BGEO Group PLC

2nd quarter and half-year 2017 results

www.bgeo.com

About BGEO Group

The Group: BGEO Group PLC ("**BGEO**"– LSE: **BGEO LN**) is a UK incorporated holding company of a Georgia-focused investment platform. BGEO invests, via its subsidiaries, in the banking and non-banking sectors in Georgia (BGEO and its subsidiaries, together the "**Group**"). BGEO aims to deliver on a 4x20 strategy: (1) at least 20% ROAE from its Banking Business; (2) at least 20% growth of its Banking Business retail loan book; (3) at least 20% IRR; and (4) up to 20% of the Group's profit 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**") and a London-listed investment business (the "**Investment Business**") by the end of the first half of 2018.

The **Banking Business**, currently representing at least 80% of the Group's profit, will comprise: 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 target to benefit from the underpenetrated banking sector in Georgia primarily through its retail banking services.

The **Investment Business**, currently representing up to 20% of the Group's profit, will comprise the Group's stakes in Georgia Healthcare Group PLC ("**Healthcare Business**" or "**GHG**") – an LSE (London Stock Exchange PLC) premium-listed company, Georgia Global Utilities ("**Utility and Energy Business**" or "**GGU**"), m^2 Real Estate ("**Real Estate Business**" or "**m^2**") and Teliani Valley ("**Beverage Business**" or "**Teliani**"). In addition, **Aldagi**, which is the Group's **property and casualty insurance business**, is expected to be transferred from the Banking Business to the Investment Business. As a result, the Group's 2Q17 and HY17 results, including the comparative information, are prepared in light of the expected transfer and therefore, Aldagi is presented under the Investment Business results. Georgia's fast-growing economy provides opportunities in a number of underdeveloped local markets and the Investment Business will target to capture growth opportunities in the Georgian corporate sector.

COMPANY INFORMATION

BGEO Group PLC
Registered Address
84 Brook Street
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Registered under number 7811410 in England and Wales
Incorporation date: 14 October 2011

Stock Listing

London Stock Exchange PLC's Main Market for listed securities
Ticker: "BGEO.LN"

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Share price information

BGEO shareholders can access both the latest and historical prices via our website, www.BGEO.com

Name of authorised official of issuer responsible for making notification: Giorgi Alpaidze, Head of Finance, Funding and Investor Relations

CONTENT

BGEO Group PLC announces the Group's second quarter 2017 and first half 2017 consolidated results. Unless otherwise noted, numbers are for 2Q17 and comparisons are with the 2Q16. The results are based on International Financial Reporting Standards ("**IFRS**") as adopted by the European Union, are unaudited and derived from management accounts.

BGEO HIGHLIGHTS

Strong results driven by improving macroeconomic environment and continued outstanding execution

GEL thousands, except per share information	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
BGEO								
Profit before income tax	128,146	46,501	175.6%	113,288	13.1%	241,434	143,460	68.3%
Basic earnings per share	3.10	2.46	26.0%	2.64	17.4%	5.74	4.57	25.6%
Book value per share	59.75	51.46	16.1%	58.00	3.0%	59.75	51.46	16.1%
Total equity attributable to shareholders of the Group	2,249,782	1,970,892	14.2%	2,208,898	1.9%	2,249,782	1,970,892	14.2%
Total assets	13,171,740	10,323,223	27.6%	12,606,524	4.5%	13,171,740	10,323,223	27.6%
Banking Business								
Revenue	212,039	177,478	19.5%	213,788	-0.8%	425,827	355,471	19.8%
Cost of credit risk	40,016	27,965	43.1%	48,019	-16.7%	88,036	62,805	40.2%
Profit	87,330	71,752	21.7%	83,127	5.1%	170,457	138,326	23.2%
Loans to customers and finance lease receivables	6,579,996	5,507,414	19.5%[1]	6,470,771	1.7%[1]	6,579,996	5,507,414	19.5%[1]
Client deposits and notes	5,655,341	4,820,169	17.3%[2]	5,622,023	0.6%[2]	5,655,341	4,820,169	17.3%[2]
ROAE	*23.5%*	*22.3%*		*23.1%*		*23.4%*	*21.4%*	
ROAA	*3.2%*	*3.3%*		*3.1%*		*3.1%*	*3.1%*	
Net interest margin	*7.3%*	*7.5%*		*7.4%*		*7.3%*	*7.5%*	
Loan yields	*14.3%*	*14.1%*		*14.0%*		*14.1%*	*14.3%*	
Cost of funds	*4.8%*	*4.8%*		*4.6%*		*4.7%*	*4.9%*	
Cost / Income	*38.1%*	*38.1%*		*36.0%*		*37.1%*	*38.0%*	
Cost of risk	*2.2%*	*2.0%*		*2.4%*		*2.3%*	*2.1%*	
Leverage (times)	*6.7*	*5.7*		*6.6*		*6.7*	*5.7*	
NBG (Basel II) Tier I Capital Adequacy Ratio	*10.6%*	*10.2%*		*10.1%*		*10.6%*	*10.2%*	
NBG Liquidity Ratio	*44.1%*	*43.5%*		*37.4%*		*44.1%*	*43.5%*	
Investment Business								
Revenue	120,083	45,643	163.1%	87,914	36.6%	207,997	89,114	133.4%
EBITDA	66,493	23,436	183.7%	42,927	54.9%	109,421	50,028	118.7%
Profit before income tax	37,532	10,897	244.4%	25,753	45.7%	63,285	33,648	88.1%

Continued rebound in economic activity during 2Q17 and HY17. The Georgian economy gained traction in 1H17, growing by 4.5% as external demand stabilized and government initiatives strengthened consumer demand and business confidence. In 1H17, the combination of goods export growth, robust tourist arrivals, recovery in remittances and modest increase in imports improved the current account deficit and stabilized the currency. The GEL strengthened 1.6% during 2Q17, adding to the 7.6% appreciation during 1Q17 and reflecting favourable external conditions and the related uptick in growth. The National Bank of Georgia intervened with close to $90mln purchases in 1H17 to curb the GEL's appreciation pressure.

Inaugural local currency denominated international bond issuance by Bank of Georgia. On 24 May 2017, JSC Bank of Georgia priced GEL 500mln 11.0% notes due 2020 (the "**Issuance**"). The Issuance, described as a landmark transaction for Georgia, was the first international local currency bond offering from the wider CIS region (excluding Russia) in the past ten years.

As of 14 August 2017, GEL 255mln liquid assets were held at the holding company level, of which, GEL 218mln was unallocated and GEL 37mln was pledged as collateral for borrowings from local financial institutions.

Monetisation of GHG value on track. On 17 May 2017, we sold 9.5mln GHG shares (the "**Sale**"), representing approximately 7.2% of GHG's existing ordinary issued share capital, at a price of 330 pence per share. As a result of the Sale, the Group received total gross proceeds of GEL 98.0mln (US$ 40.4mln/GBP 31.4mln) and realized a gain of GEL 63.4mln (US$26.1mln), which was recorded through an increase in shareholders' equity in 2Q17. Following the Sale, we continue to hold 75,118,503 shares in GHG, or 57.0% of GHG's issued share capital.

$2.6 million capital returned to shareholders through buyback and cancellation programme during 2Q17. As of 30 June 2017, we have repurchased and cancelled 88,000 shares for a total consideration of $3.8mln since the commencement of the programme. An additional $6mln capital was returned through management trust buybacks in 2Q17.

[1] As of 30 June 2017 loans and finance lease receivables growth on a constant currency basis was 17.4% and 2.7% on y-o-y and q-o-q basis, respectively
[2] As of 30 June 2017 client deposits and notes growth on a constant currency basis was 15.7% and 2.3% on y-o-y and q-o-q basis, respectively

BANKING BUSINESS HIGHLIGHTS

Sustainable profit and balance sheet growth as loan book continues to shift to retail segment

- **Retail Banking ("RB") delivered strong growth across all its business lines.** Retail Banking revenue reached GEL 141.8mln in 2Q17, up 25.6% y-o-y and up 0.4% q-o-q, with half year revenue totalling GEL 283.0mln, up 29.1% y-o-y. The number of **Retail Banking clients** reached 2.2mln at the end of 2Q17, up 9.4% from 2.0mln at the end of 2Q16 and up by 2.0% from 1Q17
- **Retail Banking achieved a new milestone as the retail loan book's share in the total portfolio reached 66% for the first time in the Bank's history and was above our target of 65% at 30 June 2017, two years ahead of time.** The Retail Banking net loan book reached GEL 4,155.3mln at 30 June 2017, up 34.1% y-o-y and up 6.8% q-o-q. The growth on a constant-currency basis was 32.3% y-o-y, well above our strategic target of 20%+, and 7.6% q-o-q. RB's loan portfolio share reached 66.1% at 30 June 2017 (59.0% at 30 June 2016 and 62.6% at 31 March 2017)
- **Retail Banking client deposits** increased to GEL 2,613.3mln at 30 June 2017, up 32.2% y-o-y and up 9.2% q-o-q. Growth on a constant-currency basis was 29.6% y-o-y and 10.4% q-o-q
- **New loyalty program Plus+ launched 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 and can be redeemed into partner companies' products and/or services, at client's request. We launched the program as part of our efforts to increase the Mass Retail segment's product to client ratio from 1.7 to 3.0
- **Solo – our premium banking brand – continues its strong growth momentum.** As of 30 June 2017, the number of Solo clients reached 24,984, up 67.7% from 14,896 a year ago and up 15.4% from 21,657 at 31 March 2017. We are well on track to achieve our target of 40,000 Solo clients by the end of 2018. **During 2Q17 we also 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 during 2Q17 and are available to Solo Club members only. At 30 June 2017, Solo Club had 944 members
- **Solo continues to invest in its lifestyle brand and hosted several exclusive events.** Solo announced in 2Q17 that it will be organizing Sir Elton John's concert at Black Sea Arena, a brand new indoor arena located in western Georgia with the total capacity of over 9,000 people. The announcement was met with strong demand resulting in all tickets being sold out in less than two hours after the launch. As a result, Solo agreed an additional concert with Sir Elton John for the following day. Tickets for the second concert were also quickly sold out
- **Our Retail Banking product to client ratio remained at 2.0 in 2Q17, flat y-o-y and q-o-q.** We continued the transformation of our retail banking operations from the product-based model into the client-centric model. We completed the implementation of the client-centric model in 38 branches as of 30 June 2017 and currently have twelve additional branches in pipeline. We continue to see outstanding growth in sales volumes and the number of products sold to our clients in transformed branches, contributing to 34.1% y-o-y growth in retail loan book
- **Continued investment in digital penetration growth.** Bank of Georgia launched a new fully-transformed, user-friendly, multi-feature mobile banking application in May 2017. The new application allows customers to get instant access to online banking services, including balance checking, fund transfers, bill payments, top-up mobile phone balance, and etc. The new mobile banking application received very positive reception. Since its launch on 29 May 2017, and over the course of the following two months, approximately 141,000 downloads were made by the Bank's customers, while the previous application had less than 120,000 downloads since its launch. 755,000 online transactions were performed during the same period using the new application
- **Bank of Georgia won the exclusive right to operate the public transportation payment system in Tbilisi.** In July 2017, Bank of Georgia won an auction, organised by Tbilisi City Hall, for the modernisation of the public transportation payment system in Tbilisi, Georgia. The Bank had a similar 10 year contract since 2007 and as a result of the win, Bank of Georgia will continue as the sole provider of payment support services to the public transportation network, and operate mass retail branches in Tbilisi metro (i.e. subway) stations for the next ten years. Bank of Georgia will pay a total consideration of GEL 22.2mln and, as part of the auction mandate, implement a modern payment system for public transportation network in Tbilisi, including payment processing using Visa and MasterCard cards, and create a digital platform for ticket reservations and purchases through mobile applications
- **Corporate Investment Banking's ("CIB") net loan book amounted to GEL 2,037.8mln at 30 June 2017, down 1.3% y-o-y, and down 8.5% q-o-q**. On a constant-currency basis, the loan portfolio was down 3.5% y-o-y and down 7.3% q-o-q. Reductions were mainly related to winding down of the corporate banking relationship with two large borrowers together with CIB's risk deconcentration strategy. The top 10 CIB client exposure was reduced to 11.1% at the end of 2Q17, down from 11.3% at 30 June 2016 and at 31 March 2017. However, this deconcentration resulted in a decreased cost of risk, which positively impacted the CIB's ROAE, reaching 20.0% in 2Q17 (2Q16:17.2% and 1Q17: 18.3%) and 19.1% in 1H17 (1H16: 17.4%)
- **Investment Management's Assets Under Management ("AUM") increased to GEL 1,682.9mln**, up 29.3% y-o-y and up 7.3% q-o-q, reflecting higher bond issuance activity by our brokerage arm Galt & Taggart

INVESMENT BUSINESS HIGHLIGHTS

Our healthcare business, GHG, continued to deliver strong revenue performance across healthcare services and pharmacy businesses, while the medical insurance business continued to refocus on more profitable clients.

- GHG recorded net revenue of GEL 183.9mln (up 82.2% y-o-y and flat q-o-q) and GEL 369.8mln (up 113.6% y-o-y) during 2Q17 and 1H17, respectively. During 2Q17, GHG achieved further diversification of its revenues, whereby the total net revenue mix was 34%, 59% and 7% from the healthcare services business, the pharmacy business and the medical insurance business, respectively
- GHG delivered EBITDA of GEL 26.1mln (up 54.6% y-o-y and up 4.1% q-o-q) and GEL 51.2mln (up 50.4% y-o-y) during 2Q17 and 1H17, respectively. The y-o-y growth was primarily driven by GHG's expansion into the Pharmacy business, which resulted in GHG becoming the number one player in the pharmacy market, similar to GHG's position in the healthcare services market
- GHG reported profit before income tax of GEL 11.3mln (up 79.8% y-o-y and down 13.5% q-o-q) and GEL 24.3mln (up 44.9% y-o-y) during 2Q17 and 1H17, respectively

Our real estate business, m^2, continued its strong residential project execution and development of portfolio of yielding assets. In 2Q17, m^2 achieved sales of US$ 7.6mln, selling a total of 90 apartments, compared to US$ 8.8mln sales and 104 apartments sold in 2Q16. In 2Q17, m^2 recognised net revenue of GEL 22.9mln[3] (GEL 1.1mln in 2Q16 *(see footnote 3 below for y-o-y difference in revenue recognition)* and GEL 2.6mln in 1Q17) and delivered a net profit of GEL 21.6mln (GEL 0.2mln in 2Q16 and GEL 0.6mln in 1Q17). In 1H17, m^2 recognised revenue of GEL 25.5mln (GEL 7.7mln in 1H16) and achieved a net profit of GEL 22.2mln (GEL 4.8mln in 1H16). The significant y-o-y and q-o-q increase in revenue and profit in 2Q17 was attributable to the GEL 21.3mln gain from revaluation of investment property (refer to the m^2 segment discussion below for more details).

Our utility and energy business, GGU, delivered a strong revenue and cost-efficiency performance in 1H17 and achieved revenue of GEL 60.6mln (up 6.7% y-o-y), EBITDA of GEL 30.1mln (up 13.0% y-o-y) and profit of GEL 13.8mln (up 28.5% y-o-y)[4].

Our property and casualty insurance business, Aldagi, delivered a strong performance and achieved net underwriting profit of GEL 7.2mln in 2Q17 (up 6.1% y-o-y and up 1.4% q-o-q) and GEL 14.3mln in 1H17 (up 15.0% y-o-y), EBITDA of GEL 4.3mln in 2Q17 (flat y-o-y and q-o-q) and GEL 8.6mln in 1H17 (up 15.2% y-o-y), and net profit of GEL 3.8mln in 2Q17 (up 29.9% y-o-y and up 2.4% q-o-q) and GEL 7.6mln in 1H17 (up 25.6% y-o-y).

