL 33.0 million from a local commercial bank to pay the first tranche of consideration payable for the Pharmadepot acquisition; 3) In 4Q17 GHG raised additional funds from local commercial banks to finance ongoing capital expenditures, as well as to pay the second tranche of consideration payable for the Pharmadepot acquisition in the beginning of January 2018. The y-o-y increase in accounts payable is also attributable to the pharmacy business. Out of the GEL 92.9 million accounts payable balance, GEL 63.4 million relates to the pharmacy business. The y-o-y increase in other liabilities related to recognition of put option liability (GEL 55.0 million present value liability) to purchase the remaining 33% shares of Pharmadepot
- During 2017, GHG continued to invest in the development of its healthcare facilities. Healthcare services business spent a total of GEL 89.3 million in 2017 on capital expenditures, primarily on the extensive renovations of Deka and Tbilisi Referral (formerly Sunstone) hospitals, as well as enhancing the service mix and introducing new services to cater for previously unmet patient needs. Of this, maintenance capex was GEL 9.6 million in 2017
- In July 2017, the healthcare services business acquired referral and community hospitals in the Khashuri and Kareli regions (together the **"Hospitals"**), respectively. The acquisition is in line with the healthcare services business's strategy to expand its presence across the country, especially in underrepresented regions of Georgia. Following the acquisition of the Hospitals, the number of referral and community hospitals increased to 16 and 21, respectively. The Hospitals are located in the Khashuri and Kareli regions, which have a combined population of c.100,000 people, and operate with 65 and 25 beds, respectively. These acquisitions further enable GHG to direct patients to its referral hospitals, primarily in Kutaisi and Tbilisi, thus providing potential for revenue synergies. The integration of both hospitals is already completed
- In 4Q17 GHG launched a district polyclinic in Marneuli and acquired two district polyclinics in Tbilisi, with a total of c.50,000 registered patients. Polyclinics acquisitions and launches are consistent with the Group's strategy to grow its healthcare services business through rolling out a network of polyclinics across Tbilisi and in other major cities in Georgia. As a result, GHG currently operates a total of 12 polyclinic clusters, of which eight are located in Tbilisi and four in the regions
- GHG's healthcare services market share based on the number of beds was 24.5% at 31 December 2017

* GHG is classified as a disposal group held for sale and as a discontinued operation within BGEO's 2017 results.

* Comparison on a normalised basis – 2016 net profit was normalised and adjusted for one-off non-recurring gain/loss due to deferred tax adjustments (in the amount of GEL 24.0 million gain in 2016). The full year 2016 profit is also adjusted for one-off currency translation loss in June (in the amount of GEL 2.1 million), which resulted from settlement of the Dollar-denominated payable for the acquisition of GPC, GHG's pharmacy business.

DIRECTORS' GOVERNANCE OVERVIEW

Committed to the highest standards of corporate governance

NEIL JANIN
CHAIRMAN OF THE BOARD

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,

The Board recognises the contribution the corporate governance practices of the Group can make to the Group's overall success. As the regulatory and governance environment continues to change, we will continue to seek to build upon the standards we have set thus far.

Our corporate governance framework extends to the culture we have sought to create and maintain throughout the Group which is characterised by integrity, honesty, transparency and fairness. This has enabled us to attract and retain the most talented individuals available whose efforts have contributed to the Group's success. The Board will continue to lead by example in the year ahead, ensuring we act ethically in our relationships with the Group's stakeholders and continue to develop talent in our management team.

SEPARATION OF THE BANK AND INVESTMENT BUSINESSES AND REVIEW OF CORPORATE GOVERNANCE STRUCTURE

We have discussed the effects the potential changes might have on our governance structures. Further, in the report of the Nomination Committee you will read about the work that has been done repositioning our senior management team ahead of the demerger.

CULTURE AND GOVERNANCE

Most recently, the Board spent time considering the FRC's proposals for a revised corporate governance code, and initiatives regarding increased employee and stakeholder engagement and is considering any changes that may be necessary.

BOARD EVALUATION

The Board's belief in the strength of our culture and corporate governance is supported by the results of our externally facilitated Board evaluation. The external evaluation, which was performed by Lintstock, concluded that the Board continues to operate and perform effectively. In particular, it was highlighted that the Board has a good balance and mix of expertise and experience which provides diversity of view and perspective. The progress we felt we have made against our 2017 objectives, and our objectives as a Board for 2018 can be found on page 87 in the Corporate Governance Framework.

BOARD CHANGES AND DIVERSITY

After a six-month period as an advisor to the Board and a member of the Audit Committee, Jonathan Muir was appointed as an independent Non-Executive Director. Jonathan's appointment has enhanced a diverse and balanced Board and we look forward to his continuing contribution this year.

We also took the opportunity to review our Diversity Policy and, consistent with the Board's determination to lead the Group by example, have amended the policy which is now applicable to all employees.

GOVERNANCE FRAMEWORK

Our corporate governance framework, policies and practices are described in this section of the Report. This framework provides for the development, review, implementation and continued oversight of a system of controls, policies and procedures that uphold our high governance standards.

This section also covers some of the work we have carried out this year in effecting this framework and preparing the Group for next stages of its development.

Neil Janin
Non-Executive Chairman
7 March 2018

David Morrison
Senior Independent Non-Executive Director
7 March 2018

UK CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

Throughout the year, we continued to apply the Main Principles and complied with the Provisions of the 2016 UK Corporate Governance Code.

The Code and associated guidance are published by the Financial Reporting Council and are 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.

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 since. Mr Janin serves as Chairman of BGEO's Nomination Committee and 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 is a member of the Supervisory Board of JSC Georgia Healthcare Group.

Ahead of the proposed demerger, Mr Janin has also been appointed as Chairman of Bank of Georgia Group plc.

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 since. 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, m² 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.

Ahead of the proposed demerger, Mr Gilauri has also been appointed as CEO and Chairman of Georgia Capital plc.

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 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 since. Mr Morrison assumed the role of Chairman of BGEO's Audit Committee in December 2013, prior to which he had 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 also a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group.

Ahead of the proposed demerger, Mr Morrison has also been appointed to the Board of Georgia Capital plc.

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 his 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, from capital raisings and IPOs to 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 financing for nature protection. 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 of 2016 and now serves as Chair of its Board of Directors as well as on the Boards of two new conservation trust funds 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 since. 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 as 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.

Ahead of the proposed demerger, Mr Breach has also been appointed to the Board of Bank of Georgia Group plc.

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 since. Mr Bradley serves as Chairman of the BGEO Risk Committee and as 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 of the Bank's Audit Committee.

Ahead of the proposed demerger, Mr Bradley has also been appointed to the Board of Georgia Capital plc.

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 since. Mr Georgadze serves as a member of BGEO Group's Risk and Nomination Committees.

Mr Georgadze was also appointed to the Bank's Supervisory Board in December 2013. He serves as a member of the Bank's newly established Risk Committee.

Ahead of the proposed demerger, Mr Georgadze has also been appointed to the Board of Bank of Georgia Group plc.

Skills and experience:
In 2013, Mr Georgadze founded Raisin GmbH (formerly SavingsGlobal 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 Raisin 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.

Diverse and balanced team who govern with experience (continued)

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 a member of BGEO's Nomination Committee and the Risk 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 to 2013 and as a member of the Bank's Supervisory Board from 2010 to 2013.

Ahead of the proposed demerger, Ms Loikkanen has also been appointed to the Board of Bank of Georgia Group plc.

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 2007 to 2012 first as an advisor and then as the Chief Representative and Head of the Private Equity team at East Capital, a Swedish asset management company in Moscow. 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 Committees of Locko Bank, an SME-focused Russian bank, as a Non-Executive Director of AKI Bank in Tatarstan and as a Non-Executive Director of Locko Invest, Locko Bank's investment banking subsidiary. 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. In 2017 she was also appointed as an Independent Non-Executive Director of PJSC Rosbank, a universal bank listed on the Moscow Stock Exchange and part of the Société Générale Group.

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
INDEPENDENT NON-EXECUTIVE DIRECTOR

Jonathan Muir was appointed as an advisor to the Board and as a member of the Audit Committee in January 2017 and subsequently appointed as an Independent Non-Executive Director on 20 June 2017, remaining a member of the Audit Committee and joining the Nomination Committee. Mr Muir is also a member of the Bank's Supervisory Board and Audit and Nomination Committees.

Ahead of the proposed demerger, Mr Muir has also been appointed to the Board of Bank of Georgia Group plc.

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. Andrew's University. He is a British qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

REBECCA WOOLDRIDGE
GROUP COMPANY SECRETARY

Rebecca Wooldridge was appointed Company Secretary of BGEO Group PLC in September 2017 having previously acted as the Deputy Group Company Secretary, since 2016. She is additionally the Company Secretary for Georgia Healthcare Group PLC. She also serves as the secretary to the Audit, Nomination, Remuneration and Risk Committees.

Ahead of the proposed demerger, Ms Wooldridge was appointed as Company Secretary of Bank of Georgia Group plc and Georgia Capital plc.

Skills and experience:
Ms Wooldridge is a lawyer specialising in corporate governance. She was previously Principal Counsel for a FTSE 100 top 20 company, BG Group PLC, where she held a progression of legal roles (2008-2016), including serving on the Reserves Committee. Before joining BG Group, Ms Wooldridge was a corporate lawyer for leading City firm Allen & Overy LLP (2003-2008).

Education:
Ms Wooldridge is a qualified solicitor in England and Wales. She holds a Post Graduate Diploma in Law and a Legal Practice Course qualification from Nottingham Law School. She also holds a Masters degree in English from Cambridge University.

EXECUTIVE MANAGEMENT

Experienced leadership who deliver our strategy

BGEO Group Executive Management

IRAKLI GILAURI
GROUP CEO

Please see page 77 for his biography.

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 INVESTMENTS AND BUSINESS DEVELOPMENT

Ms Shavgulidze was appointed as a Group Head of Investments and Business Development. Prior to her appointment, Ms Shavgulidze served as a Group Head of Investor Relations and Funding. Ms Shavgulidze joined the Group in 2011 and served as the CEO of the healthcare services business. 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. 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.

GIORGI ALPAIDZE
GROUP CHIEF FINANCIAL OFFICER

Mr Alpaidze was appointed as Group CFO in September 2017, prior to which he served as Head of the Group's Finance, Funding and Investor Relations. Mr Alpaidze has extensive international experience in banking, accounting and finance. He joined the Group in August 2016 from Ernst & Young LLP's Greater New York City's assurance practice, where he was a senior manager serving Ernst & Young's financial services clients. Mr Alpaidze started his career at Ernst & Young Georgia in 2005 and moved to Ernst & Young's United States practice in 2010. Mr Alpaidze is a US Certified Public Accountant and received his undergraduate degree in Business Administration from the European School of Management in Georgia.

Experienced leadership who deliver our strategy

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 from October 2011 to September 2016, 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. Mr Kiknavelidze has over 15 years of experience in financial services, including a number of roles at UBS and Troika Dialog. He was 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, Atlanta, US.

Ahead of the proposed demerger, Mr Kiknavelidze has also been appointed as CEO of Bank of Georgia Group plc.

DAVID TSIKLAURI
CHIEF FINANCIAL OFFICER

Mr Tsiklauri was appointed as Chief Financial Officer of the Bank in September 2017. He previously served as a Deputy CEO, Corporate Investment Banking since January 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 has an MBA degree from London Business School.

LEVAN KULIJANISHVILI
DEPUTY CEO, OPERATIONS

Mr Kulijanishvili was appointed as Deputy CEO, Operations of the Bank in September 2017. Prior to this appointment, he served as Group CFO (from February 2016), and previously served as Deputy CEO (Finance) of Bank of Georgia. 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 to1999). He received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

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 20 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.

RAMAZ KUKULADZE
DEPUTY CEO MSME AND PREMIUM RETAIL BUSINESS BANKING

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, Société Générale 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 in 1998, which later was acquired by the Group. Mr Kukuladze received his MBA from IE Business School.

EXECUTIVE MANAGEMENT CONTINUED

Experienced leadership who deliver our strategy (continued)

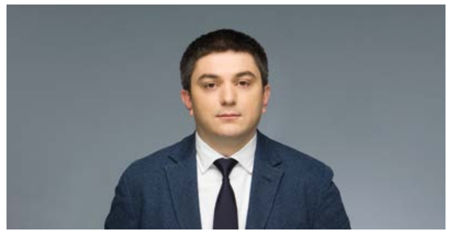
JSC Bank of Georgia Executive Management (continued)

VASIL KHODELI
DEPUTY CEO, CORPORATE INVESTMENT BANKING

Mr Khodeli was appointed as Deputy CEO, Corporate Investment Banking in September 2017, having previously served as Head of Corporate Banking of the Bank since 2004. He has more than 20 years of banking experience and has held various roles with the Bank since 1998. Mr Khodeli has been actively involved in shaping the Bank's Corporate Banking business platform since its launch. He holds an MBA degree from Grenoble 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 2012. From 2012 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.



VAKHTANG BOBOKHIDZE
CHIEF INFORMATION OFFICER

Mr Bobokhidze was appointed as the Head of IT Department in April 2016. He joined the Bank in late 2005 as a Quality Control Manager through a progression of positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position Head of IT Department/Chief Information Officer. He received his undergraduate and MBA degree from Tbilisi State University.

Experienced leadership who deliver our strategy (continued)

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 as 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, as a Senior Analyst at EBRD in Tbilisi and London, as 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 a CFA Charterholder and a member of the CFA Society in the United Kingdom.

IRAKLI BURDILADZE
CEO, JSC m^2 REAL ESTATE

Mr Burdiladze was appointed as CEO of JSC m^2 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. Mr Burdiladze 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, TELIANI 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 in several beverage businesses in the United States. He received his Bachelor degree in agricultural science at Georgian National Agrarian University and holds a Master's degree in International Sales and Marketing from Bordeaux Business School, France.

GIORGI BARATASHVILI
CEO, ALDAGI

Mr Baratashvili was appointed CEO of Aldagi from August 2014, having previously held different positions in Aldagi and has 14 years of experience working in insurance. He was in charge of strategic management for corporate sales and corporate account management, and has also served as corporate sales director. Mr Baratashvili graduated from Tbilisi State University, Faculty of International Law and International Relations in 2006 and holds a Masters Diploma in International Law.

CORPORATE GOVERNANCE FRAMEWORK

OUR GOVERNANCE STRUCTURE

BOARD

AUDIT COMMITTEE

KEY RESPONSIBILITIES:
- Reviews and monitors the integrity of the Group's financial and reporting processes.
- Responsible for the governance of both the internal audit function and external auditor.
- Works with the Risk Committee in assessing the effectiveness of the risk management and internal control framework.

See pages 91 to 94 for the Audit Committee Report.

NOMINATION COMMITTEE

KEY RESPONSIBILITIES:
- Ensures the Board has the right balance of skills, experience, independence and Group knowledge.
- Responsible for both Director and management succession planning.

See pages 89 to 90 for the Nomination Committee Report.

REMUNERATION COMMITTEE

KEY RESPONSIBILITIES:
- Makes recommendations to the Board on the Directors' Remuneration Policy.
- Determines the remuneration package of the Chief Executive Officer and executive management.
- Assesses the performance of executive management against KPIs.
- Responsible for design and oversight of the Group employee share schemes.

See pages 98 to 113 for the Remuneration Committee Report.

RISK COMMITTEE

KEY RESPONSIBILITIES:
- Assists the Board in relation to risk oversight.
- Reviews Group risk appetite in line with strategy.
- Identifies and monitors risk exposure and the risk management infrastructure.
- Assesses the strength and effectiveness of the risk management and internal control framework.

See pages 95 to 96 for the Risk Committee Report.

CHIEF EXECUTIVE OFFICER

EXECUTIVE MANAGEMENT

BGEO GROUP PLC BOARD OF DIRECTORS
The Board is responsible collectively for the long-term success of the Group and for the creation and delivery to shareholders of 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 encourages a culture of corporate governance in line with best practice, amongst its many other responsibilities.

The Board is composed of eight Directors, seven of whom are Independent Non-Executive Directors. Each of the Chairman, CEO and Non-Executive Directors have 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.

CHAIRMAN
The principal role of the Chairman, Neil Janin, is to lead the Board effectively and provide direction and focus to its discussions. The Chairman is the guardian of the Board's decision-making processes and also promotes high standards of integrity, probity and corporate governance throughout the Group and at Board level. He facilitates effective contributions by the Non-Executive Directors, promotes a culture of openness and debate, and encourages constructive relations between Executive and Non-Executive Directors. The Chairman works closely with the CEO, to ensure that the actions and strategies proposed and agreed by the Board are implemented effectively. The Chairman's other significant commitments are indicated in his biography on page 77.

CHIEF EXECUTIVE OFFICER ("CEO")
The Group CEO, Irakli Gilauri, leads the management team, manages the business of the Group, develops and oversees the implementation of all Board approved actions, the strategic direction of the Group and its commercial objectives. The CEO also supports the Chairman to ensure that appropriate governance standards are spread throughout the Group. The CEO oversees the executive management team, which assists him in managing the business. Further details on the executive management team can be found on page 80.

SENIOR INDEPENDENT DIRECTOR ("SID")
The Senior Independent Director, David Morrison, provides a sounding board for the Chairman, acts as an intermediary for the other Directors when necessary and is available to shareholders if they have concerns that have not been addressed through the normal channels.

Directors are expected to provide rigorous and constructive challenge on matters that, owing to their strategic, financial or reputational implications or consequences, are considered significant to the Group.

SEPARATION OF THE CHAIRMAN AND CEO ROLES
There is a clear division of responsibilities between the Chairman and the CEO. The separation of authority is set out in writing and agreed by the Board. This enhances independent oversight of executive management by the Board and helps to ensure that no one individual on the Board has unfettered power, influence or authority. The division of responsibilities can be found on the Company's website at http://bgeo.com/uploads/pages/roles-and-responsibilities-68.pdf.

GROUP COMPANY SECRETARY
The Company Secretary is responsible for providing guidance to the Board collectively and to the Directors individually with regard to their duties, responsibilities and powers, and for ensuring the proper administration of the proceedings and matters relating to the Board, the Company and the shareholders of the Company in accordance with applicable legislation, regulation and procedures.

The Board has access to the advice and services of the Company Secretary, who advises the Board and the Board Committees on relevant matters, including compliance with the Group's policies and procedures, the Listing Rules, legislation and regulations relevant to the Company and the UK Corporate Governance Code and other governance standards.

BOARD COMMITTEES
The Board has delegated authority to the Board Committees to carry out certain tasks on its behalf, in order to operate efficiently and give the right level of attention and consideration to relevant matters, 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, while reserving the authority to approve certain key matters, as documented in the Company's matters reserved for the Board, which is reviewed annually by the Board. The key responsibilities of the Board Committees are summarised in the individual Committee Reports.

In 2017 the Board had four Committees comprised solely of Independent Non-Executive Directors (with the exception of the Audit Committee, on which Jonathan Muir served as a member prior to his appointment as an Independent Non-Executive Director on 20 June 2017):

- the Nomination Committee
- the Audit Committee
- the Risk Committee and
- the Remuneration Committee

Later in this section, there are reports from the Chairman of each Committee which describe the Committee's activities in 2017 and priorities for 2018.

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 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. The Audit Committee oversees and challenges management on its internal control and risk management systems in relation to the financial reporting process.

Full details of the internal control and risk management systems are set out within the Audit Committee Report on pages 91 to 94.

RISK COMMITTEE
The main role of the Risk Committee is 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.

Read the Risk Committee Report on pages 95 to 96.

NOMINATION COMMITTEE
The Nomination Committee ensures that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary for the Board to set and monitor the strategic direction of the Group and discharge its responsibilities in accordance with the highest standards of governance and the diversity aspirations of the Board. It is responsible for both Director and management succession planning.

Read the Nomination Committee Report on pages 89 to 90.

REMUNERATION COMMITTEE
The Remuneration Committee reviews and recommends to the Board the Directors' Remuneration Policy to ensure that remuneration packages are designed to promote the long-term success of BGEO and to see that management is appropriately rewarded for its contribution to the Group's performance in the context of wider market conditions and shareholder views. The Committee determines the remuneration packages of the Executive Directors, the 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.

Read the Remuneration Committee Report on pages 98 to 113.

TERMS OF REFERENCE AND REPORTING TO THE BOARD
Each Committee has agreed Terms of Reference, which are reviewed annually by each Committee and any changes are approved by the Board.

Each Committee's Terms of Reference can be found on the Company's website at http://bgeo.com/page/id/70/terms-of-reference.

All Non-Executive Directors have a standing invitation to attend Committee meetings (rather than just limiting attendance to Committee members).

THE ROLE OF THE BOARD
The Board's principal duty is to promote the long-term success of the Group by directing management towards creating and delivering sustainable shareholder value. We do this by setting the Group's strategy and overseeing its implementation by management. The Board is accountable to shareholders for the financial performance of the Group.

We believe that the success of the implementation of the Company's strategy requires the alignment of strategy with the Group's internal governance framework. We view a strong system of risk management and internal controls as essential to governance in allowing us to pursue our strategy in a way that risk appetite can be set and risks identified, assessed, managed and reported effectively. You can read more about our risk management on pages 32 to 43.

By setting the tone at the top, establishing the core values of the Group and demonstrating our leadership, management is 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.

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

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 44 to 51.

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 Board meetings for at least four times a year in Georgia, for a period of two 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 2017, majority of the Board attended our annual investor day. In total, we met formally as a Board ten times during the year. The Board also passed written resolutions on three separate occasions.

A number of the Non-Executive Directors also carry out site visits several times a year. Examples in 2017 include visits to bank branches, Solo lounges, real estate sites under construction, a wind turbine test, water pumping and service facilities, hospitals, pharmacies and clinics.

At each scheduled meeting, we receive reports from the Chairman, BGEO CEO, CFO, and the Bank CEO and Bank CFO 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 regularly present to the full Board. The Board receives updates from Group operating functions on internal control and risk management, compliance, internal audit, human resources and corporate responsibility matters.

Similarly, the Chairman, with support from the Company Secretary, ensures that time is available during and outside of Board meetings to hold sessions with the Non-Executive Directors without Executives present.

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-year and full year results, the Annual Report and Accounts, approval of the final dividend and the Notice of AGM.

A typical quarterly in-person meeting will include discussion on the following topics:

- Updates from Committee Chairmen on matters discussed at the respective Committee meeting held the day before
- The macroeconomic environment
- Financial performance
- Business segment performance and developments
- A deeper dive into strategy and performance at one or more business units
- New strategic initiatives and progress against strategy
- Regulatory, legislative and other corporate governance updates
- Developments in relation to principal risks and risk management

Board and management succession planning and talent management are typically discussed at least twice a year. A comprehensive assessment of the risk management framework and system of internal controls is performed at least twice a year through the Risk and Audit Committees or the full Board.

Board meetings are, however, flexible to ensure that pressing matters, when they arise, are addressed as quickly as possible. In the most recent year, the separation of the Bank and Investment Business has been on the agenda at every meeting since March 2017.

The Chairman and 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 included on the agenda for discussion by the Board. 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 maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

BOARD MEETING ATTENDANCE

Details of Board and Committee meeting attendance in 2017 are as follows:

	Board		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee	
Members	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible
Neil Janin	9	10	–	–	–	–	3	3	2	2
David Morrison	10	10	10	10	–	–	3	3	2	2
Kim Bradley	10	10	10	10	4	4	–	–	2	2
Al Breach	10	10	–	–	4	4	3	3	2	2
Tamaz Georgadze	10	10	10	10	4	4	–	–	2	2
Irakli Gilauri	10	10	–	–	–	–	–	–	–	–
Hanna Loikkanen	10	10	10	10	4	4	–	–	2	2
Jonathan Muir [1]	5	5	9	10	–	–	–	–	2	2

1. Jonathan Muir was appointed to the Board on 20 June 2017.

Individual Directors and their biographies are set out on pages 77 to 79.

BOARD SIZE, COMPOSITION AND DIVERSITY

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.

As noted later in this Report, the Board believes that its size and composition are appropriate. In particular, the Board has determined that each of the Non-Executive Directors is independent in character and judgement. 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 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.

TENURE AND INDEPENDENCE

The average tenure of our Non-Executive Directors is approximately 4.5 years. We value diversity in all forms. Currently six different nationalities are represented on our Board of eight Directors. More information on our approach to diversity can be found on page 89.

We have assessed the independence of each of the seven 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.

The Board is mindful of developing diversity and is aware of various diversity reports and initiatives in the UK, such as the Hampton Alexander Review "FTSE Women Leaders – Improving Gender Balance in FTSE Leadership: 2017 Review" published in November 2017 and has noted the recommendations on women on Boards that a target of 33% female Board representation is achieved by FTSE 350 companies by 2021. The Board has stated its aim to increase the number of women on the Board to two by mid-2018 and further increase this number thereafter.

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. Our succession planning model occasionally involves the recruitment of independent external advisors to our Board and Committees. In this way, we receive objective insight into our decision making and can judge whether an individual advisor has the requisite skills – and knowledge and understanding of the Group – to be appointed as an Independent Non-Executive Director.

During the year, Jonathan Muir, who had been appointed as an advisor on 1 January 2017 to the Board and as a member of the Audit Committee, was appointed as Non-Executive Director on 20 June 2017. Upon his appointment to the Board his advisory agreement was terminated.

As mentioned earlier in this Report, 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.

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. Our external evaluator Lintstock was engaged in 2017 to carry out a comprehensive evaluation of our Board, Committees and Directors. Lintstock has no other connection to the Company although it also performs the separate external Board and Committee evaluation of our subsidiary Georgia Healthcare Group PLC.

The outcomes of the evaluation were discussed in detail in a meeting of the Board and the Board set its priorities for the following year. The 2017 evaluation confirmed that the 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 2017. In particular:

- We dedicated significant time to evaluating progress across all of our Investment Businesses and we are pleased with the progress being made in driving improvements to our financial performance and implementing our strategy across the Group.
- We continue to dedicate time to discuss risk management and internal control and we were satisfied with how these systems were improved.

Based on the results of the evaluations and continued discussions, the Board has set the following objectives for 2018:

- Overseeing the proposed demerger
- Overseeing that the proposed demerger and activities surrounding it cause minimum disruption to the running of the separate surviving groups and their business units
- Strategic focus of the Bank
- Investigating potential new acquisitions in the Investment Business
- IT strategy

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 satisfied 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 and also at the Company's Annual General Meeting for 15 minutes prior to and during that Meeting.

NON-EXECUTIVE DIRECTORS' EXTERNAL APPOINTMENTS

Any external appointment or other significant commitment of the Non-Executive Directors requires the 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 of the Company and that the other external directorships positions held provide us with valuable expertise.

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, receives information about the role of the Board and individual Directors, each Board Committee and the powers delegated to these Committees. The new Director 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 of our evolving corporate governance framework.

All of our Directors participated in ongoing training and professional development throughout 2017, which included briefings, site visits, development sessions and presentations by our Group Company Secretary, members of management, external speakers and our professional advisors. During the year our Group Company Secretary provided updates on legislative changes including the Non-Financial Reporting Directive, Diversity initiatives including the Hampton-Alexander Review (which the Company participated in), and refresher training on Directors' duties and conflicts of interest (section 172 and 175 duties under the Companies Act respectively).

In addition, amendments to the Disclosure Guidance and Transparency Rules and the FRC's guidance on reporting were presented. The Group Company Secretary also briefed the Board on proposed changes to the UK Corporate Governance Code. The Board also received detailed training on and revised our policies and procedures to further address the guidance on the EU Market Abuse Regulation, and guidance on the EU Audit Reform, which have led to a revision of our Non-Audit Services Policy.

INDEPENDENT PROFESSIONAL ADVICE

We also ensure that all of our Directors have access to the 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, Jonathan Muir will stand for election at the AGM in 2018, being the first AGM following his appointment to the Board. All of our Directors seek re-election every year and therefore all other Directors will stand for re-election at the Company's AGM. The Board has set out in the Notice of the AGM the qualifications of each Director and support for re-election.

GROUP COMPANY SECRETARY

The Board appointed Rebecca Wooldridge as the new Group Company Secretary in September 2017. She was previously Deputy Company Secretary, and is an experienced corporate governance lawyer who previously worked at a FTSE 100 top 20 company and before that as corporate lawyer at a leading London City law firm.

ACCOUNTABILITY

INTERNAL CONTROLS AND RISK MANAGEMENT

The Group has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Group's objectives are attained. The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. It is accountable for reviewing and approving the effectiveness of internal controls operated by the Group, including financial, operational and compliance controls, and risk management. The Board recognises its responsibility in respect of the Group's risk management process and system of internal control, and, oversees the activities of the Group's external auditors and the Group's risk management function which have been delegated to the Audit and Risk Committees.

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 18 to 29. For detail on the management and mitigation of each principal risk see pages 41 to 43. The Group's viability statement is detailed on pages 33. Please refer to pages 91 to 96 for further detail in relation to the Audit and Risk Committee's roles.

The Group's governance structure of risk management is illustrated on pages 32 to 43.

NOMINATION COMMITTEE REPORT

Planning for our future in the best interests of our shareholders

NEIL JANIN
CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholders,

In 2017, we maintained our 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 for successful delivery of our strategic and financial objectives.

In December 2016, the Company appointed Jonathan Muir as an advisor to the Board and member of the Audit Committee, such advisory role being for an interim period during which both sides assess suitability for Board membership without voting rights on Board matters. The Committee reviewed his performance, fit and suitability over the first six months of the year and were very pleased to see the value of his contribution to the Board and the Audit Committee. The Committee therefore recommended that the Board appoint him as an Independent Non-Executive Director and a member of the Nomination Committee. Consequently, Mr Muir was appointed to the Board and Nomination Committee on 20 June 2017 and continues to sit on the Audit Committee.

During the year the Committee also reviewed the time commitment and length of service of the Non-Executive Directors and facilitated the evaluations of the Board and Committees. The Committee reported to the Board that it considered the overall size and composition of the Board to continue to be appropriate for the Company. Taking into account the Company's strategic direction and considering the required skills and competencies required of the Board, the Committee recommends that each Non-Executive Director and the Executive Director be re-appointed at the 2018 AGM.

We also reviewed our Board Diversity Policy and decided that the principles should be applied at all levels of the Group with appropriate adjustments. Accordingly, an all employee Diversity Policy was updated and approved.

Following an annual external evaluation, the results confirmed that the Board and Committees operate effectively and we took the feedback from these evaluations into account for our succession planning exercise.

In addition, in light of the Group's demerger, the Committee undertook a significant amount of work to separate some of the Investment Business's and Banking Business's functions and to reposition the management team.

Prior to recruiting new members, members of the Committee performed a skills matrix exercise, which included skills, competencies, cognitive and personality diversity, gender and nationality diversity, to better understand the present composition of the Board, identify gaps and help with succession planning and recruiting.

Members of the Nomination Committee interviewed potential candidates and this process is ongoing. The Committee sees the demerger as an opportunity to strengthen the demerged Boards and continues to be mindful of its current diversity targets. We hope to show results.

We would also like to draw your attention to the changes in senior management, considered by the Committee, which we are pleased in many cases to have developed from within the Group.

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

Neil Janin
Chairman of the Nomination Committee
7 March 2018

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 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.

The Nomination Committee undertook its annual review of its Terms of Reference in September, and the full Terms of Reference are available on our website, http://bgeo.com/uploads/pages/bgeo-nomination-committee-terms-of-reference-46.pdf.

COMPOSITION AND MEMBERS' MEETING ATTENDANCE

The composition of the Nomination Committee and the members' meeting attendance for the year 2017 are set out in the Board and Committee Meeting Attendance table on page 86.

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 Director should be re-appointed.

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. Similarly, we are clear that diversity of outlook and approach, while inevitably being difficult to measure, may be equally as important. Notwithstanding the foregoing, any Board appointment will always be made based on merit.

Strategic Report Overview
Strategic Report Strategy
Strategic Report Performance
Governance
Financial Statements
Additional Information

NOMINATION COMMITTEE REPORT CONTINUED

We continue to be mindful of developing best practice in diversity. We have noted the voluntary target in the Hampton-Alexander Review that FTSE 350 companies should aim for a minimum of 33% women's representation on their Boards by 2020. The Board has stated its aim to increase the number of women on the Board to two by mid-2018 and further increase this number thereafter and hence will continue to prioritise this aim. Please also see "Succession Planning" below and also the Chairman's Statement on this matter on page 7.

We have made considerable progress in 2017 in embedding the importance of diversity at all levels of the Company, including the development of an all-employee Diversity Policy. This is an important step, not just in terms of making sure that our recruitment and retention procedures are fit-for-purpose but also in articulating our conviction that further improving diversity is good for the long-term strength of our Company. The Diversity Policy was implemented by providing it to the HR team and incorporation into our HR policies. The HR team also e-launched the Learning Management System which enables all employees to easily access corporate learning opportunities. This has led to encouraging results during the year; we have seen 54% of promotions awarded to female employees and 60% of those employees who enrolled on our Leadership Programmes have been female. We have also increased our maternity leave benefits and now provide a one-off bonus for newborn or adopted children.

Other initiatives have focussed on the inclusion aspect of diversity, with 40 employees currently learning sign language to ensure smooth dialogue with deaf and hard of hearing individuals. In June 2017 we held a children's event, the Day of Protection of the Rights of Persons with Disabilities in Georgia, which was hosted by Bank employees who assisted and provided care to the event's beneficiaries. Further diversity focussed programmes are intended to take place in 2018 and will be included in next year's Annual Report.

The Company participated in the Hampton-Alexander Review regarding executives and those reporting to them, and were pleased to receive a "high performing" rating in the report released in November 2017.

SUCCESSION PLANNING

The Chairman's letter above sets out the succession planning and ongoing recruitment efforts in respect of the demerger and new Boards of each of the two demerged businesses. The skills matrix exercise performed in 2017 helped us to review the skills, competencies, cognitive and personality diversity, gender and nationality diversity of the present Board and to identify gaps and areas for improvement, including from a diversity perspective, and help with succession planning and recruiting.

We did not engage a search consultancy since we were provided with a broad range of candidates from our extended network and also from targeting advertising on websites which produced candidates with particular identified skills.

In 2017 the Nomination Committee recommended, and the Board appointed, Jonathan Muir as member of the Board. Candidates who are shortlisted for appointment to the Board are generally seen first by a combination of the Chairman, the BGEO CEO and Senior Independent Non-Executive Director although other members of the Nomination Committee may also be involved at this stage. 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 for appointment as an advisor to the Board. It is our usual practice to appoint a Board candidate as an advisor prior to offering an appointment to the Board as an extended trial of the candidate, who is only paid the equivalent to a Director's fee and whose remit is restricted to Board and Committee matters. An advisor to the Board may be recommended for a Committee appointment. Following this trial period, the Nomination Committee will agree whether to recommend the advisor for appointment to the Board. The Board will ultimately resolve whether to make the recommended appointment.