Our beverages business, Teliani, achieved a significant milestone and launched its first mainstream beer production in June 2017 and is on track to accelerate its expansion into all of its three main segments. The newly launched beer, Icy, was well-received by the local market and continues to gain popularity and market share during the early days of its existence, achieving 16% market share by the end of July. Teliani is on track to brew Heineken in the first quarter of 2018 under a ten-year exclusive licence agreement to produce Heineken brands in Georgia and to sell in Caucasus region countries.

- Teliani has continued to expand its product portfolio, with the noteworthy addition of the exclusive right to import and distribute Lavazza coffee in Georgia, and winning other non-alcoholic beverage distribution contracts to further diversify its distribution portfolio

[3] Effective 1 January 2017, the Group, inclusive of m^2, early adopted the new revenue recognition standard, IFRS 15, which requires revenue recognition according to the percentage of completion method. Prior to 1 January 2017, m^2 recognized revenues under IAS 18 upon completion and handover of the units to customers. As a result, the reported revenue figures for 2017 and 2016 are not comparable

[4] Since BGEO owned 25% of GGU's equity stake until July 2016, we reported our share of GGU's profits under "profit from associates" in our income statement during this period. We started consolidating GGU's financial results from 21 July 2016, when we completed the acquisition of the remaining 75% equity stake in GGU, as part of our Investment Business and included it in the segment results discussion as a separate business

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am pleased that all of the Group's businesses have continued to perform strongly throughout the first half of 2017, supported by the robust and improving period of economic growth in the country. The Group's profit of GEL 231.8 million in the first half of the year increased by 16.9% compared to the first half of 2016 which also benefited from a number of one-off items. Excluding the impact of these net non-recurring items, profit before tax increased by 29.7%, reflecting 14.8% growth in the Banking Business and 100.4% growth in the Investment Business.

In the **Banking Business** half year profit before non-recurring items and income tax grew by 14.8% year-on-year supported, in particular by excellent franchise growth in the retail bank, which led to net interest income increasing by 24.4%. Margins have remained broadly stable, despite the continuing impact of high levels of excess liquidity and the issuance in May 2017 of the GEL 500 million Eurobond, as a greater share of retail loans in the total loan portfolio supported higher blended loan yield in the second quarter of 2017. The Return on Average Equity in the banking business was 23.4% for the first half of the year, compared to 21.4% in the first half of 2016. There was an even stronger performance in the Group's investment businesses where both EBITDA and profit before non-recurring items and income tax more than doubled in the first half.

From a macroeconomic perspective Georgia has delivered strong growth, estimated at 4.5% during the first half of 2017, with inflation remaining well contained excluding one-off factors. In addition, during the first half of the year, the Lari has remained strong against the US dollar, appreciating by 9.1%, Foreign Direct Investment continues to flow into a wide variety of sectors, and tourist numbers - the most significant driver of US$ inflows for the country - continue to rise strongly, by over 30% in the first seven months of 2017. The National Bank of Georgia has continued to buy US dollars on a regular basis to mitigate further appreciation of the Lari. During the first half of the year they bought approximately $90 million and Georgia's US dollar reserves of $3.0 billion at 30 June 2017 increased to their highest level since 2013.

Turning to the business, at the BGEO Group level, half year revenue growth was 43.2% year-on-year, supported by a combination of strong organic growth and a number of acquisitions in the Investment Business. The Banking business delivered revenue growth of 19.8% as Retail banking net interest income increased by 33.9%, reflecting continued strong franchise and customer lending growth, and this offset the expected decline in the corporate loan portfolio as we wound down the corporate banking relationship with two significant corporate borrowers. We have now achieved our targeted rebalancing of the retail/corporate business mix to further improve the return profile of the Bank and reduce concentration risk in the corporate lending portfolio. Retail Banking now represents 66% of our customer lending and Corporate Banking represents 34%, and the rebalancing of our portfolio and the deconcentration of corporate risk targets have been achieved, with the Banking Business delivering a 23.5% return on average equity in the second quarter of 2017.

In addition to the strong retail lending growth, the Retail Bank made strong progress in building out its customer centric approach with the launch in July 2017 of its new loyalty reward program, Plus+ and continued its investment in digital penetration growth. In July 2017, we won the exclusive right to modernise the public transportation 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 momentum, with customer numbers increasing to nearly 25,000, up 15.4% during the last quarter and up 67.7% over the last twelve months.

The strength of the Georgian economy has supported asset quality during the first half of the year, which has remained reasonably robust and in line with our expectations for a cost of risk ratio of c2.0% through the economic cycle. The annualised cost of risk ratio in 2Q17 was 2.2%, compared to 2.4% in 1Q17. In addition, we have started to achieve a reduction in the ratio of NPL's to Gross Loans, which fell from 4.6% in the first quarter of 2017, to 4.4% in the second quarter. Our provisions coverage ratios also continued to rise – from 87.1% at the end of the first quarter of 2017, to 90.2% at the end of the second quarter.

In addition to the strong earnings performance, the Bank's already high returns have further improved and, despite carrying almost GEL 800 million of excess liquidity, the return on average equity increased from 23.1% in the first quarter, to 23.5% in the second quarter, compared to 21.4% in the first half of 2016.

The Group's capital and funding position continues to remain strong, with capital being held both in the regulated banking business and at the holding company level. Within the bank, the NBG (Basel 2/3) Tier 1 Capital Adequacy ratio was 10.6%, 40 basis points higher than last year, partly reflecting the continued de-dollarisation of the Bank's lending portfolio and comfortably ahead of the Bank's minimum capital requirement. From a funding perspective, the Bank's

NBG Liquidity ratio was 44.1%, and the Liquidity Coverage Ratio was 187.7%, reflecting the significant excess liquidity held by the Bank. The Bank also completed its first local currency Eurobond in May 2017 raising GEL 500 million which provides a strong Lari funding platform to continue growing the Group's more capital efficient Lari lending portfolios.

Within our **Investment Businesses**, Georgia Healthcare Group has continued in its significant business roll-out phase in a number of key areas and, in the first half of 2017, made strong progress in integrating its recent Pharmacy acquisitions and delivering key organic growth priorities, such as the Sunstone and Deka hospital redevelopment projects. All this has been achieved whilst adapting to recently implemented changes in Georgia's Universal Healthcare Programme and seeking to develop a more diverse stream of revenues, particularly in the pharmacy and Polyclinic businesses. In the first half of 2017, EBITDA of GEL 51.2 million represented a 50.4% increase half-on-half. In the healthcare services business, the EBITDA margin was 27.5% in the second quarter of 2017, compared to 25.3% in the first quarter of the year, despite the impact of our significant ongoing investment in the launch of the Sunstone and Deka hospital facilities.

GHG remains well positioned to deliver further progress in the second half of 2017 and, in particular, to more than double 2015 healthcare services revenues by 2018, whilst achieving a more than 30% EBITDA margin. In May 2017, the Group sold 9.5 million GHG shares, reducing its stake in GHG by 7.2% to 57.0%, and received gross proceeds of GEL98.0 million to realize a gain on sale of GEL63.4 million, which was recorded as an increase in the Group's shareholders' equity. This sale of GHG shares reflects the first tranche in the Group's strategy to monetise its investment in the business and the proceeds are being utilized towards the Group's previously announced $50 million share buyback and cancellation programme. As a result, GEL 218 million unallocated liquid assets were held at the Group level.

Our water utility and energy business, GGU, continued to focus on improving efficiency and delivered a 6.7% growth in revenues to GEL 60.6 million in the first half, compared to GEL 56.8 million in the first half of 2016. Over the same time period, EBITDA increased by 13.0% to GEL 30.1 million and profit increased by 28.5% to GEL 13.8 million. Our real estate business, m^2 Real Estate, continues to demonstrate its strong execution skills and, in the first half of 2017, sold a total of 233 apartments with a total sales value of $17.7 million, in addition to further increasing its portfolio of yielding assets. The business also benefited from a revaluation of three under construction commercial properties in the second quarter of the year and, consequently, booked a profit of GEL 22.2 million for the first half of the year.

Our beverages business, Teliani, achieved a significant milestone in June 2017 when it launched its first mainstream beer, ICY, into the local market. The beer has been well received and is gaining popularity quickly, to support the long-term target of gaining 30% market share in the Georgian market. Our property and casualty insurance business, Aldagi, continues to develop a strong portfolio of new products, and this has supported a 26.4% y-o-y growth in net earned premiums in 2Q17 and Aldagi's position as the clear market leader in the fast-developing Georgian P&C insurance market.

On 3 July 2017, the Group announced its intention to demerge BGEO Group PLC into two separately London-listed businesses: a banking business, Bank of Georgia PLC, and an investment business, BGEO Investments PLC. The Board 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. 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 pursue strategic options appropriate to its respective sector, whilst avoiding the potential for cross-business conflicts of interest. 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. We expect the demerger, which will be subject to shareholder approval, to take a number of months to implement and the process is currently expected to complete in the first half of 2018.

Supported by the strength of Georgia's macroeconomic performance, the Group has delivered another half-year of strong business performance, and continued strong returns in both the banking business and the investment businesses which, in the second quarter of 2017, almost tripled profit before tax and non-recurring items, compared to the second quarter of last year. The Group is well positioned to continue to deliver this excellent performance in the second half of 2017 and beyond.

Irakli Gilauri,

Group CEO of BGEO Group PLC

FINANCIAL SUMMARY

INCOME STATEMENT (QUARTERLY)

GEL thousands unless otherwise noted	BGEO Consolidated					Banking Business[5]					Investment Business				
	2Q17	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**	**2Q17**	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**	**2Q17**	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**
Net banking interest income	160,099	128,200	24.9%	160,335	-0.1%	160,308	128,753	24.5%	160,880	-0.4%	-	-	-	-	-
Net fee and commission income	31,027	29,239	6.1%	29,786	4.2%	31,402	29,524	6.4%	30,193	4.0%	-	-	-	-	-
Net banking foreign currency gain	19,282	16,492	16.9%	19,700	-2.1%	19,282	16,492	16.9%	19,700	-2.1%	-	-	-	-	-
Net other banking income	780	2,407	-67.6%	2,783	-72.0%	1,047	2,709	-61.4%	3,015	-65.3%	-	-	-	-	-
Gross insurance profit	9,418	8,409	12.0%	10,223	-7.9%	-	-	-	-	-	10,010	9,287	7.8%	10,785	-7.2%
Gross healthcare and pharmacy profit	51,333	30,832	66.5%	52,342	-1.9%	-	-	-	-	-	51,333	30,832	66.5%	52,342	-1.9%
Gross real estate profit	22,679	2,427	NMF	2,718	NMF	-	-	-	-	-	22,914	2,427	NMF	2,974	NMF
Gross utility and energy profit	21,935	-	NMF	17,444	25.7%	-	-	-	-	-	22,032	-	NMF	17,527	25.7%
Gross other investment profit	13,864	3,123	NMF	4,297	NMF	-	-	-	-	-	13,794	3,097	NMF	4,286	NMF
Revenue	**330,417**	**221,129**	**49.4%**	**299,628**	**10.3%**	**212,039**	**177,478**	**19.5%**	**213,788**	**-0.8%**	**120,083**	**45,643**	**163.1%**	**87,914**	**36.6%**
Operating expenses	**(133,071)**	**(88,462)**	**50.4%**	**(120,741)**	**10.2%**	**(80,786)**	**(67,558)**	**19.6%**	**(77,053)**	**4.8%**	**(53,590)**	**(22,207)**	**141.3%**	**(44,987)**	**19.1%**
Operating income before cost of credit risk / EBITDA	**197,346**	**132,667**	**48.8%**	**178,887**	**10.3%**	**131,253**	**109,920**	**19.8%**	**136,735**	**-4.1%**	**66,493**	**23,436**	**183.7%**	**42,927**	**54.9%**
Profit from associates	606	1,952	-69.0%	514	17.9%	394	-	NMF	514	-23.3%	212	1,952	-89.1%	-	NMF
Depreciation and amortisation of investment business	(12,787)	(4,949)	158.4%	(11,470)	11.5%	-	-	-	-	-	(12,787)	(4,949)	158.4%	(11,470)	11.5%
Net foreign currency gain (loss) from investment business	(64)	(2,583)	-97.5%	6,529	NMF	-	-	-	-	-	(64)	(2,583)	-97.5%	6,529	NMF
Interest income from investment business	1,783	44	NMF	1,751	1.8%	-	-	-	-	-	3,513	790	NMF	2,997	17.2%
Interest expense from investment business	(13,385)	(2,498)	NMF	(10,307)	29.9%	-	-	-	-	-	(15,515)	(3,933)	NMF	(12,328)	25.9%
Operating income before cost of credit risk	**173,499**	**124,633**	**39.2%**	**165,904**	**4.6%**	**131,647**	**109,920**	**19.8%**	**137,249**	**-4.1%**	**41,852**	**14,713**	**184.5%**	**28,655**	**46.1%**
Cost of credit risk	(42,645)	(29,387)	45.1%	(49,245)	-13.4%	(40,016)	(27,965)	43.1%	(48,019)	-16.7%	(2,629)	(1,422)	84.9%	(1,226)	114.4%
Profit before non-recurring items and income tax	**130,854**	**95,246**	**37.4%**	**116,659**	**12.2%**	**91,631**	**81,955**	**11.8%**	**89,230**	**2.7%**	**39,223**	**13,291**	**195.1%**	**27,429**	**43.0%**
Net non-recurring items	(2,708)	(48,745)	-94.4%	(3,371)	-19.7%	(1,017)	(46,351)	-97.8%	(1,695)	-40.0%	(1,691)	(2,394)	-29.4%	(1,676)	0.9%
Profit before income tax expense	**128,146**	**46,501**	**175.6%**	**113,288**	**13.1%**	**90,614**	**35,604**	**154.5%**	**87,535**	**3.5%**	**37,532**	**10,897**	**244.4%**	**25,753**	**45.7%**
Income tax (expense) benefit	(4,520)	64,735	NMF	(5,115)	-11.6%	(3,284)	36,148	NMF	(4,408)	-25.5%	(1,236)	28,587	NMF	(707)	74.8%
Profit	**123,626**	**111,236**	**11.1%**	**108,173**	**14.3%**	**87,330**	**71,752**	**21.7%**	**83,127**	**5.1%**	**36,296**	**39,484**	**-8.1%**	**25,046**	**44.9%**
Earnings per share (basic)	**3.10**	**2.46**	**26.0%**	**2.64**	**17.4%**	**2.30**	**1.84**	**25.3%**	**2.17**	**5.9%**	**0.80**	**0.62**	**28.2%**	**0.47**	**70.9%**
Earnings per share (diluted)	**2.97**	**2.46**	**20.7%**	**2.55**	**16.5%**	**2.20**	**1.84**	**20.0%**	**2.10**	**5.0%**	**0.77**	**0.62**	**22.8%**	**0.45**	**69.5%**

INCOME STATEMENT (HALF YEAR)

GEL thousands unless otherwise noted	BGEO Consolidated			Banking Business[5]			Investment Business		
	1H17	**1H16**	**Change y-o-y**	**1H17**	**1H16**	**Change y-o-y**	**1H17**	**1H16**	**Change y-o-y**
Net banking interest income	320,434	256,712	24.8%	321,188	258,247	24.4%	-	-	-
Net fee and commission income	60,812	56,954	6.8%	61,594	57,417	7.3%	-	-	-
Net banking foreign currency gain	38,982	33,929	14.9%	38,982	33,929	14.9%	-	-	-
Net other banking income	3,563	5,140	-30.7%	4,063	5,878	-30.9%	-	-	-
Gross insurance profit	19,641	14,825	32.5%	-	-	-	20,795	16,582	25.4%
Gross healthcare and pharmacy profit	103,675	57,123	81.5%	-	-	-	103,675	57,123	81.5%
Gross real estate profit	25,398	8,413	201.9%	-	-	-	25,889	8,413	207.7%
Gross utility and energy profit	39,379	-	NMF	-	-	-	39,559	-	NMF
Gross other investment profit	18,161	6,952	161.2%	-	-	-	18,079	6,996	158.4%
Revenue	**630,045**	**440,048**	**43.2%**	**425,827**	**355,471**	**19.8%**	**207,997**	**89,114**	**133.4%**
Operating expenses	**(253,812)**	**(171,495)**	**48.0%**	**(157,840)**	**(135,085)**	**16.8%**	**(98,576)**	**(39,086)**	**152.2%**
Operating income before cost of credit risk / EBITDA	**376,233**	**268,553**	**40.1%**	**267,987**	**220,386**	**22.0%**	**109,421**	**50,028**	**118.7%**
Profit from associates	1,120	3,818	-70.7%	909	-	NMF	211	3,818	-94.5%
Depreciation and amortisation of investment business	(24,257)	(10,068)	140.9%	-	-	-	(24,257)	(10,068)	140.9%
Net foreign currency gain (loss) from investment business	6,465	(3,396)	NMF	-	-	-	6,465	(3,396)	NMF
Interest income from investment business	3,535	1,341	163.6%	-	-	-	6,512	2,433	167.7%
Interest expense from investment business	(23,694)	(3,879)	NMF	-	-	-	(27,846)	(6,832)	NMF
Operating income before cost of credit risk	**339,402**	**256,369**	**32.4%**	**268,896**	**220,386**	**22.0%**	**70,506**	**35,983**	**95.9%**
Cost of credit risk	(91,888)	(65,530)	40.2%	(88,036)	(62,805)	40.2%	(3,852)	(2,725)	41.4%
Profit before non-recurring items and income tax	**247,514**	**190,839**	**29.7%**	**180,860**	**157,581**	**14.8%**	**66,654**	**33,258**	**100.4%**
Net non-recurring items	(6,080)	(47,379)	-87.2%	(2,711)	(47,769)	-94.3%	(3,369)	390	NMF
Profit before income tax expense	**241,434**	**143,460**	**68.3%**	**178,149**	**109,812**	**62.2%**	**63,285**	**33,648**	**88.1%**
Income tax (expense) benefit	(9,635)	54,824	NMF	(7,692)	28,514	NMF	(1,943)	26,310	NMF
Profit	**231,799**	**198,284**	**16.9%**	**170,457**	**138,326**	**23.2%**	**61,342**	**59,958**	**2.3%**
Earnings per share (basic)	**5.74**	**4.57**	**25.6%**	**4.47**	**3.55**	**26.1%**	**1.27**	**1.02**	**23.7%**
Earnings per share (diluted)	**5.51**	**4.57**	**20.6%**	**4.29**	**3.55**	**21.1%**	**1.22**	**1.02**	**18.8%**

[5] Banking Business and Investment Business financials do not include inter-business eliminations. Detailed financials, including inter-business eliminations are provided on pages 33, 34 and 35

BALANCE SHEET

GEL thousands unless otherwise noted	BGEO Consolidated Jun-17	Jun-16	Change y-o-y	Mar-17	Change q-o-q
Liquid assets	3,942,743	2,925,345	34.8%	3,606,926	9.3%
Cash and cash equivalents	*1,454,387*	*1,059,359*	*37.3%*	*1,285,483*	*13.1%*
Amounts due from credit institutions	*1,090,259*	*876,655*	*24.4%*	*1,090,111*	*0.0%*
Investment securities	*1,398,097*	*989,331*	*41.3%*	*1,231,332*	*13.5%*
Loans to customers and finance lease receivables	6,517,773	5,469,120	19.2%	6,408,711	1.7%
Property and equipment	1,453,730	852,680	70.5%	1,388,938	4.7%
Total assets	**13,171,740**	**10,323,223**	**27.6%**	**12,606,524**	**4.5%**
Client deposits and notes	5,319,398	4,554,012	16.8%	5,294,462	0.5%
Amounts due to credit institutions	3,077,869	1,892,437	62.6%	3,133,422	-1.8%
Borrowings from DFI	*1,343,492*	*991,054*	*35.6%*	*1,376,864*	*-2.4%*
Short-term loans from NBG	*999,159*	*278,500*	*NMF*	*1,005,404*	*-0.6%*
Loans and deposits from commercial banks	*735,218*	*622,883*	*18.0%*	*751,154*	*-2.1%*
Debt securities issued	1,582,431	1,065,516	48.5%	1,157,082	36.8%
Total liabilities	**10,628,342**	**8,113,842**	**31.0%**	**10,153,771**	**4.7%**
Total equity	**2,543,398**	**2,209,381**	**15.1%**	**2,452,753**	**3.7%**

GEL thousands unless otherwise noted	Banking Business Jun-17	Jun-16	Change y-o-y	Mar-17	Change q-o-q
Liquid assets	3,775,371	2,882,581	31.0%	3,398,386	11.1%
Cash and cash equivalents	*1,401,728*	*1,033,832*	*35.6%*	*1,198,302*	*17.0%*
Amounts due from credit institutions	*976,811*	*861,753*	*13.4%*	*970,653*	*0.6%*
Investment securities	*1,396,832*	*986,996*	*41.5%*	*1,229,431*	*13.6%*
Loans to customers and finance lease receivables	6,579,996	5,507,414	19.5%	6,470,771	1.7%
Property and equipment	336,909	327,441	2.9%	333,388	1.1%
Total assets	**11,094,468**	**9,076,612**	**22.2%**	**10,587,570**	**4.8%**
Client deposits and notes	5,655,341	4,820,169	17.3%	5,622,023	0.6%
Amounts due to credit institutions	2,602,303	1,766,999	47.3%	2,662,909	-2.3%
Borrowings from DFI	*1,088,054*	*957,227*	*13.7%*	*1,143,408*	*-4.8%*
Short-term loans from NBG	*999,159*	*278,500*	*NMF*	*1,005,404*	*-0.6%*
Loans and deposits from commercial banks	*515,090*	*531,272*	*-3.0%*	*514,097*	*0.2%*
Debt securities issued	1,312,990	990,370	32.6%	827,025	58.8%
Total liabilities	**9,649,000**	**7,720,731**	**25.0%**	**9,198,665**	**4.9%**
Total equity	**1,445,468**	**1,355,881**	**6.6%**	**1,388,905**	**4.1%**

GEL thousands unless otherwise noted	Investment Business Jun-17	Jun-16	Change y-o-y	Mar-17	Change q-o-q
Liquid assets	549,425	308,750	78.0%	537,226	2.3%
Cash and cash equivalents	*349,166*	*251,557*	*38.8%*	*359,628*	*-2.9%*
Amounts due from credit institutions	*152,634*	*53,444*	*185.6%*	*174,248*	*-12.4%*
Investment securities	*47,625*	*3,749*	*NMF*	*3,350*	*NMF*
Loans to customers and finance lease receivables	-	-	-	-	-
Property and equipment	1,112,486	525,239	111.8%	1,055,550	5.4%
Total assets	**2,528,807**	**1,557,071**	**62.4%**	**2,417,249**	**4.6%**
Client deposits and notes	-	-	-	-	-
Amounts due to credit institutions	538,534	163,730	NMF	532,573	1.1%
Borrowings from DFI	*255,438*	*33,827*	*NMF*	*233,456*	*9.4%*
Short-term loans from NBG	-	-	-	-	-
Loans and deposits from commercial banks	*283,096*	*129,903*	*117.9%*	*299,117*	*-5.4%*
Debt securities issued	319,033	79,136	NMF	335,773	-5.0%
Total liabilities	**1,430,877**	**703,571**	**103.4%**	**1,353,401**	**5.7%**
Total equity	**1,097,930**	**853,500**	**28.6%**	**1,063,848**	**3.2%**

BANKING BUSINESS RATIOS

	2Q17	2Q16	1Q17	1H17	1H16
ROAA	3.2%	3.3%	3.1%	3.1%	3.1%
ROAE	23.5%	22.3%	23.1%	23.4%	21.4%
Net Interest Margin	7.3%	7.5%	7.4%	7.3%	7.5%
Loan Yield	14.3%	14.1%	14.0%	14.1%	14.3%
Liquid assets yield	3.4%	3.3%	3.3%	3.3%	3.2%
Cost of Funds	4.8%	4.8%	4.6%	4.7%	4.9%
Cost of Client Deposits and Notes	3.6%	4.0%	3.5%	3.5%	4.2%
Cost of Amounts Due to Credit Institutions	6.6%	5.9%	6.3%	6.4%	5.9%
Cost of Debt Securities Issued	7.1%	7.0%	6.0%	6.5%	7.1%
Cost / Income	38.1%	38.1%	36.0%	37.1%	38.0%
NPLs To Gross Loans To Clients	4.4%	4.4%	4.6%	4.4%	4.4%
NPL Coverage Ratio	90.2%	85.8%	87.1%	90.2%	85.8%
NPL Coverage Ratio, Adjusted for discounted value of collateral	131.5%	129.7%	126.9%	131.5%	129.7%
Cost of Risk	2.2%	2.0%	2.4%	2.3%	2.1%
NBG (Basel II) Tier I Capital Adequacy Ratio	10.6%	10.2%	10.1%	10.6%	10.2%
NBG (Basel II) Total Capital Adequacy Ratio	15.6%	15.5%	15.2%	15.6%	15.5%

DISCUSSION OF RESULTS

Discussion of Banking Business Results

*The Group's **Banking Business** is primarily comprised of three segments. (1) **Retail Banking** operations in Georgia principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfer and settlement services, and handling customers' deposits for both individuals as well as legal entities. 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 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. (3) **BNB**, comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services to clients in Belarus.*

REVENUE

GEL thousands, unless otherwise noted	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Banking interest income	272,946	216,867	25.9%	267,121	2.2%	540,068	442,697	22.0%
Banking interest expense	(112,638)	(88,114)	27.8%	(106,241)	6.0%	(218,880)	(184,450)	18.7%
Net banking interest income	**160,308**	**128,753**	**24.5%**	**160,880**	**-0.4%**	**321,188**	**258,247**	**24.4%**
Fee and commission income	45,903	40,605	13.0%	43,702	5.0%	89,605	78,978	13.5%
Fee and commission expense	(14,501)	(11,081)	30.9%	(13,509)	7.3%	(28,011)	(21,561)	29.9%
Net fee and commission income	**31,402**	**29,524**	**6.4%**	**30,193**	**4.0%**	**61,594**	**57,417**	**7.3%**
Net banking foreign currency gain	19,282	16,492	16.9%	19,700	-2.1%	38,982	33,929	14.9%
Net other banking income	1,047	2,709	-61.4%	3,015	-65.3%	4,063	5,878	-30.9%
Revenue	**212,039**	**177,478**	**19.5%**	**213,788**	**-0.8%**	**425,827**	**355,471**	**19.8%**
Net Interest Margin	7.3%	7.5%		7.4%		7.3%	7.5%	
Average interest earning assets	8,799,432	6,910,093	27.3%	8,860,417	-0.7%	8,852,691	6,961,999	27.2%
Average interest bearing liabilities	9,389,773	7,367,637	27.4%	9,412,122	-0.2%	9,442,232	7,529,522	25.4%
Average net loans and finance lease receivables, currency blended	6,527,839	5,297,175	23.2%	6,638,473	-1.7%	6,599,211	5,375,526	22.8%
Average net loans and finance lease receivables, GEL	2,284,483	1,495,886	52.7%	2,035,225	12.2%	2,158,329	1,493,367	44.5%
Average net loans and finance lease receivables, FC	4,243,356	3,801,289	11.6%	4,603,248	-7.8%	4,440,882	3,882,159	14.4%
Average client deposits and notes, currency blended	5,713,292	4,842,117	18.0%	5,730,360	-0.3%	5,736,084	4,934,173	16.3%
Average client deposits and notes, GEL	1,513,772	1,262,461	19.9%	1,382,631	9.5%	1,455,723	1,245,576	16.9%
Average client deposits and notes, FC	4,199,520	3,579,656	17.3%	4,347,729	-3.4%	4,280,361	3,688,597	16.0%
Average liquid assets, currency blended	3,621,790	2,809,312	28.9%	3,514,002	3.1%	3,592,112	2,877,511	24.8%
Average liquid assets, GEL	1,449,760	1,127,479	28.6%	1,374,729	5.5%	1,421,911	1,138,243	24.9%
Average liquid assets, FC	2,172,030	1,681,833	29.1%	2,139,273	1.5%	2,170,201	1,739,268	24.8%
Excess liquidity (NBG)	791,681	625,340	26.6%	406,213	94.9%	791,681	625,340	26.6%
Liquid assets yield, currency blended	3.4%	3.3%		3.3%		3.3%	3.2%	
Liquid assets yield, GEL	7.1%	7.4%		7.3%		7.2%	7.5%	
Liquid assets yield, FC	0.9%	0.5%		0.7%		0.8%	0.4%	
Loan yield, currency blended	14.3%	14.1%		14.0%		14.1%	14.3%	
Loan yield, GEL	22.3%	23.8%		22.5%		22.4%	23.1%	
Loan yield, FC	10.0%	10.3%		10.3%		10.1%	10.6%	
Cost of Funds, currency blended	4.8%	4.8%		4.6%		4.7%	4.9%	
Cost of Funds, GEL	7.0%	7.0%		6.7%		6.8%	6.8%	
Cost of Funds, FC	3.7%	4.2%		3.8%		3.8%	4.3%	

Performance highlights

- **Strong Banking Business revenue. We recorded quarterly revenue of GEL 212.0mln in 2Q17 (up 19.5% y-o-y and flat q-o-q), ending the half year 2017 with revenue of GEL 425.8mln (up 19.8% y-o-y)**. Y-o-y revenue growth both in 2Q17 and half year 2017 was primarily driven by the increase in net banking interest income, which resulted from strong loan book growth, net fee and commission income and net banking foreign currency gain, and was partially offset by decreases in net other banking income
- **Net banking interest income.** Our net banking interest income was up 24.5% y-o-y and flat q-o-q in 2Q17 and up 24.4% y-o-y in half year 2017. The y-o-y increase in net banking interest income was primarily driven by strong performance in our Retail Banking operations, supported by modest growth in CIB's net banking interest income
- **Our NIM was 7.3% in 2Q17, within our target range of 7.25% - 7.75%, withstanding some market pressures, particularly in the corporate segment.** 2Q17 loan yield and liquid assets yield were up 20bps and 10bps y-o-y, respectively, while cost of funds remained flat y-o-y at 4.8%. However, 2Q17 NIM was down by 20 bps y-o-y as a result of the NBG's

decision in 2Q16 mandating an increase in minimum reserve requirements leading to a decreased portion of average net loans and finance lease receivables in total average interest-earning assets (from 76.7% in 2Q16 to 74.2% in 2Q17). On a q-o-q basis, loan yield and liquid assets yield were up 30bps and 10bps, respectively, and cost of funds also increased by 20bps. However, NIM was down by 10bps q-o-q due to an increased portion of average liquid assets in total average interest-earning assets as a result of the increased excess liquidity driven by the proceeds from GEL 500mln Lari denominated bonds in June 2017