As noted in the letter above, Jonathan Muir underwent this process and the Nomination Committee recommended him for appointment to the Board and Nomination Committee alongside his continuing membership of the Audit Committee, and the Board approved such appointments.

The agreement with Mr Muir under which he had previously acted as an advisor to the Board was terminated upon his appointment as a Director of the Company. The fee payable to him under that agreement was equivalent to the fee he receives as a Non-Executive Director.

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

SENIOR MANAGEMENT APPOINTMENTS

As mentioned in the letter to shareholders above, we separated the Investment Business's and Banking Business's Chief Financial Officer functions and repositioned some of the Group's management team ahead of the demerger. It is proposed that those with "Group" titles will take on the equivalent role in the demerged Investment Business. Accordingly, regulatory approval was received and the Group made the following appointments:

- Giorgi Alpaidze was appointed Group CFO and will become the CFO of Georgia Capital plc following completion of the Group's proposed demerger
- David Tsiklauri was appointed Chief Financial Officer of the Bank and will become the CFO of the Banking Business following completion of the Group's demerger
- Levan Kulijanishvili was appointed Deputy CEO, Operations of the Bank
- Vasil Khodeli was appointed Deputy CEO, Corporate Investment Banking of the Bank

The Committee oversaw these appointments and notes the high quality of senior management that the current Group, and each business emerging from the demerger will have which will give our businesses a distinctive advantage. The Committee also notes that the fact that all these important appointments were internal shows the strength of our talent pipeline and evidences our commitment to personal development.

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 year on year to include management at lower levels. Career progression is tangible if our managers have the right mindset and work ethic. The Board also met with members of middle management throughout the year.

Our talent development programmes continue to be characterised by transparency, viewing oneself as part of a team of leaders, helping others to succeed and honest feedback. They are also focused on the promotion of teamwork and development of teams, aiming to teach managers to:

- Have the courage to give and seek feedback;
- Realise that a stronger me plus a stronger you makes a stronger us;
- Value meritocracy over favouritism;
- Encourage dissent and dialogue instead of authoritative decision-making; and
- Favour cooperation over individualistic or "heroic" behaviour.

EXTERNAL EVALUATION

Lintstock performed the effectiveness review of the Committee. The evaluation concluded that the Committee continues to operate and perform effectively. Lintstock also performed a case study on the demerger which included how Board members thought Boards and Committees should be composed in the future, which allowed the Board to discuss this matter freely and assisted the Nomination Committee in helping to shape the new Boards.

Our priorities for 2018 are:
- the composition of the Board and Committees of the proposed demerged entities; and
- the senior management of the proposed demerged entities.

AUDIT COMMITTEE REPORT

Upholding integrity, transparency and accountability

DAVID MORRISON
CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholders,

This report provides insight into the functioning of the Audit Committee (the "Committee") and its activities during the reporting period including an overview of the key areas of activity and principal topics covered at each meeting of the Committee.

For the financial year 2017 these activities included a review of the performance and effectiveness of the Company's external auditor, the Company's internal controls, including internal audit, risk management and combined assurance systems, and a review of the effectiveness of the Committee. The Committee also continued to exercise its responsibilities for ensuring the integrity of the Company's published financial information and reviewing the judgments made by management and the assumptions and estimates on which they are based.

KEY ACTIVITIES

INTERNATIONAL REPORTING STANDARDS

The Committee has considered at a number of its meetings the action being taken to prepare for the implementation of the new international reporting standards, in particular IFRS 9, but also IFRS 16, and the exercise of appropriate financial judgements that will be required, together with the implementation of new systems to support the changes.

The Committee also oversaw the early-adoption of IFRS 15 effective from 1 January 2017 and received regular updates from management on effective implementation.

ACCOUNTING STANDARDS APPLICATION

The Committee has reviewed with management and the external auditors considerations and decisions relating to the proper application of accounting standards to the treatment of the Investment Business in the Company's accounts, the valuation of investment property and similar issues.

PROPOSED DEMERGER

The financial impact and accounting implications of the proposed separation of the Company's Banking and Investment Businesses has been an important subject considered by the Board and the Committee has devoted significant attention to the topic at each of its meetings in the latter part of the year.

COMMITTEE AND MANAGEMENT CHANGES

During the year there were some changes to the Committee and senior management team.
- Jonathan Muir was officially appointed to the Board on 20 June 2017 as an Independent Non-Executive Director. Jonathan had served as an advisor to the Board since January 2017 and during that time had already served as a member of the Audit Committee (proposed Board members of our Company typically serve as an advisor for an interim period during which they advise the Board, the Board assesses suitability and both sides assess fit).
- In preparation for the proposed demerger, Giorgi Alpaidze was appointed as Group Chief Finance Officer. He was previously the Head of the Group's Finance, Funding and Investor Relations and has extensive international experience in banking, accounting and finance.
- Following nine years as Head of Internal Audit, David Davitashvili moved into an operational role and a new Head of Internal Audit, Nino Gordeladze, was appointed from 3 January 2018.

Further details are in the following report.

David Morrison
Chairman of the Audit Committee
7 March 2018

COMPOSITION AND OPERATIONS OF THE AUDIT COMMITTEE

The composition of the Committee complies with the UK Corporate Governance Code (the "Code"), which provides that the Committee should comprise at least three Independent Non-Executive Directors. The Committee members are David Morrison (Chairman), Kim Bradley, Hanna Loikkanen, Tamaz Georgadze and Jonathan Muir, all of whom are independent. The Board is satisfied at least one member of the Audit Committee has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sector in which the Company operates.

Jonathan Muir was appointed as a member of the Committee on 1 January 2017, and was appointed to the Board on 20 June 2017 whereupon his role as an advisor to the Board was terminated. Mr Muir is a member of the Institute of Chartered Accountants of England and Wales and has both accounting and auditing experience.

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 (reviewed and updated on 11 December 2017). It also reacts to business developments as they arise.

Attendance at meetings by Committee members can be found on page 86 of the Corporate Governance Framework. The Company Secretary is Secretary to the Committee and attends all meetings. The meetings are also attended by:

Attendee	Regular attendee	Attends as required
CFO of the Group	√	
CFO of the Bank	√	
Chief Risk Officer of the Bank	√	
CEO of the Bank		√
CEO of the Group		√
Head of Internal Audit	√	
Head of Compliance	√	
General Counsel		√
External auditor	√	

The Committee also holds separate meetings, which are not attended by management, to allow us to discuss any issues of concern in more detail and directly with the external auditor and Head of Internal Audit. From time to time, other members of management are invited to attend these meetings in order to provide a deeper level of insight into key issues and developments.

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.

AUDIT COMMITTEE REPORT CONTINUED

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 Committee's Terms of Reference, which outline its primary roles and responsibilities, are available in the governance section of the Company's website at http//bgeo.com/uploads/pages/bgeo-audit-committee-terms-of-reference-65.pdf.

BUSINESS DEVELOPMENTS

The Committee considered the financial implications of a number of business developments during the course of the year, including the proposed demerger and related retrospective changes in segment reporting, the introduction of a new deposit insurance scheme in Georgia, the introduction of a new Tier 1 model by the National Bank, developments in relation to a large loan exposure and its provisioning, and various acquisitions and disposals.

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. We spent significant time reviewing the action being taken to prepare for the implementation of the new international reporting standards, in particular IFRS 9, but also IFRS 16, and the exercise of appropriate financial judgements that will be required, together with the implementation of new systems to support the changes.

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 preparation of the financial statements.

Other than the introduction of the new reporting standards, the significant accounting matters and financial judgements considered by the Audit Committee in relation to the financial statements are addressed below.

Matter considered	Action taken
Allowance for loan losses	Reviewed reports from management; liaised with Risk Committee on provision levels and impairments; discussed provisioning models and levels with external auditors, and considered impairment/provisioning levels of several large loan exposures and related accounting matters for one such exposure.
Valuation of investment properties	Considered the reports of management, prepared based on the third-party valuation and the view of the external auditors.
Accounting for the proposed demerger	Reviewed with management and our external auditor the financial reporting implications following the announcement of our plans to pursue a demerger and our plan to reduce our stake in GHG to below 50% in 2018.
Change in accounting policy for measurement of office buildings and service centres	Reviewed management's paper setting out the rationale for and impact of the proposed change in accounting policy from the revaluation to cost model and considered the external auditor's views. The Committee approved the policy on the basis that it provides more relevant information to users of the financial statements
Early adoption of IFRS 15	Received regular updates from management about the early adoption and implementation of IFRS 15 across all Group entities. Considered reports from the external auditors on the application of IFRS 15 across the Group and noted their conclusion that the standard had been applied appropriately.
Investment property under construction	Considered and, after discussion with the external auditor, agreed a change in estimate to measure certain investment property under construction at fair value at an earlier stage of development as a result of more reliable valuable information being available

INTERNAL AUDIT

The Audit Committee is responsible, on behalf of the Board, for overseeing the Internal Audit function, 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 aligned with the overall strategy of the Group.

In 2017, the Internal Audit assignments focused on financial reporting, operational controls, information technology, information security systems and risk management processes. Each review was discussed and presented to the Committee. In addition, the Group engaged PricewaterhouseCoopers LLP to audit the Group's internal controls associated with the information technology and security systems which also helped identify areas for improvement.

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. As mentioned earlier, a new Head of Internal Audit was appointed on 3 January 2018.

We reviewed the effectiveness 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 that it 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:

- approved the annual audit plan, which included setting the areas of responsibility, scope of the audit and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement;
- reviewed the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitored management's responsiveness to the external auditor's findings and recommendations;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirement;
- reviewed audit fees;
- monitored the rotation of key partners in accordance with applicable legislation; and
- recommended the appointment, re-appointment or removal, as applicable, of the external auditor.

AUDIT TENDER AND LEAD AUDIT PARTNER ROTATION

EY was appointed by the Board as our Group statutory auditor in 2012, following a competitive tender process and subsequently re-appointed by shareholders at our 2013 AGM. The Group will be required to put the external audit contract out to tender no later than 2022. We believe retaining EY as our auditor (subject to shareholder approval) is in the best interests of shareholders given EY's continued independence, objectivity and performance on the audits they have completed, following assessment of their effectiveness by the Committee.

The Company complied with the mandatory audit processes and the Committee complied with the responsibility provisions set out in terms of the Competition and Markets Authority Statutory Audit Services Order 2014 ("CMA Order") relating to (a) putting the audit services engagement on tender every ten years; and (b) strengthening the accountability of the external auditors to the Committee, including requiring that only the Committee is permitted to agree to the external auditors' fees and scope of services; influence the appointment of the audit engagement partner; make recommendations regarding the appointment of auditors; and authorise the auditors to carry out non-audit services.

We continue to review the auditor appointment and consider the opportune time to tender the audit. At this time the Committee intends to put the Audit to tender in 2022, although they may revisit this in light of the proposed demerger or otherwise and will continue to evaluate their options including a tender in 2018 for the financial year 2019 and further the Bank of Georgia Group PLC and Georgia Capital PLC expect separately to consider whether they will tender for audit services for the financial year 2019. The Committee confirms compliance with the provisions of the CMA Order for the year ended 31 December 2017. EY appointed John Headley as our lead audit partner in 2016. The external auditor is required to rotate the audit partner responsible for the Group at least every five years.

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. Further to its work on this in 2016, the Committee continues to take account of the European Union Audit Directive and Regulation in conjunction with the FRC's Ethical Standard for Auditors, effective for the Company from 1 January 2017, in respect of prohibitions, as well as the provisions set out in the 2016 version of the Code in relation to non-audit services, and updates the Group's non-audit services policy accordingly. Any non-trivial work other than for audit or interim statements to be undertaken by the external auditor now requires authorisation by the Audit Committee except in very narrow circumstances. The Group's Policy on Non-Audit Services was revised and approved in December 2017 and can be found on our website at http://bgeo.com/uploads/pages/bgeo-nonaudit-services-policy-65.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. As indicated in Note 28 of the audited IFRS financial statements for 2017 the total fees paid to EY for the year ended 31 December 2017 were GEL 4.61 million of which GEL 603,000 related to work other than the audit or review of the interim accounts.

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 management and 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 2017 Transparency Report and the annual FRC Audit Quality Inspection Report of EY; and
- a formal questionnaire issued to all Committee members and also to the executive management of the Group leading the 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; and
- appropriate discussions were held with the Audit Committee during the audit planning process.

EY was reappointed by shareholders at the 2017 AGM and the Board was authorised to set the remuneration of the auditor by 100% and 99.7% votes in favour respectively.

The Committee has recommended to the Board that EY be reappointed under the current external audit contract and EY has expressed its willingness to continue as auditor of the Group. Separate resolutions proposing EY's re-appointment and determination of EY's remuneration by the Committee will be proposed at the 2018 AGM.

WHISTLEBLOWING, CONFLICTS OF INTEREST, ANTI-BRIBERY AND ANTI-CORRUPTION AND DATA PROTECTION 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. The Group implementation of Whistle B, an advanced independent whistleblowing reporting channel and case management tool to replace its existing whistleblowing platform, was completed in 2017.

AUDIT COMMITTEE REPORT CONTINUED

We have 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 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 2017 but both policies were updated and implemented during the year. The Audit Committee considered the applicability and implications for the Group of the new General Data Protection Regulation effective from May 2018. An action plan is being put in place.

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.

In relation to risk management and internal financial control, the Audit Committee assists the Board in fulfilling its responsibility to oversee 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 earlier in this report, we approve the Internal Audit Plan which is risk-based and aligned with the Group's strategy.

For 2017, the Internal Audit Plan included a thorough risk management and internal control assessment, including compliance with corporate governance policies and procedures. During 2017 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 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 2017, 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 2017.

FINANCE

The Finance department continued to build on the progress they made in 2016 in creating uniform accounting policies across the Group, completed a project to standardise the Group's ledgers and improved Group covenant management while also leading the finance workstream of the proposed demerger.

INFORMATION TECHNOLOGY AND INFORMATION SECURITY SYSTEMS

Following the information technology and information security systems audit undertaken by Price Waterhouse Coopers LLP improvements have been made to policies and procedures.

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 Company Secretary in respect of the guidance from the Financial Reporting Council (which included the letter to Audit Committee Chairs), the Non-Financial Reporting Directive and the Audit Directive and Regulation in conjunction with the FRC's Ethical Standard for Auditors. The whole Board also received training on the current and proposed changes to the UK Corporate Governance Code affecting the Audit Committee and other areas.

VIABILITY STATEMENT

In accordance with the Code, the Directors are required to assess the viability of the Group. In collaboration with the Risk Committee, and also considering the recommendations of the FRC guidance, 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. In addition to aligning with the period covered by the Group's strategy and financial forecasts, this three-year period seems particularly appropriate for a Company whose business model continues to evolve in a rapidly developing frontier market like Georgia's. 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.

FAIR, BALANCED AND UNDERSTANDABLE REPORTING

The Committee reviewed the 2017 Annual Report and Accounts to consider whether it is fair, balanced and understandable and provides 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 2017 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

As part of their evaluation of the Board and Committees, Lintstock assisted the Board in reviewing the Committee's performance over the financial year. This external review found that the Committee's performance was rated highly by respondents and highlighted particular areas that had helped improve the Committee's discussion such as the formation of an IFRS desk by the Finance department and a new format for reviewing audit issues.

Our priorities for 2018 include, among others, continued focus on:

- the implementation of legal and governance structures and financial reporting of the proposed demerger of the Group;
- risks around the proposed demerger of the Group;
- the successful implementation of IFRS 9, and preparation for IFRS 16 implementation in 2019; and
- implementing the improvements in IT audit internal controls.

RISK COMMITTEE REPORT

Safeguarding shareholder value

KIM BRADLEY
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholders,

In 2017 the Risk Committee built on the progress made last year in strengthening our risk management framework and internal controls. The Committee has assisted the Board in providing oversight of the Group's overall risk appetite in a dynamic risk environment and has helped ensure that we achieve our strategic objectives through effective risk management.

As reported last year, part of our strategy to achieve a 20%+ Return on Equity in the Banking Business included enhancing an already prudent risk management process. This has led to a decrease in our Banking Business cost of risk ratio for 2017 to 2.2%.The Committee also reviewed the NPL and asset management group's policies, procedures and organisations and management's suggested improvements designed to both accelerate and maximise the recovery on NPLs and asset liquidation, as well as enhanced analytic tools reflecting the opportunity cost of equity associated with recovery timeframes.

The Committee was particularly pleased to oversee the Group's successful efforts in reducing borrower concentration. This included discussions and review of strategies and actions by management covering lending and NPL, to improve asset quality through structure renegotiations, principal reductions and other qualitative measurements.

The Committee also continues to monitor the de-dollarisation programme which has particular relevance to borrowers of Dollars who earn revenues in Georgian Lari, and the mitigation of the impact of any depreciation of the Lari.

We followed through with each of the priorities we set for 2017. As above, 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. Furthermore, other main areas of risk mitigation on which the Committee focused in the year were:

1. expansion of the business continuity programme by developing proactive plans for business units – this covered the entities that were part of the Banking Business;
2. review of the risk mitigation tools and control functions that are used to assess the effectiveness of existing controls;
3. in credit underwriting, extension of the use of data analytics and implemented model validation process;
4. use of quantitative assessment of credit for corporate borrowers;
5. devised counterparty limit monitoring and management based on our existing credit scoring model; and
6. aggregating the Group's foreign currency exposure management.

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

Kim Bradley
Chairman of the Risk Committee
7 March 2018

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, the desired culture and how it has been embedded, assessing the effectiveness of the risk management framework and systems of internal control, and the Company's capability to identify and manage new types of risk.

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,process and 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; and
- in collaboration with the Audit Committee, review the principal risks and uncertainties disclosures in the Half-Year and Annual Reports.

The principal risk categories overseen by the Risk Committee include currency and macro-economic, regional instability, regulatory, cyber-security, information systems and financial crime, Investment Business strategy, demerger and future performance risk and certain operational risks (other than those overseen by the Audit Committee) within the Group.

We reviewed the Committee's Terms of Reference and updated them in September 2017 to reflect current best practice.

The Risk Committee's full Terms of Reference are available on our website at http://bgeo.com/uploads/pages/bgeo-risk-committee-terms-of-reference-98.pdf.

COMPOSITION OF THE RISK COMMITTEE AND MEETINGS

Our Risk Committee is comprised solely of Independent Non-Executive Directors. The Committee members are Kim Bradley (Chairman), Al Breach, Tamaz Georgadze and Hanna Loikkanen.

Each member's attendance is shown in the Board and Committee attendance table on page 86.

During 2017, the Chief Risk Officer, BGEO Group CFO, Bank CEO, Bank CFO and Jonathan Muir regularly attended our meetings. 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 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 analysis of down side stress testing scenarios. The underlying assumptions, methodology applied and results of such stress testing are challenged by the Risk Committee.

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 REPORT CONTINUED

RISK COMMITTEE FOCUS DURING 2017
We continued to focus on our remit as set out above. As mentioned in last year's Annual Report, our 2017 priorities were to continue focusing on the reduction of 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 executed on their objectives.

On the macro economic front, we focused on various interest rate and currency scenarios given the strengthened Dollar and interest rate increases by the Federal Reserve. We also monitored potential policy shifts towards the region following the 2016 US elections.

Further focus of the Risk Committee in 2017 is set out in the Chairman's Statement above.

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 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 conducted credit-specific reviews on the top 20 corporate exposures, both in formal Committee meetings and 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 and analysis of retail borrowers' debt bearing capacity amongst other topics. Retail Banking successfully increased its local currency loans by nearly 68.7% between 2016 and 2017.

Despite approximately 83.1% of our corporate investment loan book being denominated in Dollars, more than 43% of corporate investment customers with Dollar loans have income in Dollars. The vast majority of our corporate customers were able to continue servicing their loans. The Committee regularly monitors the corporate loan book. In 2017, we have achieved a significant improvement in the de-dollarisation of our Banking Business loan portfolio, with the share of local currency loans increasing by 9.6 percentage points and reaching 61.7%. The Georgian government's de-dollarisaton initiatives and our ability to attract local currency funding have been primary drivers of this. We do not expect the de-dollarisation to continue at the same rate, but we do expect local currency loans to increase at a faster rate than foreign currency denominated loans, as other government initiatives (e.g. pension reform) come into force and we continue to attract local currency funding from institutional investors.

Throughout the year, we reviewed management's quantitative assessments of credit for corporate borrowers and monitored the implementation by management of the corporate loan book risk deconcentration strategy. 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 10.7% at the end of 2017, down from 11.8% at the end of 2016. 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 communicated steps to increase overall NPL coverage ratio. At corporate level, specifically, our de-concentration measures include reducing our corporate guarantee exposure to certain sectors and focus on further developing our corporate credit syndication activities. This strategy takes time and corporate credit risk reduction will remain one of our risk priorities in 2018.

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 86.7% at 31 December 2016 to 92.7% at 31 December 2017.

RISK MANAGEMENT
In 2017, 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 worked through the processes supporting the assessment of the Group's longer-term solvency and liquidity which underlie the viability statement.

During the year, management reviewed the risk mitigation tools and control functions and reported to the Committee (and to the Audit Committee) on their assessment of the effectiveness of these controls. Key changes during 2017 to our control framework included the management and monitoring of counterparty limits, based on our previously implemented credit scoring model, the aggregation of the Group's foreign currency exposure management and the extension of artificial intelligence and machine learning algorithms in our model validation process for credit underwriting.

In 2017, we discussed how we could improve the approach to incorporating the cost of risk into the pricing of corporate credits. The management team developed a new model which allowed this to be estimated over a 12-month period and adjusted if necessary throughout the period and revised the limits for single borrower exposures. We also considered how our stress testing could be augmented to factor in extended periods of stress and expanded the business continuity programme by developing proactive business continuity plans to cover other Banking Business companies.

During the year, we also monitored the implementation of the Bank Compliance Policy, the development of our Data Protection Policy and reviewed management's anti-money laundering assessments in respect of correspondent banks.

We also carried out a robust review of the principal risks and uncertainties disclosure and other relevant risk management disclosures and reported to the Board with our recommendation on their inclusion in this Annual Report and the Half-Year Report.

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 33.

COMMITTEE EFFECTIVENESS REVIEW
Lintstock, an external evaluator, performed the review of the Committee, focusing on its overall performance and with all Board members identifying and discussing their views on what they would consider as the most significant risks to the Company. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our main priorities for 2018 are to formalise the Bank's risk appetite in meeting our strategic objectives to confirm the Bank's tolerance levels for all risk types. During the year, the processes whereby the Bank's risk function provides services to Group companies was identified and we will continue to redesign these processes to accommodate the new structure of the Group following the demerger.

An overview of our risk management framework is set out on pages 32 to 33.

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 34 to 37.

An overview of the Bank risk management framework is set out on pages 38 to 43.

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 some 400 institutional investors, and participated in more than 20 investor conferences and road shows. Throughout the year, our Directors and management met with shareholders in Georgia, the United Kingdom, Europe, the United States, Singapore and South Africa.

In November 2017, 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 approximately 60 investors and analysts at the 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 to 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

Aligning incentivisation with the long-term success of the Group

AL BREACH
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of the Board, I am pleased to present our Directors’ Remuneration Report for 2017 comprising this statement, the Remuneration Report for the year ended 31 December 2017 which is subject to an advisory vote at the forthcoming AGM, and our Remuneration Policy as approved at the 2017 Annual General Meeting which applies to the Company’s remuneration arrangements for the period up until the Company’s 2020 AGM. The Remuneration Committee was encouraged by the strong shareholder approval of the Remuneration Policy, with over 94% of voting in favour of the Policy at the 2017 AGM. This letter summarises the remuneration decisions taken in the year and, in the remainder of the report, I aim to set these decisions in the context of the Company’s performance this year.

During the year, the Committee continued to seek to align remuneration targets with the Company’s strategic priorities and shareholder returns. In preparation for the demerger of the Company and the Investment Business, the Committee has reviewed and enhanced the self-development and mentoring of KPIs and the scope of the management performance evaluation.

The Committee also made its annual determination of the discretionary remuneration for our CEO, Irakli Gilauri, and the executive management team. I would remind shareholders that the majority of Mr Gilauri’s salary is awarded in deferred shares which vest over a period of five years. This structure provides alignment with the Company and its shareholders over the long term.

2017 was a year of exceptional performance for the Group. The banking business outperformed against all of its targets and many of the group’s investments demonstrated outstanding performance. Mr Gilauri met or exceeded expectations in respect of his KPIs and oversaw a significant new strategic initiative in relation to the demerger, whilst still ensuring significant growth in total shareholder return. The Committee and the Board rated Mr Gilauri’s overall performance in 2017 as exceptional and consequently the Committee were of the strong opinion that he deserved the maximum bonus that we awarded him.

We also considered the performance against KPIs of the appropriate bonuses of senior management.

The Committee also received training from the Company Secretary on the recent developments in remuneration in the industry and in governance.

The priorities for 2018 will be setting remuneration for the Company in respect of the demerger of the Bank and the Investment Business. If the planned demerger goes ahead, it is envisaged that the separate companies would seek shareholder approval for their remuneration policies at the general meetings after the demerger in 2019. In the meantime, the companies intend to keep to the principles set out in the current shareholder approved policy with appropriate changes. Further details will be set out in the shareholder circular regarding the demerger.

Al Breach
Chairman of the Remuneration Committee
7 March 2018

WHAT IS IN THIS REPORT?
This Directors’ Remuneration Report describes the implementation of BGEO Directors’ Remuneration Policy and discloses the amounts earned relating to the year ended 31 December 2017.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report has been prepared in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

The Directors’ Remuneration Policy was approved by shareholders in a binding vote at the 2017 AGM and took formal effect from the date of approval and will apply until the 2020 AGM, at which time we will be required to submit our Directors’ Remuneration Policy for approval by shareholders. Our Directors’ Remuneration Policy has again been included in this report (set out on pages 105 to 111) for the purposes of clarity and transparency.

The Annual Report on Remuneration (set out on pages 98 to 113) (which includes the Annual Statement by the Chairman of the Remuneration Committee set out on this page will be subject to an advisory vote at the 2018 AGM.

COMPOSITION OF THE REMUNERATION COMMITTEE AND ADVISORS

The Committee is comprised of three members: Al Breach (Chairman), an independent Non-Executive Director; David Morrison, our Senior Independent Director; and Neil Janin, who was independent on appointment.

The members’ attendance is shown in the Board and Committee Meetings Attendance table on page 86.

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. The Committee continues to remain of the view that the advice received from Baker & McKenzie LLP is objective and independent and that the fees and the basis upon which they are charged remain commensurate.

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 to reward 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 reviewed and updated in September 2017 and are available on our website at http://bgeo.com/uploads/pages/bgeo-remuneration-committee-terms-of-reference-29.pdf.

SHAREHOLDER CONTEXT

The Directors’ Remuneration Policy applicable to this section of the Annual Report on Remuneration was approved by shareholders at our AGM on 1 June 2017 (the “2017 Policy”). The Directors’ Remuneration Policy received the following votes from shareholders:

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors’ Remuneration Policy	30,701,505	94.49	1,791,428	5.51	32,492,933	40,400

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 2017 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors’ Remuneration Report	30,694,906	94.47	1,798,027	5.53	32,492,933	40,400

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 2017 and 2016 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 75% of total salary (cash and deferred shares).

Approximately 85% of Mr Gilauri’s remuneration for 2017 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$)[6]	Total (US$)
2017	**437,500**	**2,288,700**	**2,726,200**	**2,044,650**	**1,860**	**1,875**	**322,248**	**5,096,833**
2016	437,500	2,177,342	2,614,842	1,307,313	1,239	1,698	389,793	4,314,885

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 2017 and 2016, the award was 90,000 BGEO shares. 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 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); and (b) from 1 May 2016 until 31 December 2016 (when the new service agreement was in effect), the share price used is at the date the new service agreement was signed, being US$ 25.43 per share (the official share price of GBP 16.16 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 2017, the new service agreement continues and therefore the figures in part (b) of the previous sentence apply. 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 2017 Policy available at http://bgeo.com/uploads/annualreports/2016-804.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 2017, options were awarded over 45,548 BGEO shares. The discretionary remuneration in respect of 2017 is deferred and vests over three years in equal amounts in each of the second, third and fourth years following the work year. The value was calculated by reference to the share price on 8 December 2017 (the working day before the meeting at which the award was determined) which was US$ 44.89 (based on the official share price of GBP 33.56 per share converted into Dollars using an exchange rate of 1.3376, being the official exchange rate published by the Bank of England on the same date). For 2016, options were awarded over 37,450 BGEO shares. The value was 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). 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. Both the 2017 and 2016 awards are subject to the leaver provisions described on pages 105 to 106 of the 2017 Policy available at http://bgeo.com/uploads/annualreports/2016-804.pdf. The means of determining the number of shares underlying this remuneration and the terms and conditions are described in Note 2 of the 2017 Policy on page 102 and available at http://bgeo.com/uploads/annualreports/2016-804.pdf. The basis for determining Mr Gilauri’s 2017 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 2017 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	**2017**
Single figure of total remuneration (US$)	2,002,386	3,488,463	3,142,021	3,690,642	4,314,885	**5,096,833**
Discretionary remuneration as a percentage of maximum opportunity (%)	94.9%	83.2%	54.7%	91.9%	100%	**100%**

BASIS FOR DETERMINING MR GILAURI'S DISCRETIONARY DEFERRED SHARE REMUNERATION IN RESPECT OF 2017
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 Note 2 of the 2017 Policy table on page 102 available at http://bgeo.com/uploads/annualreports/2016-804.pdf.

The following table sets out the objective KPIs set for Mr Gilauri in respect of 2017 as well as Mr Gilauri's performance against them.

Key Performance Indicator	2017 Target	2017 Performance	Committee evaluation
BANKING BUSINESS			
Return on average equity	20%	25.2%	Exceeded expectations
Retail loan book growth	20%	29.3%	Exceeded expectations
INVESTMENT BUSINESS			
Value of our Investment Business	Year-on year-growth	Combined revenue and net profit increased by 70.5% and 25.2% y-o-y respectively	All businesses showed growth in line with or exceeding expectations with the exception of Georgia Healthcare Group PLC. High overall combined revenue and net profit normalised growth.
Investment Business management teams	Continued enhancement	Strong additions to the Investment Business management teams	Enhancement includes recruitment and appointment of Shota Berekashvili and Giorgi Natroshvili as Deputy CEO Construction Management and CFO of m² respectively. Ahead of the demerger Mr Gilauri has also positioned the Investment Business well, including with the appointment of Giorgi Alpaidze as Group CFO, to become CFO of the Investment Business.
GROUP-WIDE			
Management team	Coaching and mentoring	Met expectations	Mr Gilauri has enhanced the management development programmes. He has rolled out across the Group the Leadership Organisational Learning and Graham Ward Ph.D. programmes in respect of senior management and further expanded to lower leadership levels.
Self-development	Continued self-development	Met expectations	Mr Gilauri has continued to prioritise his self-development through feedback received from the Board and his peers.

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 key accomplishments in 2017 include:

- The outperformance of the Banking Business against the targets set out above;
- The good performance of many of the Group's investments together with the ongoing strategic development of all businesses; and
- Overseeing a period of significant growth in total shareholder return.

In addition to these preset KPIs, Mr Gilauri has instigated and been preparing the Group for the demerger of the Banking and Investment Businesses which the Committee recognises as a huge project and a pivotal point in the Group's development. The project involves a massive reorganisation of the businesses and people in addition to stringent regulatory requirements. The project ran on schedule through the second half of 2017 and was generally well received by shareholders and stakeholders.

2017 BUSINESS HIGHLIGHTS
2017 business highlights include:
- Outperformance of the banking business against its targets;
- Excellent performance of many of the group's investments together; and
- Ongoing strategic development of all underlying businesses;

For 2017, 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 (75% of total salary, being total cash salary and total deferred share salary as listed in the table above) based on the share price when it made its determination. The Committee therefore agreed to award Mr Gilauri 45,548 shares.

MR GILAURI'S 2018 KPIS – DISCRETIONARY DEFERRED SHARE REMUNERATION
For 2018, 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
- Return on Average equity as targeted
- Total banking business loan book growth as targeted
- NIM as targeted
- Cost/Income as targeted
- Dividend Payout Ratio – 25-40%

Longer Term Indicator
- Product to client ratio in mass retail as targeted
- Bank's visibility/importance as a private banking hub as targeted
- Cost of risk and NPL Coverage Ratio in line with strategy

INVESTMENT BUSINESS – 2018 INDICATOR
- Growth of NAV of portfolio companies in line with strategy
- Achieve strategic priorities of portfolio companies in line with strategy
- Active and disciplined pursuit of new investment opportunities
- Diversify funding base for portfolio companies

Longer Term Indicator
- Progress towards exit on investments in line with strategy
- Average return on combined exits in line with strategy

OTHER KEY PERFORMANCE INDICATORS
- Active mentoring and development of Senior Management
- Personal development

In the event of the demerger, it was expected that the Investment Business KPIs would remain with Irakli Gilauri and the Banking Business KPIs would transfer to the CEO of the Bank, but the Remuneration Committees of Bank of Georgia PLC and Georgia Capital would have the discretion to consider appropriate adjustments to the KPIs.

PERCENTAGE CHANGE IN REMUNERATION OF CEO
The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2016 and 2017, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2016 and 2017. See the Single Total Figure Remuneration Table on page 102 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred remuneration of Mr Gilauri.

	Percentage change for the CEO between 2016 and 2017	Average percentage change for the Group's employees as a whole (excluding Mr Gilauri) between 2016 and 2017
Total cash salary	0%	41%
Total deferred share salary	5.1%	12%
Taxable benefits	50.1%	18%
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)	56.4%	39%

FURTHER DETAILS OF FIXED AND DISCRETIONARY CONTINGENT DEFERRED SHARE REMUNERATION GRANTED DURING 2017 (AUDITED)
The following table sets out details of the nil-cost options over BGEO shares which have been granted to Mr Gilauri in 2017 in respect of the year ended 31 December 2016. Please note that the information presented in this section is for the 2016 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.	37,450 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$ 2,177,342	US$ 1,307,313
Face value	US$ 2,177,342[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.	US$ 1,307,313[2] Cash payments equal to the dividends paid on 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 2015 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 2016 performance (and is not a LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.