- **Loan yield.** Currency blended loan yield increased to 14.3% in 2Q17 (up 20bps y-o-y and up 30bps q-o-q). While local and foreign currency loan yields decreased y-o-y and q-o-q, overall growth of loan yield y-o-y and q-o-q reflects continued shift in portfolio mix towards higher return local currency denominated loans. On a half year basis, due to increased competition, the loan yield decreased to 14.1%, or by 20bps y-o-y driven by 70bps and 50bps decline in the local and foreign currency denominated loan yields, respectively. Such decline was partially offset by the increased share of high-yielding local currency denominated loans in the total loan portfolio mix
- **Liquid assets yield.** Our liquid assets yield increased to 3.4% (up 10bps y-o-y and q-o-q) in 2Q17 and to 3.3% (up 10bps y-o-y) in 1H17. The foreign currency denominated liquid assets yield increased by 40pbs y-o-y and 20bps q-o-q in 2Q17 and 40 bps y-o-y in 1H17 as a result of the US Federal Reserve's decisions in December 2016, March 2017 and June 2017 to raise interest rates by 75bps 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
- **Cost of funds.** Cost of funds stood at 4.8% in 2Q17 (flat y-o-y and up 20bps q-o-q) and at 4.7% (down 20bps y-o-y) in 1H17. The foreign currency denominated cost of funds decreased by 50bps y-o-y both in 2Q17 and 1H17 and by 10bps q-o-q in 2Q17. While the local currency denominated cost of funds stayed flat y-o-y both in 2Q17 and 1H17, it increased by 30bps q-o-q in 2Q17 as a result of a) an increase in cost of debt securities issued following the issuance of GEL 500mln 11.0% Lari denominated notes in 2Q17, b) an increase in cost of client deposits due to the market competition and c) the increased cost of amounts due to credit institutions as a result of increase in NBG's monetary policy rate
- **De-dollarisation efforts increased the GEL denominated loan book to 36.8% of the total at 30 June 2017, compared to 27.7% a year ago.** Dollarisation of our loan book 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 program, effective from 15 January 2017 until 25 March 2017, allowing qualified borrowers to convert eligible US 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). At 30 June 2017, 36.8% of our net loans were denominated in GEL as compared to 27.7% at 30 June 2016 and 33.5% at 31 March 2017
- **Net Loans to Customer Funds and DFI ratio**. Customer funds (client deposits and notes) increased by 17.3% y-o-y and 0.6% q-o-q to GEL 5,655.3mln primarily driven by strong deposit generation in Retail Banking operations. Retail banking client deposits and notes grew by 32.2% y-o-y and 9.2% q-o-q to GEL 2,613.3mln, while CIB client deposits grew by 4.7% y-o-y, but were down 7.0% q-o-q to GEL 2,723.7mln. We also increased our borrowings from DFIs by 13.7% y-o-y to GEL 1,088.1mln, in order to support growth in local currency lending. As a result, our Net Loans to Customer Funds and DFI ratio, which is closely monitored by management, stood at 97.6% (95.3% at 30 June 2016 and 95.6% at 31 March 2017)
- **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 the CIB's fees from guarantees and letters of credit, driven by the deconcentration efforts in the CIB segment as we re-position our exposures to higher credit quality clients. Excluding the CIB's income from guarantees and letters of credit, net fee and commission income was GEL 28.6mln (up 9.4% y-o-y and up 6.0% q-o-q) in 2Q17 and GEL 55.6mln (up 13.0% y-o-y) in 1H17
- **Net banking foreign currency gain.** In line with the behaviour of the GEL exchange rate, i.e. high volatility during 1Q17 and absence of volatility during 2Q17, the net banking foreign currency gain was up 16.9% y-o-y and down 2.1% q-o-q in 2Q17, respectively, and up 14.9% y-o-y in 1H17. RB and CIB businesses together contributed 85.4% and 88.2% to the total 2Q17 and 1H17 net banking foreign currency gain, respectively
- **Net other banking income.** The 61.4% y-o-y and 65.3% q-o-q decrease in 2Q17 and 30.9% y-o-y decline in half year 2017 in net other banking income was largely driven by modest losses on derivative financial instruments recorded in 2Q17

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

GEL thousands, unless otherwise noted	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Salaries and other employee benefits	(47,507)	(38,972)	21.9%	(44,279)	7.3%	(91,786)	(77,012)	19.2%
Administrative expenses	(22,286)	(18,760)	18.8%	(22,519)	-1.0%	(44,805)	(38,506)	16.4%
Banking depreciation and amortisation	(10,197)	(9,162)	11.3%	(9,525)	7.1%	(19,722)	(18,092)	9.0%
Other operating expenses	(796)	(664)	19.9%	(730)	9.0%	(1,527)	(1,475)	3.5%
Operating expenses	**(80,786)**	**(67,558)**	**19.6%**	**(77,053)**	**4.8%**	**(157,840)**	**(135,085)**	**16.8%**
Profit from associate	394	-	NMF	514	-23.3%	909	-	NMF
Operating income before cost of credit risk	**131,647**	**109,920**	**19.8%**	**137,249**	**-4.1%**	**268,896**	**220,386**	**22.0%**
Impairment charge on loans to customers	(37,756)	(26,819)	40.8%	(41,341)	-8.7%	(79,097)	(59,036)	34.0%
Impairment charge on finance lease receivables	(67)	(130)	-48.5%	(139)	-51.8%	(207)	(643)	-67.8%
Impairment charge on other assets and provisions	(2,193)	(1,016)	115.8%	(6,539)	-66.5%	(8,732)	(3,126)	179.3%
Cost of credit risk	**(40,016)**	**(27,965)**	**43.1%**	**(48,019)**	**-16.7%**	**(88,036)**	**(62,805)**	**40.2%**
Profit before non-recurring items and income tax	**91,631**	**81,955**	**11.8%**	**89,230**	**2.7%**	**180,860**	**157,581**	**14.8%**
Net non-recurring items	(1,017)	(46,351)	-97.8%	(1,695)	-40.0%	(2,711)	(47,769)	-94.3%
Profit before income tax	**90,614**	**35,604**	**154.5%**	**87,535**	**3.5%**	**178,149**	**109,812**	**62.2%**
Income tax (expense) benefit	(3,284)	36,148	NMF	(4,408)	-25.5%	(7,692)	28,514	NMF
Profit	**87,330**	**71,752**	**21.7%**	**83,127**	**5.1%**	**170,457**	**138,326**	**23.2%**

- **Operating expenses increased to GEL 80.8mln in 2Q17 (up 19.6% y-o-y and up 4.8% q-o-q) and GEL 157.8mln in 1H17 (up 16.8% y-o-y).** In 1H17, growth in revenues outpaced growth in operating expenses leading to y-o-y positive operating leverage of 2.9%, which represents an improvement compared to y-o-y negative operating leverage of 5.0% in 1H16. 2Q17 y-o-y and q-o-q and 1H17 y-o-y changes in operating expenses were driven by:
  - an increase in salaries and employee benefits by 21.9% y-o-y and 7.3% q-o-q in 2Q17 and by 19.2% y-o-y in 1H17 mainly reflects organic growth of RB
  - an increase in administrative expenses y-o-y by 18.8% in 2Q17 and by 16.4% in 1H17, primarily driven by marketing, rent and repair and maintenance costs as compared to the same periods last year. The increase was attributable to the combined effect of the larger branch network and the higher average quarterly and half year exchange rate during 2Q17 and 1H17 as the vast majority of branch rental agreements are denominated in US dollars
- **Cost of Risk ratio.** Banking Business Cost of Risk ratio was 2.2% in 2Q17, up 20bps y-o-y and down 20bps q-o-q. CIB 2Q17 Cost of Risk ratio was down 100bps y-o-y and up 20bps q-o-q, while RB Cost of Risk ratio was up 80bps y-o-y, largely driven by headwinds from GEL's depreciation in 4Q16, and down 30bps q-o-q. On a half year basis, the Banking Business Cost of Risk ratio was 2.3%, up 20bps y-o-y in 1H17, primarily driven by 80bps increase in the RB Cost of Risk ratio, partially offset by improvement in the CIB loan portfolio quality performance
- **Quality of the Banking Business loan book remained strong in 2Q17** as evidenced by following closely monitored metrics:

GEL thousands, unless otherwise noted	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Non-performing loans								
NPLs	304,320	251,383	21.1%	311,940	-2.4%	304,320	251,383	21.1%
NPLs to gross loans	4.4%	4.4%		4.6%		4.4%	4.4%	
NPLs to gross loans, RB	1.7%	1.5%		1.7%		1.7%	1.5%	
NPLs to gross loans, CIB	8.3%	7.6%		8.2%		8.3%	7.6%	
NPL coverage ratio	90.2%	85.8%		87.1%		90.2%	85.8%	
NPL coverage ratio adjusted for the discounted value of collateral	131.5%	129.7%		126.9%		131.5%	129.7%	
Past due dates								
Retail loans - 15 days past due rate	1.5%	1.2%		1.4%		1.5%	1.2%	
Mortgage loans – 15 days past due rate	1.0%	0.6%		0.9%		1.0%	0.6%	

- **Income tax (expense) benefit**. Income tax expense decreased by 25.5% q-o-q in 2Q17 primarily as a result of the changes in the local tax code that were approved by the Parliament of Georgia in June 2017. The 2Q17 y-o-y and 1H17 y-o-y movements in income taxes reflect 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
- **As a result, the Banking Business profit was GEL 87.3mln in 2Q17** (up 21.7% y-o-y and up 5.1% q-o-q) and GEL 170.5mln in 1H17 (up 23.2%), while ROAE increased to 23.5% in 2Q17 (up 120bps y-o-y and up 40bps q-o-q) and to 23.4% in 1H17 (up 200bps y-o-y)
- **BNB – the Group's banking subsidiary in Belarus - generated a profit of GEL 2.3mln in 2Q17 (up from GEL0.2mln in 2Q16 and up from GEL 0.7mln in 1Q17) and GEL 2.9mln in 1H17 (down 33.6% y-o-y);** BNB's earnings were negatively impacted by increased levels of cost of risk due to the weak macro-economic conditions in Belarus in 2016 and 1Q17, while during 2Q17 the Belarus economy started to show early signs of stabilization. BNB's cost of credit risk in 2Q17 improved by 42.5% q-o-q

- BNB's loan book reached GEL 369.6mln at 30 June 2017, up 19.0% y-o-y and up 10.2% q-o-q, mostly reflecting an increase in corporate and consumer loans. Client deposits were GEL 263.7mln at 30 June 2017, up 30.3% y-o-y and up 11.8% q-o-q. The increase in client deposits was partially 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. As at 30 June 2017, total CAR was 14.6%, well above 10% minimum requirement of the National Bank of the Republic of Belarus ("NBRB"), while Tier I CAR was 9.0%, above NBRB's 6% minimum requirement. Return on Average Equity ("**ROAE**") for BNB was 12.5% in 2Q17 (negative 3.9% in 2Q16 and 3.2% in 1Q17) and 8.2% in 1H17 (9.8% in 1H16)

BANKING BUSINESS BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	**Jun-17**	**Jun-16**	**Change y-o-y**	**Mar-17**	**Change q-o-q**
Liquid assets	3,775,371	2,882,581	31.0%	3,398,386	11.1%
Liquid assets, GEL	1,567,431	1,178,629	33.0%	1,298,701	20.7%
Liquid assets, FC	2,207,940	1,703,952	29.6%	2,099,685	5.2%
Net loans and finance lease receivables	6,579,996	5,507,414	19.5%	6,470,771	1.7%
Net loans and finance lease receivables, GEL	2,423,340	1,523,585	59.1%	2,170,530	11.6%
Net loans and finance lease receivables, FC	4,156,656	3,983,829	4.3%	4,300,241	-3.3%
Client deposits and notes	5,655,341	4,820,169	17.3%	5,622,023	0.6%
Amounts due to credit institutions	2,602,303	1,766,999	47.3%	2,662,909	-2.3%
Borrowings from DFIs	1,088,054	957,227	13.7%	1,143,408	-4.8%
Short-term loans from central banks	999,159	278,500	258.8%	1,005,404	-0.6%
Loans and deposits from commercial banks	515,090	531,272	-3.0%	514,097	0.2%
Debt securities issued	1,312,990	990,370	32.6%	827,025	58.8%
Liquidity and CAR ratios					
Net loans / client deposits and notes	116.4%	114.3%		115.1%	
Net loans / client deposits and notes + DFIs	97.6%	95.3%		95.6%	
Liquid assets as percent of total assets	34.0%	31.8%		32.1%	
Liquid assets as percent of total liabilities	39.1%	37.3%		36.9%	
NBG liquidity ratio	44.1%	43.5%		37.4%	
Excess liquidity (NBG)	791,681	625,340	26.6%	406,213	94.9%
NBG (Basel II) Tier I Capital Adequacy Ratio	10.6%	10.2%		10.1%	
NBG (Basel II) Total Capital Adequacy Ratio	15.6%	15.5%		15.2%	

Our Banking Business balance sheet remains highly liquid (NBG Liquidity ratio of 44.1%) **and strongly capitalised** (Tier I ratio, NBG Basel 2/3 of 10.6%) **with a well-diversified funding base** (Client Deposits and notes to Total Liabilities of 58.6%).

- **Liquidity.** The NBG liquidity ratio stood at 44.1% at 30 June 2017, compared to 43.5% at 30 June 2016 and 37.4% at 31 March 2017, and against a regulatory minimum requirement of 30.0%. Liquid assets increased to GEL 3,775.4mln at 30 June 2017, up 31.0% y-o-y and up 11.1% q-o-q, largely driven by a) the increase in obligatory reserves as a result of the change in respective NBG regulation in 2Q16, b) increase in local currency corporate bonds, which are used by the Bank as collateral for short-term borrowings from the NBG, and c) proceeds from the GEL 500mln Lari denominated bonds in June 2017
- **Diversified funding base**. Short-term borrowings from the NBG grew by 258.8% y-o-y due to the increase in local currency sourcing from International Financial Institutions whose GEL-denominated bonds were pledged as collateral against NBG loans. Debt securities issued grew by 32.6% y-o-y and 58.8% q-o-q primarily due to the issuance of GEL 500mln Lari denominated bonds in June 2017
- **Loan book**. Our net loan book and financial lease receivables balance reached GEL 6,580.0mln at 30 June 2017, up 19.5% y-o-y and up 1.7% q-o-q. As of 30 June 2017, retail book represented 66.1% of the total loan portfolio (59.0% at 30 June 2016 and 62.6% at 31 March 2017), above our target to increase RB's share in total loan book to 65% for the first time in the Bank's history. The growth on a constant-currency basis was 17.4% y-o-y and 2.7% q-o-q. While both local and foreign currency portfolios experienced strong y-o-y growth, the local currency loan portfolio demonstrated a dramatic increase of 59.1% y-o-y and 11.6% q-o-q, partially driven by the Georgian government's "de-dollarisation" initiatives and our goal to increase the share of local currency loans in our portfolio

Discussion of Segment Results

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

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 and (3) SME and micro businesses (through our Bank of Georgia brand), and (4) the mass affluent segment (through our Solo brand).

GEL thousands, unless otherwise noted	**2Q17**	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**	**1H17**	**1H16**	**Change y-o-y**
INCOME STATEMENT HIGHLIGHTS								
Net banking interest income	112,575	84,574	33.1%	111,511	1.0%	224,086	167,406	33.9%
Net fee and commission income	23,970	21,742	10.2%	22,245	7.8%	46,215	40,981	12.8%
Net banking foreign currency gain	6,060	5,473	10.7%	6,492	-6.7%	12,552	9,063	38.5%
Net other banking income	(851)	1,035	NMF	982	NMF	131	1,746	-92.5%
Revenue	**141,754**	**112,824**	**25.6%**	**141,230**	**0.4%**	**282,984**	**219,196**	**29.1%**
Salaries and other employee benefits	(29,763)	(24,325)	22.4%	(27,865)	6.8%	(57,628)	(47,932)	20.2%
Administrative expenses	(16,084)	(12,756)	26.1%	(16,835)	-4.5%	(32,919)	(27,277)	20.7%
Banking depreciation and amortisation	(8,644)	(7,597)	13.8%	(7,991)	8.2%	(16,634)	(14,981)	11.0%
Other operating expenses	(511)	(393)	30.0%	(475)	7.6%	(988)	(888)	11.3%
Operating expenses	**(55,002)**	**(45,071)**	**22.0%**	**(53,166)**	**3.5%**	**(108,169)**	**(91,078)**	**18.8%**
Profit from associate	394	-	NMF	514	-23.3%	909	-	NMF
Operating income before cost of credit risk	**87,146**	**67,753**	**28.6%**	**88,578**	**-1.6%**	**175,724**	**128,118**	**37.2%**
Cost of credit risk	(31,746)	(17,543)	81.0%	(33,687)	-5.8%	(65,433)	(35,727)	83.1%
Profit before non-recurring items and income tax	**55,400**	**50,210**	**10.3%**	**54,891**	**0.9%**	**110,291**	**92,391**	**19.4%**
Net non-recurring items	(760)	(31,819)	-97.6%	(482)	57.7%	(1,242)	(32,379)	-96.2%
Profit before income tax	**54,640**	**18,391**	**197.1%**	**54,409**	**0.4%**	**109,049**	**60,012**	**81.7%**
Income tax (expense) benefit	(1,776)	28,702	NMF	(3,592)	-50.6%	(5,368)	24,858	NMF
Profit	**52,864**	**47,093**	**12.3%**	**50,817**	**4.0%**	**103,681**	**84,870**	**22.2%**
BALANCE SHEET HIGHLIGHTS								
Net loans, Currency Blended	4,155,326	3,098,341	34.1%	3,891,063	6.8%	4,155,326	3,098,341	34.1%
Net loans, GEL	2,044,087	1,303,077	56.9%	1,783,345	14.6%	2,044,087	1,303,077	56.9%
Net loans, FC	2,111,239	1,795,264	17.6%	2,107,718	0.2%	2,111,239	1,795,264	17.6%
Client deposits, Currency Blended	2,613,302	1,976,985	32.2%	2,393,754	9.2%	2,613,302	1,976,985	32.2%
Client deposits, GEL	747,234	521,986	43.2%	616,383	21.2%	747,234	521,986	43.2%
Client deposits, FC	1,866,068	1,454,999	28.3%	1,777,371	5.0%	1,866,068	1,454,999	28.3%
of which:								
Time deposits, Currency Blended	1,505,265	1,216,762	23.7%	1,426,012	5.6%	1,505,265	1,216,762	23.7%
Time deposits, GEL	286,649	211,463	35.6%	255,955	12.0%	286,649	211,463	35.6%
Time deposits, FC	1,218,616	1,005,299	21.2%	1,170,057	4.2%	1,218,616	1,005,299	21.2%
Current accounts and demand deposits, Currency Blended	1,108,037	760,223	45.8%	967,742	14.5%	1,108,037	760,223	45.8%
Current accounts and demand deposits, GEL	460,585	310,523	48.3%	360,428	27.8%	460,585	310,523	48.3%
Current accounts and demand deposits, FC	647,452	449,700	44.0%	607,314	6.6%	647,452	449,700	44.0%
KEY RATIOS								
ROAE Retail Banking	26.5%	29.2%		27.2%		26.9%	26.6%	
Net interest margin, currency blended	8.6%	9.1%		8.8%		8.7%	9.2%	
Cost of risk	3.1%	2.3%		3.4%		3.2%	2.4%	
Cost of funds, currency blended	5.9%	6.1%		5.3%		5.6%	6.3%	
Loan yield, currency blended	16.4%	16.9%		15.9%		16.1%	17.2%	
Loan yield, GEL	24.2%	25.5%		24.9%		24.5%	25.4%	
Loan yield, FC	9.2%	10.2%		9.4%		9.2%	10.5%	
Cost of deposits, currency blended	3.0%	3.4%		3.0%		3.0%	3.5%	
Cost of deposits, GEL	4.6%	4.9%		4.4%		4.5%	4.8%	
Cost of deposits, FC	2.4%	2.9%		2.6%		2.5%	3.1%	
Cost of time deposits, currency blended	4.4%	5.0%		4.4%		4.4%	5.1%	
Cost of time deposits, GEL	9.0%	9.8%		8.7%		8.8%	9.8%	
Cost of time deposits, FC	3.4%	4.0%		3.6%		3.4%	4.2%	
Current accounts and demand deposits, currency blended	1.0%	0.9%		0.9%		1.0%	0.9%	
Current accounts and demand deposits, GEL	1.7%	1.3%		1.4%		1.6%	1.2%	
Current accounts and demand deposits, FC	0.6%	0.6%		0.6%		0.6%	0.7%	
Cost / income ratio	38.8%	39.9%		37.6%		38.2%	41.6%	

Performance highlights

- **Retail Banking delivered another successful quarterly result across all its segments and generated total revenues of GEL 141.8mln in 2Q17 (up 25.6% y-o-y and flat q-o-q) and revenue of GEL 283.0mln in 1H17 (up 29.1% y-o-y)**
- RB's net banking interest income experienced 33.1% y-o-y increase in 2Q17 and 33.9% y-o-y increase in 1H17 as a result of the strong growth in the Retail Banking loan portfolio, while q-o-q growth in 2Q17 was modest at 1.0%. Record quarterly net banking interest income also reflects the benefits from the increase in the local currency loan portfolio, which generated 15.0ppts and 15.3ppts higher yield than the foreign currency loan portfolio during 2Q17 and 1H17, respectively
- **The Retail Banking net loan book reached GEL 4,155.3mln, up 34.1% y-o-y and up 6.8% q-o-q.** Our local currency denominated loan book grew at a faster pace (up 56.9% y-o-y and 14.6% q-o-q) than the foreign currency denominated loan book (up 17.6% y-o-y and 0.2% q-o-q). As a result, the loan book dollarisation decreased to 50.8% at 30 June 2017 from 57.9% at 30 June 2016 and 54.2% at 31 March 2017
- **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 million, unless otherwise noted	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Loan Originations								
Consumer loans	349	245	42.6%	302	15.4%	651	446	45.9%
Mortgage loans	226	160	41.2%	213	6.1%	439	322	36.4%
Micro loans	236	180	30.9%	237	-0.1%	473	330	43.3%
SME loans	133	128	3.7%	119	11.7%	252	230	9.6%
POS loans	56	52	6.7%	43	30.9%	99	96	3.2%
Outstanding Balance								
Consumer loans	1,054	709	48.6%	944	11.7%	1,054	709	48.6%
Mortgage loans	1,282	957	34.0%	1,187	8.0%	1,282	957	34.0%
Micro loans	918	604	52.1%	873	5.2%	918	604	52.1%
SME loans	480	389	23.4%	463	3.5%	480	389	23.4%
POS loans	108	108	-0.5%	108	-0.5%	108	108	-0.5%

- **Retail Banking client deposits increased to GEL 2,613.3mln, up 32.2% y-o-y and up 9.2% q-o-q**, notwithstanding a decrease in the cost of deposits of 40bps y-o-y and flat q-o-q in 2Q17 and decrease of 50bps y-o-y in 1H17. The dollarisation level of our deposits decreased to 71.4% at 30 June 2017 from 73.6% at 30 June 2016 and from 74.3% at 31 March 2017. This is in line with the current decreasing trend of cost on foreign currency denominated deposits (down 50 bps y-o-y and down 20 bps q-o-q in 2Q17 and down 60bps y-o-y in 1H17). The spread between the cost of RB's client deposits in GEL and foreign currency widened to 2.2ppts during 2Q17 (GEL: 4.6%; FC: 2.4%) compared to 2.0ppts in 2Q16 (GEL: 4.9%; FC: 2.9%) and 1.8ppts in 1Q17 (GEL: 4.4%; FC: 2.6%). For the first half year 2017, the spread was 2.0ppts (GEL: 4.5%; FC: 2.5%) compared to 1.7ppts in 1H16 (GEL: 4.8%; FC: 3.1%). Local currency denominated deposits increased at a faster pace to GEL 747.2mln (up 43.2% y-o-y and 21.2% q-o-q), as compared to foreign currency denominated deposits that grew to GEL 1,866.1 mln (up 28.3% y-o-y and up 5.0% q-o-q)
- **Retail Banking NIM was 8.6% in 2Q17, down 50bps y-o-y and down 20bps q-o-q.** The lower NIM y-o-y was attributable to a 50bps decrease in loan yield, while the cost of funds only decreased by 20bps. On a q-o-q basis, loan yield was up by 50bps and cost of funds was up by 60bps, thus, leading to 20bps decrease in NIM. **For the half year 2017, Retail Banking NIM was 8.7%, down 50bps y-o-y.** The lower NIM was the result of a 110bps decrease in loan yield, which was partially offset by 70bps decrease in cost of funds in 1H17
- **Strong growth in Retail Banking net fee and commission income**. The 2Q17 10.2% y-o-y and up 7.8% q-o-q and 1H17 12.8% y-o-y growth rates reflect an organic increase in our fee and commission income and the underlying growth in both our Express Banking and Solo platforms described below
- **RB cost to income ratio remained well-controlled at 38.8% in 2Q17 (down by 110 bps y-o-y and up 120bps q-o-q) and at 38.2% in 1H17 (down 340bps 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 three Retail Banking segments
- **RB cost of risk remains contained with signs of improvement in 2Q17.** RB cost of credit risk was GEL 31.7mln in 2Q17 (up 81.0% y-o-y and down 5.8% q-o-q) and GEL 65.4mln in 1H17 (up 83.1% y-o-y). As a result, Cost of Risk ratio was 3.1% in 2Q17, up from 2.3% in 2Q16 and down from 3.4% in 1Q17, while on a half year basis, Cost of Risk ratio was 3.2% in 1H17, up from 2.4% in 1H16. The increase in cost of risk mainly reflected the following two factors: a) an increased pace of loan growth in express and micro express loan portfolio during 1Q17 and 2Q17, 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 latter has triggered the y-o-y increase in 1H17 Cost of Credit Risk, while its absence in 2Q17 positively affected Cost of Risk on a q-o-q basis

- The number of Retail Banking clients reached 2.2mln, up 9.4% y-o-y and up 2.0% q-o-q, while the number of total cards outstanding amounted to 2,117,652, up 8.8% y-o-y and up 0.9% q-o-q
- **Our Express Banking business continues to deliver strong growth as we further develop our mass market Retail Banking strategy,** as demonstrated by the following performance indicators

Express Banking performance indicators

Volume information in GEL thousands	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Express Banking Customers								
Number of new customers	11,990	7,709	55.5%	16,645	-28.0%	28,635	19,768	44.9%
Number of customers	500,602	445,118	12.5%	488,612	2.5%	500,602	445,118	12.5%
Express Cards								
Number of Express Cards issued	130,566	126,823	3.0%	129,128	1.1%	259,694	239,729	8.3%
Number of Express Cards outstanding	1,335,238	1,195,380	11.7%	1,315,489	1.5%	1,335,238	1,195,380	11.7%
Express Pay terminals								
Number of Express Pay terminals	2,789	2,681	4.0%	2,723	2.4%	2,789	2,681	4.0%
Number of transactions via Express Pay terminals	26,385,633	31,005,384	-14.9%	25,159,733	4.9%	51,545,366	59,827,664	-13.8%
Volume of transactions via Express Pay terminals	1,008,436	742,236	35.9%	968,802	4.1%	1,977,238	1,404,964	40.7%
POS terminals								
Number of Desks	9,205	7,447	23.6%	8,814	4.4%	9,205	7,447	23.6%
Number of Contracted Merchants	5,133	3,848	33.4%	4,740	8.3%	5,133	3,848	33.4%
Number of POS terminals	11,303	9,044	25.0%	10,774	4.9%	11,303	9,044	25.0%
Number of transactions via POS terminals	11,416,810	6,806,210	67.7%	9,741,855	17.2%	21,158,665	12,826,535	65.0%
Volume of transactions via POS terminals	323,901	198,999	62.8%	266,106	21.7%	590,007	375,736	57.0%
Internet Banking								
Number of Active Users	166,874	98,505	69.4%	167,769	-0.5%	166,874	98,505	69.4%
Number of transactions via Internet Bank	1,752,594	1,423,797	23.1%	1,719,348	1.9%	3,471,942	2,696,935	28.7%
Volume of transactions via Internet Bank	334,094	291,138	14.8%	321,649	3.9%	655,742	507,980	29.1%
Mobile Banking								
Number of Active Users	127,129	58,162	118.6%	83,726	51.8%	127,129	58,162	118.6%
Number of transactions via Mobile Bank	1,232,713	606,244	103.3%	979,894	25.8%	2,212,607	1,093,838	102.3%
Volume of transactions via Mobile Bank	122,222	57,480	112.6%	94,371	29.5%	216,593	93,418	131.9%

  - **Growth in the client base was due to the increased offering of cost-effective remote channels**. The strong increase to 500,602 customers in 2Q17 continues 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 utilisation of Express Pay terminals continued to grow in 2Q17**. The 2Q17 and 1H17 volume of transactions increased to GEL 1,008.4mln and GEL 1,977.2mln, while the number of transactions were both down both y-o-y and q-o-q. This decrease resulted from management's decision to introduce transaction fees on non-banking transactions processed through Express Pay terminals. However, while this introduction negatively affected the number of transactions, the decrease was more than offset by the total fees charged to the clients leading to 41.0% y-o-y increase in 2Q17 in fee income from express pay terminals
  - **For mobile banking applications,** the number of transactions and the volume of transactions continues to show outstanding growth, primarily due to the introduction of a new mobile banking application in May 2017
- **The number of Solo clients reached 24,984 at the end of 2Q17, up 201.7% since its re-launch in April 2015.** We have now launched 11 Solo lounges, of which 8 are located in Tbilisi, the capital city, and 3 in major regional cities of Georgia. In 2Q17, annualised profit per Solo client was GEL 1,445 compared to a profit of GEL 49 and GEL 68 per Express and mass retail clients, respectively. Product to client ratio for Solo segment was 6.5, compared to 3.3 and 1.7 for Express and mass retail clients, respectively. While Solo clients currently represent 1.1% of our total retail client base, they contributed 22.2% to our retail loan book, 37.8% to our retail deposits, 13.6% and 17.3% to our net interest income and to our net fee and commission income, respectively, in 2Q17. Our goal is to significantly increase our market share in this segment, which stood below 13% at the beginning of 2015 when we launched Solo in its current format
- **As a result of the above described factors, Retail Banking profit reached GEL 52.9mln in 2Q17 (up 12.3% y-o-y and up 4.0% q-o-q) and GEL 103.7mln in 1H17 (up 22.2% y-o-y). Retail Banking continued to deliver an outstanding ROAE, which stood at 26.5% in 2Q17 (29.2% in 2Q16 and 27.2% in 1Q17) and at 26.9% in 1H17 (26.6% in 1H16)**

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 and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv.