Strategic Report Overview
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Additional Information

	Deferred share salary	Discretionary deferred share remuneration
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 2018, 2019 and 2020 and 40% in 2021.	33.3% in each of 2018, 2019 and 2020.
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.

Notes:
1. Deferred share salary. The figures show the value of the BGEO shares underlying nil-cost options granted in respect of year ended 31 December 2016. The award was 90,000 BGEO shares and the value of the deferred share salary 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 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); and (b) from 1 May 2016 until 31 December 2016 (when the new service agreement was in effect), the share price used is at the date the new service agreement was signed, being US$ 25.43 per share (the official share price of GBP 16.16 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).The terms and conditions applying to deferred share salary for 2016 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 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). 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 2017 and 2016.

	BGEO fees (US$)		Bank fees (US$)		Total fees (US$)	
	2017	2016	**2017**	2016	**2017**	2016
Neil Janin[1] (Chairman)	**103,587**	107,500	**210,313**	107,500	**313,900**	215,000
David Morrison[2]	**80,015**	83,500	**124,100**	72,500	**204,115**	156,000
Al Breach	**64,070**	67,000	**94,973**	56,000	**159,043**	123,000
Kim Bradley	**66,751**	70,500	**103,546**	59,500	**170,298**	130,000
Tamaz Georgadze	**64,070**	59,046	**94,973**	47,531	**159,043**	106,577
Hanna Loikkanen	**64,070**	56,077	**94,973**	37,500	**159,043**	93,577
Jonathan Muir[3]	**29,621**	–	**37,776**	–	**67,398**	–
TOTAL	**472,185**[4]	443,623	**760,654**	380,531	**1,232,839**	824,154

Notes:
1. On 4 September 2015, Mr Janin was appointed as an Independent Non-Executive Director of GHG PLC. He also served as Chairman of both its Nomination and Remuneration Committees (resigning in May 2017) and was appointed to its Clinical Quality and Safety Committee in February 2017 until resigning his membership in June 2017. Mr Janin serves on the Supervisory Board and Committees of JSC Georgia Healthcare Group. In 2017 and 2016, Neil Janin received remuneration of US$ 102,119 and US$ 111,000 respectively, from GHG PLC and JSC Georgia Healthcare Group, in respect of his services.
2. On 4 September 2015, Mr Morrison was appointed as an Independent Non-Executive Director of GHG PLC. He also serves as Chairman of its Audit Committee and is a member of its Nomination Committee. He stepped down from its Clinical Quality and Safety Committee in February 2017. Mr Morrison serves on the Supervisory Board and Committees of JSC Georgia Healthcare Group. In 2017 and 2016 respectively, Mr Morrison received remuneration of US$ 156,000 and US$ 156,000, from GHG PLC and JSC Georgia Healthcare Group together, in respect of his services.
3. Mr Muir was appointed to the Board of BGEO on 20 June 2017 and therefore the fees reflected in respect of 2017 have been pro-rated from the date of appointment until 31 December 2017.
4. The maximum amount for BGEO base fees, including the Chairman, as provided for in BGEO's Articles of Association, is GBP 750,000.

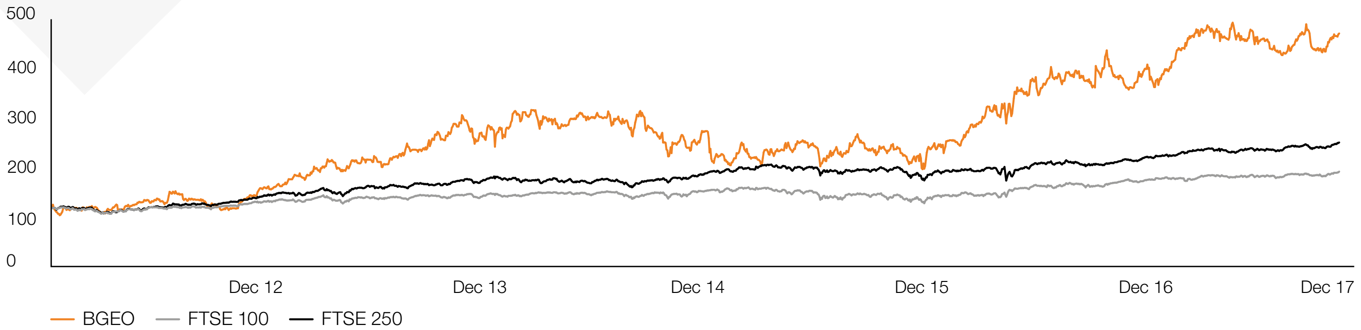
The new Directors' Remuneration Policy was approved at the AGM of 1 June 2017 by shareholders and includes revised fees for Non-Executive Directors and a top-up payment in 2017 to allow the Non-Executive Directors to reach the level of fees indicated for the financial year. The increased proportion payable by the Bank reflects the increased work performed for the Georgian entities. See the Non-Executive Directors' Remuneration Policy reproduced later in this section on page 113.

In 2017, 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 December 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 2016 and 2017 as well as the difference in value of distributions paid to shareholders by way of dividends between 2016 and 2017.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Year ended 31 December 2016 (US$) (dividend for 2015)	83,805,260	36,876,228
Year ended 31 December 2017 (US$) (dividend for 2016)	117,671,232	39,156,315
Percentage change	40.4%	6.2%

DIRECTORS' INTERESTS IN SHARES (AUDITED)

The following table sets forth the respective holdings of BGEO shares of each Director as at 31 December 2016 and 2017.

	As at 31 December 2016				**As at 31 December 2017**			
	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 conditions)**	**Total number of interests in BGEO shares**
Irakli Gilauri[2,3]	202,315	–	311,500[1]	513,815	**303,115**	**–**	**312,950**[1]	**616,065**
Neil Janin[4]	35,729	N/A	N/A	35,729	**39,229**	**N/A**	**N/A**	**39,229**
David Morrison	26,357	N/A	N/A	26,357	**26,357**	**N/A**	**N/A**	**26,357**
Al Breach[5]	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**	**–**
Hanna Loikkanen	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Jonathan Muir	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**

Notes:
1. In the Annual Report for the year ended 31 December 2016, we presented Mr Gilauri's unvested and unexercised shares inclusive of all options granted in respect of that work year. In the above table, we have presented only the number of unvested and unexercised shares as at 31 December 2016 and 31 December 2017. Further details of the awards made and determined in respect of those work years up to 6 March 2018 are in Notes 2 and 3 below.
2. In 2017, Mr Gilauri received awards of 90,000 salary deferred shares and 37,450 discretionary deferred shares for the 2016 work year. In March 2017, Mr Gilauri exercised options in respect of 126,000 BGEO shares, of which 25,200 were withheld to satisfy tax liabilities. The net gain on exercise of these share options was US$2,395,190.
3. In January 2018 Mr Gilauri was granted 90,000 nil cost options in respect of deferred salary shares for the 2017 work year pursuant to the executive equity compensation plan. On 20 February 2018, Mr Gilauri exercised options in respect of 125,983 BGEO shares, of which 25,197 BGEO shares were withheld to satisfy tax liabilities. Whilst the Remuneration Committee has determined the award for discretionary deferred share compensation, being options over 45,548 shares to be received as per Note 3 to the single total figure of remuneration table above, this will be reported in the 2018 Annual Report and Accounts and is not included in the table above, which is as at 31 December 2017.
4. At 2017 year-end, NeilCo Limited, a company wholly-owned by Mr Janin, held 10,000 BGEO shares.
5. At 2017 year-end, Gemsstock Growth Fund, which Mr Breach manages, held 20,000 BGEO shares. On 28 February 2018, Al Breach personally purchased 7,600 BGEO shares.

The Remuneration Policy is heavily weighted towards remuneration in deferred salary shares and deferred discretionary shares. In respect of 2017, 85% 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 680,868 BGEO shares, representing approximately 1.73% 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 on 12 November 2015. The following table sets forth the respective holdings of GHG shares of each Director as at 31 December 2017.

As at 31 December 2017	Shares held at GHG 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, REAL ESTATE AND AMEX CARD

Directors and executive management of the Group from time to time will purchase securities or real estate from Group entities on an arm's 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. 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. 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 to the amount of US$ 519,220 and US$ 416,239, respectively. Mr Gilauri purchased these apartments on an arm's length basis.

During the year, Mr Gilauri, obtained and fully repaid an Amex card loan in the amount of GEL 136,761 granted at market terms.

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 and the Company may terminate their appointment on one month's notice, or less in certain circumstances.

The table below shows each Non-Executive Director's date of appointment to the Board of BGEO.

Director	Appointed on
NEIL JANIN Non-Executive Chairman	24 October 2011
IRAKLI GILAURI CEO	24 October 2011
DAVID MORRISON Senior Independent Non-Executive Director	24 October 2011
ALASDAIR (AL) BREACH Independent Non-Executive Director	24 October 2011
KIM BRADLEY Independent Non-Executive Director	19 December 2013
TAMAZ GEORGADZE Independent Non-Executive Director	19 December 2013
HANNA LOIKKANEN Independent Non-Executive Director	12 June 2015
JONATHAN MUIR Independent Non-Executive Director	20 June 2017

SHAREHOLDINGS OF EXECUTIVE MANAGEMENT

Similar to Executive Directors, the remuneration of executive management is characterised by a 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 by several members of executive management as at 31 December 2017, which reflects the predominance of unvested shares.

	As at 31 December 2017		
	Number of vested BGEO shares	Number of unvested BGEO shares	Total vested and unvested BGEO shares
Avto Namichieshvili	61,895	125,000	186,895
Nikoloz Gamkrelidze	–	79,000	79,000
Kaha Kiknavelidze	26,337	21,667	48,004
Ekaterina Shavgulidze	–	41,250	41,250
Giorgi Alpaidze	–	5,867	5,867
David Tsiklauri	–	62,500	62,500

COMMITTEE EFFECTIVENESS REVIEW

Lintstock performed the external review of the Committee this year, focusing on its overall performance, with all Board members identifying and discussing their views on the Committee's effectiveness and how the 2017 Policy has been implemented. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively and that its structure and membership remain appropriate.

DIRECTORS' REMUNERATION POLICY

Our Directors' Remuneration Policy was approved by our shareholders in June 2017 (the "2017 Policy") with a vote of 94% in favour. The Remuneration Committee appreciated the support of shareholders in approving the Policy and the Annual Report on Remuneration will outline how we have implemented the Policy in 2017.

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 on 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 which is reflected in an amendment to his service agreement.

As to remuneration of our Non-Executive Directors, our Policy moderately increased 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 had remained static since listing in 2012 while the business had tripled in size and expanded into different industries through our Investment Business.

The Policy took 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. Please also refer to the 2016 Annual Report for the full text of the approved Directors' Remuneration Policy, which is also available on our website, http://bgeo.com/annualreports.

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 of 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 or her duties, skills and experience, provided that his or her 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 99 of the Annual Report on Remuneration.

DIRECTORS' REMUNERATION REPORT CONTINUED

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 KPI 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. • 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 1.2 to 1, 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 or her 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 2017 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 or her 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 duties, breach of obligations or conviction of a felony. An Executive Director's unvested shares may also lapse if they terminate their service agreement early (in the absence of repeated material wrong-doing by the company). By way of example, an Executive Director terminated by the Board for "cause" in 2018 would normally give up (because their shares would fail to vest): their entire deferred share salary for 2018 and 2017 and 80%, 60% and 40% of their deferred share salary for 2016, 2015 and 2014, respectively. As a result, an Executive Director is motivated to perform to the best of their 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 are 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 they do 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 KPIs), if this coincides with a "bad" year for the Group (e.g. poor financial performance), 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 this measure. Discretionary deferred shares 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; and
- 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 the 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 2017, the Group provided additional funding of US$ 30,543,886 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 2016 and 2017 work years. In 2017 a total of 784,084 shares were 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 and 2016 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 create a direct and natural alignment of shareholder and executive management interests.

DIRECTORS’ REMUNERATION REPORT CONTINUED

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, so as 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 and 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.

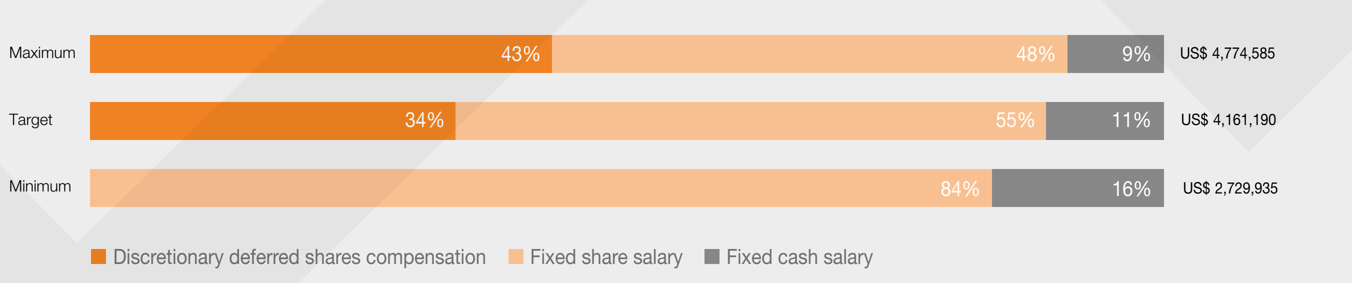
As it is not possible for a direct comparison to be made between executive remuneration and remuneration of other employees in the Group, the most important consideration for us is whether other employees are satisfied with their remuneration packages. In 2015, 2016 and 2017 employee surveys were conducted by the Human Resources department, targeting a large number of employees of 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 and in 2017 the survey also confirmed that we remain a competitive employer.

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 2018 under the Policy at three different performance levels. It should be noted that, at the maximum level, 91% of Mr Gilauri’s 2018 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 2018 remuneration will be in the form of deferred shares. A full explanation of the demerger and any changes to the total remuneration of the sole executive director will be provided in the circular to be announced shortly after the release of this report.



Notes:
1. Salary is comprised of cash and deferred share salary. Mr Gilauri’s total cash salary in 2018 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 2018 will be formally granted in 2019 and will vest in January 2020, 2021, 2022 and 2023. 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 2017 as we assume pension and benefits in 2018 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 2018 will be formally granted in 2019 and will vest in January 2020, 2021 and 2022.
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 where Mr Gilauri receives fixed remuneration 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 2018 are in line with the Group’s expectation, which is excellent performance.
5. Maximum opportunity reflects a scenario where 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 2018 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

Our 2017 Policy proposed the increase of Non-Executive Directors fees which had remained static since BGEO’s listing 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. The Policy reflects a moderate increase in fees to reflect the volume of work and time commitment required for the complexity of our Group. The Policy will apply in each year that the Policy operates from the date of approval of the Policy. In the second half of 2017 a top-up payment was made to Non-Executive Directors to increase the level of fees to those in the 2017 Policy.

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 they pay 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.

DIRECTORS' REMUNERATION REPORT CONTINUED

SERVICE AGREEMENTS AND POLICY ON PAYMENTS FOR LOSS OF OFFICE FOR OUR DIRECTORS

The following paragraphs (1) to (2) summarise the termination and payments for loss of office provisions pursuant to Mr Gilauri's service agreements with BGEO and the Bank. In 2017, 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 (3) and our approach to termination and payments for loss of office for future Executive Directors is described in paragraph (4). The Directors' service agreements and Letters of Appointment are kept for inspection by shareholders at BGEO's registered office.

(1) 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) 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 is applicable in respect of the 2016 work year onwards.

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 failing 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); or
- 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 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 time the Bank will compensate him only in the form of his regular cash salary with all other benefits, bonuses, incentives 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 below).

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; or
- 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 service agreement is terminated by:

- The Bank for cause; or
- 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 is a renewed agreement on substantially similar terms offered nor does BGEO and/or JSC BGEO Group Board membership continue;
- 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 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 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 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.

(3) 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.

(4) 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 their employment during which they will be compensated only in the form of 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 terminated their 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 expired and they were not offered a new service agreement on substantially similar terms on expiration; or if the Executive Director ceased 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.

Share ownership guidelines

The Company has not put in place share ownership guidelines due to the significant portion of the CEO's remuneration being in deferred shares.

DIRECTORS' REMUNERATION REPORT CONTINUED

IMPLEMENTATION OF REMUNERATION POLICY FOR 2018
Details of how the Policy will be implemented for the 2018 financial year are set out below. A full explanation of the demerger and any changes to the implementation of the Remuneration Policy will be provided in the circular to be announced shortly after the release of this report.

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 similar to 2017. Please refer to demerger information as above.

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.

2018 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 2019, 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 2020, 2021 and 2022. 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 2018, the Committee has determined that the performance measures will be based on KPIs, subject to the terms of the Policy. **BANKING BUSINESS** • Return on Average equity as targeted • Total banking business loan book growth as targeted • NIM as targeted • Cost/Income as targeted • Dividend Payout Ratio – 25-40% **Longer Term Indicator** • Product to client ratio in mass retail as targeted • Bank's visibility/importance as a private banking hub as targeted • Cost of risk and NPL Coverage Ratio in line with strategy **INVESTMENT BUSINESS – 2018 INDICATOR** • Growth of NAV of portfolio companies in line with strategy • Achieve strategic priorities of portfolio companies in line with strategy • Active and disciplined pursuit of new investment opportunities • Diversify funding base for portfolio companies **Longer Term Indicator** • Progress towards exit on investments in line with strategy • Average return on combined exits in line with strategy **OTHER KEY PERFORMANCE INDICATORS** • Active mentoring and development of Senior Management • Personal development In the event of the demerger, it was expected that the Investment Business KPIs would remain with Irakli Gilauri and the Banking Business KPIs would transfer to the CEO of the Bank, but the Remuneration Committees of Bank of Georgia PLC and Georgia Capital would have the discretion to consider appropriate adjustments to the KPIs.

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 wrong-doing 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 2018.

All fees to Non-Executive Directors are paid in cash and reflect work performed for BGEO, JSC BGEO Group, the Bank Supervisory Board and its subsidiaries.

Role	2018 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.

Signed on behalf of the Board of Directors.

Al Breach
Chairman of the Remuneration Committee
7 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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; and
- 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.

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 include 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
Chairman
7 March 2018

Irakli Gilauri
CEO
7 March 2018

DIRECTORS' REPORT

STRATEGIC REPORT

The Strategic Report on pages 1 to 75 was approved by the Board of Directors on 7 March 2018 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 75 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 75
BGEO risk management	Pages 32 to 33
Going concern statement	Page 33
Viability statement	Page 33
Bank risk management	Pages 38 to 43
Principal risks and uncertainties	Pages 34 to 37
Directors' Governance Statement	Page 76
The Board of Directors	Pages 77 to 79
Nomination Committee Report	Pages 89 to 90
Audit Committee Report	Pages 91 to 94
Risk Committee Report	Pages 95 to 96
Greenhouse gas emissions	Page 51
Employee matters	Page 48
Environmental matters	Pages 50 to 51
Share capital	Note 21 on Page 189
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 31 on Pages 195 to 202

RESULTS AND DIVIDENDS

The Group Board expects to recommend a regular annual dividend for 2017 totalling c.GEL 120 million. This is in the range of our regular dividend payout ratio target of 25-40% paid from the Banking Business profits. Since 2010, the Group has grown its annual dividend per share by 40% CAGR on a GEL basis, and by 32% CAGR on a USD basis. If the expected demerger is successfully implemented as planned, it is intended that Bank of Georgia PLC (the then new parent company of the Banking Business), will instead, shortly after the demerger is completed, declare and pay a dividend in a similar or the same aggregate amount to shareholders then on the record. In the event that the demerger is for any reason not completed it is intended, subject to shareholder approval, that the Board would implement the payment of this dividend, which would represent a payment of GEL 3.1 per share, payable in British Pounds Sterling at the prevailing rate, a 19.2% increase over the 2016 dividend.

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.

ARTICLES OF ASSOCIATION

BGEO's Articles of Association may 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 21 to the consolidated financial statements on page 189. As at the date of this Annual Report, there was a single class of 39,384,712 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; and
- participate in any distribution of income or capital.

At the 2017 AGM, the Directors were given a) the power to allot shares up to a maximum nominal amount of GBP 131,564.40 representing approximately a third of the Company's issued share capital as at 31 March 2017, in addition to b) the power to allot equity securities up to an aggregate nominal amount of GBP 131,564.40, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2018 AGM (or, if earlier, at the close of business on 1 September 2018) and approval will be sought at that meeting to renew a similar authority for a further year.

In addition, at the 2017 AGM, shareholders authorised the Board to allot shares up to a maximum nominal amount of GBP 19,734.66 for cash without first offering them to existing shareholders in proportion to their existing holdings in connection with a rights issue or otherwise up to a maximum nominal amount of GBP 19,734.66.

None of the ordinary shares carry any special rights with regard to control of BGEO.

The Company's Articles of Association provide that, unless the Directors determine otherwise, a shareholder shall not be entitled to vote, either personally or by proxy, at any general meeting or to exercise any other right conferred by membership if:

- any call or other sum payable to the Company in respect of that share remains unpaid; or
- such shareholder, having been duly served with a notice to provide the Company with information under section 793 of the UK Companies Act, has failed to do so within 14 days of such notice, for so long as the default continues.

There are no other restrictions on transfers of shares other than certain restrictions which may from time to time be imposed by laws or regulations.

BGEO SHARE BUYBACK AND CANCELLATION PROGRAMME

Authority to make market purchases of up to 3,946,932 (approximately 10%) of BGEO's shares up to a maximum consideration of US$50 million over a two-year period was granted to the Directors at the 2017 AGM (the Buyback). This authority will expire at the conclusion of the Company's AGM in 2018 or, if earlier, at the close of business on 1 September 2018. Authority to make market purchases of up to 3,950,032 (approximately 10%) of BGEO's shares had previously been granted to the Directors at the 2016 AGM, which expired at the 2017 AGM. The Company entered into an agreement with Numis Securities Limited (Numis) on 7 March 2017 to enable Numis to purchase Shares over a two-year period in accordance with the terms of the general authority granted to the Company by shareholders at the 2017 AGM and subject to its shareholders' approval of a similar buyback resolution at the 2018 AGM in respect of any purchases to be made after the date of that meeting. Any shares repurchased have been or will be immediately cancelled. Any purchase of shares pursuant to the agreement with Numis have been or will be carried out on the London Stock Exchange.

The Buyback is a result of the Group's very strong capital position, excess levels of liquidity and high level of internal capital generation. Furthermore, the Board believes the Buyback is likely to promote the success of the Company, is for the benefit of the shareholders as a whole and will result in an increase in the EPS.

During 2017, US$ 5.0 million was returned to shareholders by way of the buyback and cancellation of 115,608 shares representing 0.29% of the issued share capital as at the date of this Annual Report.

EQUITY SETTLED OPTION PLAN ('ESOP') FUNDING

The Company operates an employee benefit trust (EBT) (the "ESOP"), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependents, and which is used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

In 2017 the Group provided additional funding to enable Sanne Fiduciary Services Limited, acting as trustee of the Trust, to purchase more shares in the market to satisfy upcoming employee share scheme awards. During the year, Sanne Fiduciary Services Limited, acting as trustee to the ESOP, purchased 784,084 shares in the market for a total consideration of US$ 34.1 million.

In accordance with a request issued by BGEO, Sanne Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by BGEO.

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.

PROPOSED DEMERGER

A summary of the proposed demerger can be found on page 19 in the Strategic Report.

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 2017. 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 or her duty under company law.

DIRECTORS' INTERESTS

The Directors' beneficial interests in ordinary shares of BGEO as at 31 December 2017 are shown on page 102, together with any changes in those interests between the financial year-end and the date on which this Directors' Report was approved by the Board.

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. Accordingly, the Company has provided for both indemnities and directors' and officers' insurance to the Directors in connection with their duties and responsibilities.

RELATED PARTY DISCLOSURES

Details of related party disclosures are set out in Note 34 to the consolidated financial statements on page 210.

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 (as defined in 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.

JSC ABC PHARMACIA ACQUISITION

On 6 January 2017, Georgia Healthcare Group, through one of its subsidiaries, acquired 67% of the shares of JSC ABC Pharmacy, a pharmaceuticals company operating in Georgia from individual investors for GEL 73.8 million (see page 162, Note 5 regarding Business Combinations in the Financial Statements). The outstanding amount is due within tranches within 5 years and the Group has a call option and the managing shareholders a put option in regard of the 33% non-controlling interest in the combined pharmacy business, GEPHA.

GEORGIAN WATER AND POWER LOAN AGREEMENT WITH THE EUROPEAN INVESTMENT BANK

On 28 July 2017, Georgian Water and Power LLC ("GWP") entered into a EUR 21.5 million Finance Contract with the European Investment Bank to finance the rehabilitation and modernisation of the Group's water supply and waste treatment facilities in Georgia.

GWP LOAN AGREEMENT WITH FMO AND DEG

On 15 August 2017, GWP entered into a ten year EUR 25 million and US$40 million term facility agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and Deutsche Investitions-Und Entwicklungsgesellschaft MBH. The loan is being used to finance the refinancing of existing loans, capital expenditure in connection with rehabilitation and modernisation of the water supply, and waste water treatment facilities, including the Gardabani Sewage Treatment Plant and the rehabilitation of the Gardabani Wastewater Treatment.

JSC SVANETI HYDRO CIVIL WORKS CONTRACT WITH SYNERGY

JSC Svaneti Hydro entered into a civil works contract for the construction of Mestiachala 1 and 2 HPPs on 1 March 2017 with Synergy Construction LLC, a subsidiary of Romania based Synergy Construction SRL.

GEORGIA GLOBAL UTILITIES SHAREHOLDERS' AGREEMENT OF JSC GEORGIAN RENEWABLE POWER COMPANY

In June 2017, JSC Georgia Capital and RP Global Investment GmbH, an Austrian company, shareholders of JSC Georgian Renewable Power Company, signed a shareholders' agreement. The agreement sets out the rights and obligations of the shareholders with respect to the development of a renewable energy projects in Georgia, including the ongoing project of 50MW HPPs construction in Mestia and 56MW HPP project in Zoti.

At no time during 2017 did any Director hold a material interest in any contracts of significance with BGEO or any subsidiary of the Group. The Company is not party to any significant agreements (apart from the Relationship Agreement) that would take effect, alter or terminate following a change of control of the Company.

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 plans and provisions of the Company's share schemes (including for deferred share salary and discretionary share compensation) and certain service agreements entered into between the Company and the Executives (as described in further detail in the Directors' Remuneration Report) and between the Company and certain senior managers, certain awards granted to the Executive and senior management will vest on a takeover or other change of control.

PRESENCE OUTSIDE OF GEORGIA

We have representative offices in London, Budapest, Istanbul and Tel Aviv and our Group office is in London. See pages 4 and 63.

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 disabled persons, are included in "Employee matters" on page 48.

POLITICAL DONATIONS

The Group did not make any political donations or expenditures during 2017. Authority to make political donations and incur political expenditure will be put to shareholders' vote at the AGM in 2018.

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 2017.

	As of 31 December 2017	
Shareholder	Number of voting rights	% of voting rights
Harding Loevner LP	3,275,324	8.32
Sanne Fiduciary Services	1,942,308	4.93
Schroder Investment Management	1,914,428	4.86
LGIM	1,290,202	3.28
Norges Bank Investment Management	1,224,590	3.11

Source: Georgeson, Computershare.

The table below shows the changes in voting rights which have been notified to the Company for the period 1 January 2018 up to and including 6 March 2018.

	As of 6 March 2018	
Shareholder	Number of voting rights	% of voting rights
Standard Life Aberdeen plc	1,965,927	4.99
Sanne Fiduciary Services	1,714,220	4.35

It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on the BGEO website: http://bgeo.com/regulatoryannouncements and the London Stock Exchange website: http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

POST BALANCE SHEET EVENTS

IMPLEMENTATION OF THE DEMERGER

On 12 February 2018 the Board approved the implementation of the demerger, subject to shareholder approval at the Annual General Meeting. The Company stated its reasons for the demerger, in accordance with its announcement of 3 July 2017, and further announced that the Board had decided to increase the stake that Georgia Capital PLC will have in Bank of Georgia PLC to 19.9%.

The Company continues to implement the demerger. More detail is expected to be included in the circular to be sent to shareholders relating to the demerger.

ACQUISITION OF BLACK LION LLC

In February 2018, JSC Georgia Capital acquired 100% of Black Lion LLC, a craft beer producer operating in Georgia, for a total consideration of USD 3.2 million.

ISSUE OF USD 300 MILLION NOTES DUE IN 2024 BY JOINT STOCK COMPANY GEORGIA CAPITAL

On 5 March 2018 JSC Georgia Capital successfully priced a US$ 300 million offering of 6.125% notes due March 2024 denominated in US Dollars, which are expected to settle on 9 March 2018.

Please also see page 212, Note 36 regarding Events After the Reporting Period in the Financial Statements.

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.

INFORMATION TO BE DISCLOSED IN ACCORDANCE WITH LISTING RULE 9.8.4R

The following information required to be disclosed in terms of Listing Rule 9.8.4R is not applicable unless stated otherwise:

- The amount of interest capitalised during the period under review and details of any related tax relief.
- Information in relation to the publication of unaudited financial information.
- Any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.
- Details of any non-pre-emptive issues of equity for cash.
- Any non-pre-emptive issues of equity for cash by the Company or by any unlisted major subsidiary undertaking.
- Parent participation in a placing by a listed subsidiary.
- Any contract of significance in which a Director is or was materially interested.
- Any waiver of dividends by a shareholder.

By order of the Board

Rebecca Wooldridge
Group Company Secretary
7 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BGEO GROUP PLC

OPINION

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 2017 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.

We have audited the financial statements of BGEO Group PLC which comprise:

Group	Parent Company
• consolidated statement of financial position as at 31 December 2017 • consolidated income statement for the year then ended • consolidated statement of comprehensive income for the year then ended • consolidated statement of changes in equity for the year then ended • consolidated statement of cash flows for the year then ended • related notes 1 to 36 to the consolidated financial statements, including a summary of significant accounting policies	• separate statement of financial position as at 31 December 2017 • separate statement of changes in equity for the year then ended • separate statement of cash flows for the year then ended • related notes 1 to 36 to the effect they apply to the Parent Company financial statements, including a summary of significant accounting policies

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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

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.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 34 to 37 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 96 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 Directors' statement set out on page 140 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 twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 33 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 Group 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.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Monitoring of credit quality and appropriateness of allowance for loan losses • Revenue recognition, including the application of IFRS 15 'Revenue from contracts with customers' to the Banking Business, JSC m² Real Estate, Georgia Healthcare Group PLC and Georgian Global Utilities Ltd • Valuation of land and office buildings, hospitals and clinics, infrastructure assets and investment properties
Audit scope	We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further one component. The components where we performed full or specific audit procedures accounted for 98% of Profit before non-recurring items and tax, 91% of Revenue and 96% of Total assets.
Materiality	Overall Group materiality of GEL 25 million which represents 5% of pre-tax profit adjusted for non-recurring items.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 279.3M, (2016: GEL 255.3M), INCLUDING GEL 2.4M ATTRIBUTABLE TO FINANCE LEASE RECEIVABLE (31 DECEMBER 2016: GEL 2.5M)** 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 cash flows 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. The level of risk is consistent with the prior year. Refer to the Audit Committee Report (page 92); Accounting policies (page 147); and Note 11 to 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, collective provisioning model inputs, key model assumptions and calculations. • We tested key controls over the specific loan loss provision, 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 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 on a sample basis and analysed the sensitivity of provisions to changes in key model inputs. • 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. • We verified the appropriate restriction of the property pledged as collateral to the Georgian public real estate register. • For real estate collateral where the valuation changed by more than 10% compared to the prior year and for new real estate collateral we reviewed the details of the current year valuation and validated the reasonableness of the new value by benchmarking major inputs to publicly available market data. • For equipment pledged (which is considered by the Group as a source of cash flows for loan repayment in certain cases for individually significant borrowers) we reconciled the values to the supporting documentation and compared to market values of such equipment. • We compared the valuation of collateral to the actual values of sales of similar repossessed properties by the Group. • We analysed a sample of restructured loans and the Group's documented assessment to provide assurance that any loans that have been subject to forbearance have been appropriately classified and reported.	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 in the middle of a reasonable range as at 31 December 2017.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
REVENUE RECOGNITION, INCLUDING THE APPLICATION OF IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS' TO THE BANKING BUSINESS, JSC M² REAL ESTATE, GEORGIA HEALTHCARE GROUP PLC AND GEORGIAN GLOBAL UTILITIES LTD **GROSS REVENUE GEL 2,482M, INCLUDING GEL 763M ATTRIBUTABLE TO DISCONTINUED OPERATIONS (2016: GEL 1,816M, INCLUDING GEL 422M ATTRIBUTABLE TO DISCONTINUED OPERATIONS)** The separate listing of Georgia Healthcare Group PLC (GHG) and the announced demerger of Banking and Investment Businesses of the Group could potentially result in pressure on management to report strong financial performance, including revenue growth. The Group has early adopted IFRS 15 for the current year. As allowed by the standard, it is applied prospectively from 1 January 2017, with no restatement of comparatives. In applying IFRS 15, judgement is required to be exercised by management in determining the point at which it is appropriate to recognise revenue, and in particular the nature of performance obligations and the allocation of the contract price to those obligations. Specific considerations include: • The timing of recognition of revenue in respect of card servicing fees, bundled products and customer loyalty schemes in the Banking Business • The treatment of corrections and rebates in GHG's hospital business • The measurement of revenue in respect of loyalty schemes and exchange transactions in GHG • The manner in which revenue is recognised over the period of construction/sale of apartments in JSC m² Real Estate • The timing of recognition of revenue arising from up-front connection and water meter installation fees in GGU The total adjustment in respect of the above as at 1 January 2017 was a deferral of revenue of GEL 29m. As with any major new accounting standard, there is a risk that the Group does not apply IFRS 15 appropriately. The Group's accounting systems are not configured to allow automated IFRS 15 accounting for revenue and the adjustments to conform to the requirements of IFRS 15 are booked as an overlay. These factors mean that there is a greater risk of misstatement in revenue 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 announced demerger and the early adoption of IFRS 15. Refer to the Audit Committee Report (page 92); the Accounting policies (pages 152-154); and Notes 3, 6, 22, 23, 24, 25, 26 to the Consolidated Financial Statements.	• We gained an understanding of the revenue processes and assessed the design and operating effectiveness of key controls. • We performed substantive testing of revenue transactions at the Banking and the Investment Businesses including key items testing and representative sampling where we agreed transactions to the underlying documentation, testing manual and topside adjustments and cut-off testing (by selecting a sample of transactions either side of year-end). • We agreed transactions on a sample basis in each of the in-scope components to supporting evidence, including underlying contracts and cash receipts to determine whether revenue had been recognised in accordance with the Group's accounting policies and IFRS. Where appropriate, we re-computed revenue and compared to reported amounts. The samples used for this testing were increased to reflect that revenue recognition is a significant risk. • We performed contract reviews with respect to products of the Banking Business, m² Real Estate, GGU and GHG and validated the identification of performance obligations. • We performed substantive audit procedures over the IFRS 15 adjustments, covering the timing of satisfaction of performance obligations, allocation of transaction price to each performance obligation and estimation of variable consideration amounts, if applicable, including analytical procedures, testing of key items and representative sample testing. • We performed analytical procedures for 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 revenue. • 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 revenue for the year ended 31 December 2017 has been recognised in accordance with IFRS. In particular, we concluded that the Group applied IFRS 15 appropriately in all material respects as at 1 January 2017, 31 December 2017 and for the year ended 31 December 2017.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
VALUATION OF LAND AND OFFICE BUILDINGS, HOSPITALS AND CLINICS, INFRASTRUCTURE ASSETS AND INVESTMENT PROPERTIES **NET BOOK VALUE OF GEL 1,352M, INCLUDING GEL 429M ATTRIBUTABLE TO ASSETS OF DISPOSAL GROUPS AND DISCONTINUED OPERATIONS (2016: GEL 1,188M)** The Group applies the revaluation model for the measurement of its infrastructure assets and hospitals and clinics and the fair value model for investment properties. During the year, the Group voluntarily changed the accounting policy for subsequent measurement of its office buildings and service centres (including related land) from the revaluation model to the cost model. The Group restated each of the affected historical financial statement line items for the prior periods as if the cost model in respect of that class of property and equipment had been always applied. Individual items of investment properties and GHG hospitals and clinics were revalued as at the year end. The fair value of the GGU infrastructure assets as at 31 December 2017 was determined using the income approach. Based on the analysis performed by the independent valuer, management concluded that this fair value for the period since the last valuation date did not significantly change. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties and infrastructure assets 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 reduced slightly in the current year as a result of the change in the accounting policy in respect of subsequent measurement of office buildings and service centres from the revaluation model to the cost model. Refer to the Audit Committee Report (page 92); Accounting policies (pages 149,150, 157 and 158); and Notes 3, 12 and 13 to the Consolidated Financial Statements.	• We engaged our real estate specialists to evaluate the appropriateness of the Group's valuations of investment properties of the Banking Business and m², infrastructure assets of GGU and hospitals and clinics of GHG, 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; – for a sample of 69 items for which specific valuations were performed, we verified the data, and assessed the appropriateness of the methods and assumptions, logic and reasoning applied by the valuers. To the extent possible we compared this information to norms and benchmarks in the Georgian market; and – in respect of the valuation of infrastructure assets we involved our valuation specialists and challenged management's key assumptions, their consistency with GGU's business plans and externally available information. We tested the underlying calculations, verified the validity of the data inputs and the appropriateness of assumptions applied. • 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'. • We challenged management's justification for a change in the accounting policy in respect of subsequent measurement of office buildings and service centres, analysed it for conformity with the requirements of IFRSs and ensured the appropriateness of proposed accounting treatment, including the adjustments made by management to restate the prior periods' balances in that respect.	Based on the results of our audit procedures, we concluded that: • The voluntary change in the accounting policy for subsequent measurement of office buildings and service centres from the revaluation model to the cost model is justified as it results in financial statements providing more relevant and reliable information to users, in particular, it improves the comparability of the financial information with other banking groups. • In respect of the valuation of investment properties, hospitals and clinics and infrastructure assets, certain assumptions and, consequently, the valuations as a whole were towards the less conservative end of, but within a reasonable range as at 31 December 2017.

In the prior year, our auditor's report included a key audit matter in relation to the accounting for one-off and complex transactions including business combinations. In the current year, there were no such transactions comparable by size, significance or complexity to those occurring in the prior year, and, accordingly, 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.

AN OVERVIEW OF 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, of the 30 reporting components of the Group, we selected six components covering entities within the UK and Georgia, which represent the principal business units within the Group.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Of the six components selected, we performed an audit of the complete financial information of five components ("full scope components") which were selected based on their size or risk characteristics. For the remaining one component ("specific scope component"), we performed audit procedures on specific account balances within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 98% (2016: 95%) of the Group's Profit before non-recurring items and tax, 91% (2016: 91%) of the Group's Revenue and 96% (2016: 95%) of the Group's Total assets.

The table below illustrates the coverage obtained from the work we performed:

	2017				2016			
	No.	Revenue	Profit[4]	Total Assets	No.	Revenue	Profit[4]	Total Assets
Full scope[1]	5	88%	93%	94%	3	85%	86%	88%
Specific scope[2]	1	3%	5%	2%	3	6%	9%	7%
Full and Specific scope coverage	6	91%	98%	96%	6	91%	95%	95%
Remaining components[3]	24	9%	2%	4%	21	9%	5%	5%
Total reporting components	30	100%	100%	100%	27	100%	100%	100%

1. We audited the complete financial information.
2. We audited specific account balances 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 journal entries 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	Full	Georgia/component team
JSC BGEO Group	Full	Georgia/primary team
JSC m² Real Estate	Specific	Georgia/component team

CHANGES FROM THE PRIOR YEAR

For the year ended 31 December 2017, we changed the scope for Georgian Global Utilities limited and JSC BGEO Group from specific scope to full scope because of the increase in the size and risk characteristics of these components.

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 five full scope components, audit procedures were performed on three of these directly by the primary audit team. For the specific scope component 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, Russia and the CIS. The Senior Statutory Auditor visited Georgia five times during the current year's audit and there was regular interaction between team members in each jurisdiction. During the current year's audit cycle, visits were undertaken by the Senior Statutory Auditor and other members of the primary audit team to the components 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 25 million (2016: GEL 20 million), which is approximately 5% (2016: 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 482.0m (continuing operations: GEL 435.8m, discounted operations: GEL 46.2m)
Adjustments	Non-recurring items: GEL 9.7m (continuing operations GEL 4.9m, discounted operations: GEL 4.8m)
Materiality	Totals GEL 491.8m (materiality basis) Materiality of GEL 25.0m (approx. 5% of materiality basis)

We determined materiality for the Parent Company to be GEL 20 million (2016: GEL 20 million), which is approximately 2% (2016: 2%) of equity. We consider that, in respect of the Parent Company, equity is most relevant to the stakeholders and is best representative of the economic size of the entity 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	Equity: GEL 988.3m
Adjustments	No adjustments
Materiality	Materiality of GEL 20.0m (approx. 2% of materiality basis)

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% (2016: 50%) of our planning materiality, namely GEL 12.5 million (2016: GEL 10.0 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is 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 10.0m
- JSC BGEO Group — GEL 10.0m
- JSC Bank of Georgia — GEL 10.0m
- Georgia Healthcare Group PLC — GEL 3.75m
- Georgian Global Utilities Ltd — GEL 3.125m
- JSC m² Real Estate — GEL 2.5m

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 1.25 million (2016: GEL 1 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 evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

INDEPENDENT AUDITOR'S REPORT CONTINUED

OTHER INFORMATION
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon, including the following sections of the annual report:

- Strategic Report set out on pages 2 to 75
- Governance section, including Directors' Governance Overview, Board of Directors, Executive Management, Corporate Governance Framework, Nomination Committee Report, Audit Committee Report, Risk Committee Report, Shareholder engagement, Annual Statement by the Chairman of the Remuneration Committee, Directors' Remuneration Policy, Annual Report on Remuneration, Statement of Directors' Responsibilities and Directors' Report, set out on pages 76 to 117
- Additional information, including Abbreviations, Glossary and Shareholder information, set out on pages 213 to 216.

The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 114 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 91 to 94 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 76 – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS 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.

In our opinion, 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; and
- 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
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

RESPONSIBILITIES OF DIRECTORS
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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD
The objectives of our audit:

- in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are: to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the UK Listing Authority ('UKLA'), and the various Georgian legal and regulatory requirements applying to the components of the Group, of which the most material are the regulations of the National Bank of Georgia relating to the Banking Business, water regulations and healthcare regulations.
- We obtained a general understanding of how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and its regulators; reviewed minutes of the Board and Executive Risk Committee, and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework, and the Board's review of the Group's risk management framework ('RMF') and internal control processes.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the regulators.
- We instructed component teams to communicate to the primary team any identified instances of non-compliance with laws and regulations. There were no such instances identified and communicated by and to components.
- The Group operates across various industries some of which, including banking, insurance, public utilities and healthcare, are highly regulated environments. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities which included the use of specialists where appropriate.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgment, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk which included management, internal audit and legal enquiries, testing of internal control, journal entry testing, analytical procedures, tests of detail and focused testing as referred to in the Key Audit Matters section above. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS
Following the tender process and the subsequent recommendation of the Audit Committee to the Board, we were appointed by the Board on 16 April 2012 to audit the financial statements for the first accounting period ending 31 December 2012 and subsequent financial periods. We were re-appointed by shareholders at the Company's 2013 Annual General Meeting and at each subsequent Annual General Meeting. The period of total uninterrupted engagement is six years, covering the first financial period ending 31 December 2012 and subsequent annual periods ending 31 December 2013 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 March 2018

Notes:
1. The maintenance and integrity of the BGEO Group PLC's 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 2017 (THOUSANDS OF GEORGIAN LARI)

		2017				2016*				2015*			
	Notes	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total
ASSETS													
Cash and cash equivalents	8	**1,516,401**	**374,301**	**(308,267)**	**1,582,435**	1,480,783	401,969	(309,142)	1,573,610	1,378,299	292,956	(238,321)	1,432,934
Amounts due from credit institutions	9	**1,216,349**	**38,141**	**(28,543)**	**1,225,947**	940,485	178,425	(63,927)	1,054,983	718,677	34,068	(21,380)	731,365
Investment securities	10	**1,613,759**	**33,059**	**(81,949)**	**1,564,869**	1,283,903	3,672	(1,572)	1,286,003	904,146	1,785	(2,064)	903,867
Loans to customers and finance lease receivables	11	**7,741,420**	**–**	**(50,970)**	**7,690,450**	6,681,672	–	(33,190)	6,648,482	5,366,764	–	(44,647)	5,322,117
Accounts receivable and other loans		**3,572**	**35,446**	**(74)**	**38,944**	55,377	125,962	(52,833)	128,506	3,777	86,881	(2,686)	87,972
Insurance premiums receivable		**–**	**30,854**	**(281)**	**30,573**	–	48,390	(1,967)	46,423	–	40,880	(1,654)	39,226
Prepayments		**61,501**	**88,057**	**–**	**149,558**	18,716	58,161	(600)	76,277	20,330	37,998	–	58,328
Inventories		**20,086**	**80,108**	**–**	**100,194**	8,809	179,535	–	188,344	9,319	117,708	–	127,027
Investment properties	12	**202,533**	**155,367**	**(4,335)**	**353,565**	152,597	135,630	–	288,227	135,453	110,945	–	246,398
Property and equipment	13	**322,925**	**661,176**	**4,335**	**988,436**	296,791	991,803	–	1,288,594	293,244	464,783	–	758,027
Goodwill	14	**33,351**	**21,925**	**–**	**55,276**	33,453	73,533	–	106,986	33,453	39,531	–	72,984
Intangible assets		**55,525**	**5,455**	**–**	**60,980**	39,941	18,966	–	58,907	33,976	6,540	–	40,516
Income tax assets	15	**919**	**1,374**	**–**	**2,293**	19,325	4,718	–	24,043	14,759	6,791	–	21,550
Other assets	16	**119,337**	**73,468**	**(4,073)**	**188,732**	111,506	86,305	(13,020)	184,791	139,200	100,276	(2,696)	236,780
Assets of disposal group held for sale	6	**–**	**1,165,182**	**(28,765)**	**1,136,417**	–	–	–	–	–	–	–	–
TOTAL ASSETS		**12,907,678**	**2,763,913**	**(502,922)**	**15,168,669**	11,123,358	2,307,069	(476,251)	12,954,176	9,051,397	1,341,142	(313,448)	10,079,091
LIABILITIES													
Client deposits and notes	17	**7,078,058**	**–**	**(365,576)**	**6,712,482**	5,755,767	–	(373,069)	5,382,698	5,011,269	–	(259,882)	4,751,387
Amounts owed to credit institutions	18	**2,778,338**	**377,501**	**–**	**3,155,839**	3,067,651	435,630	(33,190)	3,470,091	1,692,557	142,460	(45,955)	1,789,062
Debt securities issued	19	**1,386,412**	**357,442**	**(34,702)**	**1,709,152**	858,036	404,450	(6,843)	1,255,643	961,944	82,522	(4,662)	1,039,804
Accruals and deferred income		**42,207**	**90,462**	**–**	**132,669**	21,778	161,893	(53,352)	130,319	17,549	129,303	–	146,852
Insurance contract liabilities		**–**	**46,402**	**–**	**46,402**	–	67,871	–	67,871	–	55,845	–	55,845
Income tax liabilities	15	**20,100**	**859**	**–**	**20,959**	22,528	5,190	–	27,718	84,960	34,333	–	119,293
Other liabilities	16	**49,861**	**92,553**	**(281)**	**142,133**	45,096	196,324	(9,797)	231,623	34,391	103,314	(2,949)	134,756
Liabilities of disposal group held for sale	6	**–**	**619,026**	**(102,363)**	**516,663**	–	–	–	–	–	–	–	–
TOTAL LIABILITIES		**11,354,976**	**1,584,245**	**(502,922)**	**12,436,299**	9,770,856	1,271,358	(476,251)	10,565,963	7,802,670	547,777	(313,448)	8,036,999
EQUITY	21												
Share capital		**1,151**	**–**	**–**	**1,151**	1,154	–	–	1,154	1,154	–	–	1,154
Additional paid-in capital		**–**	**106,086**	**–**	**106,086**	45,072	138,800	–	183,872	101,793	138,800	–	240,593
Treasury shares		**(66)**	**–**	**–**	**(66)**	(54)	–	–	(54)	(44)	–	–	(44)
Other reserves		**(74,046)**	**196,128**	**–**	**122,082**	(57,485)	131,884	–	74,399	(87,561)	95,862	–	8,301
Retained earnings		**1,618,775**	**561,640**	**–**	**2,180,415**	1,344,144	528,352	–	1,872,496	1,215,693	355,572	–	1,571,265
Reserves of disposal group held for sale		**–**	**10,934**	**–**	**10,934**	–	–	–	–	–	–	–	–
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF BGEO		**1,545,814**	**874,788**	**–**	**2,420,602**	1,332,831	799,036	–	2,131,867	1,231,035	590,234	–	1,821,269
Non-controlling interests		**6,888**	**304,880**	**–**	**311,768**	19,671	236,675	–	256,346	17,692	203,131	–	220,823
TOTAL EQUITY		**1,552,702**	**1,179,668**	**–**	**2,732,370**	1,352,502	1,035,711	–	2,388,213	1,248,727	793,365	–	2,042,092
TOTAL LIABILITIES AND EQUITY		**12,907,678**	**2,763,913**	**(502,922)**	**15,168,669**	11,123,358	2,307,069	(476,251)	12,954,176	9,051,397	1,341,142	(313,448)	10,079,091

* Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3 and change in the composition of Investment Business and Banking Business as described in Note 7.

The financial statements on pages 126 to 212 were approved by the Board of Directors on 7 March 2018 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer
BGEO Group PLC
7 March 2018

Registered No. 07811410

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

		2017				2016*				2015*			
	Notes	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total
Banking interest income		1,140,292	–	(8,378)	1,131,914	932,063	–	(6,034)	926,029	870,712	–	(11,972)	858,740
Banking interest expense		(468,192)	–	8,813	(459,379)	(378,452)	–	544	(377,908)	(360,115)	–	1,798	(358,317)
NET BANKING INTEREST INCOME	22	672,100	–	435	672,535	553,611	–	(5,490)	548,121	510,597	–	(10,174)	500,423
Fee and commission income		192,499	–	(2,107)	190,392	172,630	–	(3,049)	169,581	161,574	–	(3,810)	157,764
Fee and commission expense		(61,025)	–	683	(60,342)	(47,720)	–	616	(47,104)	(40,355)	–	687	(39,668)
NET FEE AND COMMISSION INCOME	23	131,474	–	(1,424)	130,050	124,910	–	(2,433)	122,477	121,219	–	(3,123)	118,096
Net banking foreign currency gain		86,060	–	(6,954)	79,106	83,203	–	6,277	89,480	75,933	–	–	75,933
Net other banking income		19,701	–	(1,056)	18,645	12,183	–	(1,516)	10,667	19,399	–	(1,864)	17,535
Net insurance premiums earned		–	52,147	216	52,363	–	43,094	(687)	42,407	–	40,856	(1,133)	39,723
Net insurance claims incurred		–	(25,098)	–	(25,098)	–	(17,838)	–	(17,838)	–	(20,114)	–	(20,114)
GROSS INSURANCE PROFIT	24	–	27,049	216	27,265	–	25,256	(687)	24,569	–	20,742	(1,133)	19,609
Real estate revenue		–	121,132	(977)	120,155	–	100,164	(581)	99,583	–	53,882	–	53,882
Cost of real estate		–	(85,765)	–	(85,765)	–	(81,098)	–	(81,098)	–	(39,721)	–	(39,721)
GROSS REAL ESTATE PROFIT	25	–	35,367	(977)	34,390	–	19,066	(581)	18,485	–	14,161	–	14,161
Utility and energy revenue		–	127,568	(360)	127,208	–	56,486	(139)	56,347	–	–	–	–
Cost of utility and energy		–	(39,198)	–	(39,198)	–	(17,806)	–	(17,806)	–	–	–	–
GROSS UTILITY AND ENERGY PROFIT	26	–	88,370	(360)	88,010	–	38,680	(139)	38,541	–	–	–	–
Gross other investment profit	27	–	30,583	47	30,630	–	21,334	(46)	21,288	–	18,677	(296)	18,381
REVENUE		909,335	181,369	(10,073)	1,080,631	773,907	104,336	(4,615)	873,628	727,148	53,580	(16,590)	764,138
Salaries and other employee benefits	28	(198,213)	(34,548)	2,219	(230,542)	(168,374)	(16,279)	1,800	(182,853)	(148,923)	(11,801)	1,296	(159,428)
Administrative expenses	28	(100,291)	(38,350)	2,464	(136,177)	(82,113)	(17,751)	2,835	(97,029)	(72,789)	(10,974)	2,399	(81,364)
Banking depreciation and amortisation		(40,974)	–	–	(40,974)	(37,207)	–	–	(37,207)	(33,365)	–	–	(33,365)
Other operating expenses		(3,458)	(1,894)	–	(5,352)	(3,854)	(1,863)	–	(5,717)	(3,210)	(367)	–	(3,577)
OPERATING EXPENSES		(342,936)	(74,792)	4,683	(413,045)	(291,548)	(35,893)	4,635	(322,806)	(258,287)	(23,142)	3,695	(277,734)
OPERATING INCOME BEFORE COST OF CREDIT RISK/EBITDA		566,399	106,577	(5,390)	667,586	482,359	68,443	20	550,822	468,861	30,438	(12,895)	486,404
Profit from associates		1,311	–	–	1,311	–	4,074	–	4,074	–	4,050	–	4,050
Depreciation and amortisation of investment business		–	(28,235)	–	(28,235)	–	(10,062)	–	(10,062)	–	(2,393)	–	(2,393)
Net foreign currency (loss) gain of investment business		–	(4,937)	–	(4,937)	–	(3,134)	–	(3,134)	–	8,157	–	8,157
Interest income from investment business	22	–	12,970	(7,555)	5,415	–	4,144	(399)	3,745	–	2,513	(1,014)	1,499
Interest expense from investment business	22	–	(30,014)	354	(29,660)	–	(13,410)	2,190	(11,220)	–	(2,115)	1,818	(297)
OPERATING INCOME BEFORE COST OF CREDIT RISK		567,710	56,361	(12,591)	611,480	482,359	50,055	1,811	534,225	468,861	40,650	(12,091)	497,420

* Certain amounts included in Banking Business and Investment Business do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in the composition of segments as described in Note 7 and discontinued operations described in Note 6 .

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

		2017				2016*				2015*			
	Notes	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total	Banking Business	Investment Business	Eliminations	Total
OPERATING INCOME BEFORE COST OF CREDIT RISK		567,710	56,361	(12,591)	611,480	482,359	50,055	1,811	534,225	468,861	40,650	(12,091)	497,420
Impairment charge on loans to customers	11	(155,210)	–	–	(155,210)	(158,892)	–	–	(158,892)	(142,819)	–	–	(142,819)
Impairment charge on finance lease receivables	11	(496)	–	–	(496)	(777)	–	–	(777)	(1,958)	–	–	(1,958)
Impairment charge on other assets and provisions		(11,590)	(3,415)	–	(15,005)	(8,083)	(1,004)	–	(9,087)	(6,031)	(1,121)	–	(7,152)
COST OF CREDIT RISK		(167,296)	(3,415)	–	(170,711)	(167,752)	(1,004)	–	(168,756)	(150,808)	(1,121)	–	(151,929)
NET OPERATING INCOME BEFORE NON-RECURRING ITEMS		400,414	52,946	(12,591)	440,769	314,607	49,051	1,811	365,469	318,053	39,529	(12,091)	345,491
Net non-recurring items	29	(4,300)	(623)	–	(4,923)	(45,355)	32,673	–	(12,682)	(12,344)	(556)	–	(12,900)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		396,114	52,323	(12,591)	435,846	269,252	81,724	1,811	352,787	305,709	38,973	(12,091)	332,591
Income tax (expense) gain	15	(26,592)	(5,748)	–	(32,340)	26,444	(8,944)	–	17,500	(43,917)	(4,500)	–	(48,417)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		369,522	46,575	(12,591)	403,506	295,696	72,780	1,811	370,287	261,792	34,473	(12,091)	284,174
Profit from discontinued operations	6	–	47,352	12,591	59,943	–	60,100	(1,811)	58,289	–	14,680	12,091	26,771
PROFIT FOR THE YEAR		369,522	93,927	–	463,449	295,696	132,880	–	428,576	261,792	49,153	–	310,945
TOTAL PROFIT ATTRIBUTABLE TO:													
– shareholders of BGEO		367,832	69,783	–	437,615	293,173	105,365	–	398,538	258,001	45,693	–	303,694
– non-controlling interests		1,690	24,144	–	25,834	2,523	27,515	–	30,038	3,791	3,460	–	7,251
		369,522	93,927	–	463,449	295,696	132,880	–	428,576	261,792	49,153	–	310,945
PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO:													
– shareholders of BGEO		367,832	50,385	(12,591)	405,626	293,173	72,641	1,811	367,625	258,001	36,221	(12,091)	282,131
– non-controlling interests		1,690	(3,810)	–	(2,120)	2,523	139	–	2,662	3,791	(1,748)	–	2,043
		369,522	46,575	(12,591)	403,506	295,696	72,780	1,811	370,287	261,792	34,473	(12,091)	284,174
PROFIT FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO:													
– shareholders of BGEO		–	19,398	12,591	31,989	–	32,724	(1,811)	30,913	–	9,472	12,091	21,563
– non-controlling interests		–	27,954	–	27,954	–	27,376	–	27,376	–	5,208	–	5,208
		–	47,352	12,591	59,943	–	60,100	(1,811)	58,289	–	14,680	12,091	26,771
BASIC EARNINGS PER SHARE:	21				11.6086				10.4148				7.9264
– earnings per share from continuing operations					10.7600				9.6070				7.3636
– earnings per share from discontinued operations					0.8486				0.8078				0.5628
DILUTED EARNINGS PER SHARE:	21				11.0724				10.0895				7.9264
– earnings per share from continuing operations					10.2631				9.3069				7.3636
– earnings per share from discontinued operations					0.8093				0.7826				0.5628

* Certain amounts included in Banking Business and Investment Business do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in the composition of segments as described in Note 7 and discontinued operations described in Note 6.

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Notes	2017	2016*	2015*
PROFIT FOR THE YEAR		**463,449**	428,576	310,945
OTHER COMPREHENSIVE (LOSS) INCOME FROM CONTINUING OPERATIONS				
Other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Unrealised revaluation of available-for-sale securities		**3,862**	86,245	(30,928)
– Realised (gain) loss on available-for-sale securities reclassified to the consolidated income statement		**(2,060)**	(28,325)	84
– (Loss) gain from currency translation differences		**(10,233)**	12,517	(11,590)
Income tax impact	15	**(549)**	(2,274)	283
NET OTHER COMPREHENSIVE (LOSS) INCOME FROM CONTINUING OPERATIONS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(8,980)**	68,163	(42,151)
Other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	13	**3,483**	–	–
– Income tax impact	15	**(779)**	–	–
– Impact of income tax changes on associates		**–**	5,580	–
NET OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**2,704**	5,580	–
Other comprehensive (loss) income for the year from discontinued operations not to be reclassified to profit or loss in subsequent periods	6	**(4,564)**	20,804	–
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX		**(10,840)**	94,547	(42,151)
Total comprehensive income for the year from continuing operations		**397,230**	444,030	242,023
Total comprehensive income for the year from discontinued operations		**55,379**	79,093	26,771
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**452,609**	523,123	268,794
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
– shareholders of BGEO		**429,916**	486,799	264,070
– non-controlling interests		**22,693**	36,324	4,724
		452,609	523,123	268,794
TOTAL COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS ATTRIBUTABLE TO:				
– shareholders of BGEO		**398,681**	442,879	240,763
– non-controlling interests		**(1,451)**	1,151	1,260
		397,230	444,030	242,023
TOTAL COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO:				
– shareholders of BGEO		**31,235**	43,920	23,307
– non-controlling interests		**24,144**	35,173	3,464
		55,379	79,093	26,771

* Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3 and discontinued operations described in Note 6.

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Attributable to shareholders of BGEO								
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Reserves of disposal group held for sale	Retained earnings	Total	Non-controlling interests	Total equity
31 DECEMBER 2014	1,143	245,305	(46)	(22,574)	–	1,350,258	1,574,086	60,007	1,634,093
Change in accounting policy (Note 3)	–	–	–	(37,217)	–	(857)	(38,074)	(2,123)	(40,197)
1 JANUARY 2015 (RESTATED)	1,143	245,305	(46)	(59,791)	–	1,349,401	1,536,012	57,884	1,593,896
Profit for the year	–	–	–	–	–	303,694	303,694	7,251	310,945
Other comprehensive loss for the year	–	–	–	(29,486)	–	(10,138)	(39,624)	(2,527)	(42,151)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	–	(29,486)	–	293,556	264,070	4,724	268,794
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 21)	–	–	–	–	–	(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)	8,301	–	1,571,265	1,821,269	220,823	2,042,092
Profit for the year	–	–	–	–	–	398,538	398,538	30,038	428,576
Other comprehensive income for the year	–	–	–	87,964	–	297	88,261	6,286	94,547
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	–	87,964	–	398,835	486,799	36,324	523,123
Increase in equity arising from share-based payments	–	42,365	14	–	–	–	42,379	3,816	46,195
Dividends to shareholders of BGEO (Note 21)	–	–	–	–	–	(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)	74,399	–	1,872,496	2,131,867	256,346	2,388,213
Effect of early adoption of IFRS 15 (Note 3)	–	–	–	–		(29,050)	(29,050)	–	(29,050)
1 JANUARY 2017	1,154	183,872	(54)	74,399	–	1,843,446	2,102,817	256,346	2,359,163
Profit for the year	**–**	**–**	**–**	**–**	**–**	**437,615**	**437,615**	**25,834**	**463,449**
Other comprehensive loss for the year	**–**	**–**	**–**	**(7,868)**	**–**	**169**	**(7,699)**	**(3,141)**	**(10,840)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**–**	**–**	**(7,868)**	**–**	**437,784**	**429,916**	**22,693**	**452,609**
Depreciation of property and equipment revaluation reserve, net of tax	**–**	**–**	**–**	**(686)**	**–**	**686**	**–**	**–**	**–**
Discontinued operations (Note 6)	**–**	**–**	**–**	**(10,934)**	**10,934**	**–**	**–**	**–**	**–**
Increase in equity arising from share-based payments	**–**	**59,262**	**17**	**–**	**–**	**–**	**59,279**	**1,495**	**60,774**
Buyback and cancellation of own shares (Note 21)	**(3)**	**(12,183)**	**–**	**–**	**–**	**–**	**(12,186)**	**–**	**(12,186)**
Dividends to shareholders of BGEO (Note 21)	**–**	**–**	**–**	**–**	**–**	**(101,501)**	**(101,501)**	**–**	**(101,501)**
Dilution of interests in subsidiaries	**–**	**–**	**–**	**331**	**–**	**–**	**331**	**1,714**	**2,045**
Increase in share capital of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,493**	**14,493**
Sale of interests in existing subsidiaries**	**–**	**–**	**–**	**70,333**	**–**	**–**	**70,333**	**38,234**	**108,567**
Acquisition of non-controlling interests in existing subsidiaries (Notes 5, 21)	**–**	**–**	**–**	**(3,493)**	**–**	**–**	**(3,493)**	**(58,443)**	**(61,936)**
Non-controlling interests arising on acquisition of subsidiary (Note 5)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**35,236**	**35,236**
Purchase of treasury shares	**–**	**(124,865)**	**(29)**	**–**	**–**	**–**	**(124,894)**	**–**	**(124,894)**
31 DECEMBER 2017	**1,151**	**106,086**	**(66)**	**122,082**	**10,934**	**2,180,415**	**2,420,602**	**311,768**	**2,732,370**

* Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3.
** The Group sold approximately 7% equity interests in Georgia Healthcare Group PLC, its healthcare subsidiary, without losing control.

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Notes	2017	2016*	2015*
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Interest received		**1,117,016**	916,585	861,288
Interest paid		**(487,462)**	(421,318)	(338,934)
Fees and commissions received		**185,974**	165,603	153,046
Fees and commissions paid		**(60,807)**	(47,079)	(39,475)
Insurance premiums received		**40,677**	38,497	38,488
Insurance claims paid		**(22,325)**	(19,195)	(17,937)
Utility and energy revenue received		**133,728**	58,714	–
Cost of utility services paid		**(36,616)**	(19,156)	–
Net cash inflow (outflow) from real estate		**20,943**	(24,271)	24,946
Net realised gain (loss) from trading securities		**–**	944	(655)
Net realised (loss) from investment securities available-for-sale		**–**	–	(84)
Net realised gain from foreign currencies		**65,948**	64,504	65,040
Recoveries of loans to customers previously written off	11	**52,792**	36,244	33,685
Other income received (expense paid)		**(622)**	(32,847)	3,178
Salaries and other employee benefits paid		**(163,057)**	(143,209)	(127,873)
General and administrative and operating expenses paid		**(111,084)**	(61,968)	(87,769)
CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**735,105**	512,048	566,944
Net (increase) decrease in operating assets				
Amounts due from credit institutions		**(210,929)**	(233,829)	(182,155)
Loans to customers and Finance lease receivables		**(1,420,567)**	(1,004,520)	183,614
Prepayments and other assets		**(76,186)**	38,182	(17,760)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		**(121,234)**	1,381,622	164,764
Debt securities issued		**459,802**	150,957	(92,181)
Client deposits and notes		**1,415,765**	240,586	349,420
Other liabilities		**(3,818)**	29,338	(17,160)
NET CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**777,938**	1,114,384	955,486
Income tax paid		**(16,111)**	(37,726)	(28,925)
NET CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		**761,827**	1,076,658	926,561
Net cash flows from operating activities of discontinued operations		**175,360**	56,901	(24,638)
NET CASH FLOW FROM OPERATING ACTIVITIES		**937,187**	1,133,559	901,923
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of subsidiaries, net of cash acquired	5	**(17,844)**	(160,453)	22,620
Repayment of remaining holdback amounts from previous year acquisitions		**–**	(8,768)	–
Net purchase of investment securities available-for-sale		**(273,630)**	(313,318)	(157,509)
Purchase of investments in associates		**–**	(819)	(3,092)
Proceeds from sale of investment properties	12	**11,469**	8,599	19,815
Purchase of investment properties	12	**(17,187)**	(9,799)	(18,873)
Proceeds from sale of property and equipment and intangible assets		**8,018**	6,806	5,561
Purchase of property and equipment and intangible assets		**(336,379)**	(152,859)	(63,713)
Dividends received		**–**	3,230	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		**(625,553)**	(627,381)	(195,191)
Net cash flows used in investing activities of discontinued operations		**(143,851)**	(176,142)	(121,881)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(769,404)**	(803,523)	(317,072)

* Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for discontinued operations described in Note 6.

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Notes	2017	2016*	2015*
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES				
Buyback and cancellation of own shares	21	**(12,186)**	–	–
Dividends paid		**(101,714)**	(97,106)	(82,015)
Purchase of treasury shares		**(124,894)**	(99,110)	(28,945)
Increase in share capital of subsidiaries		**14,493**	–	–
(Purchase) of proceeds from sale of interests in existing subsidiaries		**86,866**	–	17,076
NET CASH USED IN FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		**(137,435)**	(196,216)	(93,884)
Net cash from (used in) financing activities of discontinued operations		**–**	(2,072)	218,501
NET CASH USED IN FINANCING ACTIVITIES		**(137,435)**	(198,288)	124,617
Effect of exchange rates changes on cash and cash equivalents		**925**	8,928	13,322
NET INCREASE IN CASH AND CASH EQUIVALENTS		**31,273**	140,676	722,790
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	8	**1,573,610**	1,432,934	710,144
CASH AND CASH EQUIVALENTS OF DISPOSAL GROUP HELD FOR SALE		**22,448**	–	–
CASH AND CASH EQUIVALENTS, END OF THE YEAR	8	**1,582,435**	1,573,610	1,432,934

* Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for discontinued operations described in Note 6.

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Notes	2017	2016	2015
ASSETS				
Cash and cash equivalents	8	**2,688**	105,248	32,435
Investments in subsidiaries	2	**993,853**	1,003,578	950,290
Investments in associates		**–**	–	53,458
Other assets		**3,703**	557	305
TOTAL ASSETS		**1,000,244**	1,109,383	1,036,488
LIABILITIES				
Other liabilities		**11,982**	10,083	9,740
TOTAL LIABILITIES		**11,982**	10,083	9,740
EQUITY				
Share capital	21	**1,151**	1,154	1,154
Additional paid-in capital		**196,438**	208,621	208,621
Retained earnings		**790,636**	723,211	793,397
Net profit for the period		**37**	166,314	23,576
TOTAL EQUITY		**988,262**	1,099,300	1,026,748
TOTAL LIABILITIES AND EQUITY		**1,000,244**	1,109,383	1,036,488

Total parent company distributable reserves as at 31 December 2017 were GEL 790,673 (31 December 2016: GEL 889,525; 31 December 2015: GEL 816,973).