GEL thousands, unless otherwise noted	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
INCOME STATEMENT HIGHLIGHTS								
Net banking interest income	37,133	35,233	5.4%	37,949	-2.2%	75,082	73,483	2.2%
Net fee and commission income	5,301	6,129	-13.5%	5,666	-6.4%	10,967	13,150	-16.6%
Net banking foreign currency gain	10,409	8,921	16.7%	11,429	-8.9%	21,839	20,289	7.6%
Net other banking income	1,929	1,822	5.9%	2,259	-14.6%	4,187	4,408	-5.0%
Revenue	**54,772**	**52,105**	**5.1%**	**57,303**	**-4.4%**	**112,075**	**111,330**	**0.7%**
Salaries and other employee benefits	(12,974)	(11,357)	14.2%	(12,346)	5.1%	(25,319)	(22,512)	12.5%
Administrative expenses	(3,516)	(3,692)	-4.8%	(3,535)	-0.5%	(7,051)	(7,047)	0.1%
Banking depreciation and amortisation	(1,263)	(1,304)	-3.1%	(1,217)	3.8%	(2,480)	(2,576)	-3.7%
Other operating expenses	(188)	(226)	-16.8%	(157)	19.7%	(346)	(457)	-24.3%
Operating expenses	**(17,941)**	**(16,579)**	**8.2%**	**(17,255)**	**4.0%**	**(35,196)**	**(32,592)**	**8.0%**
Operating income before cost of credit risk	**36,831**	**35,526**	**3.7%**	**40,048**	**-8.0%**	**76,879**	**78,738**	**-2.4%**
Cost of credit risk	(5,030)	(9,348)	-46.2%	(8,699)	-42.2%	(13,729)	(23,486)	-41.5%
Profit before non-recurring items and income tax	**31,801**	**26,178**	**21.5%**	**31,349**	**1.4%**	**63,150**	**55,252**	**14.3%**
Net non-recurring items	(259)	(14,537)	-98.2%	(1,155)	-77.6%	(1,414)	(15,393)	-90.8%
Profit before income tax	**31,542**	**11,641**	**171.0%**	**30,194**	**4.5%**	**61,736**	**39,859**	**54.9%**
Income tax (expense) benefit	(1,053)	12,808	NMF	(1,912)	-44.9%	(2,965)	10,121	NMF
Profit	**30,489**	**24,449**	**24.7%**	**28,282**	**7.8%**	**58,771**	**49,980**	**17.6%**
BALANCE SHEET HIGHLIGHTS								
Letters of credit and guarantees, standalone*	514,079	560,029	-8.2%	506,433	1.5%	514,079	560,029	-8.2%
Net loans and finance lease receivables, Currency Blended	2,037,831	2,065,566	-1.3%	2,226,884	-8.5%	2,037,831	2,065,566	-1.3%
Net loans and finance lease receivables, GEL	390,779	219,465	78.1%	398,105	-1.8%	390,779	219,465	78.1%
Net loans and finance lease receivables, FC	1,647,052	1,846,101	-10.8%	1,828,779	-9.9%	1,647,052	1,846,101	-10.8%
Client deposits, Currency Blended	2,723,674	2,602,018	4.7%	2,929,377	-7.0%	2,723,674	2,602,018	4.7%
Client deposits, GEL	740,408	754,096	-1.8%	897,239	-17.5%	740,408	754,096	-1.8%
Client deposits, FC	1,983,266	1,847,922	7.3%	2,032,138	-2.4%	1,983,266	1,847,922	7.3%
Time deposits, Currency Blended	979,001	1,041,041	-6.0%	1,136,852	-13.9%	979,001	1,041,041	-6.0%
Time deposits, GEL	139,747	161,612	-13.5%	138,404	1.0%	139,747	161,612	-13.5%
Time deposits, FC	839,254	879,429	-4.6%	998,448	-15.9%	839,254	879,429	-4.6%
Current accounts and demand deposits, Currency Blended	1,744,673	1,560,977	11.8%	1,792,525	-2.7%	1,744,673	1,560,977	11.8%
Current accounts and demand deposits, GEL	600,661	592,484	1.4%	758,835	-20.8%	600,661	592,484	1.4%
Current accounts and demand deposits, FC	1,144,012	968,493	18.1%	1,033,690	10.7%	1,144,012	968,493	18.1%
Assets under management	1,682,914	1,301,353	29.3%	1,568,550	7.3%	1,682,914	1,301,353	29.3%
RATIOS								
ROAE, Corporate Investment Banking	20.0%	17.2%		18.3%		19.1%	17.4%	
Net interest margin, currency blended	3.3%	3.7%		3.4%		3.3%	3.7%	
Cost of risk	0.5%	1.5%		0.3%		0.4%	1.8%	
Cost of funds, currency blended	4.8%	4.6%		5.0%		4.9%	4.5%	
Loan yield, currency blended	10.6%	10.0%		10.7%		10.6%	10.2%	
Loan yield, GEL	12.3%	14.3%		12.5%		12.4%	13.7%	
Loan yield, FC	10.2%	9.6%		10.3%		10.3%	9.9%	
Cost of deposits, currency blended	4.2%	4.2%		3.9%		4.0%	4.4%	
Cost of deposits, GEL	7.4%	7.1%		6.6%		7.1%	7.5%	
Cost of deposits, FC	2.9%	3.0%		2.9%		2.9%	3.1%	
Cost of time deposits, currency blended	5.8%	5.9%		5.6%		5.7%	6.0%	
Cost of time deposits, GEL	9.6%	9.8%		9.6%		9.6%	9.7%	
Cost of time deposits, FC	5.2%	5.2%		5.1%		5.1%	5.3%	
Current accounts and demand deposits, currency blended	3.3%	3.1%		2.8%		3.0%	3.2%	
Current accounts and demand deposits, GEL	7.0%	6.4%		6.0%		6.6%	6.9%	
Current accounts and demand deposits, FC	0.9%	0.8%		0.9%		0.9%	0.8%	
Cost / income ratio	32.8%	31.8%		30.1%		31.4%	29.3%	
Concentration of top ten clients	11.1%	11.3%		11.3%		11.1%	11.3%	

* Off-balance sheet item

Performance highlights

- **Continued progress on strategic de-concentration initiative**. During 2Q17 CIB continued to deliver on its de-concentration and loan portfolio repositioning targets, which resulted in increased quarterly ROAE and decreased quarterly credit losses on both q-o-q and y-o-y basis.
  - The concentration of top 10 CIB clients decreased from 11.3% at 31 March 2017 to 11.1% at 30 June 2017, the lowest level since the de-concentration initiative was announced in 4Q15. Net loan book amounted to GEL 2,037.8mln at 30 June 2017, down 1.3% y-o-y, and down 8.5% q-o-q, largely driven by winding down lending relationships with two large borrowers. As a result, CIB cost of credit risk significantly improved to GEL 5.0mln in 2Q17 (down 46.2% y-o-y and down 42.2% q-o-q) and decreased to GEL 13.7mln in 1H17 (down 41.5% y-o-y)
  - CIB's 2Q17 net banking interest income increased by 5.4% y-o-y, supporting the 2.2% y-o-y growth in 1H17. The y-o-y growth in both 2Q17 and 1H17 reflect increases in the currency blended loan yields over the same periods. CIB's 2Q17 net banking interest income was down by 2.2% q-o-q as a result of the decrease in CIB's loan portfolio size coupled with slight decrease in currency blended loan yields, which was marginally offset by decrease in cost of funds
  - CIB's net fee and commission income was GEL 5.3mln or 9.7% of total CIB revenue in 2Q17, compared to GEL 6.1mln or 11.8% in 2Q16 and GEL 5.7mln or 9.9% in 1Q17. On a half yearly basis, CIB net fee and commission income was GEL 11.0mln or 9.8% of total CIB revenue in 1H17, compared to GEL 13.2mln or 11.8% in 1H16. The declines in all periods were driven by decrease in net fee and commission income from guarantees and letters of credit (down by GEL 0.6mln or 17.0% y-o-y and down by GEL 0.4mln or 12.9% q-o-q in 2Q17; down by GEL 2.2mln or 27.0% y-o-y in 1H17), reflecting our ongoing risk de-concentration efforts and decreased yields on guarantees and letters of credit as we reposition our portfolio towards high credit profile corporate clients
- CIB's loan book de-dollarisation maintained its pace in 2Q17 as the share of foreign currency denominated loans declined to 80.8% at 30 June 2017, compared to 89.4% a year ago and 82.1% at 31 March 2017. This trend reflects the corporate clients' increased appetite for borrowings in local currency due to GEL's volatility over the last two years, which was also supported by decreasing loan yields for GEL denominated loans (12.3% in 2Q17, down 200bps y-o-y and down 20bps q-o-q ; 12.4% in 1H17, down 130bps y-o-y)
- In 2Q17, dollarisation of our CIB deposits increased to 72.8% as at 30 June 2017 from 71.0% a year ago and 69.4% as at 31 March 2017, as a result of significant y-o-y decrease in local currency deposit rates in 1H17. The cost of deposits in foreign currency also decreased and remained within the 2.9%-3.1% range. On the other hand, cost of deposits in local currency in 2Q17 stood at 7.4%, up q-o-q after having significantly decreased to 6.6% in 1Q17. As a result, on a half year basis, the cost of deposits in local currency was 7.1%, down 40 bps y-o-y. Consequently, total deposits amounted to GEL 2,723.7, up 4.7% y-o-y and down 7.0% q-o-q. On a constant currency basis, total deposits were up 2.6% y-o-y and down 6.0% q-o-q
- **CIB recorded a NIM of 3.3% in 2Q17 and 1H17, down 40bps y-o-y and down 10bps q-o-q**. While loan yield was down by 10bps q-o-q and cost of funds was down by 20bps q-o-q, the 10bps decrease in CIB NIM on q-o-q basis was driven by an increased share of liquid assets in total interest earning assets
- **Net banking foreign currency gain.** In line with lower volatility of the GEL exchange rate, CIB net banking foreign currency gain was GEL 10.4mln in 2Q17 (up 16.7% y-o-y and down 8.9% q-o-q) and amounted to GEL 21.8mln in 1H17 (up 7.6% y-o-y). 1H17 y-o-y increase was attributable to the elevated volatility of the GEL exchange rate during 1Q17
- CIB's cost to income ratio increased to 32.8% in 2Q17 from 31.8% in 2Q16 and from 30.1% in 1Q17. On a half year basis, cost to income ratio stood at 31.4% in 1H17, up from 29.3% in 1H16. The increase resulted from the intensified de-concentration efforts, which led to a higher reduction in revenues with less impact on operating costs. CIB's operating expenses were up 8.2% on y-o-y in 2Q17 and up 8.0% y-o-y in 1H17, driven by 14.2% and 12.5% increase in salaries and other employee benefits in 2Q17 and 1H17, respectively, as a result of CIB's investments in attracting the talent to accelerate the de-concentration efforts and restructuring of its corporate recovery team. However, the benefits of these undertakings are positively reflected in CIB's lower cost of risk ratio, which stood at 0.5% in 2Q17 (down from 1.5% in 2Q16 and slightly up from 0.3% in 1Q17) and at 0.4% in 1H17 (down from 1.8% in 1H16)
- As a result, Corporate Investment Banking profit reached GEL 30.5mln in 2Q17 (up 24.7% y-o-y and 7.8% q-o-q) and GEL 58.8mln in 1H17 (up 17.6% y-o-y) and CIB ROAE reached 20.0% in 2Q17, compared to 17.2% a year ago and 18.3% in 1Q17. On a half yearly basis, CIB ROAE increased to 19.1%, compared to 17.4% in 1H16

Performance highlights of wealth management operations

- **The AUM of the Investment Management segment increased to GEL 1,682.9mln 2Q17, up 29.3% y-o-y and up 7.3% q-o-q.** This includes a) deposits of Wealth Management franchise clients, b) assets held at Bank of Georgia Custody, c) Galt & Taggart brokerage client assets, d) Global certificates of deposit held by Wealth Management clients, and e) Aldagi pension scheme assets
- **Wealth Management deposits were GEL 1,054.6mln, up 9.3% y-o-y and flat q-o-q, growing at a compound annual growth rate (CAGR) of 14.8% over the last five-year period**. The cost of deposits stood at 4.0% in 2Q17, down 40bps y-o-y and down 10bps q-o-q. On a half year basis, the cost of deposits was 4.0% in 1H17, down 60bps y-o-y. The decline in cost of deposits and the impact of Wealth Management clients switching from deposits to local bonds and Global certificates of deposit, as Galt & Taggart has offered a number of local bond issuances - yielding higher rates than deposits - to Wealth Management clients, were reflected in the Wealth Management deposit balances
- We served 1,414 wealth management clients from 69 countries as of 30 June 2017 as compared to 1,385 clients from 68 countries as of 31 March 2017 and 1,377 clients from 68 countries as of 30 June 2016
- On 31 May 2017, the Bank hosted **the first Wealth Conference in Georgia**. 50 delegates from 25 companies and 10 countries attended the event
- **Galt & Taggart, which brings under one brand corporate advisory, private equity and brokerage services, continues to develop local capital markets in Georgia.**
  - **Quarterly update on recent developments in Georgian economy.** In August 2017, Galt & Taggart launched new research report covering the quarterly macro-economic developments in Georgian economy. The report was followed by a conference call hosted by Galt & Taggart for interested stakeholders to discuss the developments. The report is available on Galt and Taggart website at *www.galtandtaggart.com*
  - **Regional Fixed Income Market Watch.** The report, which is released monthly and covers the debt markets of Georgia, Armenia, Azerbaijan, Belarus, Kazakhstan, and Ukraine, provides market data for both locally and internationally listed debt issuances from the countries subject to coverage. Amongst various country-level macro-economic development indicators, the report includes information about sovereign ratings, monetary policy rates, economic growth, fiscal and current account balances
  - During 2Q17 Galt & Taggart was mandated through a competitive tender process to actively manage 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 3mln contributions annually
  - During 2Q17 and July 2017, Galt & Taggart acted as:
    - a co-manager of the Bank’s inaugural GEL 500mln Lari denominated international bond issuance in June 2017
    - a placement agent of GEL 108mln local bonds due 2020 of International Finance Corporation in June 2017
    - a placement agent for Evex Medical Corporation, a subsidiary of Georgia Healthcare Group, facilitating private placement of GEL 90mln local bonds due 2022, in July 2017

Investment Business Segment Result Discussion

Utility & Energy Business (Georgia Global Utilities – GGU)[6]

About 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 - a 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 1.4mln people (more than one-third of Georgia's population) in three cities: Tbilisi, Mtskheta and Rustavi.

GGU is self-sufficient in power for water transportation and it benefits from additional revenue from third-party electricity sales. GGU owns and operates three hydropower generation facilities (and manages an additional facility) with a total capacity of 149.3MW. GGU is also investing in additional capacity for electricity generation through the development of hydro power plants (HPP), as well as solar and wind power sources. During 2Q17, GGU commenced construction of a 50MW HPP in western part of Georgia with a target to have the HPP operational in December 2018. Average annual production varies between 380GWh and 560GWh, depending on the level of rainfall during the year. GGU's average annual electricity consumption for its own account varies between 270GWh and 300GWh, meaning that GGU has self-sufficient power for water transportation and it benefits from additional revenue from third-party electricity sales. Over the course of the last two years GGU has managed to achieve efficiencies in its own energy consumption, thus freeing up electricity for third-party sales. The involvement in hydro power production also provides revenue diversification.

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 high level of water losses is significantly worse than the peer average and represents a strong efficiency upside for the business. GGU owns and operates a water supply network of around 2,700km and about 1,700km of wastewater pipelines. It also has 45 pumping stations, 84 service reservoirs with a total capacity of 320,000 m^3 and one water treatment plant. Around 520,000,000 m^3 of potable water is supplied from water production/treatment facilities annually. By improving the pipeline infrastructure and as a result of reducing the water supplied to its utility customers, GGU expects to free-up own electricity consumption, which in turn can be sold to third parties.

Water tariff & regulation. The current water and wastewater tariff for residential customers stands at GEL 3.15 (per month, per capita) for non-metered customers and at GEL 0.27 per m^3 for metered customers. All of GGU's commercial customers are metered and the tariff stands at GEL 4.42 per m^3. The tariff is set per cubic meter of water consumed by customers. GNERC (Georgian National Energy and Water Supply Regulatory Commission) regulates GGU's water tariffs. GNERC is an independent regulatory body, not subject to direct supervision from any other state authority, but accountable to parliament. It is funded predominantly from the fees paid by market participants (0.2% of total revenues).

Strong cash flow generation is expected to enable GGU to sponsor stable dividend payouts to shareholders starting from 2019. GWP, a wholly owned subsidiary of GGU, which operates the water business, has a credit rating of BB- with stable outlook from Fitch.