The financial statements on page 126 to 212 were approved by the Board of Directors on 7 March 2018 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer
BGEO Group PLC
7 March 2018

Registered No. 07811410

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
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 21)	–	–	–	(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 21)	–	–	–	(93,762)	(93,762)
31 DECEMBER 2016	1,154	208,621	–	889,525	1,099,300
Total comprehensive income	–	–	–	37	37
Increase in equity arising from share-based payments	–	118	–	–	118
Purchase of treasury shares	–	(118)	–	–	(118)
Buyback and cancellation of own shares (Note 21)	(3)	(12,183)	–	–	(12,186)
Dividends to shareholders of BGEO (Note 21)	–	–	–	(98,889)	(98,889)
31 DECEMBER 2017	**1,151**	**196,438**	**–**	**790,673**	**988,262**

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	2017	2016	2015
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Interest income received	**5,432**	98	1,146
Fees and commissions paid	**(435)**	(467)	(484)
Salaries and other employee benefits paid	**(2,144)**	(2,165)	(1,920)
General and administrative expenses paid	**(3,998)**	(2,335)	(2,073)
CASH FLOWS USED IN OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**(1,145)**	(4,869)	(3,331)
Net decrease in operating assets	**–**	–	56,658
Net (decrease) increase in operating liabilities	**(190)**	(163)	2,976
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	**(1,335)**	(5,032)	56,303
NET CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES			
Purchase of investments in associates	**–**	–	(3,092)
Increase of investments in subsidiaries	**–**	–	(45,125)
Capital redemption from subsidiaries	**9,725**	–	–
Dividends received	**–**	169,666	–
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	**9,725**	169,666	(48,217)
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES			
Buyback and cancellation of own shares (Note 21)	**(12,186)**	–	–
Purchase of treasury shares	**(118)**	–	–
Dividends paid	**(98,889)**	(93,762)	(80,411)
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES	**(111,193)**	(93,762)	(80,411)
Effect of exchange rates changes on cash and cash equivalents	**243**	1,941	16,755
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(102,560)**	72,813	(55,570)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**105,248**	32,435	88,005
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**2,688**	105,248	32,435

The accompanying Notes on pages 139 to 212 are an integral part of these financial statements.

NOTES TO THE 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 JSC Bank of Georgia (the "Bank") as at 31 December 2017, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, BGEO makes up a group of companies (the "Group") that provide banking, insurance, real estate, utility, leasing, beverage production and distribution, brokerage and investment management services to corporate and individual customers. The Group currently consolidates the healthcare and pharmacy business, which has been classified as discontinued operations of the Group. 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.

On 3 July 2017 BGEO announced its intention to demerge BGEO Group PLC into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC, by the end of the first half of 2018.

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 2017, the Bank has 286 operating outlets in all major cities of Georgia (31 December 2016: 278; 31 December 2015: 266). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

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 standalone basis and thereby limit investments in non-banking subsidiaries by locally regulated banking entities.

BGEO's registered legal address is 84 Brook Street, London, W1K 5EH, England.

As at 31 December 2017, 31 December 2016 and 31 December 2015, the following shareholders owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	31 December 2017	31 December 2016	31 December 2015
Harding Loevner Management LP	**8.32%**	9.63%	9.09%
Schroders Investment Management	**4.86%**	5.36%	10.30%
LGM Investments Ltd	**3.28%**	2.53%	2.70%
Norges Bank Investment Management	**3.11%**	2.31%	1.36%
Westwood International Advisors	**2.69%**	3.49%	4.05%
Firebird Management LLC	**2.22%**	2.62%	3.04%
Artemis Investment Management	**1.45%**	4.47%	3.57%
Others	**74.07%**	69.59%	65.89%
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. PRINCIPAL ACTIVITIES CONTINUED

As at 31 December 2017, the members of the Board of Directors of BGEO owned 386,351 shares or 1.0% (31 December 2016: 308,388 shares or 0.8%; 31 December 2015: 356,392 shares or 0.9%) of BGEO. Interests of the members of the Board of Directors of BGEO Group PLC were as follows:

Shareholder	**31 December 2017, shares held**	31 December 2016, shares held	31 December 2015, shares held
Irakli Gilauri	**303,115**	202,315	250,319
Neil Janin	**39,229**	35,729	35,729
David Morrison	**26,357**	26,357	26,357
Kaha Kiknavelidze*	**–**	26,337	26,337
Al Breach	**16,400**	16,400	16,400
Kim Bradley	**1,250**	1,250	1,250
Tamaz Georgadze	**–**	–	–
Hanna Loikkanen	**–**	–	–
Jonathan Muir**	**–**	–	–
TOTAL	**386,351**	308,388	356,392

* Stepped down from the Board on 6 September 2016 and assumed the role of CEO of the Bank.
** Was appointed as an Independent Non-Executive Director on 20 June 2017.

2. BASIS OF PREPARATION

GENERAL

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone 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 2017 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

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

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

Total amount of investment in subsidiaries in BGEO's separate statement of financial position as at 31 December 2017 was GEL 993,853 (31 December 2016: GEL 1,003,578; 31 December 2015: GEL 950,290), represented by direct investment in JSC BGEO Group. The consolidated financial statements as at 31 December 2017, 31 December 2016 and 31 December 2015 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held							
Subsidiaries	**31 December 2017**	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC BGEO Group	**100.00%**	100.00%	100.00%	Georgia	29a Gagarini street, Tbilisi, 0105	Investment	28/5/2015	–
JSC Bank of Georgia	**99.55%**	99.55%	99.52%	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	**–**	–	100.00%	Georgia	Didube-Chughureti district, No 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	Investment	12/5/2009	13/10/2009
JSC Belarusky Narodny Bank	**99.98%**	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
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%	100.00%	Georgia	Didube-Chughureti district, No 114, Ak. Tsereteli ave., Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BGEO Investments	**100.00%**	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%	100.00%	Georgia	3-5 Kazbegi st., 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 Hypodrome, LLC	**100.00%**	100.00%	100.00%	Georgia	10 Givia Kartozia st., Tbilisi	Real estate	6/7/2015	–
m^2 Skyline, LLC	**100.00%**	100.00%	100.00%	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
m^2 at Kazbegi, LLC	**100.00%**	100.00%	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
m^2 at Tamarashvili, LLC	**100.00%**	100.00%	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
m^2 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%	100.00%	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
Optima Saburtalo, LLC	**100.00%**	100.00%	100.00%	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
m^2 at Vake, LLC	**100.00%**	100.00%	–	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
m^2 Hospitality, LLC	**100.00%**	100.00%	100.00%	Georgia	3-5 Kazbegi st.,Tbilisi, 0179	Real estate	17/8/2015	–
m^2, LLC (formerly JSC m^2)	**100.00%**	100.00%	100.00%	Georgia	#3–5 Kazbegi Street, Tbilisi	Real estate	12/2/2014	–
m^2 Kutaisi, LLC	**100.00%**	–	–	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
m^2 at Melikishvili, LLC	**100.00%**	–	–	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
Kass 1, LLC	**60.00%**	–	–	Georgia	20 Merab Kostava st., Tbilisi	Real estate	16/10/2014	27/12/2017
m^2 at Chavchavadze LLC	**100.00%**	100.00%	–	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	5/9/2016	–
m^2 Commercial Properties LLC	**100.00%**	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 st.,Tbilisi	Real estate	3/10/2014	–
BK Construction, LLC	**100.00%**	–	–	Georgia	80 Agmashenebeli ave., Tbilisi	Real estate	18/5/2017	2/6/2017
JSC Georgian Renewable Power Co.	**65.00%**	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	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	**100.00%**	65.00%	65.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
JSC Zoti Hydro	**100.00%**	65.00%	100.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	20/8/2015	–
JSC Caucasian Wind Company	**100.00%**	100.00%	–	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
JSC Caucasian Solar Company	**100.00%**	100.00%	–	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
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%	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	22/8/2007	21/1/2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. BASIS OF PREPARATION CONTINUED
SUBSIDIARIES AND ASSOCIATES

Subsidiaries	Proportion of voting rights and ordinary share capital held: **31 December 2017**	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Aliance, LLC	**100.00%**	100.00%	100.00%	Georgia	1 Sanapiro Str., 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 AMF	**100.00%**	–	–	Georgia	20 I. Chavchavadze Ave., Tbilisi	Insurance	17/11/2017	–
JSC Pediatria	**76.00%**	76.00%	–	Georgia	U. Chkeidze Str., N10, Tbilisi	Medical services	5/9/2003	5/7/2016
Emergency Service, LLC	**100.00%**	100.00%	–	Georgia	#2, D. Uznadze Str., Tbilisi	Medical services	28/7/2009	6/1/2016
JSC Poti Central Hospital	**100.00%**	100.00%	–	Georgia	Guria Str., 171, Poti	Medical services	29/10/2014	1/1/2016
Deka, LLC	**97.20%**	95.00%	95.00%	Georgia	Bakhtrioni Str., 8B, Tbilisi	Medical services	12/1/2012	11/6/2015
EVEX-Logistics, LLC	**100.00%**	100.00%	100.00%	Georgia	Vazha Pshavela Ave., #40, Tbilisi	Medical services	2/2/2015	–
EVEX Collection, LLC	**100.00%**	100.00%	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
M. Iashvili Children's Central Hospital, LLC	**100.00%**	100.00%	66.70%	Georgia	2/6 Lubliana Str., 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 Str., Tbilisi	Medical Services	6/3/2000	19/2/2014
Iv Bokeria Tbilisi Referral Hospital	**100.00%**	–	–	Georgia	Kindzmarauli I turn, N1, Isan-Samgori, Tbilisi	Medical Service	16/3/2017	–
Referral Centre of Pathology, LLC	**100.00%**	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
EVEX Learning Centre	**100.00%**	100.00%	100.00%	Georgia	#83A, Javakhishvili Str., Tbilisi	Education	20/12/2013	–
JSC Mega-Lab	**100.00%**	–	–	Georgia	23 Kavtaradze Str., Tbilisi	Medical services	6/6/2017	–
New Clinic, LLC	**100.00%**	–	–	Georgia	Vazha Pshavela Ave., #40, Tbilisi	Medical services	1/3/2013	26/7/2017
Alliance Medi, LLC	**100.00%**	–	–	Georgia	Vazha Pshavela Ave., #40, Tbilisi	Medical services	7/7/2015	26/7/2017
Medical Centre Alimedi, LLC	**100.00%**	–	–	Georgia	17 R. Tabukashvili Str., Tbilisi	Medical services	27/9/2003	8/11/2017
JSC Polyclinic Vere	**97.80%**	–	–	Georgia	18–20 Kiacheli Str.,Tbilisi	Medical services	22/11/2017	25/12/2017
Georgian Global Utilities, LLC	**100.00%**	100.00%	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, St. 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 Teliani Valley	**75.75%**	71.66%	71.44%	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 Str., 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 Liberty Consumer	**98.28%**	98.25%	87.64%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Investments	24/5/2006	–
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	–
Global Coffee Georgia, LLC	**100.00%**	–	–	Georgia	29a Gagarini Str., Tbilisi	Coffee distribution	26/12/2016	15/2/2017
New Coffee Company, LLC	**100.00%**	–	–	Georgia	Tskneti Highway, No 16/18, App. 36	Coffee distribution	23/9/2009	15/2/2017
JSC BG Financial	**100.00%**	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Investment	7/8/2015	–
JSC Galt & Taggart	**100.00%**	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Brokerage and asset management	19/12/1995	28/12/2004
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 and Taggart Holdings Limited	**100.00%**	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS Tower, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investment	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	–

2. BASIS OF PREPARATION CONTINUED
SUBSIDIARIES AND ASSOCIATES

Subsidiaries	Proportion of voting rights and ordinary share capital held: **31 December 2017**	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Solo, LLC	**100.00%**	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., Tbilisi	Trade	22/4/2015	–
JSC United Securities Registrar of Georgia	**100.00%**	100.00%	100.00%	Georgia	74a Chavchavadze Ave., Tbilisi	Registrar	29/5/2006	–
JSC Express Technologies	**100.00%**	100.00%	100.00%	Georgia	1b, Budapest Str., Tbilisi	Investment	29/10/2007	–
JSC Georgian Card	**99.48%**	99.47%	99.47%	Georgia	221 Nutsubidze Str., Tbilisi	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	**100.00%**	100.00%	100.00%	Georgia	Luxemburg 25, Tbilisi	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Centre	**100.00%**	100.00%	100.00%	Georgia	80-82, David Agmashenebeli Ave., Tbilisi	Communication services	23/4/2007	–
Metro Service +, LLC	**100.00%**	100.00%	100.00%	Georgia	74a Chavchavadze Ave, Tbilisi	Business servicing	10/5/2006	–
Express Technologies CEE, LLC	**(b)**	100.00%	100.00%	Hungary	H-1054 Budapest; Szabadsagter 7. Bank Centre Platina Tower; 2nd floor	Other financial service activities	5/3/2014	N/A
JSC Agron Group	**100.00%**	100.00%	100.00%	Georgia	3-5 Kazbegi Str., Tbilisi	Agro Trade	3/11/2014	–
Premium Compliance Advisory, LLC	**100.00%**	100.00%	100.00%	Georgia	3-5 Kazbegi Str., Tbilisi	Various	17/2/2012	–
JSC Georgia Capital	**100.00%**	–	–	Georgia	3-5 Kazbegi Str., Tbilisi	Investment	22/12/2017	–
JSC Credit info	**21.08%**	19.11%	16.63%	Georgia	2 Tarkhnishvili Str., Tbilisi	Financial Intermediation	14/2/2005	14/2/2005
#5 Clinic hospital, LLC	**35.00%**	35.00%	–	Georgia	Temka XI M/D, Q.1, Tbilisi	Healthcare	16/9/1999	8/2/2016
JSC Tbilisi Stock Exchange	**21.59%**	21.59%	–	Georgia	72 Vazha Pshavela Ave., Tbilisi	Financial intermediation	8/5/2015	23/12/2016

(a) Georgia Healthcare Group PLC and its subsidiaries are classified as disposal group held for sale.
(b) Was liquidated in 2017.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

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

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

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

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

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in 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.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INVESTMENTS IN ASSOCIATES

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

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

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES IN PARENT COMPANY FINANCIAL STATEMENTS

For the purposes of parent company financial statements, investments in subsidiaries and associates are accounted at cost. Investments in subsidiaries and associates are accounted in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or distribution. Dividends from a subsidiary or an associate are recognised in the parent company financial statements when the parent's right to receive the dividend is established.

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 32.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in 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 net foreign currency gain (loss).

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 90 days of the date of origination and are free from contractual encumbrances and readily convertible to known amounts 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 or 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 in other administrative and operating expenses.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

III. OPERATING – GROUP AS LESSOR

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

AMOUNTS DUE FROM CREDIT INSTITUTIONS, LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement in the respective impairment line with a negative sign as a reversal of impairment.

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 SELECTED SIGNIFICANT ACCOUNTING POLICIES 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 the 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 borrowers' experience 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.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventory includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition including borrowing costs. The cost of inventory is determined on a weighted average basis for beverages and in healthcare, and on a first-in-first-out basis ("FIFO") in the pharma segment. The cost of inventory in the real estate segment is determined with reference to the specific costs incurred on the property sold and allocated non-specific costs based on the relative size of the property sold.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the statement of cash flows.

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 whether 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

PROPERTY AND EQUIPMENT

Property and equipment, except for infrastructure assets, 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. Infrastructure assets 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.

Following initial recognition at cost, infrastructure assets 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 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
Infrastructure assets	10-40
Factory and equipment	7-30
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

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

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

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

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

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.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INTANGIBLE ASSETS CONTINUED

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.

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 and 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 are 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% is 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 16. Respective pension costs are recognised in consolidated income statement as salaries and other employee benefits.

SHARE-BASED PAYMENT TRANSACTIONS

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

EQUITY-SETTLED TRANSACTIONS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

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

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

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

SHARE CAPITAL

SHARE CAPITAL

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

TREASURY SHARES

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

CONTINGENCIES

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

INCOME AND EXPENSE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense are 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 that 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 and commission income is recognised when the Group satisfies a performance obligation. Fee income can be divided into the following categories:

FEE INCOME EARNED FROM SERVICES THAT ARE PROVIDED OVER A CERTAIN PERIOD OF TIME

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

CUSTOMER LOYALTY PROGRAMME

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

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INCOME AND EXPENSE RECOGNITION CONTINUED

FEE INCOME FROM PROVIDING TRANSACTION SERVICES

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised upon satisfaction of performance obligation 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

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

INSURANCE PREMIUM INCOME

For the property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received are assessed based on estimates from underwriting or past experience and are included in premiums earned.

INSURANCE CLAIMS

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

HEALTHCARE REVENUE (DISCONTINUED OPERATIONS)

The Group recognises healthcare revenue when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. Healthcare revenue is recognised net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state), to recognise revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the corrections and rebates is subsequently resolved. 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, with which the Group has contractual relationships. Sales of services are recognised in the accounting period in which the services are rendered calculated according to contractual tariffs.

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and drug exchange transactions. The pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received.

UTILITY AND ENERGY REVENUE

The Group recognises revenue from utility when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. The following specific recognition criteria must be met before revenue is recognised:

- Revenue from water supply – includes amounts billed to 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 a monthly basis to 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 individuals 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 and water meter installation – includes non-refundable amounts billed upfront for connecting customers to the water system and providing them with access to the water supply. Revenue from connection and water meter installation is recognised over the time in line with the satisfaction of performance obligation over the life of water meters.

Revenue from electric power sales is recognised on the basis of metered electric power transferred.

GROSS REAL ESTATE 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 over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost). Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognise revenue from apartment sales. Payment arrangements of the sale of developed real estate property usually include advance payment of part of the transaction price and progress payments by the customer during the construction, such payments are recognised as deferred income. Significant financing component is usually immaterial.

GROSS OTHER INVESTMENT PROFIT

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INCOME AND EXPENSE RECOGNITION CONTINUED

Revenue from the sale of other finished goods is recognised the Group satisfies the performance obligation, i.e. when the control of the goods has passed to the buyer, usually on delivery of the goods. For finished goods sold on a consignment basis, revenue is recognised when the goods are transferred to the end-customer or on expiration of a specified period. Revenue recognised in connection with the sale of finished goods reflects an adjustment for the consideration payable to the customer (cash amounts that the Group pays, or expects to pay, to a customer).

EBITDA

The Group separately presents EBITDA on the face of income statement for the 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.

NON-RECURRING ITEMS

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

FUNCTIONAL, REPORTING CURRENCIES AND FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. 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 the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

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

	GEL to GBP	GEL to USD	GEL to EUR	Lari to BYN
31 December 2017	3.5005	2.5922	3.1044	1.3083
31 December 2016	3.2579	2.6468	2.7940	1.3532
31 December 2015	3.5492	2.3949	2.6169	1.2904

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

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

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND VOLUNTARY CHANGES IN ACCOUNTING POLICIES

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

The Group early adopted the new revenue recognition standard effective from 1 January 2017 using the modified retrospective approach. The impact of early adoption was GEL 29,050 decrease to retained earnings, with a corresponding increase of other liabilities, inventories, income tax liabilities and accounts receivables and other loans.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND VOLUNTARY CHANGES IN ACCOUNTING POLICIES CONTINUED

The Group's revenue streams affected by transition to IFRS 15 included fee and commission income from credit card transaction, fee and commission income under certain transactions involving loyalty programme, real estate revenue and connection fees from utility services. For these revenue streams, part of the revenue was deferred under IFRS 15 requirements until satisfaction of the respective performance obligations, which are expected over the anticipated term of credit cards issued, settlement or expiration of bonus points under loyalty programme, residential construction completion progress and estimated connection service periods

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

	31-Dec-16	Effect of IFRS 15 adoption	**01-Jan-17**
ASSETS			
Accounts receivable and other loans	128,506	(2,041)	**126,465**
Inventories	188,344	(30,578)	**157,766**
Other	12,637,326	–	**12,637,326**
TOTAL ASSETS	12,954,176	(32,619)	**12,921,557**
LIABILITIES			
Accruals and deferred income	130,319	(1,658)	**128,661**
Income tax liabilities	27,718	(1,911)	**25,807**
Other	10,407,926	–	**10,407,926**
TOTAL LIABILITIES	10,565,963	(3,569)	**10,562,394**
EQUITY			
Retained earnings	1,872,496	(29,050)	**1,843,446**
Other	515,717	–	**515,717**
TOTAL EQUITY	2,388,213	(29,050)	**2,359,163**
TOTAL LIABILITIES AND EQUITY	12,954,176	(32,619)	**12,921,557**

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

Extract from Consolidated Income Statement for the year ended 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Fee and commission income	190,392	195,324	(4,932)
Fee and commission expense	(60,342)	(60,342)	–
NET FEE AND COMMISSION INCOME	130,050	134,982	(4,932)
Real estate revenue	120,155	43,699	76,456
Cost of real estate	(85,765)	(16,274)	(69,491)
GROSS REAL ESTATE PROFIT	34,390	27,425	6,965
Gross other investment profit	30,630	38,106	(7,476)
Other	885,561	885,561	–
REVENUE	1,080,631	1,086,074	(5,443)
Administrative expenses	(136,177)	(142,108)	5,931
Other	(276,868)	(276,868)	–
OPERATING INCOME BEFORE COST OF CREDIT RISK/EBITDA	667,586	667,098	488
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	403,506	403,018	488
PROFIT FROM DISCONTINUED OPERATIONS	59,943	59,658	285
Healthcare and pharma revenue	691,971	691,686	285
Cost of healthcare and pharma services	(491,733)	(491,733)	–
GROSS HEALTHCARE AND PHARMA PROFIT	200,238	199,953	285
Other	(140,295)	(140,295)	–
PROFIT FOR THE YEAR	463,449	462,676	773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND VOLUNTARY CHANGES IN ACCOUNTING POLICIES CONTINUED

Extract from Consolidated Statement of Financial Position as at 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
ASSETS			
Accounts receivable and other loans	38,944	40,737	(1,793)
Inventories	100,194	199,792	(99,598)
Assets of disposal group held for sale:			
Accounts receivable and other loans	125,393	126,148	(755)
Other	14,904,138	14,904,138	–
TOTAL ASSETS	15,168,669	15,270,815	(102,146)
LIABILITIES			
Accruals and deferred income	132,669	204,627	(71,958)
Income tax liabilities	20,959	22,870	(1,911)
Other	12,282,671	12,282,671	–
TOTAL LIABILITIES	12,436,299	12,510,168	(73,869)
EQUITY			
Retained earnings	2,180,415	2,208,692	(28,277)
Other	551,955	551,955	–
TOTAL EQUITY	2,732,370	2,760,647	(28,277)
TOTAL LIABILITIES AND EQUITY	15,168,669	15,270,815	(102,146)

REVENUE FROM CUSTOMERS

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

	2017
Total revenue from contracts with customers from continuing operations	448,123
Total revenue from contracts with customers from discontinued operations	691,971
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	1,140,094

CONTRACT ASSETS AND LIABILITIES

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

	31-Dec-17	01-Jan-17
Accruals and deferred income	89,052	85,568
Accounts receivable and other loans* (i)	116,669	103,326

* Includes GEL 82,169 as at 31 December 2017 and GEL 71,343 as at 1 January 2017 presented in disposal group held for sale.

(i) Accounts receivable have increased as the Group's beverage business launched its first mainstream beer production in June 2017 and accelerated its expansion into all of its three main segments.

Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

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

The Group recognised GEL 56,804 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred income.

Disaggregation of revenue is presented in the following Notes: net fee and commission income (Note 23), Gross real estate profit (Note 25), Gross utility profit (Note 26) and Gross other investment profit (Note 27).

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

CONTRACT ASSETS AND LIABILITIES CONTINUED

TRANSACTION PRICE ALLOCATED TO THE REMAINING PERFORMANCE OBLIGATIONS

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

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognised on active contracts with customers from continuing operations	67,657	19,489	6,219	10,359	3,485	107,209
Revenue expected to be recognised on active contracts with customers from discontinued operations	906	1,042	1,046	3,100	5,000	11,094

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

AMENDMENTS TO IAS 7 STATEMENT OF CASH FLOWS: DISCLOSURE INITIATIVE

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

AMENDMENTS TO IAS 12 INCOME TAXES: RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

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

AMENDMENTS TO IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES: CLARIFICATION OF THE SCOPE OF DISCLOSURE REQUIREMENTS

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

IAS 16 PROPERTY, PLANT AND EQUIPMENT

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

The cost model has been applied by restating each of the affected consolidated financial statement line items for the prior periods, as follows:

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

	31-Dec-16	31-Dec-15	01-Jan-15
ASSETS			
Property and equipment	(35,278)	(36,648)	(46,653)
LIABILITIES:			
Income tax liabilities	(73)	(5,102)	(6,456)
EQUITY:			
Retained earnings	(6,449)	(5,785)	(857)
Other reserves	(27,870)	(24,543)	(37,217)
Non-controlling interests	(886)	(1,218)	(2,123)
NET IMPACT ON EQUITY	(35,205)	(31,546)	(40,197)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

CONTRACT ASSETS AND LIABILITIES CONTINUED

Impact on other comprehensive income:

	2016	2015
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		
– Gain (loss) from currency translation differences	(735)	2,782
Income tax impact	(82)	(993)
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		
– Revaluation of property and equipment	2,105	7,223
Income tax impact	(4,947)	(361)
NET IMPACT ON OTHER COMPREHENSIVE INCOME	**(3,659)**	**8,651**

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

CHANGE IN SEGMENT REPORTING

At 31 December 2017 and in light of the proposed demerger (refer to Note 1 for detail), the Group changed the composition and presentation of its reportable segments. In line with IFRS 8 requirements, the change was applied retrospectively for comparable periods. The change primarily related to the presentation of JSC Insurance Company Aldagi, the Group's property and casualty insurance business, which was reclassified from the banking business to the investment business segment. The Group believes that the revised composition and presentation of its reportable segments provides more relevant information to the financial statement users as it better aligns financial reporting with management's views of operations within the Group and decision-making about resource allocations.

RECLASSIFICATIONS

As at 31 December 2017 the Group changed the composition of its reportable segments and corresponding reclassifications have also been made to the consolidated income statement without any impact on total balances on the consolidated statement of financial position.

The following reclassifications were made to year ended 31 December 2016 and 31 December 2015 consolidated income statement to conform to the year ended 31 December 2017 presentation requirements. Management believes that current period presentation provides a better view of the consolidated income statement of the Group:

Consolidated income statement for the year ended 31 December 2016	As previously reported	Reclassification	As reclassified
Banking interest income	927,316	(1,287)	926,029
Interest income from investment business	2,458	1,287	3,745
Fee and commission income	170,063	(482)	169,581
Fee and commission expense	(47,150)	46	(47,104)
Real estate revenue	99,549	34	99,583
Banking depreciation and amortisation	(37,981)	774	(37,207)
Depreciation and amortisation of investment business	(9,288)	(774)	(10,062)
Net banking foreign currency gain	82,909	6,571	89,480
Net other banking income	11,773	(1,106)	10,667
Net foreign currency gain (loss) from investment business	3,437	(6,571)	(3,134)
Gross other investment profit	19,780	1,508	21,288

Consolidated income statement for the year ended 31 December 2015	As previously reported	Reclassification	As reclassified
Banking interest income	859,778	(1,038)	858,740
Interest income from investment business	461	1,038	1,499
Banking interest expense	(358,388)	71	(358,317)
Interest expense from investment business	(226)	(71)	(297)
Fee and commission income	158,158	(394)	157,764
Fee and commission expense	(39,752)	84	(39,668)
Real estate revenue	53,853	29	53,882
Banking depreciation and amortisation	(34,199)	834	(33,365)
Depreciation and amortisation of investment business	(1,559)	(834)	(2,393)
Net banking foreign currency gain	76,926	(993)	75,933
Net other banking income	18,528	(993)	17,535
Net foreign currency gain (loss) from investment business	7,164	993	8,157
Gross other investment profit	17,107	1,274	18,381

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 FINANCIAL INSTRUMENTS

INTRODUCTION

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

The Group will adopt the new standard from the effective date by recognising the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. Based on the data as at 31 December 2017, the Group estimates that the adoption of IFRS 9 will result in a pre-tax decrease in shareholders' equity as at 1 January 2018 of approximately GEL 45,144. IFRS 9 is not expected to have an impact on regulatory capital and capital adequacy ratios (regulatory capital requirements in Georgia are set by the National Bank of Georgia and are applied to the Bank on a standalone basis).

(A) CLASSIFICATION AND MEASUREMENT

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments, fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments and 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.

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

(B) IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 requires the Group to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. The Group has determined that the allowance for impairment will increase by GEL 31,197.

The Group will apply the simplified approach for trade and other receivables and record lifetime expected losses on all trade and other receivables. The Group has determined that, due to the unsecured nature of its trade and other receivables, the loss allowance will increase by GEL 13,627 of which GEL 6,962 relates to assets of disposal group held for sale.

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

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

	Adjustment	Amount
ASSETS		
Cash and cash equivalents	(B)	(80)
Amounts due from credit institutions	(B)	(598)
Loans to customers and finance lease receivables	(B)	(30,519)
Accounts receivable and other loans	(B)	(6,665)
Assets of disposal group held for sale	(B)	(6,962)
TOTAL ASSETS		(44,824)
LIABILITIES		
Other liabilities – provisions	(B)	320
NET IMPACT ON EQUITY, INCLUDING:		
Retained earnings	(B)	(48,270)
Other components of equity	(B)	3,255
Non-controlling interests	(B)	(129)
TOTAL EQUITY		(45,144)

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

STANDARDS ISSUED BUT NOT YET EFFECTIVE CONTINUED

IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS — AMENDMENTS TO IFRS 2

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

IFRS 16 LEASES

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

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

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

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

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

TRANSFERS OF INVESTMENT PROPERTY — AMENDMENTS TO IAS 40

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

IFRS 17 INSURANCE CONTRACTS

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, it will replace IFRS 4 Insurance Contracts that was issued in 2005. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted using either a full retrospective or a modified retrospective approach, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently evaluating the impact.

3. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ANNUAL IMPROVEMENTS 2014-2016 CYCLE

IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES – CLARIFICATION THAT MEASURING INVESTEES AT FAIR VALUE THROUGH PROFIT OR LOSS IS AN INVESTMENT-BY-INVESTMENT CHOICE

The amendments clarify that:

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

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

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

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

IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values (Note 32).

MEASUREMENT OF FAIR VALUE OF INVESTMENT PROPERTIES AND PROPERTY AND EQUIPMENT

The fair value of investment properties and infrastructure assets 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 and infrastructure assets 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 12 and 13, while valuation inputs and techniques are presented in Note 32. The Group's properties are specialised in nature and spread across 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 THE 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 judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and finance lease receivables. The Group uses its judgement 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 judgement 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 11.

5. BUSINESS COMBINATIONS

ACQUISITIONS IN YEAR ENDED 31 DECEMBER 2017

JSC ABC PHARMACY

On 6 January 2017 JSC GEPHA ("GEPHA"), a wholly-owned subsidiary of GHG, classified as a disposal group held for sale, acquired 67% of LTD ABC Pharmacy ("ABC"), a pharmaceutical company operating in Georgia, from individual investors.

The fair values of aggregate identifiable assets and liabilities of ABC as at the date of acquisition was:

	Fair value recognised on acquisition
Cash and cash equivalents	4,184
Accounts receivable[1]	8,050
Prepayments	1,413
Inventories	44,572
Property and equipment	10,986
Intangible assets	322
Other assets	1,316
	70,843
Accounts payable	27,525
Accruals and deferred income	1,861
Other liabilities	1,122
	30,508
TOTAL IDENTIFIABLE NET ASSETS	**40,335**
Non-controlling interests[3]	13,312
Goodwill arising on business combination	46,796
CONSIDERATION GIVEN[2]	**73,819**

1. The fair value of the receivables from sales of pharmaceuticals amounted to GEL 8,050. The gross amount of receivables is GEL 9,452. GEL 1,402 of the receivables has been impaired.
2. Consideration for the acquisition was GEL 73,819, of which, a) GEL 10,347 was fair value of 33% equity shares of JSC GPC transferred to former shareholders of ABC, b) GEL 32,501 was cash payment and c) GEL 30,971 holdback amount at fair value.
3. As part of the acquisition, the selling shareholders have a put option to sell their 33% share in the combined pharma business to GHG. The Group recognised a GEL 55 million liability to purchase the remaining 33% share and the non-controlling interest arising from the consolidated pharma business of GHG was fully de-recognised. The difference between the redemption liability and non-controlling interest was recognised in equity through other reserves. The redemption liability is carried at amortised cost and interest is unwound on each reporting date.

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(32,501)
Cash acquired with the subsidiary	4,184
NET CASH OUTFLOW	**(28,317)**

The Group decided to increase its presence and investment in the pharmaceuticals segment through the acquisition of ABC. Management considers that the deal will have a positive impact on the value of the Group.

Since the acquisition, ABC has recorded GEL 139,812 and GEL 15,354 of revenue and profit, respectively. As the acquisition took place on 6 January 2017, it would not have material effect on the Group's profit if the combination had taken place at the beginning of the period. Since GHG is classified as a disposal group held for sale the acquisition did not have an impact on the Group's revenues from continued operations.

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

5. BUSINESS COMBINATIONS CONTINUED

ACQUISITIONS IN YEAR ENDED 31 DECEMBER 2017 CONTINUED

LLC NEW COFFEE GEORGIA

On 15 February 2017 JSC BGEO Investments ("BGEO Investment"), a 100% owned subsidiary of the Group, acquired 100% of the shares of LLC New Coffee Georgia ("New Coffee Georgia"), a coffee distribution company, which has exclusive rights to import and distribute Lavazza coffee in Georgia, from individual investors.

The fair values of aggregate identifiable assets and liabilities of New Coffee Georgia as at the acquisition date were:

	Fair value recognised on acquisition
Cash and cash equivalents	208
Accounts receivable[1]	600
Property and equipment	895
Intangible assets arising on acquisition	1,120
Other assets	776
	3,599
Accounts payable	67
Amounts due to credit institutions	651
	718
TOTAL IDENTIFIABLE NET ASSETS	**2,881**
Goodwill arising on business combination	2,836
CONSIDERATION GIVEN[2]	**5,717**

1. The fair value of the receivables amounted to GEL 600. The gross amount of receivables is GEL 764. GEL 164 of the receivables was impaired as at the acquisition date.
2. Consideration comprised GEL 5,717, which consists of cash payment of GEL 5,304 and a holdback amount with a fair value of GEL 413.