[6] 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

Standalone results

We acquired the 75% of GGU's equity interests that we did not previously own on 21 July 2016 and have 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 stand-alone results, including the related comparative information, reflect the energy & utility business performance.*

INCOME STATEMENT

GEL thousands; unless otherwise noted	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Revenue from water supply to legal entities	20,592	19,353	6.4%	18,336	12.3%	38,928	36,339	7.1%
Revenue from water supply to individuals	8,142	7,295	11.6%	7,911	2.9%	16,053	14,892	7.8%
Revenue from electric power sales	1,903	895	112.6%	1,191	59.8%	3,094	4,162	-25.7%
Revenue from technical support	739	454	62.8%	673	9.8%	1,412	1,196	18.1%
Other income	604	230	162.6%	491	23.0%	1,095	201	NMF
Revenue	**31,980**	**28,227**	**13.3%**	**28,602**	**11.8%**	**60,582**	**56,790**	**6.7%**
Provisions for doubtful trade receivables	(1,399)	(727)	92.4%	274	NMF	(1,125)	(1,473)	-23.6%
Salaries and benefits	(5,601)	(4,496)	24.6%	(4,257)	31.6%	(9,858)	(8,355)	18.0%
Electricity and transmission costs	(3,913)	(4,702)	-16.8%	(4,972)	-21.3%	(8,885)	(9,423)	-5.7%
Raw materials, fuel and other consumables	(436)	(1,090)	-60.0%	(791)	-44.9%	(1,227)	(1,983)	-38.1%
Infrastructure assets maintenance expenditure	(357)	(546)	-34.6%	(301)	18.6%	(658)	(1,212)	-45.7%
General and administrative expenses	(893)	(933)	-4.3%	(861)	3.7%	(1,754)	(1,712)	2.5%
Operating taxes	(776)	(734)	5.7%	(1,062)	-26.9%	(1,838)	(1,338)	37.4%
Professional fees	(592)	(400)	48.0%	(467)	26.8%	(1,059)	(1,012)	4.6%
Insurance expense	(244)	(199)	22.6%	(285)	-14.4%	(529)	(266)	98.9%
Other operating expenses	(2,109)	(2,155)	-2.1%	(1,445)	46.0%	(3,554)	(3,391)	4.8%
Operating expenses	**(16,320)**	**(15,982)**	**2.1%**	**(14,167)**	**15.2%**	**(30,487)**	**(30,165)**	**1.1%**
EBITDA	**15,660**	**12,245**	**27.9%**	**14,435**	**8.5%**	**30,095**	**26,625**	**13.0%**
EBITDA Margin	*49%*	*43%*		*50%*		*50%*	*47%*	
Depreciation and amortisation	(5,071)	(4,256)	19.1%	(4,821)	5.2%	(9,892)	(9,662)	2.4%
EBIT	**10,589**	**7,989**	**32.5%**	**9,614**	**10.1%**	**20,203**	**16,963**	**19.1%**
EBIT Margin	*33%*	*28%*		*34%*		*33%*	*30%*	
Net interest expense	(3,070)	(2,533)	21.2%	(2,266)	35.5%	(5,336)	(4,908)	8.7%
Net non-recurring expenses	(251)	-	NMF	-	NMF	(251)	-	NMF
Foreign exchange (loss) gain	(141)	(342)	-58.8%	(328)	-57.0%	(469)	(406)	15.5%
EBT	**7,127**	**5,114**	**39.4%**	**7,020**	**1.5%**	**14,147**	**11,649**	**21.4%**
Income tax (expense) benefit	(390)	232	NMF	-	NMF	(390)	(939)	-58.5%
Profit	**6,737**	**5,346**	**26.0%**	**7,020**	**-4.0%**	**13,757**	**10,710**	**28.5%**
Attributable to:								
– Shareholders of the Group	6,946	5,386	29.0%	7,177	-3.2%	14,123	10,779	31.0%
– Non-controlling interests	(208)	(39)	NMF	(158)	31.6%	(366)	(69)	NMF

Performance highlights

- **GGU recorded total revenue of GEL 32.0mln in 2Q17(up 13.3% y-o-y and up 11.8% q-o-q) and GEL 60.6mln in 1H17 (up 6.7% y-o-y)**
  - Revenue from the water supply to legal entities and individuals reached GEL 28.7mln in 2Q17 (up 7.8% y-o-y and up 9.5% q-o-q) and GEL 55.0mln in 1H17 (up 7.3% y-o-y). Water supply revenue represented 89.8% of the total revenue in 2Q17 (94.4% in 2Q16 and 91.8% in 1Q17) and 90.8% of the total revenue in 1H17 (90.2% in 1H16). Water consumption is characterised by seasonality, whereby sales in the second quarter normally exceed sales during the first quarter. Revenue from legal entities is generally the largest element of GGU's total revenue and their water consumption pattern is reflected in GGU's quarterly revenues. The y-o-y increase in revenue from water supply to both legal entities and individuals reflects the increased consumption in 1H17 as compared to 1H16
  - **Unregistered customers are one of the major reasons for unrecovered revenue.** GGU regularly under-recovers its water revenue from residential consumers due to discrepancies between customers formally registered with the provider and actual customers. Currently approximately 1.4mln people live in Tbilisi, Rustavi and Mtskheta regions, while only 1.2mln residents are registered with GGU. In certain instances water is supplied, but consumption is not billed for, resulting in challenges associated with accurate accounting for water consumption. GGU is dealing with these issues by aligning its own customer database with that of the state registry to identify the unregistered customers and improve metering. The company also created a monitoring group that identifies unregistered customers per household. The exercise has positively impacted revenues from individuals
  - Revenue from electricity power sales reached GEL 1.9 million in 2Q17 (up 112.6% y-o-y and up 59.8% q-o-q). The positive trend was a result of increased internal power generation from GGU's hydro power plants supported by favorable weather conditions and the completion of rehabilitation works on Zhinvali HPP. This enabled the company to generate sufficient power to meet not only its own internal consumption needs, but also sell electricity to third parties. Additionally, GGU achieved a significant milestone during 2Q, whereby it signed an agreement that allowed GGU to export electricity to Turkey from June 2017. The 25.7% y-o-y decline in electricity power sales during 1H17 was driven by low electricity generation due to unfavourable weather conditions during 1Q17
  - The significant increase in the technical support revenue in 2Q17 and 1H17 was due to the growing number of new connections executed on behalf of the clients during these periods, and the registration of previously unregistered customers as discussed above

- **GGU's operating expenses continued to be well-contained and were almost flat in 1H17. Operating expenses amounted GEL 16.3mln in 2Q17 (up 2.1% y-o-y and up 15.2% q-o-q) and GEL 30.5mln in 1H17 (up 1.1% y-o-y):**
  - The infrastructure asset maintenance expenditure, management's key focus area, was down 34.6% y-o-y in 2Q17 and down 45.7% y-o-y in 1H17 as a result of the continued prudent rehabilitation works. The quarterly number of accidents on the infrastructure also declined by 76 cases y-o-y and increased by 86 cases q-o-q during 2Q17 and declined by 374 cases y-o-y on a half year basis during 1H17. GGU actively invests in the rehabilitation of its infrastructure with a focus on improving efficiency in the medium to long-term. As a result, GGU's all-in cost of 1 meter rehabilitation was GEL 131 in 1H17, down 10.9% from GEL 147 in 1H16
  - As a result of increased management focus on improving efficiency of asset maintenance expenditures, GGU more than doubled number of employees in its technical support department in 2Q17, resulting in increased salaries and employee benefits expenses in 2Q17 and 1H17. However, GGU's all-in cost of 1 meter new connection decreased by 21.2% to GEL 41 in 1H17 from GEL 52 in 1H16
  - 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. have no overdue bill balance. This change in accounting estimate had a positive impact on the provision of doubtful receivables in the amount of GEL 2.9 million in 1Q17, resulting in lower receivables provision expenses in 1Q17 and 1H17, while 2Q provision amount represents the expected run rate based on the enhanced methodology
  - Due to increased power generation during 2Q17 discussed above, GGU did not acquire electricity from the open market for its own consumption unlike 1Q17. As a result, the electricity and transmission costs were down 16.8% y-o-y and down 21.3% q-o-q in 2Q17 and down 5.7% y-o-y in 1H17
  - Operating taxes were up 5.7% y-o-y and down 26.9% q-o-q in 2Q17 and up 37.4% y-o-y in 1H17, reflecting an increase in GGU's property tax base due to the company's investments in its supply network
  - Professional fees increased in all reporting periods in 2017 primarily due to the fees received from independent subject matter experts in relation to the assessment of certain operational parameters
  - The y-o-y decline in income taxes in 1H17 reflect the impact of changes in corporate taxation model
- **Consequently, GGU reported a) EBITDA of GEL 15.7mln in 2Q17 (up 27.9% y-o-y and up 8.5% q-o-q) and GEL 30.1mln in 1H17 (up 13.0% y-o-y) and b) a profit of GEL 6.7mln in 2Q17 (up 26.0% y-o-y and down 4.0% q-o-q) and GEL 13.8mln in 1H17 (up 28.5% y-o-y)**

STATEMENT OF CASH FLOW *GEL thousands; unless otherwise noted*	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Cash receipt from customers	35,638	32,938	8.2%	30,582	16.5%	66,219	62,191	6.5%
Cash paid to suppliers	(10,450)	(14,543)	-28.1%	(11,330)	-7.8%	(21,781)	(24,684)	-11.8%
Cash paid to employees	(5,047)	(4,929)	2.4%	(3,859)	30.8%	(8,906)	(7,786)	14.4%
Interest received	151	61	147.5%	419	-64.0%	570	167	NMF
Interest paid	(2,910)	(2,449)	18.8%	(2,356)	23.5%	(5,266)	(4,959)	6.2%
Taxes paid	(3,826)	(3,545)	7.9%	(1,757)	117.8%	(5,584)	(6,443)	-13.3%
Restricted cash in Bank	417	763	-45.3%	945	-55.9%	1,362	140	NMF
Cash flow from operating activities	**13,973**	**8,296**	**68.4%**	**12,644**	**10.5%**	**26,614**	**18,626**	**42.9%**
Maintenance capex	(5,370)	(5,205)	3.2%	(8,835)	-39.2%	(14,202)	(9,079)	56.4%
Operating cash flow after maintenance capex	**8,603**	**3,091**	**178.3%**	**3,809**	**NMF**	**12,412**	**9,547**	**30.0%**
Purchase of PPE and intangible assets	(31,114)	(8,950)	NMF	(15,334)	102.9%	(46,448)	(15,028)	NMF
Restricted cash in Bank	-	-	NMF	(12,249)	-100.0%	(12,249)	-	NMF
Total cash used in investing activities	**(31,114)**	**(8,950)**	**NMF**	**(27,583)**	**12.8%**	**(58,697)**	**(15,028)**	**NMF**
Proceeds from borrowings	55,838	2,583	NMF	12,412	NMF	68,250	2,963	NMF
Repayment of borrowings	(4,666)	(2,791)	67.2%	(4,328)	7.8%	(8,994)	(5,292)	70.0%
Dividends paid out	-	(50)	NMF	-	-	-	(104)	NMF
Capital increase	9,054	1,727	NMF	780	NMF	9,834	1,901	NMF
Total cash flow from (used in) financing activities	**60,226**	**1,469**	**NMF**	**8,864**	**NMF**	**69,090**	**(532)**	**NMF**
Exchange loss on cash equivalents	(283)	(879)	-67.8%	(693)	-59.2%	(976)	(945)	3.3%
Total cash inflow/(outflow)	**37,432**	**(5,269)**	**NMF**	**(15,603)**	**NMF**	**21,829**	**(6,958)**	**NMF**
Cash balance								
Cash, beginning balance	16,776	11,668	43.8%	32,379	-48.2%	32,379	13,357	142.4%
Cash, ending balance	**54,208**	**6,399**	**NMF**	**16,776**	**NMF**	**54,208**	**6,399**	**NMF**

- **GGU has an outstanding receivables collection rate within the 95-98% range from water supply.** During the first half 2017, the collection rate for legal entities and households was 98% and 94%, respectively. As a result, GGU had GEL 4.9mln overdue receivables outstanding at 30 June 2017. While Georgian water utility sector 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 remained very strong at around the 96% level. In return, electricity suppliers receive flat monetary compensation from GGU (c.GEL 1.3mln p.a. since 2015)
- The decrease in costs of raw materials and asset maintenance discussed above were triggers for the 28.1% y-o-y and 7.8% q-o-q decrease in the cash paid to suppliers
- The significant increase in maintenance capex y-o-y in both 2Q17 and 1H17 (up 3.2% and 56.4%) reflects the acceleration of the infrastructure maintenance program starting from 3Q16 to improve the operational efficiencies. This program has already resulted in the decline of the number of accidents on the infrastructure and respective reduction of the level of necessary maintenance capex to support the day-to-day operations of the company in 2Q17. As a result, maintenance capex spent in 2Q17 is significantly lower than it was in 1Q17 (down 39.2% q-o-q). The increased operating cash flow after deducting maintenance capex of GEL 8.6mln in 2Q17 reflects this dynamic

BALANCE SHEET

GEL thousands; unless otherwise noted	**Jun-17**	**Jun-16**	**Change y-o-y**	**Mar-17**	**Change q-o-q**
Cash and cash equivalents	54,208	6,399	NMF	16,776	NMF
Trade and other receivables	28,271	25,551	10.6%	30,944	-8.6%
Inventories	3,299	4,429	-25.5%	3,108	6.1%
Current income tax prepayments	1,406	1,013	38.8%	998	40.9%
Total current assets	**87,184**	**37,392**	**133.2%**	**51,826**	**68.2%**
Property, plant and equipment	370,646	305,738	21.2%	349,967	5.9%
Investment Property	18,371	19,417	-5.4%	18,922	-2.9%
Intangible assets	1,324	1,216	8.9%	1,359	-2.6%
Restructured trade receivables	160	23	NMF	178	-10.1%
Restricted Cash	15,041	2,922	NMF	16,234	-7.3%
Other non-current assets	10,671	1,556	NMF	2,830	NMF
Total non-current assets	**416,213**	**330,872**	**25.8%**	**389,490**	**6.9%**
Total assets	**503,397**	**368,264**	**36.7%**	**441,316**	**14.1%**
Current borrowings	54,300	25,186	115.6%	22,566	140.6%
Trade and other payables	22,261	20,089	10.8%	28,391	-21.6%
Provisions for liabilities and charges	781	2,133	-63.4%	743	5.1%
Other taxes payable	2,396	2,045	17.2%	2,736	-12.4%
Total current liabilities	**79,738**	**49,453**	**61.2%**	**54,436**	**46.5%**
Long term borrowings	111,291	46,445	139.6%	91,534	21.6%
Deferred income tax liability	-	390	NMF	-	-
Deferred income	17,833	-	NMF	17,817	0.1%
Total non-current liabilities	**129,124**	**46,835**	**175.7%**	**109,351**	**18.1%**
Total liabilities	**208,862**	**96,288**	**116.9%**	**163,787**	**27.5%**
Share capital	13,062	3,900	NMF	8,262	58.1%
Additional paid-in-capital	846	-	NMF	-	NMF
Retained earnings	93,870	86,846	8.1%	85,384	9.9%
Revaluation reserve	180,924	180,040	0.5%	181,461	-0.3%
Total equity attributable to shareholders of the Group	**288,702**	**270,786**	**6.6%**	**275,107**	**4.9%**
Non-controlling interest	5,833	1,190	NMF	2,422	140.8%
Total equity	**294,535**	**271,976**	**8.3%**	**277,529**	**6.1%**
Total liabilities and equity	**503,397**	**368,264**	**36.7%**	**441,316**	**14.1%**

- The increase in property, plant and equipment is primarily due to additional investments into the company's infrastructure carried out during 2016 and 1H17 in order to upgrade the network and further reduce water losses and achieve cost efficiencies
- The increase in borrowings and cash and cash equivalents during 2Q17 are primarily due to additional financing obtained from local financial institutions and shareholders of GGU, which supported the additional investment in PPE
- During 2016, GGU made significant progress towards reducing its foreign-exchange exposure. In particular, the company refinanced a large part of its US dollar-denominated debt with Lari-denominated debt. Currently 87.9% of GGU's borrowings are denominated in local currency