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(5,304)
Cash acquired with the subsidiary	208
NET CASH OUTFLOW	**(5,096)**

The Group decided to increase its presence in the beverage market by acquiring New Coffee Georgia. Management considers that the purchase will have a positive impact on the value of the Group's beverage business.

Since the acquisition, New Coffee Georgia recorded GEL 2,405 and GEL 20 of revenue and loss, respectively. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 1,081,042 and GEL 463,512 of revenue and profit, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. BUSINESS COMBINATIONS CONTINUED

ACQUISITIONS IN YEAR ENDED 31 DECEMBER 2017 CONTINUED

LLC BK CONSTRUCTION

On 2 June 2017 JSC m² Real Estate ("m²"), a 100% owned subsidiary of the Group, acquired 100% of the shares of LLC BK Construction ("BK Construction"), a construction company operating in Georgia from individual investors.

The fair values of aggregate identifiable assets and liabilities of BK Construction as at the date of acquisition were:

	Fair value recognised on acquisition
Property and equipment	2,446
TOTAL IDENTIFIABLE NET ASSETS	**2,446**
Gain on bargain purchase	(260)
CONSIDERATION GIVEN[1]	**2,186**

1. Consideration was paid in cash.

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(2,186)
Cash acquired with the subsidiary	–
NET CASH OUTFLOW	**(2,186)**

The Group decided to vertically integrate real estate operations by acquiring LLC BK Construction. Management considers that the deal will have a positive impact on the value of the Group.

Acquisition of BK did not have material impact on revenue and profit of the Group.

LLC KASS 1

On 26 December 2017, m² Hospitality LLC ("m²"), a 100% owned subsidiary of the Group, signed a share purchase agreement with JSC Kass Group, to acquire 50% of the shares of LLC Kass 1 ("Kass"). Kass is currently developing a boutique hotel in Tbilisi aiming to complete the construction in 2019. Further m² made an additional investment in Kass of the amount of GEL 4,921 resulting in increase in equity interests in Kass to 60%.

The provisional fair values of aggregate identifiable assets and liabilities of Kass as at the date of acquisition were:

	Provisional fair value recognised on acquisition
Accounts receivable	14
Property and equipment	20,409
Prepayments	803
	21,226
Accounts payable	103
	103
TOTAL IDENTIFIABLE NET ASSETS	**21,124**
Non-controlling interests	10,562
CONSIDERATION GIVEN[1]	**10,562**

1. Consideration given comprises of cash payment.

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(10,562)
Cash acquired with the subsidiary	–
NET CASH OUTFLOW	**(10,562)**

The acquisition is in line with m²'s strategy to pursue hotel development and capitalise on growing tourist activities in Georgia. Management considers that the deal will have a positive impact on the value of the Group.

5. BUSINESS COMBINATIONS CONTINUED

ACQUISITIONS IN YEAR ENDED 31 DECEMBER 2017 CONTINUED

The net assets presented above are estimated provisionally as at the acquisition date. The Group continues a thorough examination of these net assets and if identified, adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

As the acquisition took place on 26 December 2017, it did not have material effect on Group's revenue and profit.

If the combination had taken place at the beginning of the period, it would not have material effect on the Group's revenue profit.

ACQUISITION OF HEALTHCARE SUBSIDIARIES BY GHG, CLASSIFIED AS A DISPOSAL GROUP HELD FOR SALE

During the year ended 31 December 2017 JSC Medical Corporation EVEX ("Acquirer"), made the following acquisitions:

- On 8 November 2017, acquired 100% of the shares of LLC Medical Center Almedi ("MCA"), a healthcare company operating in Georgia, from individual investors and signed a contract;
- On 25 December 2017, acquired 98% of the shares of JSC Policlinic Vere ("Vere"), a healthcare company operating in Georgia, from individual investors and signed a contract;
- On 20 July 2017, acquired 100% of the shares of LLC New Clinic ("NC"), a healthcare company operating in Georgia from individual investors.
- On 20 July 2017, acquired 100% of the shares of LLC Aliance Med ("AM"), a healthcare company operating in Georgia from individual investors.

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	4
Accounts receivable[1]	460
Property and equipment	3,034
Other assets	4
	3,502
Amounts due to credit institutions	103
Accounts payable	301
Accruals and deferred income	500
Income tax liabilities	18
Other liabilities	167
	1,089
TOTAL IDENTIFIABLE NET ASSETS	**2,413**
Goodwill arising on business combination	10,506
CONSIDERATION GIVEN[2]	**12,919**

1. The fair value of the receivables amounted to GEL 460. The gross amount of receivables is GEL 460.
2. Consideration given comprises of cash payment.

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(12,919)
Cash acquired with the subsidiary	4
NET CASH OUTFLOW	**(12,915)**

Since the acquisition, acquirees have recorded GEL 3,159 and GEL 1,260 of revenue and profit, respectively. Since GHG is classified as a disposal group held for sale the acquisitions did not have an impact on the Group's revenues from continuing operations.

The net assets presented above are estimated provisionally as at the acquisition date. The Group continues a thorough examination of these net assets and if identified, adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

6. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE

ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

Given the expectation, in line with Georgia Capital's strategy, that it is highly probable the Group will own less than a 50% stake in its healthcare business, consisting of a Georgia Healthcare Group ("GHG"), at the end 2018, the Group classified GHG as a "disposal group held for sale" and its results of operations are reported under "discontinued operations" line as a single amount in the consolidated income statement. The Group determined that GHG met the criteria to be classified as held for sale as at 31 December 2017 due to the following reasons:

- GHG was available for immediate sale and could be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- Management was committed to the plan to sell

At 31 December 2017, GHG was classified as a disposal group held for sale and as a discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE CONTINUED

ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS CONTINUED

Below are presented income statement line items of the Group attributable to discontinued operations for the years ended 31 December 2017, 31 December 2016 and 31 December 2015:

	2017	2016	2015
Net insurance premiums earned	50,367	57,052	55,029
Net insurance claims incurred	(35,153)	(45,564)	(42,881)
GROSS INSURANCE PROFIT	15,214	11,488	12,148
Healthcare and pharma revenue	691,971	362,586	183,993
Cost of healthcare and pharma services	(479,185)	(227,724)	(103,055)
GROSS HEALTHCARE AND PHARMA PROFIT	212,786	134,862	80,938
GROSS REAL ESTATE PROFIT	729	1,316	556
Gross other profit	20,377	927	3,188
REVENUE	249,106	148,593	96,830
Salaries and other employee benefits	(75,429)	(39,749)	(26,573)
Administrative expenses	(50,783)	(27,894)	(10,352)
Other operating expenses	(10,945)	(963)	(709)
OPERATING EXPENSES	(137,157)	(68,606)	(37,634)
EBITDA	111,949	79,987	59,196
Profit from associates	376	254	–
Depreciation and amortisation	(25,795)	(19,577)	(12,666)
Net foreign currency gain (loss)	(5,907)	(6,810)	(6,513)
Interest income	2,111	1,841	2,677
Interest expense	(27,543)	(15,576)	(22,899)
NET OPERATING INCOME BEFORE NON-RECURRING ITEMS AND IMPAIRMENT	55,191	40,119	19,795
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(4,175)	(2,332)	(3,448)
Net non-recurring items	(4,779)	1,157	(1,676)
PROFIT BEFORE INCOME TAX EXPENSE	46,237	38,944	14,671
Income tax (expense) benefit	(387)	21,156	9
PROFIT FOR THE YEAR	45,850	60,100	14,680

The difference between profit for the year and profit from discontinued operations presented in consolidated income statements is due to intra-Group eliminations in amount of GEL 14,093 net expenses for the year ended 31 December 2017 (2016: GEL 1,811 net income; 2015: GEL 12,091 net expenses).

Below are presented other comprehensive statement line items of the Group attributable to discontinued operations for the years ended 31 December 2017, 31 December 2016 and 31 December 2015:

	2017	2016	2015
OTHER COMPREHENSIVE (LOSS) INCOME			
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:			
– Revaluation of property and equipment	(4,564)	20,804	–
NET OTHER COMPREHENSIVE (LOSS) INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	(4,564)	20,804	–
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	(4,564)	20,804	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	41,286	80,904	14,680

6. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE CONTINUED

ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS CONTINUED

Assets and liabilities of disposal group held for sale as at 31 December 2017 are presented below:

	2017
Cash and cash equivalents	48,840
Amounts due from credit institutions	14,768
Investment securities	1,263
Accounts receivable and other loans	125,393
Insurance premiums receivable	21,257
Prepayments	30,354
Inventories	118,811
Property and equipment	643,076
Goodwill	114,798
Intangible assets	28,466
Income tax assets	2,026
Other assets	17,308
TOTAL ASSETS	1,166,360
Amounts due to credit institutions	267,010
Debt securities issued	93,493
Accruals and deferred income	21,944
Insurance contracts liabilities	20,953
Income tax liabilities	72
Other liabilities	215,929
TOTAL LIABILITIES	619,401

The differences between total assets and total liabilities and assets and liabilities of disposal group held for sale presented in the consolidated statement of financial position are intergroup eliminations in amount of GEL 29,943 assets and GEL 102,738 liabilities as at 31 December 2017.

7. SEGMENT INFORMATION

The Group disaggregated revenue from contracts with customers by products and services for each of our segments, as the Group believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In 2017 the Group changed the composition of its reportable segments and applied the change retrospectively for comparable periods. For details refer to Note 3.

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 provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling customer deposits for both individuals as well as legal entities, targeting the emerging retail, mass retail and mass affluent segments, together with small and medium enterprises and micro businesses.
CIB	– 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.
BNB	– Comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services to clients in Belarus.
Other Banking Business	– Comprising of several small corporate and social responsibility companies and corporate centre allocations.
INVESTMENT BUSINESS	– The Group's investment arm segments, with disciplined development paths and exit strategies:
GHG (Discontinued)	– Georgia Healthcare Group – principally providing wide-scale healthcare, health insurance and pharmaceutical services to clients and insured individuals.
m^2	– Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also renting out commercial properties.
GGU	– Comprising the Group's utility and energy subsidiaries – principally supplies water, electricity and provides a wastewater service.
Aldagi	– Property & Casualty Insurance business – principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals.
Other Investment Business	– Comprising of Teliani Valley operations and corporate centre allocations.

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 overhead, 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 revenues in 2017, 2016 or 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. SEGMENT INFORMATION CONTINUED

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

	Banking Business						Investment Business								
	Retail banking	Corporate investment banking	BNB	Other Banking Business	Banking Business eliminations	Banking Business	GHG (Discontinued)	m²	GGU	Aldagi	Other Investment Business	Investment Business eliminations	Investment Business	Inter-Business eliminations	Group total
Net banking interest income	480,955	156,171	29,397	5,542	35	672,100	–	–	–	–	–	–	–	435	672,535
Net fee and commission income	99,790	22,717	9,336	(369)	–	131,474	–	–	–	–	–	–	–	(1,424)	130,050
Net banking foreign currency gain (loss)	28,937	46,276	10,852	(5)	–	86,060	–	–	–	–	–	–	–	(6,954)	79,106
Net other banking income	5,029	14,256	1,773	–	(1,357)	19,701	–	–	–	–	–	–	–	(1,056)	18,645
Gross insurance profit	–	–	–	–	–	–	–	–	–	28,572	–	(1,523)	27,049	216	27,265
Gross real estate profit	–	–	–	–	–	–	–	35,451	–	124	–	(208)	35,367	(977)	34,390
Gross utility and energy profit	–	–	–	–	–	–	–	–	89,460	–	1	(1,091)	88,370	(360)	88,010
Gross other investment profit	–	–	–	–	–	–	–	93	6,415	1,020	24,009	(954)	30,583	47	30,630
REVENUE	**614,711**	**239,420**	**51,358**	**5,168**	**(1,322)**	**909,335**	**–**	**35,544**	**95,875**	**29,716**	**24,010**	**(3,776)**	**181,369**	**(10,073)**	**1,080,631**
Operating expenses	(235,152)	(76,658)	(29,664)	(2,784)	1,322	(342,936)	–	(8,521)	(22,506)	(12,088)	(33,019)	1,342	(74,792)	4,683	(413,045)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK/EBITDA	**379,559**	**162,762**	**21,694**	**2,384**	**–**	**566,399**	**–**	**27,023**	**73,369**	**17,628**	**(9,009)**	**(2,434)**	**106,577**	**(5,390)**	**667,586**
Profit from associates	1,311	–	–	–	–	1,311	–	–	–	–	–	–	–	–	1,311
Investment Business related income statement items	–	–	–	–	–	–	–	471	(33,533)	2,318	(20,405)	933	(50,216)	(7,201)	(57,417)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK	**380,870**	**162,762**	**21,694**	**2,384**	**–**	**567,710**	**–**	**27,494**	**39,836**	**19,946**	**(29,414)**	**(1,501)**	**56,361**	**(12,591)**	**611,480**
Cost of credit risk	(110,800)	(47,403)	(9,093)	–	–	(167,296)	–	–	(1,673)	(671)	(1,071)	–	(3,415)	–	(170,711)
NET OPERATING INCOME (LOSS) BEFORE NON-RECURRING ITEMS	**270,070**	**115,359**	**12,601**	**2,384**	**–**	**400,414**	**–**	**27,494**	**38,163**	**19,275**	**(30,485)**	**(1,501)**	**52,946**	**(12,591)**	**440,769**
Net non-recurring (expense/loss) income/gain	(2,358)	(1,882)	(60)	–	–	(4,300)	–	(128)	(1,122)	–	627	–	(623)	–	(4,923)
PROFIT (LOSS) BEFORE INCOME TAX	**267,712**	**113,477**	**12,541**	**2,384**	**–**	**396,114**	**–**	**27,366**	**37,041**	**19,275**	**(29,858)**	**(1,501)**	**52,323**	**(12,591)**	**435,846**
Income tax (expense) benefit	(18,046)	(7,584)	(2,256)	1,294	–	(26,592)	–	(1,554)	(933)	(2,975)	(286)	–	(5,748)	–	(32,340)
Profit (loss) for the year from continuing operations	249,666	105,893	10,285	3,678	–	369,522	–	25,812	36,108	16,300	(30,144)	(1,501)	46,575	(12,591)	403,506
Profit from discontinued operations	–	–	–	–	–	–	45,850	–	–	–	1	1,501	47,352	12,591	59,943
PROFIT (LOSS) FOR THE YEAR	**249,666**	**105,893**	**10,285**	**3,678**	**–**	**369,522**	**45,850**	**25,812**	**36,108**	**16,300**	**(30,143)**	**–**	**93,927**	**–**	**463,449**
Assets and liabilities															
Total assets	7,788,168	4,585,439	624,835	2,218	(92,982)	12,907,678	1,166,360	346,927	665,750	137,407	778,590	(331,121)	2,763,913	(502,922)	15,168,669
Total liabilities	6,927,986	3,974,452	545,315	205	(92,982)	11,354,976	619,401	188,343	371,471	86,473	649,678	(331,121)	1,584,245	(502,922)	12,436,299
Other segment information															
Property and equipment	45,089	6,473	1,464	100	(2)	53,124	82,820	16,437	175,813	2,440	39,316	–	316,826	–	369,950
Intangible assets	20,217	2,819	999	12	–	24,047	15,327	10	1,580	273	357	–	17,547	–	41,594
CAPITAL EXPENDITURE	**65,306**	**9,292**	**2,463**	**112**	**(2)**	**77,171**	**98,147**	**16,447**	**177,393**	**2,713**	**39,673**	**–**	**334,373**	**–**	**411,544**
Depreciation and amortisation	(34,742)	(5,134)	(1,098)	–	–	(40,974)	–	(508)	(20,332)	(855)	(6,540)	–	(28,235)	–	(69,209)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. 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						Investment Business								
	Retail banking	Corporate investment banking	BNB	Other Banking Business	Banking Business eliminations	Banking Business	GHG (Discontinued)	m²	GGU	Aldagi	Other Investment Business	Investment Business eliminations	Investment Business	Inter-Business eliminations	Group total
Net banking interest income	374,022	147,108	30,773	1,708	–	553,611	–	–	–	–	–	–	–	(5,490)	548,121
Net fee and commission income	90,193	27,963	7,462	(551)	(157)	124,910	–	–	–	–	–	–	–	(2,433)	122,477
Net banking foreign currency gain	26,086	48,643	8,452	22	–	83,203	–	–	–	–	–	–	–	6,277	89,480
Net other banking income	3,833	10,170	(738)	–	(1,082)	12,183	–	–	–	–	–	–	–	(1,516)	10,667
Gross insurance profit	–	–	–	–	–	–	–	–	–	25,788	–	(532)	25,256	(687)	24,569
Gross real estate profit	–	–	–	–	–	–	–	19,146	–	34	–	(114)	19,066	(581)	18,485
Gross utility and energy profit	–	–	–	–	–	–	–	–	39,075	–	–	(395)	38,680	(139)	38,541
Gross other investment profit	–	–	–	–	–	–	–	1,798	6,365	1,506	11,354	311	21,334	(46)	21,288
REVENUE	494,134	233,884	45,949	1,179	(1,239)	773,907	–	20,944	45,440	27,328	11,354	(730)	104,336	(4,615)	873,628
Operating expenses	(197,627)	(69,100)	(20,905)	(5,155)	1,239	(291,548)	–	(5,824)	(9,317)	(11,509)	(9,973)	730	(35,893)	4,635	(322,806)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK/EBITDA	296,507	164,784	25,044	(3,976)	–	482,359	–	15,120	36,123	15,819	1,381	–	68,443	20	550,822
Investment Business related income statement items	–	–	–	–	–	–	–	(386)	(13,974)	2,049	(6,077)	–	(18,388)	1,791	(16,597)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK	296,507	164,784	25,044	(3,976)	–	482,359	–	14,734	22,149	17,868	(4,696)	–	50,055	1,811	534,225
Cost of credit risk	(75,690)	(76,266)	(15,796)	–	–	(167,752)	–	–	6	(808)	(202)	–	(1,004)	–	(168,756)
NET OPERATING INCOME (LOSS) BEFORE NON-RECURRING ITEMS	220,817	88,518	9,248	(3,976)	–	314,607	–	14,734	22,155	17,060	(4,898)	–	49,051	1,811	365,469
Net non-recurring (expense/loss) income/gain	(32,002)	(11,934)	(1,419)	–	–	(45,355)	–	(533)	31,770	3	1,433	–	32,673	–	(12,682)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS	188,815	76,584	7,829	(3,976)	–	269,252	–	14,201	53,925	17,063	(3,465)	–	81,724	1,811	352,787
Income tax (expense) benefit	20,475	11,698	(5,141)	(588)	–	26,444	–	(1,717)	(2,790)	(3,318)	(1,119)	–	(8,944)	–	17,500
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	209,290	88,282	2,688	(4,564)	–	295,696	–	12,484	51,135	13,745	(4,584)	–	72,780	1,811	370,287
Profit from discontinued operations	–	–	–	–	–	–	60,100	–	–	–	–	–	60,100	(1,811)	58,289
PROFIT (LOSS) FOR THE YEAR	209,290	88,282	2,688	(4,564)	–	295,696	60,100	12,484	51,135	13,745	(4,584)	–	132,880	–	428,576
ASSETS AND LIABILITIES															
Total assets	6,062,559	4,583,811	544,727	2,834	(70,573)	11,123,358	909,851	371,332	426,721	118,067	705,396	(224,298)	2,307,069	(476,251)	12,954,176
Total liabilities	5,369,588	3,995,930	475,256	655	(70,573)	9,770,856	370,222	234,382	139,254	75,541	676,257	(224,298)	1,271,358	(476,251)	10,565,963
OTHER SEGMENT INFORMATION															
Property and equipment	31,705	4,855	1,407	64	–	38,031	110,550	4,181	35,624	1,241	60,264	–	211,860	–	249,891
Intangible assets	11,434	1,483	300	3	–	13,220	10,707	87	676	598	429	–	12,497	–	25,717
CAPITAL EXPENDITURE	43,139	6,338	1,707	67	–	51,251	121,257	4,268	36,300	1,839	60,693	–	224,357	–	275,608
Depreciation and amortisation	(30,943)	(5,124)	(1,140)	–	–	(37,207)	–	(243)	(7,353)	(774)	(1,692)	–	(10,062)	–	(47,269)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. 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						Investment Business								
	Retail banking	Corporate investment banking	BNB	Other Banking Business	Banking Business eliminations	Banking Business	GHG (Discontinued)	m²	GGU	Aldagi	Other Investment Business	Investment Business eliminations	Investment Business	Inter-Business eliminations	Group total
Net banking interest income	322,879	156,068	29,307	2,343	–	510,597	–	–	–	–	–	–	–	(10,174)	500,423
Net fee and commission income	78,218	34,335	9,198	(440)	(92)	121,219	–	–	–	–	–	–	–	(3,123)	118,096
Net banking foreign currency gain (loss)	17,108	41,763	17,036	26	–	75,933	–	–	–	–	–	–	–	–	75,933
Net other banking income	9,160	10,113	2,198	4	(2,076)	19,399	–	–	–	–	–	–	–	(1,864)	17,535
Gross insurance profit	–	–	–	–	–	–	–	–	–	21,180	–	(438)	20,742	(1,133)	19,609
Gross real estate profit	–	–	–	–	–	–	–	14,131	–	30	–	–	14,161	–	14,161
Gross other investment profit	–	–	–	–	–	–	–	7,503	(23)	9,883	1,361	(47)	18,677	(296)	18,381
REVENUE	427,365	242,279	57,739	1,933	(2,168)	727,148	–	21,634	(23)	31,093	1,361	(485)	53,580	(16,590)	764,138
Operating expenses	(172,297)	(63,357)	(19,731)	(5,070)	2,168	(258,287)	–	(5,860)	(505)	(10,365)	(6,897)	485	(23,142)	3,695	(277,734)
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK/EBITDA	255,068	178,922	38,008	(3,137)	–	468,861	–	15,774	(528)	20,728	(5,536)	–	30,438	(12,895)	486,404
Investment Business related income statement items	–	–	–	–	–	–	–	(2,906)	4,142	(6,121)	6,486	8,611	10,212	804	11,016
OPERATING INCOME (EXPENSE) BEFORE COST OF CREDIT RISK	255,068	178,922	38,008	(3,137)	–	468,861	–	12,868	3,614	14,607	950	8,611	40,650	(12,091)	497,420
Cost of credit risk	(75,406)	(56,159)	(19,270)	27	–	(150,808)	–	–	–	(710)	(411)	–	(1,121)	–	(151,929)
NET OPERATING INCOME (LOSS) BEFORE NON-RECURRING ITEMS	179,662	122,763	18,738	(3,110)	–	318,053	–	12,868	3,614	13,897	539	8,611	39,529	(12,091)	345,491
Net non-recurring (expense/loss) income/gain	(8,945)	(4,877)	1,478	–	–	(12,344)	–	(137)	8	(701)	274	–	(556)	–	(12,900)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS	170,717	117,886	20,216	(3,110)	–	305,709	–	12,731	3,622	13,196	813	8,611	38,973	(12,091)	332,591
Income tax (expense) benefit	(23,995)	(17,256)	(2,753)	87	–	(43,917)	–	(1,974)	65	(731)	(1,860)	–	(4,500)	–	(48,417)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	146,722	100,630	17,463	(3,023)	–	261,792	–	10,757	3,687	12,465	(1,047)	8,611	34,473	(12,091)	284,174
Profit from discontinued operations	–	–	–	–	–	–	23,291	–	–	–	–	(8,611)	14,680	12,091	26,771
PROFIT (LOSS) FOR THE YEAR	146,722	100,630	17,463	(3,023)	–	261,792	23,291	10,757	3,687	12,465	(1,047)	–	49,153	–	310,945
ASSETS AND LIABILITIES											–				
Total assets	4,595,652	4,032,752	469,319	2,011	(48,337)	9,051,397	758,507	275,676	56,215	102,504	156,881	(8,641)	1,341,142	(313,448)	10,079,091
Total liabilities	3,115,238	4,338,340	397,283	146	(48,337)	7,802,670	286,941	167,889	81	66,567	34,940	(8,641)	547,777	(313,448)	8,036,999
OTHER SEGMENT INFORMATION															
Property and equipment	43,990	6,870	1,193	186	–	52,239	89,653	701	–	442	1,532	–	92,328	–	144,567
Intangible assets	6,568	1,163	598	71	–	8,400	3,532	21	–	958	12	–	4,523	–	12,923
CAPITAL EXPENDITURE	50,558	8,033	1,791	257	–	60,639	93,185	722	–	1,400	1,544	–	96,851	–	157,490
Depreciation and amortisation	(27,714)	(4,612)	(1,038)	(1)	–	(33,365)	–	(191)	(44)	(834)	(1,324)	–	(2,393)	–	(35,758)

8. CASH AND CASH EQUIVALENTS

	2017	2016	2015
Cash on hand	**447,807**	450,264	442,293
Current accounts with central banks, excluding obligatory reserves	**91,692**	150,152	152,455
Current accounts with credit institutions	**278,978**	540,801	475,779
Time deposits with credit institutions with maturities of up to 90 days	**763,958**	432,393	362,407
CASH AND CASH EQUIVALENTS	**1,582,435**	1,573,610	1,432,934

Cash and cash equivalents held by BGEO of GEL 2,688 (2016: GEL 105,248; 2015: GEL 32,435) is represented by placements on current accounts with Georgian banks and the Organisation for Economic Co-operation and Development ("OECD") bank.

As at 31 December 2017, GEL 932,030 (2016: GEL 837,721; 2015: GEL 662,296) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.00% interest per annum on these deposits (2016: up to 0.90%; 2015: up to 0.59%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

9. AMOUNTS DUE FROM CREDIT INSTITUTIONS

	2017	2016	2015
Obligatory reserves with central banks	**1,000,566**	934,997	620,287
Time deposits with maturities of more than 90 days	**218,831**	113,035	12,717
Deposits pledged as security for open commitments	**–**	3,287	96,405
Inter-bank loan receivables	**6,550**	3,664	1,956
AMOUNTS DUE FROM CREDIT INSTITUTIONS	**1,225,947**	1,054,983	731,365

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

As at 31 December 2017, inter-bank loan receivables include GEL 6,550 (2016: GEL 2,164; 2015: GEL 1,956) placed with non-OECD banks.

10. INVESTMENT SECURITIES

	2017	2016	2015
Georgian ministry of Finance treasury bonds*	**847,839**	811,532	575,591
Georgian ministry of Finance treasury bills**	**77,460**	88,411	165,545
Certificates of deposit of central banks***	**73,415**	24,015	76,807
Other debt instruments****	**564,801**	360,597	84,476
Corporate shares	**1,354**	1,448	1,448
INVESTMENT SECURITIES	**1,564,869**	1,286,003	903,867

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

Other debt instruments as at 31 December 2017 mainly comprise GEL-denominated bonds issued by the European Bank for Reconstruction and Development of GEL 268,057 (2016: GEL 133,055; 2015:50,666), GEL-denominated bonds issued by the International Finance Corporation of GEL 110,862 (2016: GEL 28,402; 2015: GEL 28,460), GEL-denominated bonds issued by the Asian Development Bank of GEL 65,245 (2016: GEL 64,921; 2015: Nil), GEL denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,625 (2016: GEL 60,454; 2015: Nil) and Dollar denominated bonds issued by an Internationally recognised investment bank of GEL 26,666 (2016: Nil; 2015: Nil).

11. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES

	2017	2016	2015
Commercial loans	**2,594,424**	2,699,506	2,397,781
Consumer loans	**1,751,106**	1,367,228	1,165,107
Micro and SME loans	**1,776,044**	1,493,937	1,041,929
Residential mortgage loans	**1,712,515**	1,234,176	814,344
Gold – pawn loans	**67,940**	60,685	61,140
LOANS TO CUSTOMERS, GROSS	**7,902,029**	6,855,532	5,480,301
Less – Allowance for loan impairment	**(276,885)**	(252,769)	(198,894)
LOANS TO CUSTOMERS, NET	**7,625,144**	6,602,763	5,281,407
FINANCE LEASE RECEIVABLES, GROSS	**67,686**	48,267	42,912
Less – Allowance for finance lease receivables impairment	**(2,380)**	(2,548)	(2,202)
FINANCE LEASE RECEIVABLES, NET	**65,306**	45,719	40,710
LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES, NET	**7,690,450**	6,648,482	5,322,117

ALLOWANCE FOR LOAN IMPAIRMENT

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

	Commercial loans 2017	Consumer loans 2017	Residential mortgage loans 2017	Micro and SME loans 2017	Total 2017
AT 1 JANUARY	**159,759**	**58,785**	**3,891**	**30,334**	**252,769**
Charge	**40,311**	**80,607**	**2,700**	**31,592**	**155,210**
Recoveries	**9,979**	**23,485**	**8,151**	**11,177**	**52,792**
Write-offs	**(35,053)**	**(74,027)**	**(9,912)**	**(32,267)**	**(151,259)**
Accrued interest on written-off loans	**(10,746)**	**(16,649)**	**(768)**	**(4,141)**	**(32,304)**
Currency translation differences	**19**	**(143)**	**–**	**(199)**	**(323)**
AT 31 DECEMBER	**164,269**	**72,058**	**4,062**	**36,496**	**276,885**
Individual impairment	**153,522**	**1,019**	**2,427**	**23,621**	**180,589**
Collective impairment	**10,747**	**71,039**	**1,635**	**12,875**	**96,296**
	164,269	**72,058**	**4,062**	**36,496**	**276,885**
GROSS AMOUNT OF LOANS, INDIVIDUALLY DETERMINED TO BE IMPAIRED, BEFORE DEDUCTING ANY INDIVIDUALLY ASSESSED IMPAIRMENT ALLOWANCE	**310,308**	**2,178**	**14,671**	**53,117**	**380,274**

	Commercial loans 2016	Consumer loans 2016	Residential mortgage loans 2016	Micro and SME loans 2016	Total 2016
AT 1 JANUARY	125,312	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

11. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES CONTINUED

ALLOWANCE FOR LOAN IMPAIRMENT CONTINUED

	Commercial loans 2015	Consumer loans 2015	Residential mortgage loans 2015	Micro and SME loans 2015	Total 2015
AT 1 JANUARY	72,885	23,648	2,993	4,254	103,780
Charge	59,090	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

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

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depend 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 or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

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

CONCENTRATION OF LOANS TO CUSTOMERS

As at 31 December 2017, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 857,582 accounting for 11% of the gross loan portfolio of the Group (2016: GEL 815,363 and 12% respectively; 2015: GEL 708,839 and 13% respectively). An allowance of GEL 43,478 (2016: GEL 20,123; 2015: GEL 2,484) was established against these loans.

As at 31 December 2017, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,072,450 accounting for 14% of the gross loan portfolio of the Group (2016: GEL 1,242,944 and 18% respectively; 2015: GEL 1,094,979 and 20% respectively). An allowance of GEL 75,628 (2016: GEL 51,831; 2015: GEL 41,413) was established against these loans.

11. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES CONTINUED

CONCENTRATION OF LOANS TO CUSTOMERS CONTINUED

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

	2017	2016	2015
Individuals	**4,297,215**	3,336,589	2,482,389
Manufacturing	**935,827**	925,333	711,677
Trade	**815,216**	812,141	727,214
Real estate	**432,352**	423,124	354,331
Construction	**368,509**	304,890	178,642
Hospitality	**283,527**	233,891	168,011
Service	**182,038**	136,792	223,088
Transport and communication	**114,926**	166,288	165,330
Mining and quarrying	**104,799**	114,115	127,706
Electricity, gas and water supply	**84,727**	34,835	77,633
Financial intermediation	**49,729**	130,435	77,662
Other	**233,164**	237,099	186,618
LOANS TO CUSTOMERS, GROSS	**7,902,029**	6,855,532	5,480,301
Less – Allowance for loan impairment	**(276,885)**	(252,769)	(198,894)
LOANS TO CUSTOMERS, NET	**7,625,144**	6,602,763	5,281,407

Loans have been extended to the following types of customers:

	2017	2016	2015
Private companies	**3,604,814**	3,497,322	2,958,145
Individuals	**4,297,215**	3,336,589	2,482,389
State-owned entities	**–**	21,621	39,767
LOANS TO CUSTOMERS, GROSS	**7,902,029**	6,855,532	5,480,301
Less – allowance for loan impairment	**(276,885)**	(252,769)	(198,894)
LOANS TO CUSTOMERS, NET	**7,625,144**	6,602,763	5,281,407

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

	2017			2016			2015		
	Individual impairment 2017	**Collective impairment 2017**	**Total 2017**	Individual impairment 2016	Collective impairment 2016	Total 2016	Individual impairment 2015	Collective impairment 2015	Total 2015
AT 1 JANUARY	**171,446**	**81,323**	**252,769**	138,935	59,959	198,894	71,381	32,399	103,780
Charge for the year	**58,821**	**96,389**	**155,210**	74,051	84,841	158,892	94,883	47,936	142,819
Recoveries	**10,948**	**41,844**	**52,792**	7,880	28,364	36,244	9,994	23,691	33,685
Write-offs	**(49,554)**	**(101,705)**	**(151,259)**	(46,812)	(79,141)	(125,953)	(34,722)	(36,218)	(70,940)
Interest accrued on impaired loans to customers	**(10,768)**	**(21,536)**	**(32,304)**	(5,394)	(13,086)	(18,480)	(3,617)	(8,057)	(11,674)
Currency translation differences	**(304)**	**(19)**	**(323)**	2,786	386	3,172	1,016	208	1,224
AT 31 DECEMBER	**180,589**	**96,296**	**276,885**	171,446	81,323	252,769	138,935	59,959	198,894

11. LOANS TO CUSTOMERS AND FINANCE LEASE RECEIVABLES CONTINUED

FINANCE LEASE RECEIVABLES

	2017	2016	2015
Minimum lease payments receivable	**83,008**	60,715	51,649
Less – Unearned finance lease income	**(15,322)**	(12,448)	(8,737)
	67,686	48,267	42,912
Less – Allowance for impairment	**(2,380)**	(2,548)	(2,202)
FINANCE LEASE RECEIVABLES, NET	**65,306**	45,719	40,710

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

As at 31 December 2017, the concentration of investment in the five largest lease receivables comprised GEL 4,403 or 7% of total finance lease receivables (2016: GEL 8,420 or 17%; 2015: GEL 15,234 or 36%) and finance income received from them for the year ended 31 December 2017 comprised GEL 755 or 5% of total finance income from lease (2016: GEL 395 or 4%; 2015: GEL 1,931 or 20%).

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

	2017	2016	2015
Within 1 year	**43,782**	29,265	28,807
From 1 to 5 years	**34,224**	31,450	22,842
More than 5 years	**5,002**	–	–
MINIMUM LEASE PAYMENT RECEIVABLES	**83,008**	60,715	51,649

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

	Finance lease receivables 2017	Finance lease receivables 2016	Finance lease receivables 2015
AT 1 JANUARY	**2,548**	2,202	729
Charge	**496**	777	1,958
Amounts written-off	**(611)**	(511)	(305)
Currency translation differences	**(53)**	80	(180)
AT 31 DECEMBER	**2,380**	2,548	2,202
Individual impairment	**1,152**	1,702	1,507
Collective impairment	**1,228**	846	695
	2,380	2,548	2,202
GROSS AMOUNT OF FINANCE LEASE RECEIVABLES, INDIVIDUALLY DETERMINED TO BE IMPAIRED, BEFORE DEDUCTING ANY INDIVIDUALLY ASSESSED IMPAIRMENT ALLOWANCE	**2,593**	2,475	3,725

12. INVESTMENT PROPERTIES

	2017	2016	2015
AT 1 JANUARY	**288,227**	246,398	190,860
Additions*	**86,530**	36,123	56,823
Disposals	**(11,469)**	(8,599)	(19,815)
Net gains from revaluation of investment property	**32,020**	1,811	20,737
Acquisition through business combination (Note 5)	**–**	19,417	705
Transfers (to) from property and equipment and other assets**	**(39,864)**	(21,291)	2,381
Currency translation differences	**(1,879)**	14,368	(5,293)
AT 31 DECEMBER	**353,565**	288,227	246,398

* GEL 17,187, GEL 9,799 and GEL 18,947 were paid in 2017, 2016 and 2015 respectively, for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2017, 2016 and 2015 comprise foreclosed properties, no cash transactions were involved.

** Comprised of GEL 27,216 transfer to property and equipment (2016: transfers to property and equipment GEL 351 and 2015: transfers to property and equipment GEL 669 respectively), GEL 1,158 transfer to other assets – inventories (2016: transfer from to assets – inventories GEL 19,402 and 2015: transfer from other assets – inventories GEL 2,357) and GEL 11,490 transfer to finance lease receivables (2016: transfer to finance lease receivable GEL 1,538 and 2015: transfer from finance lease receivable GEL 693).

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2017 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 32 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 2017 was GEL 113,598 (2016: GEL 77,148; 2015: Nil).

13. PROPERTY AND EQUIPMENT

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

	Office buildings and service centres	Hospitals & clinics	Furniture & fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Infrastructure assets	Factory and equipment	Other	Total
COST OR REVALUED AMOUNT											
31 DECEMBER 2016*	331,429	401,793	194,803	249,439	19,689	26,237	89,536	199,304	–	2,136	1,514,366
Additions	1,887	28,716	25,772	67,387	7,417	2,930	191,234	12,619	31,986	2	369,950
Business combination, Note 5	359	7,909	1,142	3,714	3,745	537	20,364	–	–	–	37,770
Disposals	(1,773)	(440)	(424)	(997)	(789)	(3,802)	(4,038)	(1,976)	(18)	–	(14,257)
Transfers	15,603	(456)	3,390	(1,394)	12,759	7,463	(162,140)	65,720	59,055	–	–
Transfers from investment properties	10,386	–	–	–	–	–	16,777	–	–	–	27,163
Transfers (to) from other assets	40	–	(735)	(1,365)	–	232	144	–	–	–	(1,684)
Revaluation	3,197	(6,958)	–	–	–	–	286	–	–	–	(3,475)
Write-off	–	–	–	(1,321)	–	–	–	–	–	–	(1,321)
Transfer to assets of disposal group held for sale	(14,939)	(430,564)	(18,763)	(198,315)	(5,850)	(12,685)	(325)	–	–	–	(681,441)
Currency translation differences	74	–	(50)	17	155	(41)	2,152	–	–	–	2,307
31 DECEMBER 2017	**346,263**	**–**	**205,135**	**117,165**	**37,126**	**20,871**	**153,990**	**275,667**	**91,023**	**2,138**	**1,249,378**
ACCUMULATED IMPAIRMENT											
31 DECEMBER 2016	2,926	–	40	60	7	–	9	–	–	–	3,042
Currency translation differences	(64)	–	(2)	19	–	–	–	–	–	–	(47)
31 DECEMBER 2017	**2,862**	**–**	**38**	**79**	**7**	**–**	**9**	**–**	**–**	**–**	**2,995**
ACCUMULATED DEPRECIATION											
31 DECEMBER 2016*	23,725	740	105,964	73,876	5,177	7,440	–	5,738	–	70	222,730
Depreciation charge	3,482	3,800	18,166	29,138	4,049	4,918	–	16,507	4,171	70	84,301
Currency translation differences	8	–	25	(1,088)	25	12	2	999	(284)	–	(301)
Transfers to investment properties	(53)	–	–	–	–	–	–	–	–	–	(53)
Transfers (to) from other assets	(171)	–	(1,239)	(1,242)	–	1	–	–	–	–	(2,651)
Revaluation	–	(2,394)	–	–	–	–	–	–	–	–	(2,394)
Transfer to assets of disposal group held for sale	(327)	(1,951)	(2,958)	(29,771)	(1,532)	(1,826)	–	–	–	–	(38,365)
Disposals	(358)	(195)	(242)	(534)	(381)	(3,450)	–	(160)	–	–	(5,320)
31 DECEMBER 2017	**26,306**	**–**	**119,716**	**70,379**	**7,338**	**7,095**	**2**	**23,084**	**3,887**	**140**	**257,947**
NET BOOK VALUE:											
31 DECEMBER 2016*	304,778	401,053	88,799	175,503	14,505	18,797	89,527	193,566	–	2,066	1,288,594
31 DECEMBER 2017	**317,095**	**–**	**85,381**	**46,707**	**29,781**	**13,776**	**153,979**	**252,583**	**87,136**	**1,998**	**988,436**

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

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13. PROPERTY AND EQUIPMENT CONTINUED
The movements in property and equipment during the year ended 31 December 2016 were as follows:

	Office buildings and service centres	Hospitals and clinics	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Infrastructure assets	Other	Total
COST OR REVALUED AMOUNT										
31 DECEMBER 2015*	211,491	332,775	174,334	197,274	9,586	22,147	9,033	–	–	956,640
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	–	12,990	–	–	–	–	–	–	–	12,990
Write off	–	–	(2,440)	(17,720)	(667)	(176)	–	–	–	(21,003)
Currency translation differences	1,560	–	111	312	64	158	143	–	–	2,348
31 DECEMBER 2016*	331,429	401,793	194,803	249,439	19,689	26,237	89,536	199,304	2,136	1,514,366
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*	18,560	6,844	91,421	68,591	5,345	6,495	–	–	–	197,256
Depreciation charge	3,421	1,965	17,976	24,285	2,572	3,726	–	5,738	74	59,757
Currency translation differences	1,019	–	54	167	66	8	–	–	–	1,314
Transfers	764	–	(204)	(319)	(241)	–	–	–	–	–
Transfers (to) from other assets	–	–	(414)	(694)	–	–	–	–	–	(1,108)
Revaluation	–	(7,814)	–	–	–	–	–	–	–	(7,814)
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*	23,725	740	105,964	73,876	5,177	7,440	–	5,738	70	222,730
NET BOOK VALUE:										
31 DECEMBER 2015*	191,710	325,931	82,875	128,601	4,234	15,652	9,024	–	–	758,027
31 DECEMBER 2016*	304,778	401,053	88,799	175,503	14,505	18,797	89,527	193,566	2,066	1,288,594

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

13. PROPERTY AND EQUIPMENT CONTINUED
The movements in property and equipment during the year ended 31 December 2015 were as follows:

	Office buildings and service centres	Hospitals and clinics	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
COST OR REVALUED AMOUNT								
31 DECEMBER 2014*	197,108	207,038	140,130	130,810	7,566	12,751	9,599	705,002
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)
Currency translation differences	(1,463)	–	(269)	(525)	(83)	(77)	(337)	(2,754)
31 DECEMBER 2015*	211,491	332,775	174,334	197,274	9,586	22,147	9,033	956,640
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*	16,593	2,646	75,530	55,402	4,023	5,125	–	159,319
Depreciation charge	3,059	4,264	15,787	15,920	1,770	2,676	–	43,476
Currency translation differences	(708)	–	(91)	(235)	(31)	(36)	–	(1,101)
Transfers	(199)	58	589	(315)	(60)	(73)	–	–
Transfers to investment properties	(54)	–	–	–	–	–	–	(54)
Transfers (to) from other assets	–	–	(233)	(606)	3	–	–	(836)
Revaluation	–	–	–	–	–	–	–	–
Disposals	(131)	(124)	(161)	(1,575)	(360)	(1,197)	–	(3,548)
31 DECEMBER 2015*	18,560	6,844	91,421	68,591	5,345	6,495	–	197,256
NET BOOK VALUE:								
31 DECEMBER 2014*	176,894	204,392	64,549	75,288	3,530	7,617	9,590	541,860
31 DECEMBER 2015*	191,710	325,931	82,875	128,601	4,234	15,652	9,024	758,027

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

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property, excluding that of the disposal group held for sale, as at 31 December 2017 was GEL 90,200 (2016: GEL 482,001, including that of the disposal group held for sale; 2015: GEL 330,224, including that of the disposal group held for sale).

14. GOODWILL

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

	2017	2016	2015
Cost			
1 January	**135,436**	101,434	78,083
Business combinations	**60,138**	34,002	23,351
Transfer to assets of disposal group held for sale	**(111,848)**	–	–
AT 31 DECEMBER	**83,726**	135,436	101,434
Accumulated impairment			
1 January	**28,450**	28,450	28,450
AT 31 DECEMBER	**28,450**	28,450	28,450
Net book value:			
1 January	**106,986**	72,984	49,633
At 31 December	**55,276**	106,986	72,984

IMPAIRMENT TEST FOR GOODWILL

Goodwill acquired through business combinations with indefinite lives has been allocated to four individual cash-generating units, for impairment testing: Corporate banking, Retail banking, Property & Casualty Insurance and Teliani.

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

	2017	2016	2015
Retail banking	**23,386**	23,488	23,488
P&C Insurance	**15,454**	16,139	16,139
Corporate banking	**9,965**	9,965	9,965
Teliani	**6,471**	3,439	3,439
Pharmacy	**–**	29,025	–
Healthcare	**–**	21,468	16,491
Health Insurance	**–**	3,462	3,462
TOTAL	**55,276**	106,986	72,984

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 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		
	2017	2016	2015	2017	2016	2015
Discount rate	**4.5%**	5.3%	5.8%	**6.1%**	6.9%	6.7%

The following rates were used by the Group for P&C Insurance and Teliani:

	P&C Insurance			Teliani		
	2017	2016	2015	2017	2016	2015
Discount rate	**9.0%**	14.5%	10.4%	**12.8%**	14.9%	9.4%

DISCOUNT RATES

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

For the 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.
- 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.
- 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 2017. Possible change was taken as +/-1% in discount rate and growth rate.

15. TAXATION

The corporate income tax credit (expense) comprises:

	2017	2016	2015
Current income expense	**(42,396)**	(25,034)	(38,959)
Deferred income tax credit (expense)	**9,669**	63,690	(9,449)
INCOME TAX (EXPENSE) CREDIT	**(32,727)**	38,656	(48,408)
Income tax expense attributable to continuing operations	**(32,340)**	17,500	(48,417)
Income tax expense attributable to a discontinued operation (Note 6)	**(387)**	21,156	9
Deferred income tax credit (expense) in other comprehensive income (loss)	**(1,328)**	(2,274)	283

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

	2017	2016	2015
Currency translation differences	**(576)**	(2,253)	283
Net losses on investment securities available-for-sale	**27**	(21)	–
Revaluation of buildings	**(779)**	–	–
INCOME TAX (EXPENSE) CREDIT IN OTHER COMPREHENSIVE INCOME	**(1,328)**	(2,274)	283

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 27% (2016: from 15% to 27%; 2015: from 15% to 25%).

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status.

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

	2017	2016	2015
Profit before income tax expense from continuing operations	**435,846**	352,787	332,591
Net gain before income tax benefit from discontinued operations (Note 6)	**60,330**	37,133	26,762
PROFIT BEFORE INCOME TAX EXPENSE	**496,176**	389,920	359,353
Average tax rate	**15%**	15%	15%
THEORETICAL INCOME TAX EXPENSE AT AVERAGE TAX RATE	**(74,426)**	(58,488)	(53,903)
Non-taxable income	**38,223**	19,711	3,744
Correction of prior year declarations	**5,940**	2,494	1,472
Non-deductible expenses	**(1,220)**	(1,645)	(487)
Tax at the domestic rates applicable to profits in each country	**(1,244)**	(143)	(262)
Effects from changes in tax legislation	**–**	76,964	–
Other	**–**	(237)	1,028
INCOME TAX (EXPENSE) BENEFIT	**(32,727)**	38,656	(48,408)

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2017, 31 December 2016 and 31 December 2015 income tax assets and liabilities consist of the following:

	2017	2016	2015
Current income tax assets	**1,155**	22,329	3,654
Deferred income tax assets	**1,138**	1,714	17,896
INCOME TAX ASSETS	**2,293**	24,043	21,550
Current income tax liabilities	**9,617**	5,548	20,083
Deferred income tax liabilities	**11,342**	22,170	99,210
INCOME TAX LIABILITIES	**20,959**	27,718	119,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. TAXATION CONTINUED

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

		Origination and reversal of temporary differences				Origination and reversal of temporary differences				**Origination and reversal of temporary differences**			
	2014	In the income statement	Business combination	In other comprehensive income	2015	In the income statement	Business combination	In other comprehensive income	2016	**In the income statement**	**IFRS 15 adoption**	**In other comprehensive income**	**2017**
TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:													
Amounts due to credit institutions	1,005	(523)	–	–	482	(482)	–	–	–	**–**	**–**	**–**	**–**
Investment securities: available-for-sale	1,195	(1,194)	–	(1)	–	–	–	–	–	**–**	**–**	**–**	**–**
Investment properties	980	–	–	–	980	431	–	(921)	490	**(284)**	**–**	**(18)**	**188**
Insurance premiums receivables	1,510	650	–	–	2,160	(952)	–	–	1,208	**(721)**	**–**	**–**	**487**
Allowances for impairment and provisions for other losses	198	5,035	–	(367)	4,866	1,090	–	535	6,491	**1,490**	**–**	**(205)**	**7,776**
Tax losses carried forward	12,296	6,606	(1,992)	250	17,160	(13,095)	–	(4,065)	–	**–**	**–**	**–**	**–**
Property and equipment	936	50	–	(49)	937	(44)	–	(73)	820	**87**	**–**	**(179)**	**728**
Other assets and liabilities	3,869	(406)	982	2	4,447	(3,053)	1,497	168	3,059	**1,277**	**–**	**(16)**	**4,320**
DEFERRED TAX ASSETS	21,989	10,218	(1,010)	(165)	31,032	(16,105)	1,497	(4,356)	12,068	**1,849**	**–**	**(418)**	**13,499**
TAX EFFECT OF TAXABLE TEMPORARY DIFFERENCES:													
Amounts due to credit institutions	44	26	–	(2)	68	1,162	–	–	1,230	**(469)**	**–**	**–**	**761**
Amounts due to customers	1,325	(1,325)	–	–	–	–	–	–	–	**–**	**–**	**–**	**–**
Loans to customers	30,236	(763)	–	(517)	28,956	(11,210)	–	720	18,466	**(4,423)**	**–**	**(262)**	**13,781**
Other insurance liabilities and pension fund obligations	1,382	(1,160)	–	–	222	(222)	–	–	–	**–**	**–**	**–**	**–**
Property and equipment	35,227	18,653	9,666	170	63,716	(57,990)	1,915	(1,062)	6,579	**(2,829)**	**–**	**1,201**	**4,951**
Investment properties	64	6,500	–	(53)	6,511	(4,966)	–	(1,545)	–	**–**	**–**	**–**	**–**
Intangible assets	6,532	(1,122)	–	(7)	5,403	(5,053)	–	102	452	**(435)**	**–**	**(1)**	**16**
Other assets and liabilities	8,664	(1,142)	(13)	(39)	7,470	(1,516)	140	(297)	5,797	**336**	**(1,911)**	**(28)**	**4,194**
DEFERRED TAX LIABILITIES	83,474	19,667	9,653	(448)	112,346	(79,795)	2,055	(2,082)	32,524	**(7,820)**	**(1,911)**	**910**	**23,703**
NET DEFERRED TAX LIABILITIES	(61,485)	(9,449)	(10,663)	283	(81,314)	63,690	(558)	(2,274)	(20,456)	**9,669**	**1,911**	**(1,328)**	**(10,204)**

16. OTHER ASSETS AND OTHER LIABILITIES

OTHER ASSETS COMPRISE:

	2017	2016	2015
Foreclosed assets	**52,095**	50,821	49,602
Operating tax assets	**35,403**	50,227	18,225
Defined contribution pension assets	**18,536**	16,441	13,706
Assets purchased for finance lease purposes	**10,037**	11,378	10,689
Reinsurance assets	**20,671**	13,161	10,381
Other receivables	**23,647**	12,903	19,380
Investments in associates	**11,850**	12,814	53,458
Derivative financial assets	**12,392**	1,466	42,212
Trading securities owned	**3,191**	1,396	1,977
Settlements on operations	**928**	1,100	5,060
Other	**20,899**	27,176	22,090
	209,649	198,883	246,780
Less – Allowance for impairment of other assets	**(20,917)**	(14,092)	(10,000)
OTHER ASSETS	**188,732**	184,791	236,780

OTHER LIABILITIES COMPRISE:

	2017	2016	2015
Accounts payable	**48,011**	111,766	44,865
Creditors	**19,129**	6,606	7,729
Defined contribution pension obligations	**18,536**	16,441	13,706
Other taxes payable	**18,676**	34,662	5,072
Other insurance liabilities	**11,008**	8,235	9,572
Provisions	**5,915**	4,086	2,240
Derivative financial liabilities	**3,948**	9,411	3,243
Dividends payable to non-controlling shareholders	**1,100**	1,313	815
Amounts payable for share acquisitions*	**413**	8,491	38,005
Other	**15,397**	30,612	9,509
OTHER LIABILITIES	**142,133**	231,623	134,756

* 2017 amounts payable for share acquisition fully comprise payables for acquisition of New Coffee Georgia. 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.

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

	2017		
		Fair value	
	Notional amount	Asset	Liability
FOREIGN EXCHANGE CONTRACTS			
Forwards and Swaps – domestic	**352,738**	**1,817**	**1,958**
Forwards and Swaps – foreign	**227,585**	**1,706**	**534**
INTEREST RATE CONTRACTS			
Forwards and Swaps – foreign	**777,660**	**7,368**	**–**
Options – foreign (IR)	**10,183**	**1,501**	**1,456**
TOTAL DERIVATIVE ASSETS/LIABILITIES	**1,368,166**	**12,392**	**3,948**

	2016			2015		
		Fair value			Fair value	
	Notional amount	Asset	Liability	Notional amount	Asset	Liability
FOREIGN EXCHANGE CONTRACTS						
Forwards and Swaps – domestic	234,969	954	1,734	12,510	183	10
Forwards and Swaps – foreign	302,679	512	7,043	145,055	41,994	510
Options – foreign	–	–	–	56,768	35	2,723
INTEREST RATE CONTRACTS						
Forwards and Swaps – foreign	794,040	–	634	–	–	–
TOTAL DERIVATIVE ASSETS/LIABILITIES	1,331,688	1,466	9,411	214,333	42,212	3,243

17. CLIENT DEPOSITS AND NOTES

The amounts due to customers include the following:

	2017	2016	2015
Time deposits	**3,321,953**	2,787,419	2,597,244
Current accounts	**3,316,064**	2,521,051	2,153,275
Promissory notes issued	**74,465**	74,228	868
CLIENT DEPOSITS AND NOTES	**6,712,482**	5,382,698	4,751,387
HELD AS SECURITY AGAINST LETTERS OF CREDIT AND GUARANTEES (NOTE 20)	**98,399**	96,692	64,534

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

At 31 December 2017, amounts due to customers of GEL 880,957 (13%) were due to the ten largest customers (2016: GEL 635,303 (12%); 2015: GEL 782,146 (16%)).

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

	2017	2016	2015
Individuals	**3,883,940**	3,134,251	2,615,774
Private enterprises	**2,364,255**	2,110,975	1,945,233
State and state-owned entities	**464,287**	137,472	190,380
CLIENT DEPOSITS AND NOTES	**6,712,482**	5,382,698	4,751,387

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

	2017	2016	2015
Individuals	**3,883,940**	3,134,251	2,615,774
Trade	**576,524**	420,402	374,291
Government services	**438,492**	102,530	141,007
Financial intermediation	**314,081**	365,515	292,771
Service	**297,393**	264,609	289,485
Transport and communication	**257,818**	213,301	317,161
Construction	**257,799**	272,351	224,477
Manufacturing	**224,230**	208,145	236,238
Real estate	**103,800**	66,207	64,990
Electricity, gas and water supply	**93,097**	95,651	74,125
Hospitality	**44,241**	22,248	18,818
Other	**221,067**	217,488	102,250
CLIENT DEPOSITS AND NOTES	**6,712,482**	5,382,698	4,751,387

18. AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2017	2016	2015
Borrowings from international credit institutions	**1,423,840**	1,221,070	640,517
Short-term loans from the National Bank of Georgia	**793,528**	1,085,000	307,200
Time deposits and inter-bank loans	**305,287**	397,506	353,638
Correspondent accounts	**204,512**	329,609	92,617
	2,727,167	3,033,185	1,393,972
Non-convertible subordinated debt	**428,672**	436,906	395,090
AMOUNTS DUE TO CREDIT INSTITUTIONS	**3,155,839**	3,470,091	1,789,062

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. AMOUNTS OWED TO CREDIT INSTITUTIONS CONTINUED

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Amounts due to credit institutions
CARRYING AMOUNT AT 31 DECEMBER 2016	21,692
Foreign currency translation	9
Cash repayments	(21,701)
CARRYING AMOUNT AT 31 DECEMBER 2017	–

19. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2017	2016	2015
Eurobonds and notes issued	**1,344,334**	937,406	908,183
Local bonds	**96,266**	140,965	98,859
Certificates of deposit	**268,552**	177,272	32,762
DEBT SECURITIES ISSUED	**1,709,152**	1,255,643	1,039,804

On 24 May 2017, the Group completed the issuance of GEL 500 million GEL-denominated 11.00% notes due in 2020. The Regulation S/Rule 144A senior unsecured notes were issued and sold at an issue price of 100% of their principal amount. The notes are rated BB- (Fitch) and Ba2 (Moody's). The notes are listed on the Irish Stock Exchange.

20. 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 2017, 31 December 2016 and 31 December 2015 the Group's financial commitments and contingencies comprised the following:

	2017	2016	2015
CREDIT-RELATED COMMITMENTS			
Guarantees issued	**621,267**	508,685	473,839
Undrawn loan facilities	**261,397**	231,704	273,851
Letters of credit	**40,350**	58,561	43,126
	923,014	798,950	790,816
Less – Cash held as security against letters of credit and guarantees (Note 17)	**(98,399)**	(96,692)	(64,534)
Less – Provisions	**(5,915)**	(4,086)	(2,240)
OPERATING LEASE COMMITMENTS			
Not later than 1 year	**22,731**	35,823	17,056
Later than 1 year but not later than 5 years	**54,620**	110,466	31,216
Later than 5 years	**25,671**	18,994	5,553
	103,022	165,283	53,825
CAPITAL EXPENDITURE COMMITMENTS	**2,538**	13,174	27,624
FINANCIAL COMMITMENTS AND CONTINGENCIES, NET	**924,260**	876,629	805,491

21. EQUITY

SHARE CAPITAL

As at 31 December 2017 issued share capital comprised 39,384,712 common shares (2016: 39,500,320; 2015: 39,500,320), all of which were fully paid. Each share has a nominal value of one (1) British penny. Shares issued and outstanding as at 31 December 2017 are described below:

	Number of ordinary shares	Amount of ordinary shares
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
Share buyback and cancellation	(115,608)	(3)
31 DECEMBER 2017	**39,384,712**	**1,151**

In 2016 the Management Board approved a US$ 50 million share buyback and cancellation programme over a two-year period. During the year ended 31 December 2017 the Group repurchased and cancelled 115,608 shares in exchange for GEL 12,186.

TREASURY SHARES

Treasury shares are held by the Group solely for the employees' future share-based compensation purposes.

The number of treasury shares held by the Group as at 31 December 2017 comprised 2,268,313 (31 December 2016: 1,843,091; 31 December 2015: 1,521,752), with nominal amount of GEL 66 (31 December 2016: GEL 54; 31 December 2015: GEL 44).

DIVIDENDS

Shareholders are entitled to dividends in British Pounds Sterling.

On 1 June 2017, the shareholders of BGEO declared a final dividend for 2016 of GEL 2.6 per share. The currency conversion date was set at 26 June 2017, with the official GEL-GBP exchange rate of 3.0690, resulting in a GBP-denominated final dividend of 0.8472 per share. Payment of the total GEL 101,501 final dividends was received by shareholders on 7 July 2017.

On 26 May 2016, the shareholders of BGEO declared a final dividend for 2015 of GEL 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 GEL 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.

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 hospitals and infrastructure assets 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 2017, 31 December 2016 and 31 December 2015 are presented in the statements of other comprehensive income.

21. 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 43% as at 31 December 2017 (31 December 2016; 35%, 31 December 2015: 32%). The following table summarises key information before intra-Group eliminations relevant to Georgia Healthcare Group PLC.

	2017	2016	2015
Total assets	**1,166,360**	909,851	758,507
Total liabilities	**619,401**	370,222	286,941
Profit for the year	**45,850**	60,100	23,291
Net (decrease) increase in cash and cash equivalents	**25,602**	(121,914)	112,369
Profit attributable to non-controlling interest	**27,955**	27,376	5,208

EARNINGS PER SHARE

	2017	2016	2015
BASIC EARNINGS PER SHARE			
Profit for the year attributable to ordinary shareholders of the Group	**437,615**	398,538	303,694
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	**405,626**	367,625	282,131
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	**31,989**	30,913	21,563
Weighted average number of ordinary shares outstanding during the year	**37,697,497**	38,266,383	38,314,369
Basic earnings per share	**11.6086**	10.4148	7.9264
Earnings per share from continuing operations	**10.7600**	9.6070	7.3636
Earnings per share from discontinued operations	**0.8486**	0.8078	0.5628

	2017	2016	2015
DILUTED EARNINGS PER SHARE			
Effect of dilution on weighted average number of ordinary shares:			
Dilutive unvested share options	**1,825,434**	1,233,937	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**39,522,931**	39,500,320	38,314,369
Diluted earnings per share	**11.0724**	10.0895	7.9264
Diluted earnings per share from continuing operations	**10.2631**	9.3069	7.3636
Diluted earnings per share from discontinued operations	**0.8093**	0.7826	0.5628

22. NET INTEREST INCOME

	2017				2016			
	Banking Business	Investment Business	Elimination	Total	Banking Business	Investment Business	Elimination	Total
From loans to customers	**995,731**	**52**	**(6,125)**	**989,658**	822,557	59	(5,537)	817,079
From investment securities: available-for-sale	**113,290**	**2,415**	**(4,680)**	**111,025**	91,099	14	(498)	90,615
From finance lease receivable	**14,144**	**–**	**–**	**14,144**	10,420	–	–	10,420
From amounts due from credit institutions	**17,127**	**10,503**	**(5,128)**	**22,502**	7,987	4,071	(398)	11,660
INTEREST INCOME	**1,140,292**	**12,970**	**(15,933)**	**1,137,329**	932,063	4,144	(6,433)	929,774
On client deposits and notes	**(215,683)**	**–**	**6,309**	**(209,374)**	(194,047)	–	5,465	(188,582)
On amounts owed to credit institutions	**(170,124)**	**(15,438)**	**72**	**(185,490)**	(119,439)	(7,312)	(8,139)	(134,890)
On debt securities issued	**(82,385)**	**(14,576)**	**2,786**	**(94,175)**	(64,966)	(6,098)	5,408	(65,656)
INTEREST EXPENSE	**(468,192)**	**(30,014)**	**9,167**	**(489,039)**	(378,452)	(13,410)	2,734	(389,128)
NET INTEREST INCOME	**672,100**	**(17,044)**	**(6,766)**	**648,290**	553,611	(9,266)	(3,699)	540,646

	2015			
	Banking Business	Investment Business	Elimination	Total
From loans to customers	781,842	320	(11,988)	770,174
From investment securities: available-for-sale	69,514	42	(120)	69,436
From finance lease receivable	9,728	–	–	9,728
From amounts due from credit institutions	9,628	2,151	(878)	10,901
INTEREST INCOME	870,712	2,513	(12,986)	860,239
On client deposits and notes	(190,777)	–	3,520	(187,257)
On amounts owed to credit institutions	(88,669)	(1,183)	(12,978)	(102,830)
On debt securities issued	(80,669)	(932)	13,074	(68,527)
INTEREST EXPENSE	(360,115)	(2,115)	3,616	(358,614)
NET INTEREST INCOME	510,597	398	(9,370)	501,625

23. NET FEE AND COMMISSION INCOME

	2017	2016	2015
Settlements operations	**153,529**	129,792	112,540
Guarantees and letters of credit	**17,378**	18,893	25,930
Cash operations	**13,238**	12,965	13,822
Currency conversion operations	**446**	585	1,550
Brokerage service fees	**1,766**	1,040	553
Advisory	**–**	1,379	465
Other	**4,035**	4,927	2,904
FEE AND COMMISSION INCOME	**190,392**	169,581	157,764
Settlements operations	**(48,103)**	(34,304)	(29,371)
Cash operations	**(5,156)**	(5,807)	(4,670)
Guarantees and letters of credit	**(2,192)**	(2,880)	(3,836)
Insurance brokerage service fees	**(3,148)**	(2,431)	(625)
Currency conversion operations	**(27)**	(20)	(62)
Other	**(1,716)**	(1,662)	(1,104)
FEE AND COMMISSION EXPENSE	**(60,342)**	(47,104)	(39,668)
NET FEE AND COMMISSION INCOME	**130,050**	122,477	118,096

24. GROSS INSURANCE PROFIT

Net insurance premiums earned, net insurance claims incurred and respective gross insurance profit for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 comprised:

	2017	2016	2015
Life insurance contracts premium written	**8,772**	7,488	6,850
General insurance contracts premium written	**69,081**	59,809	57,492
TOTAL PREMIUMS WRITTEN	**77,853**	67,297	64,342
Gross change in life provision	**(24)**	5	289
Gross change in general insurance contracts unearned premium provision	**(2,528)**	(4,344)	(3,740)
TOTAL GROSS PREMIUMS EARNED ON INSURANCE CONTRACTS	**75,301**	62,958	60,891
Reinsurers' share of life insurance contracts premium written	**(622)**	(560)	(530)
Reinsurers' share of general insurance contracts premium written	**(23,375)**	(19,847)	(20,402)
Reinsurers' share of change in life provision	**76**	5	1
Reinsurers' share of change in general insurance contracts unearned premium provision	**983**	(149)	(237)
TOTAL REINSURERS' SHARE OF GROSS EARNED PREMIUMS ON INSURANCE CONTRACTS	**(22,938)**	(20,551)	(21,168)
NET INSURANCE PREMIUMS EARNED	**52,363**	42,407	39,723
Life insurance claims paid	**(3,167)**	(2,388)	(1,576)
General insurance claims paid	**(31,308)**	(23,430)	(20,639)
TOTAL INSURANCE CLAIMS PAID	**(34,475)**	(25,818)	(22,215)
Reinsurers' share of life insurance claims paid	**77**	181	54
Reinsurers' share of general insurance claims paid	**9,025**	7,530	4,186
Gross change in total reserves for claims	**(6,178)**	(2,653)	(1,466)
Reinsurers' share of change in total reserves for claims	**6,453**	2,922	(673)
NET INSURANCE CLAIMS INCURRED	**(25,098)**	(17,838)	(20,114)
GROSS INSURANCE PROFIT	**27,265**	24,569	19,609

25. GROSS REAL ESTATE PROFIT

	2017	2016	2015
Revenue from sale of apartments	**92,643**	96,373	44,917
Revaluation of investment property developed by the Group	**24,033**	959	7,083
Operating lease income	**3,479**	2,251	1,882
REAL ESTATE REVENUE	**120,155**	99,583	53,882
Cost of real estate	**(85,765)**	(81,098)	(39,721)
GROSS REAL ESTATE PROFIT	**34,390**	18,485	14,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. GROSS UTILITY PROFIT

	2017	2016	2015
Revenue from water supply	**117,454**	51,230	–
Revenue from electric power sales	**9,754**	5,117	–
UTILITY AND ENERGY REVENUE	**127,208**	56,347	–
Cost of water supply	**(36,886)**	(17,341)	–
Cost of electric power sales	**(2,312)**	(465)	–
COST OF UTILITY AND ENERGY	**(39,198)**	(17,806)	–
GROSS UTILITY AND ENERGY PROFIT	**88,010**	38,541	–

27. GROSS OTHER INVESTMENT PROFIT

	2017	2016	2015
Gross profit from beverage production and distribution	**23,128**	11,150	10,079
Net gains from revaluation of other investment properties	**652**	2,074	7,267
Net gain from sale of PPE and IP	**41**	341	46
Other investment profit	**6,809**	7,723	989
GROSS OTHER INVESTMENT PROFIT	**30,630**	21,288	18,381

28. SALARIES AND OTHER EMPLOYEE BENEFITS, AND GENERAL AND ADMINISTRATIVE EXPENSES

SALARIES AND OTHER EMPLOYEE BENEFITS

	2017	2016	2015
Salaries and bonuses	**(225,690)**	(179,000)	(155,728)
Social security costs	**(3,870)**	(3,049)	(2,987)
Pension costs	**(982)**	(804)	(713)
SALARIES AND OTHER EMPLOYEE BENEFITS	**(230,542)**	(182,853)	(159,428)

The average number of staff employed by the Group for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 was:

	2017	2016	2015
The Bank	**5,248**	4,729	4,591
Insurance	**303**	272	279
BNB	**655**	575	504
GGU	**2,454**	2,326	0
Other	**1,378**	1,034	1,062
AVERAGE TOTAL NUMBER OF STAFF EMPLOYED	**10,038**	8,936	6,436

Salaries and bonuses include GEL 56,649, GEL 45,992 and GEL 31,219 of the Equity Compensation Plan costs for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 30 and 34).

GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016	2015
Occupancy and rent	**(26,253)**	(20,172)	(17,202)
Marketing and advertising	**(25,492)**	(16,709)	(10,375)
Legal and other professional services	**(17,560)**	(13,248)	(11,822)
Repairs and maintenance	**(14,847)**	(10,989)	(10,088)
Operating taxes	**(12,842)**	(8,895)	(5,695)
Office supplies	**(7,902)**	(5,659)	(5,244)
Corporate hospitality and entertainment	**(6,315)**	(5,706)	(4,077)
Communication	**(6,306)**	(5,362)	(5,667)
Personnel training and recruitment	**(3,623)**	(2,653)	(1,681)
Insurance	**(3,504)**	(1,642)	(1,160)
Security	**(2,605)**	(1,812)	(1,971)
Travel expenses	**(2,396)**	(1,510)	(1,812)
Other	**(6,532)**	(2,672)	(4,570)
GENERAL AND ADMINISTRATIVE EXPENSES	**(136,177)**	(97,029)	(81,364)

28. SALARIES AND OTHER EMPLOYEE BENEFITS, AND GENERAL AND ADMINISTRATIVE EXPENSES CONTINUED

AUDITORS' REMUNERATION

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

	2017	2016	2015
Fees payable for the audit of the Company's current year Annual Report	**529**	423	405
Fees payable for other services:			
Audit of the Company's subsidiaries	**2,807**	2,990	2,057
TOTAL AUDIT FEES	**3,336**	3,413	2,462
Audit-related assurance services			
Review of the Company's and Subsidiaries' interim accounts	**711**	637	351
Other assurance services	**513**	590	1,237
TOTAL AUDIT-RELATED FEES	**1,224**	1,227	1,588
Non-audit services			
Tax compliance services	**–**	49	–
Tax advisory services	**–**	–	194
Corporate finance services	**54**	–	1,724
Other non-audit services	**36**	41	–
TOTAL OTHER SERVICES FEES	**90**	90	1,918
TOTAL FEES	**4,650**	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 105 (2016: GEL 111; 2015: GEL 40) and in respect of other services of the Group were GEL 400 (2016: GEL 328; 2015: GEL 200).

29. NET NON-RECURRING ITEMS

	2017	2016	2015
Gain on bargain purchase (Note 5)	**260**	36,915	–
Termination benefits	**(1,394)**	(9,820)	(1,598)
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)	–
Consulting costs	**–**	(5,258)	–
Loss from remeasurement of investment in associate	**–**	(5,145)	–
Write-off of miscellaneous healthcare-related assets	**–**	–	–
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
Loss from early repayments of borrowings from international credit institutions and debt securities issued	**–**	–	(4,519)
JSC PrivatBank integration costs	**–**	–	(3,731)
Impairment of finance lease receivables	**–**	–	(1,969)
Other	**(3,789)**	(7,899)	322
TOTAL NON-RECURRING EXPENSE/LOSS	**(4,923)**	(12,682)	(12,900)
NET NON-RECURRING EXPENSE/LOSS	**(4,923)**	(12,682)	(12,900)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. SHARE-BASED PAYMENTS

EXECUTIVES' EQUITY COMPENSATION PLAN

In 2015 the Group set up 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 2017 the Trustee has repurchased 784,084 shares (2016: 768,953 shares and 2015: 282,657 shares).

In February 2017, BGEO's Remuneration Committee resolved to award 323,950 ordinary shares of BGEO to the members of the Management Board and 73,550 ordinary shares of BGEO to the Group's 20 executives. Shares awarded to the Management Board and the other 20 executives are subject to three-year vesting for Management Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date. The Group estimates that the fair value of the shares awarded on 28 February 2017 was GEL 90.01 per share.

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 GEL 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 24 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 August 2015, the Management Board members signed new three-year fixed contingent share-based compensation agreements with a total of 934,000 ordinary shares of BGEO. The total amount of shares fixed to each executive will be awarded in three equal installments 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 GEL 59.17.

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

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

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

SUMMARY

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

The weighted average fair value of share-based awards at the grant date comprised GEL 89.81 per share in year ended 31 December 2017 (31 December 2016: GEL 66.19 per share, 31 December 2015: GEL 58.74).

The Group's total share-based payment expenses for the year ended 31 December 2017 comprised GEL 56,649 (31 December 2016: GEL 45,992; 31 December 2015: GEL 31,219) and are included in salaries and other employee benefits, as "salaries and bonuses".

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

	2017	2016	2015
Total number of equity instruments awarded*	**670,210**	689,951	1,536,013
– Among them, to top management	**464,950**	545,500	1,106,000
Weighted average value at grant date, per share (GEL in full amount)	**89.81**	66.19	58.74
VALUE AT GRANT DATE, TOTAL (GEL)	**60,194**	45,671	90,228
TOTAL EXPENSE RECOGNISED DURING THE YEAR (GEL)	**(56,649)**	(45,992)	(31,219)

* 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 for the Management Board members.

During 2017, BGEO Directors exercised 126,000 shares (2016: 115,000; 2015: 147,500) with fair value of GEL 12,049 (2016: GEL 10,760; 2015: GEL 8,251). Weighted average share price comprised GEL 95.63 per share (2016: GEL 93.57; 2015: GEL 55.94).

31. RISK MANAGEMENT

INTRODUCTION

Risk is inherent to 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, that designs and implements respective risk management and stress testing models in practice and that regularly monitors compliance with the preset risk limits.

INTERNAL AUDIT

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

RISK MEASUREMENT AND REPORTING SYSTEMS

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks early. 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 overhead for more detail).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31. RISK MANAGEMENT CONTINUED

INTRODUCTION CONTINUED

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 and notional amounts of guarantees and commitments provided.

DERIVATIVE FINANCIAL INSTRUMENTS

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

CREDIT-RELATED COMMITMENTS RISKS

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

CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

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

		Neither past due nor impaired				
31 December 2017	**Notes**	**High grade**	**Standard grade**	**Sub-standard grade**	**Past due or individually impaired**	**Total**
Amounts due from credit institutions	9	**1,225,829**	**118**	**–**	**–**	**1,225,947**
Debt investment securities available-for-sale	10	**1,563,515**	**–**	**–**	**–**	**1,563,515**
Loans to customers:	11					
Commercial loans		**1,766,329**	**511,296**	**6,193**	**310,606**	**2,594,424**
Consumer loans		**1,580,503**	**37,612**	**31,915**	**101,076**	**1,751,106**
Micro and SME loans		**1,547,233**	**105,302**	**30,019**	**93,490**	**1,776,044**
Residential mortgage loans		**1,619,638**	**28,961**	**19,783**	**44,133**	**1,712,515**
Gold – pawn loans		**65,865**	**–**	**–**	**2,075**	**67,940**
		6,579,568	**683,171**	**87,910**	**551,380**	**7,902,029**
Finance lease receivables	11	**48,069**	**12,161**	**2,063**	**5,393**	**67,686**
TOTAL		**9,416,981**	**695,450**	**89,973**	**556,773**	**10,759,177**

		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	9	1,049,889	5,094	–	–	1,054,983
Debt investment securities available-for-sale	10	1,284,555	–	–	–	1,284,555
Loans to customers:	11					
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	11	28,756	9,925	3,089	6,497	48,267
TOTAL		7,641,072	787,915	97,456	716,894	9,243,337

31. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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

		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	9	731,365	–	–	–	731,365
Debt investment securities available-for-sale	10	902,419	–	–	–	902,419
Loans to customers:	11					
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	11	16,442	12,270	3,531	10,669	42,912
TOTAL		6191,038	333,784	122,309	509,866	7,156,997

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

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

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

AGEING ANALYSIS OF PAST DUE BUT NOT INDIVIDUALLY IMPAIRED LOANS PER CLASS OF FINANCIAL ASSETS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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

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

CARRYING AMOUNT PER CLASS OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

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

	2017	2016	2015
Loans to customers:			
Commercial loans	103,365	235,026	141,294
Micro and SME loans	47,539	37,003	20,890
Residential mortgage loans	44,058	38,757	28,594
Consumer loans	39,318	29,828	18,243
Finance lease receivables	5,508	5,829	2,684
TOTAL	239,788	346,443	211,705

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 a 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 and 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. 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 to loans.

31. RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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

	2017			
	Georgia	OECD	CIS and other foreign countries	Total
ASSETS:				
Cash and cash equivalents	552,723	932,030	97,682	1,582,435
Amounts due from credit institutions	1,032,749	182,699	10,499	1,225,947
Investment securities	931,986	559,468	73,415	1,564,869
Loans to customers and finance lease receivables	7,290,710	–	399,740	7,690,450
All other assets	2,980,244	40,722	84,002	3,104,968
	12,788,412	1,714,919	665,338	15,168,669
LIABILITIES:				
Client deposits and notes	4,954,215	655,034	1,103,233	6,712,482
Amounts owed to credit institutions	1,235,669	1,844,350	75,820	3,155,839
Debt securities issued	346,941	1,333,699	28,512	1,709,152
All other liabilities	823,725	28,801	6,300	858,826
	7,360,550	3,861,884	1,213,865	12,436,299
NET BALANCE SHEET POSITION	5,427,862	(2,146,965)	(548,527)	2,732,370

	2016				2015			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
ASSETS:								
Cash and cash equivalents	661,207	837,721	74,682	1,573,610	623,904	662,296	146,734	1,432,934
Amounts due from credit institutions	1,048,136	3,287	3,560	1,054,983	630,217	97,242	3,906	731,365
Investment securities	914,446	286,832	84,725	1,286,003	824,820	79,047	–	903,867
Loans to customers and finance lease receivables	6,286,382	–	362,100	6,648,482	5,002,004	–	320,113	5,322,117
All other assets	2,343,008	16,455	31,635	2,391,098	1,594,962	63,265	30,581	1,688,808
	11,253,179	1,144,295	556,702	12,954,176	8,675,907	901,850	501,334	10,079,091
LIABILITIES:								
Client deposits and notes	3,872,607	560,582	949,509	5,382,698	3,522,316	422,649	806,422	4,751,387
Amounts owed to credit institutions	1,676,312	1,682,934	110,845	3,470,091	508,287	1,063,404	217,371	1,789,062
Debt securities issued	200,055	1,031,462	24,126	1,255,643	98,859	940,945	–	1,039,804
All other liabilities	436,645	13,403	7,483	457,531	441,116	8,296	7,334	456,746
	6,185,619	3,288,381	1,091,963	10,565,963	4,570,578	2,435,294	1,031,127	8,036,999
NET BALANCE SHEET POSITION	5,067,560	(2,144,086)	(535,261)	2,388,213	4,105,329	(1,533,444)	(529,793)	2,042,092

LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

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

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

31. RISK MANAGEMENT CONTINUED

LIQUIDITY RISK AND FUNDING MANAGEMENT CONTINUED

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

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

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

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

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

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities* As at 31 December 2017	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Client deposits and notes	**2,566,259**	**3,571,233**	**624,661**	**65,597**	**6,827,750**
Amounts owed to credit institutions	**1,319,622**	**566,406**	**1,084,701**	**756,014**	**3,726,743**
Debt securities issued	**42,908**	**173,476**	**1,058,146**	**951,146**	**2,225,676**
Derivative financial liabilities	**3,139**	**809**	**–**	**–**	**3,948**
Other liabilities	**47,263**	**35,177**	**41,528**	**16**	**123,984**
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	**3,979,191**	**4,347,101**	**2,809,036**	**1,772,773**	**12,908,101**

* Excluding discontinued operations.

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

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

Contractual expiry by maturity of the Group's financial commitments and contingencies

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2017	**396,907**	**194,430**	**326,812**	**110,425**	**1,028,574**
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

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

31. RISK MANAGEMENT CONTINUED

LIQUIDITY RISK AND FUNDING MANAGEMENT CONTINUED

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 17).

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31. RISK MANAGEMENT CONTINUED

MARKET RISK CONTINUED

CURRENCY RISK

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables 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 31 December 2017, year ended 31 December 2016 and year ended 31 December 2015, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

	2017		2016		2015	
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	**12.0%**	**(2,487)**	11.6%	(3,336)	2.9%	1
USD	**8.9%**	**5,758**	9.3%	3,507	1.1%	(1,329)

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar 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 2017, 31 December 2016 and 31 December 2015 is as follows:

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

OPERATIONAL RISK

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

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 mitigating 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.

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.

32. FAIR VALUE MEASUREMENTS

FAIR VALUE HIERARCHY

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	353,565	353,565
Land	–	–	122,394	122,394
Residential properties	–	–	66,206	66,206
Non-residential properties	–	–	164,965	164,965
Investment securities	–	1,563,531	1,338	1,564,869
Other assets – derivative financial assets	–	12,392	–	12,392
Other assets – trading securities owned	3,191	–	–	3,191
Total revalued property	–	–	252,583	252,583
Infrastructure assets	–	–	252,583	252,583
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,582,435	–	1,582,435
Amounts due from credit institutions	–	1,225,947	–	1,225,947
Loans to customers and finance lease receivables	–	–	7,822,351	7,822,351
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	3,948	–	3,948
Liabilities for which fair values are disclosed				
Client deposits and notes	–	6,716,763	–	6,716,763
Amounts owed to credit institutions	–	2,625,385	530,454	3,155,839
Debt securities issued	–	1,355,930	364,818	1,720,748

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	–	–	594,619	594,619
Hospitals and clinics	–	–	401,053	401,053
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

32. 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
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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

TRADING SECURITIES AND INVESTMENT SECURITIES

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

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 2014	Purchase of AFS securities	At 31 December 2015	Other comprehensive income	Reclassification to associates	Purchase of AFS securities	At 31 December 2016	Purchase (sale) of AFS securities	**At 31 December 2017**
Level 3 financial assets									
Equity investment securities available-for-sale	1,412	36	1,448	9,626	(9,626)	949	2,397	(1,059)	**1,338**

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 12 and 13 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:

	2017		2016		2015	
	Carrying amount	**Effect of reasonably possible alternative assumptions**	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities available-for-sale	**1,338**	**+/- 200**	2,397	+/- 359	1,448	+/- 217

32. FAIR VALUE MEASUREMENTS CONTINUED

FAIR VALUE HIERARCHY CONTINUED

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

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

DESCRIPTION OF SIGNIFICANT UNOBSERVABLE INPUTS TO VALUATIONS OF NON-FINANCIAL ASSETS

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

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
INVESTMENT PROPERTY	353,565						
Land	122,394						
	108,723	Market approach	Price per square metre	0.11-1,008 (350)	Square metres, land	7-4,667,137 (248,576)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	13,671	Cost approach	Price per square metre	12-2,705 (315)	Square metres, land	61-232,777 (139,984)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	66,206	Market approach	Price per square metre	24-3,194 (1,180)	Square metres, building	2-1,583 (296)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	164,965						
	82,745	Market approach	Price	5,600 – 9,8mln (0.6 mln)	Square metres, land	77-73,575 (1,668)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6-7,350 (1,902)	
			Rent per square metre	2.1-67.7 (6.6)	Square metres, building	23-5,984 (2,503)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
	67,406	Income approach	Occupancy rate	10%-75% (21%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	78-244 (64)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
			Land price per square metre	1-563 (53)	Square metres, land	600-240,000 (121,780)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
	14,814	Cost approach	Depreciated replacement cost per square metre	259-648 (413)	Square metres, building	20-10,600 (5,943)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value
PROPERTY AND EQUIPMENT	252,583						
Infrastructure assets	252,583						
		Discounted cash flows ("DCF")	WACC; Terminal period growth rate	16.5%	Pipes and wells, equipment	N/A	Increase (decrease) in WACC would result in decrease (increase) in fair value; increase (decrease) in terminal growth rate would result in increase (decrease) in fair value
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	9.1			Increase (decrease) in the price of comparables would result in increase (decrease) in fair value

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32. FAIR VALUE MEASUREMENTS CONTINUED

FINANCIAL INSTRUMENTS OVERVIEW

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

	31 December 2017		
	Loans and receivables	Available-for-sale	Fair value through profit or loss
FINANCIAL ASSETS			
Amounts due from credit institutions	1,225,947	–	–
Loans to customers and finance lease receivables	7,690,450	–	–
Accounts receivable and other loans	38,944	–	–
Equity instruments	–	1,354	384
Debt instruments	–	1,563,515	2,807
Interest rate contracts	–	–	8,869
Foreign currency derivative financial instruments	–	–	3,523
TOTAL	8,955,341	1,564,869	15,583
FINANCIAL LIABILITIES			
Client deposits and notes	6,712,482	–	–
Amounts owed to credit institutions	3,155,839	–	–
Debt securities issued	1,709,152	–	–
Trade and other payables (in other liabilities)	615,003	–	–
Interest rate contracts	–	–	1,456
Foreign currency derivative financial instruments	–	–	2,492
TOTAL	12,192,476	–	3,948

	31 December 2016			31 December 2015		
	Loans and receivables	Available-for-sale	Fair value through profit or loss	Loans and receivables	Available-for-sale	Fair value through profit or loss
FINANCIAL ASSETS						
Amounts due from credit institutions	1,054,983	–	–	731,365	–	–
Loans to customers and finance lease receivables	6,648,482	–	–	5,322,117	–	–
Accounts receivable and other loans	128,506	–	–	87,972	–	–
Equity instruments	–	1,448	261	–	1,448	1,505
Debt instruments	–	1,284,555	1,135	–	902,419	472
Foreign currency derivative financial instruments	–	–	1,466	–	–	42,212
TOTAL	7,831,971	1,286,003	2,862	6,141,454	903,867	44,189
FINANCIAL LIABILITIES						
Client deposits and notes	5,382,698	–	–	4,751,387	–	–
Amounts owed to credit institutions	3,470,091	–	–	1,789,062	–	–
Debt securities issued	1,255,643	–	–	1,039,804	–	–
Trade and other payables (in other liabilities)	171,519	–	–	106,128	–	–
Foreign currency derivative financial instruments	–	–	9,411	–	–	3,243
TOTAL	10,279,951	–	9,411	7,686,381	–	3,243

32. FAIR VALUE MEASUREMENTS CONTINUED

FAIR VALUE OF FINANCIAL INSTRUMENTS THAT ARE CARRIED IN THE FINANCIAL STATEMENTS NOT AT FAIR VALUE

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

	Carrying value 2017	Fair value 2017	Unrecognised gain (loss) 2017
FINANCIAL ASSETS			
Cash and cash equivalents	1,582,435	1,582,435	–
Amounts due from credit institutions	1,225,947	1,225,947	–
Loans to customers and finance lease receivables	7,690,450	7,822,351	131,901
FINANCIAL LIABILITIES			
Client deposits and notes	6,712,482	6,716,763	(4,281)
Amounts owed to credit institutions	3,155,839	3,155,839	–
Debt securities issued	1,709,152	1,720,748	(11,596)
TOTAL UNRECOGNISED CHANGE IN UNREALISED FAIR VALUE			116,024

	Carrying value 2016	Fair value 2016	Unrecognised loss 2016	Carrying value 2015	Fair value 2015	Unrecognised loss 2015
FINANCIAL ASSETS						
Cash and cash equivalents	1,573,610	1,573,610	–	1,432,934	1,432,934	–
Amounts due from credit institutions	1,054,983	1,054,983	–	731,365	731,365	–
Loans to customers and finance lease receivables	6,648,482	6,725,662	77,180	5,322,117	5,284,299	(37,818)
FINANCIAL LIABILITIES						
Client deposits and notes	5,382,698	5,388,768	(6,070)	4,751,387	4,777,093	(25,706)
Amounts owed to credit institutions	3,470,091	3,470,091	–	1,789,062	1,789,062	–
Debt securities issued	1,255,643	1,314,400	(58,757)	1,039,804	1,070,515	(30,711)
TOTAL UNRECOGNISED CHANGE IN UNREALISED FAIR VALUE			12,353			(94,235)

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

ASSETS FOR WHICH FAIR VALUE APPROXIMATES CARRYING VALUE

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

FIXED RATE FINANCIAL INSTRUMENTS

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

33. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts as described below. See Note 31 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2017							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	824,629	757,806	–	–	–	–	–	1,582,435
Amounts due from credit institutions	1,003,214	185,572	3,410	21,493	–	1,759	10,499	1,225,947
Investment securities	788,692	641,380	3,061	49,962	21,012	58,916	1,846	1,564,869
Loans to customers and finance lease	–	1,233,630	609,491	1,397,004	2,012,016	1,156,137	1,282,172	7,690,450
TOTAL	2,616,535	2,818,388	615,962	1,468,459	2,033,028	1,216,812	1,294,517	12,063,701
Financial liabilities								
Client deposits and notes	1,297,682	1,253,845	608,234	2,942,822	538,399	39,351	32,149	6,712,482
Amounts owed to credit institutions	205,019	1,105,365	146,260	343,653	545,558	326,458	483,526	3,155,839
Debt securities issued	–	42,030	122,895	130,982	719,725	693,520	–	1,709,152
TOTAL	1,502,701	2,401,240	877,389	3,417,457	1,803,682	1,059,329	515,675	11,577,473
NET	1,113,834	417,148	(261,427)	(1,948,998)	229,346	157,483	778,842	486,228
ACCUMULATED GAP	1,113,834	1,530,982	1,269,555	(679,443)	(450,097)	(292,614)	486,228	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

	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	–	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	

	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	–	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	

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 up to 1 year category in the table above. The remaining current accounts are included in the On demand category.

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

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

As at 31 December 2017 client deposits and notes amounted to GEL 6,712,482 (2016: GEL 5,382,698; 2015: GEL 4,751,387) and represented 54% (2016: 51%; 2015: 59%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2017 amounts owed to credit institutions amounted to GEL 3,155,839 (2016: GEL 3,470,091; 2015: GEL 1,789,062) and represented 25% (2016: 33%; 2015: 22%) of total liabilities. As at 31 December 2017 debt securities issued amounted to GEL 1,709,152 (2016: GEL 1,255,643; 2015: GEL 1,039,804) and represented 14% (2016: 12%; 2015: 13%) of total liabilities.

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

33. 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 2017		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,582,435	–	1,582,435
Amounts due from credit institutions	1,213,689	12,258	1,225,947
Investment securities	1,483,095	81,774	1,564,869
Loans to customers and finance lease	3,240,125	4,450,325	7,690,450
Accounts receivable and other loans	38,810	134	38,944
Insurance premiums receivable	30,538	35	30,573
Prepayments	112,122	37,436	149,558
Inventories	92,158	8,036	100,194
Investment properties	–	353,565	353,565
Property and equipment	–	988,436	988,436
Goodwill	–	55,276	55,276
Intangible assets	–	60,980	60,980
Income tax assets	1,155	1,138	2,293
Other assets	111,972	76,760	188,732
Assets of disposal group held for sale	1,136,417	–	1,136,417
TOTAL ASSETS	9,042,516	6,126,153	15,168,669
Client deposits and notes	6,102,583	609,899	6,712,482
Amounts owed to credit institutions	1,800,297	1,355,542	3,155,839
Debt securities issued	295,907	1,413,245	1,709,152
Accruals and deferred income	104,290	28,379	132,669
Insurance contracts liabilities	39,349	7,053	46,402
Income tax liabilities	9,617	11,342	20,959
Other liabilities	112,328	29,805	142,133
Liabilities of disposal group held for sale	516,663	–	516,663
TOTAL LIABILITIES	8,981,034	3,455,265	12,436,299
NET	61,482	2,670,888	2,732,370

	31 December 2016			31 December 2015		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,573,610	–	1,573,610	1,432,934	–	1,432,934
Amounts due from credit institutions	1,048,492	6,491	1,054,983	729,106	2,259	731,365
Investment securities	1,240,387	45,616	1,286,003	839,379	64,488	903,867
Loans to customers and finance lease receivables	3,147,330	3,501,152	6,648,482	2,359,074	2,963,043	5,322,117
Accounts receivable and other loans	128,222	284	128,506	87,955	17	87,972
Insurance premiums receivable	46,379	44	46,423	39,177	49	39,226
Prepayments	57,465	18,812	76,277	25,371	32,957	58,328
Inventories	88,375	99,969	188,344	98,387	28,640	127,027
Investment properties	–	288,227	288,227	–	246,398	246,398
Property and equipment	–	1,288,594	1,288,594	–	758,027	758,027
Goodwill	–	106,986	106,986	–	72,984	72,984
Intangible assets	–	58,907	58,907	–	40,516	40,516
Income tax assets	22,329	1,714	24,043	3,654	17,896	21,550
Other assets	137,364	47,427	184,791	106,235	130,545	236,780
TOTAL ASSETS	7,489,953	5,464,223	12,954,176	5,721,272	4,357,819	10,079,091
Client deposits and notes	4,894,493	488,205	5,382,698	4,206,377	545,010	4,751,387
Amounts owed to credit institutions	2,238,643	1,231,448	3,470,091	976,698	812,364	1,789,062
Debt securities issued	186,793	1,068,850	1,255,643	105,160	934,644	1,039,804
Accruals and deferred income	58,726	71,593	130,319	113,134	33,718	146,852
Insurance contracts liabilities	62,247	5,624	67,871	51,273	4,572	55,845
Income tax liabilities	5,548	22,170	27,718	20,083	99,210	119,293
Other liabilities	213,064	18,559	231,623	120,082	14,674	134,756
TOTAL LIABILITIES	7,659,514	2,906,449	10,565,963	5,592,807	2,444,192	8,036,999
NET	(169,561)	2,557,774	2,388,213	128,465	1,913,627	2,042,092

34. 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:

	2017		2016		2015	
	Associates	**Key management personnel***	Associates	Key management personnel*	Associates	Key management personnel*
LOANS OUTSTANDING AT 1 JANUARY, GROSS	**15,247**	**2,006**	13,541	1,258	78,592	2,048
Loans issued during the year	**15,831**	**5,536**	337	2,035	4,000	4,511
Loan repayments during the year	**(15,655)**	**(5,983)**	(640)	(1,236)	(84,033)	(6,188)
Other movements	**1,630**	**1,354**	2,009	(51)	14,982	887
LOANS OUTSTANDING AT 31 DECEMBER, GROSS	**17,053**	**2,913**	15,247	2,006	13,541	1,258
Less – Allowance for impairment at 31 December	**–**	**–**	–	–	(116)	–
LOANS OUTSTANDING AT 31 DECEMBER, NET	**17,053**	**2,913**	15,247	2,006	13,425	1,258
Interest income on loans	**1,329**	**161**	1,243	148	3,986	173
Loan impairment charge	**–**	**–**	–	–	–	–
DEPOSITS AT 1 JANUARY	**1,241**	**28,419**	1,419	20,129	4,975	17,500
Deposits received during the year	**50**	**32,082**	1,163	14,447	195,316	40,774
Deposits repaid during the year	**(535)**	**(11,826)**	–	(446)	(199,048)	(41,548)
Other movements	**1,249**	**(9,833)**	(1,341)	(5,711)	176	3,403
DEPOSITS AT 31 DECEMBER	**2,005**	**38,842**	1,241	28,419	1,419	20,129
Interest expense on deposits	**(2)**	**(446)**	–	(614)	(33)	(477)
Other income	**–**	**98**	–	115	15	77
Deferred income	**–**	**1,740**	–	–	–	–
Real estate revenue	**–**	**1,924**	–	–	–	–

* Key management personnel include members of BGEO's Board of Directors and key executives of the Group.

Details of Directors' emoluments are included in the Remuneration Report on pages 98 to 113. Compensation of key management personnel comprised the following:

	2017	2016	2015
Salaries and other benefits	**10,595**	7,735	6,464
Share-based payments compensation*	**43,334**	40,679	19,435
Long-term benefits	**2,243**	–	–
Social security costs	**82**	51	55
TOTAL KEY MANAGEMENT COMPENSATION	**56,254**	48,465	25,954

* In 2016 Share-based payments compensation includes termination benefits in the amount of GEL 9,820 for key management personnel reflected in the non-recurring items Note (29).

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 30). The number of key management personnel at 31 December 2017 was 21 (31 December 2016: 18; 31 December 2015: 16).

35. 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, a new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar II (ICAAP) requirements becoming effective 30 June 2015. A transition period continued through to 31 December 2017, during which the Bank was required to comply with both the new, and the current, capital regulations of the NBG.

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

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

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

NBG CAPITAL ADEQUACY RATIO

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

	2017	2016	2015
Core capital	**787,225**	676,692	728,139
Supplementary capital	**787,225**	669,940	649,607
Less – Deductions from capital	**(116,716)**	(79,059)	(60,311)
TOTAL REGULATORY CAPITAL	**1,457,734**	1,267,573	1,317,435
RISK-WEIGHTED ASSETS	**11,004,699**	9,360,857	7,811,398
TOTAL CAPITAL ADEQUACY RATIO	**13.2%**	13.5%	16.9%

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

NBG (BASEL II) CAPITAL ADEQUACY RATIO

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

	2017	2016	2015
Tier 1 capital	**1,141,845**	892,613	914,784
Tier 2 capital	**501,689**	519,726	479,176
TOTAL CAPITAL	**1,643,534**	1,412,339	1,393,960
RISK-WEIGHTED ASSETS	**11,115,315**	9,790,282	8,363,369
TOTAL CAPITAL RATIO	**14.8%**	14.4%	16.7%

Tier 1 capital 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

35. CAPITAL ADEQUACY CONTINUED

NBG (BASEL III) CAPITAL ADEQUACY RATIO

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

	2017
Tier 1 capital	1,141,845
Tier 2 capital	501,689
TOTAL CAPITAL	1,643,534
RISK-WEIGHTED ASSETS	9,192,078
TOTAL CAPITAL RATIO	17.9%

36. EVENTS AFTER THE REPORTING PERIOD

ACQUISITION OF BLACK LION LLC

In February 2018, JSC Georgia Capital (former JSC BGEO Investments) acquired 100% of Black Lion LLC, a craft beer producer company operating in Georgia. The total consideration for the acquisition was USD 3.2 million. The Group has not yet completed respective business combination accounting in respect of this acquisition.

IMPLEMENTATION OF THE DEMERGER

On 12 February 2018 the Board approved the implementation of the demerger. The demerger is subject to shareholder approval at the 2018 Annual General Meeting and the process is currently expected to complete by 30 June 2018.

ISSUE OF USD 300 MILLION NOTES DUE IN 2024 BY JOINT STOCK COMPANY GEORGIA CAPITAL

On 5 March 2018 JSC Georgia Capital successfully priced a US$ 300 million offering of 6.125% notes due March 2024 denominated in US Dollars, which are expected to settle on 9 March 2018.

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
BNB	Belarusky Narodny Bank
BSTDB	Black Sea Trade and Development Bank
CAGR	Compounded annual growth rate
CAR	Capital Adequacy ratio
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
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
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRR	Internal Rate of Return
JSC	Joint stock company
KfW	Kreditanstalt für Wiederaufbau
KPIs	Key performance indicators
LSE	London Stock Exchange
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
P&C	Property & Casualty
PLC	Public limited company
POS	Point of sale
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SMEs	Small and medium size enterprises
TSR	Total Shareholder Return
UK	United Kingdom
US$	Dollar, national currency of the United States of America
VAR	Value at Risk
WACC	Weighted Average Cost of Capital
WM	Wealth Management

GLOSSARY

Term	Definition
Alternative performance measures (APMs)	In this Annual Report the Management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. Management believes that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate our operating performance and make day-to-day operating decisions;
Basic Earnings Per Share (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;
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;
Combined Ratio	Sum of the loss ratio and the expense ratio;
Constant Currency Basis	Changes assuming constant exchange rate;
Cost of Funds	Banking interest expense of the period divided by monthly average interest bearing liabilities;
Cost of Risk	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;
Cost to Income Ratio	Operating expenses divided by revenue;
Expense Ratio	Sum of acquisition costs and operating expenses divided by net earned premiums;
Interest Bearing Liabilities	Amounts due to credit institutions, client deposits and notes, and debt securities issued;
Interest Earning Assets (excluding cash)	Amounts due from credit institutions, investment securities (but excluding corporate shares) and net loans to customers and finance lease receivables;
Leverage (times)	Total liabilities divided by total equity;
Liquid Assets	Cash and cash equivalents, amounts due from credit institutions and investment securities;
Liquidity Coverage Ratio (LCR)	High quality liquid assets (as defined by NBG) divided by net cash outflow over the next 30 days (as defined by NBG);
Loan Yield	Banking interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables;
Loss Ratio	Net insurance claims expense divided by net earned premiums;
NBG Liquidity Ratio	Daily average liquid assets (as defined by NBG) during the month divided by daily average liabilities (as defined by NBG) during the month;
NBG (Basel II) Tier I Capital Adequacy Ratio (CAR)	Tier I capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions;
NBG (Basel II) Total Capital Adequacy Ratio (CAR)	Total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
NBG (Basel III) Tier I Capital Adequacy Ratio (CAR)	Tier I capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions;
NBG (Basel III) Total Capital Adequacy Ratio (CAR)	Total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
Net Interest Margin (NIM)	Net banking interest income of the period divided by monthly average interest earning assets excluding cash for the same period;
Net loans	In all sections of the Annual Report, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for impairment;
Non-Performing Loans (NPLs)	The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management;
NPL Coverage Ratio	Allowance for impairment of loans and finance lease receivables divided by NPLs;
NPL Coverage Ratio (adjusted for discounted value of collateral)	Allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment);
Operating Leverage	Percentage change in revenue less percentage change in operating expenses;
Return on Average Total Assets (ROAA)	Banking Business profit for the period divided by monthly average total assets for the same period;
Return on Average Total Equity (ROAE)	Banking Business profit for the period attributable to shareholders of BGEO divided by monthly average equity attributable to shareholders of BGEO 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 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 Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the date, time and business to be conducted at the AGM will be contained in the Notice of AGM which will be mailed to shareholders along with the shareholder circular describing the demerger.

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.

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DIVIDENDS
On 16 February 2018, the Directors of BGEO declared their intention to recommend an annual dividend for 2017 totalling c.GEL 120 million. If the expected demerger is successfully implemented as planned, it is intended that Bank of Georgia PLC (the then new parent company of the Banking Business), will instead, shortly after the demerger is completed, declare and pay a dividend in a similar or the same aggregate amount to shareholders then on the record. In the event that the demerger is for any reason not completed it is intended, subject to shareholder approval, that the Board would implement the payment of this dividend, which would represent a payment of GEL 3.1 per share, payable in British Pounds Sterling at the prevailing rate, a 19.2% increase over the 2016 dividend.

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.

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 34 to 37. 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.

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