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 3.4 billion. GHG is comprised of three different business lines: healthcare services business (consisting of a hospital business and Polyclinics (outpatient clinics)), pharmacy business and medical insurance business. BGEO Group owns 57.0% of GHG at 30 June 2017, with the balance of the shares being held by the public (largely institutional investors). GHG's results are fully consolidated in BGEO Group's results. GHG's shares are listed on the London Stock Exchange. The results below refer to GHG standalone numbers and are based on GHG's reported results, which are published independently and available on GHG's web-site: ghg.com.ge*

INCOME STATEMENT *GEL thousands; unless otherwise noted*	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Revenue, gross	**184,601**	**101,673**	**81.6%**	**186,447**	**-1.0%**	**371,048**	**174,249**	**112.9%**
Corrections & rebates	(660)	(724)	-8.8%	(623)	5.9%	(1,283)	(1,134)	13.1%
Revenue, net	**183,941**	**100,949**	**82.2%**	**185,824**	**-1.0%**	**369,765**	**173,115**	**113.6%**
Revenue from healthcare services	65,940	58,055	13.6%	65,725	0.3%	131,665	118,096	11.5%
Revenue from pharmacy	110,942	30,691	NMF	111,399	-0.4%	222,341	30,691	NMF
Net insurance premiums earned	13,410	15,298	-12.3%	13,965	-4.0%	27,375	29,128	-6.0%
Eliminations	(6,351)	(3,095)	105.2%	(5,265)	20.6%	(11,616)	(4,800)	142.0%
Costs of services	**(130,247)**	**(67,395)**	**93.3%**	**(129,746)**	**0.4%**	**(259,993)**	**(111,546)**	**133.1%**
Cost of healthcare services	(37,652)	(31,399)	19.9%	(37,777)	-0.3%	(75,429)	(64,397)	17.1%
Cost of pharmacy	(84,822)	(25,059)	NMF	(84,408)	0.5%	(169,230)	(25,059)	NMF
Cost of insurance services	(12,718)	(13,989)	-9.1%	(12,734)	-0.1%	(25,452)	(26,836)	-5.2%
Eliminations	4,945	3,052	62.0%	5,173	-4.4%	10,118	4,746	113.2%
Gross profit	**53,694**	**33,554**	**60.0%**	**56,078**	**-4.3%**	**109,772**	**61,569**	**78.3%**
Salaries and other employee benefits	(18,424)	(9,229)	99.6%	(17,728)	3.9%	(36,152)	(16,152)	123.8%
General and administrative expenses	(11,400)	(6,705)	70.0%	(13,352)	-14.6%	(24,752)	(9,268)	167.1%
Impairment of receivables	(1,003)	(1,236)	-18.9%	(1,121)	-10.5%	(2,124)	(2,216)	-4.2%
Other operating income	3,229	497	549.7%	1,182	173.2%	4,411	78	NMF
EBITDA	**26,096**	**16,882**	**54.6%**	**25,059**	**4.1%**	**51,155**	**34,011**	**50.4%**
Depreciation and amortisation	(6,481)	(4,581)	41.5%	(5,872)	10.4%	(12,353)	(9,046)	36.6%
Net interest expense	(7,828)	(3,469)	125.7%	(7,119)	10.0%	(14,947)	(5,125)	191.6%
Net gain/(loss) from foreign currencies	986	(1,964)	-150.2%	2,778	-64.5%	3,764	(2,224)	NMF
Net non-recurring income/(expense)	(1,478)	(586)	152.2%	(1,792)	NMF	(3,270)	(816)	NMF
Profit before income tax expense	**11,295**	**6,282**	**79.8%**	**13,054**	**-13.5%**	**24,349**	**16,800**	**44.9%**
Income tax (expense)/benefit	(88)	26,920	-100.3%	(19)	NMF	(107)	28,425	NMF
of which: Deferred tax adjustments	-	*27,113*		-		-	*29,311*	
Profit for the period	**11,207**	**33,202**	**-66.2%**	**13,035**	**-14.0%**	**24,242**	**45,225**	**-46.4%**
Attributable to:								
- shareholders of the Company	6,172	27,755	-77.8%	8,832	-30.1%	15,004	37,676	-60.2%
- non-controlling interests	5,035	5,447	-7.6%	4,203	19.8%	9,238	7,549	22.4%
of which: Deferred tax adjustments	-	*4,705*		-		-	*5,057*	

Performance highlights

- **GHG delivered strong revenue of GEL 184.6mln in 2Q17 (up 81.6% y-o-y and flat q-o-q) and GEL 371.0mln in 1H17 (up 112.9% y-o-y).** The y-o-y revenue growth in 2Q17 and 1H17 was mainly attributable to the pharmacy business (GPC and Pharmadepot acquired in and consolidated from May 2016 and January 2017, respectively). The healthcare services business was the second largest contributor to y-o-y revenue growth, with strong organic growth of 13.3% in 2Q17 and 11.5% in 1H17. The increase in healthcare and pharmacy business revenue was partially offset by y-o-y decline in net insurance premiums earned both in 2Q17 and 1H17, mainly attributable to the expiration of the loss-making contract with the Ministry of Defence of Georgia in January 2017
- **In 2Q17 and 1H17, GHG achieved a well-diversified revenue mix**, spread across all three segments of the Georgian healthcare ecosystem. In the first half of 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. This translated into c.55% of total revenue from out of pocket payments, c.23% from Georgia's Universal Health Program and c.22% from corporates in 1H17
- **In 2Q17, GHG continued to focus on extracting operating efficiencies and synergies across the business lines.** As anticipated, healthcare services business margins are temporarily reduced due to the launches of new healthcare facilities and services, which are currently in their rapid build-out phase**.** Starting from 2Q17, the gross margin for the healthcare services business started to rebound gradually (up by 40bps q-o-q), as a result of GHG's efforts towards increasing the utilisation of healthcare facilities through elective care services and realising further cost synergies - a trend that we expect to continue. The gross margin in the pharmacy business was temporarily reduced in April as a result of an increased cost of goods sold driven by the impact of previously purchased inventory at a higher foreign currency exchange rate. During May and June, such impact was realized and the gross margin returned to its normal level

- **GHG reported record EBITDA of GEL 26.1mln in 2Q17 (up 54.6% y-o-y and up 4.1% q-o-q) and GEL 51.2mln in 1H17 (up 50.4% y-o-y)**. The EBITDA margin for healthcare services business was 27.5% in 2Q17 (29.2% in 2Q16 and 25.3% in 1Q17) and 26.4% in 1H17 (29.3% in 1H16). Temporary y-o-y reduction in EBITDA margin in 2Q17 and 1H17 was due to the roll-outs explained above. The healthcare services EBITDA margin started to rebound gradually in 2Q17, with positive operating leverage at 11.4ppts q-o-q and GHG expects further margin increases going forward. The healthcare services business was the main contributor to GHG's EBITDA, contributing 70% and 69% in total EBITDA in 2Q17 and 1H17, respectively, followed by pharmacy business, contributing 34% in total EBITDA during both 2Q17 and 1H17. Pharmacy business EBITDA margin was 8.0% and 7.9% in 2Q17 and 1H17, respectively, up from 7.8% in 1Q17 and on track to deliver its goal of more than 8% EBITDA margin
- **GHG's profit totaled GEL 11.2mln in 2Q17 (up 39.2% y-o-y on a normalised[7] basis and down 14.0% q-o-q) and GEL 24.2mln in 1H17 (up 33.7% y-o-y on a normalised basis[7]).** The healthcare services business was the main driver of the 2Q17 profit, contributing GEL 7.9mln, followed by the pharmacy business, which contributed GEL 4.7mln. This profit was partially offset by the loss of GEL 1.5mln reported by the medical insurance business
- *Depreciation and amortisation*. GHG continued its sizeable development projects by actively investing in healthcare facilities as well as consolidating the pharmacy business entities, which was reflected in the 41.5% y-o-y and 36.6% y-o-y growth of depreciation and amortization in 2Q17 and 1H17, respectively. The 10.4% q-o-q increase in depreciation and amortization expense in 2Q17 is fully attributable to the launch of the Sunstone hospital in April 2017
- *Financing costs.* Increases in interest expense on y-o-y basis both in 2Q17 and 1H17 are due to three main factors: 1) *Lower base in 2016.* At the end of 2015 and the beginning of 2016, GHG prepaid local banks debt to utilise the available cash post-IPO, subsequently realising significant savings in interest expense throughout 2016. From the second quarter of 2016 and in 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 33.0mln from a local commercial bank to pay the first tranche of consideration payable for the Pharmadepot acquisition. The increased debt balance in 2Q17 and 1H17, has resulted in increased interest expense; and 3) Recognised interest expense of GEL 0.9mln, due to unwinding of a discount resulting from the remaining consideration payable (in the amount of US$13.0mln) to Pharmadepot's former selling shareholders as part of total purchase price, payment of which will be carried out over the next five years. Discounted present value accounting is an IFRS requirement and does not result in actual cash outflow on interest, although it is considered an inherent part of the final remaining consideration to be paid
- GHG's balance sheet increased substantially over the last twelve months, reaching GEL 1,065.5mln as at 30 June 2017 (up 30.9% y-o-y and flat q-o-q). The 30.9% 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, as a result of the two acquisitions completed in May 2016 and in January 2017. The pharmacy businesses consolidation primarily affected inventories and goodwill. Out of the GEL 107.2mln inventory balance at 30 June 2017, GEL 92.2mln was attributable to the pharmacy business, while balance of Goodwill from the acquisitions of the pharmacy businesses amounted to GEL 77.8mln at 30 June 2017. Borrowed funds increased y-o-y in 2Q17 and 1H17 as a result of the drivers noted above. The q-o-q reduction in borrowed funds in 2Q17 was due to maturity of local currency bonds. The y-o-y increase in accounts payable is also attributable to the pharmacy business. Out of the GEL 87.7mln accounts payable balance, GEL 58.0mln relates to the pharmacy business
- During 2Q17, GHG continued to invest in the development of the healthcare facilities. Healthcare services business spent a total of GEL 13.6mln on capital expenditures, primarily on the extensive renovations of Deka and Sunstone hospitals, as well as enhancing service mix and introducing new services to cater to previously unmet patient needs. Of this, maintenance capex was GEL 2.6mln
- In July 2017, healthcare service business acquired two community hospitals in the Khashuri and Qareli regions (together the "**Hospitals**"). The acquisition is in line with the healthcare services business strategy to expand its presence across the country, especially in underrepresented regions of Georgia. Following the acquisition of the Hospitals, the number of community hospitals increased to 22, with 555 beds in total. The Hospitals are located in the Khashuri and Qareli regions, with 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
- GHG's healthcare services market share by number of beds was 24.6% at 30 June 2017

[7] Comparison on a normalised basis – 2Q16 and 1H16 net profit was normalised and adjusted for one-off non-recurring gain due to deferred tax adjustments (in the amount of GEL 29.3mln, which fully resulted from the healthcare services business) and adjusted for one-off currency translation loss in June (in the amount of GEL 2.1mln), which resulted from settlement of the US dollar denominated payable for the acquisition of GPC

Real estate business (m^2 Real Estate or m^2)

Standalone results[8]

Our Real Estate business is operated through the Group's wholly-owned subsidiary m^2 Real Estate, which develops residential property in Georgia. m^2 Real Estate has historically outsourced the construction and architecture works, whilst itself focusing on project management and sales. In May 2017, m^2 Real Estate 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 Group's Real Estate business serves to meet the unsatisfied demand in Tbilisi for housing through its well-established branch network and sales force, while stimulating the Bank's mortgage lending business. The business has also recently begun hotel development in the under-developed mid-price sector.

INCOME STATEMENT[9] *GEL thousands, unless otherwise noted*	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Revenue from sale of apartments	15,926	5,335	NMF	18,399	-13.4%	34,325	33,327	NMF
Cost of sale of apartments	(15,076)	(4,667)	NMF	(17,109)	-11.9%	(32,185)	(26,766)	20.2%
Net revenue from sale of apartments	**850**	**668**	**NMF**	**1,290**	**-34.1%**	**2,140**	**6,561**	**NMF**
Revenue from operating leases	881	597	47.6%	899	-2.0%	1,780	1,186	50.1%
Cost of operating leases	(197)	(50)	NMF	(83)	137.3%	(280)	(97)	188.7%
Net revenue from operating leases	**684**	**547**	**25.0%**	**816**	**-16.2%**	**1,500**	**1,089**	**37.7%**
Revaluation of commercial property	21,306	-	NMF	479	NMF	21,785	-	NMF
Gross real estate profit	**22,840**	**1,215**	**NMF**	**2,585**	**NMF**	**25,425**	**7,650**	**NMF**
Gross other investment profit	47	(76)	-161.8%	11	NMF	58	12	NMF
Revenue	**22,887**	**1,139**	**NMF**	**2,596**	**NMF**	**25,483**	**7,662**	**NMF**
Salaries and other employee benefits	(504)	(336)	50.0%	(407)	23.8%	(911)	(633)	43.9%
Administrative expenses	(1,050)	(1,354)	-22.5%	(1,427)	-26.4%	(2,477)	(2,381)	4.0%
Operating expenses	**(1,554)**	**(1,690)**	**-8.0%**	**(1,834)**	**-15.3%**	**(3,388)**	**(3,014)**	**12.4%**
EBITDA	**21,333**	**(551)**	**NMF**	**762**	**NMF**	**22,095**	**4,648**	**NMF**
Depreciation and amortisation	(63)	(60)	5.0%	(66)	-4.5%	(129)	(113)	14.2%
Net foreign currency (loss) gain	(90)	636	-114.2%	(194)	-53.6%	(284)	1,022	-127.8%
Interest income	290	-	NMF	189	53.4%	479	-	NMF
Interest expense	(47)	(60)	-21.7%	(48)	-2.1%	(95)	(134)	-29.1%
Net operating income (loss) before non-recurring items	**21,423**	**(35)**	**NMF**	**643**	**NMF**	**22,066**	**5,423**	**NMF**
Net non-recurring items	193	228	-15.4%	(76)	NMF	117	205	-42.9%
Profit before income tax	**21,616**	**193**	**NMF**	**567**	**NMF**	**22,183**	**5,628**	**NMF**
Income tax (expense)	-	(29)	NMF	-	-	-	(844)	NMF
Profit	**21,616**	**164**	**NMF**	**567**	**NMF**	**22,183**	**4,784**	**NMF**

Performance highlights

- **During 2Q17 and 1H17 m^2 continued to unlock values through real estate development and recorded a strong gain from investment property revaluation of GEL 21.3mln. As a result, its portfolio of yielding assets, including the revaluation gain, increased by 70.0% and 61.7% to GEL 68.0mln at 30 June 2017 as compared to GEL 40.0mln at 30 June 2016 and GEL 42.0mln at 31 March 2017, respectively**
- Revaluation of commercial property increased materially in 2Q17 due to the revaluation of three under construction investment properties. m^2 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 2Q 2017, management reassessed the approach and concluded that given a) the recent transactions of under construction properties on the local market, b) management's track record in building and renting out commercial properties and c) availability of increased statistical information; that reliable measurement of fair value was warranted. Accordingly, management hired an independent, internationally recognised, valuation company to determine the fair values and recorded a GEL 21.3mln revaluation gain in 2Q17 and 1H17
- Net revenue from the sale of apartments is by its nature choppy 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 recognizing revenue. Accordingly, y-o-y comparisons are not meaningful and will not be commented upon. Net revenue from the sale of apartments in 2Q17 was down 34.1% q-o-q as a result of the decrease in inventory base
- Net revenue from operating leases increased by 37.7% in 1H17 y-o-y, supported by the growth in the commercial real estate portfolio. Consequently, the portfolio of yielding assets represented 20.6% of m^2 Real Estate's total assets at 30 June 2017, compared to 12.9% a year ago and 14.2% at 31 March 2017

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[8] Prior to 1Q17, m^2 Real Estate results presented were segment results, i.e. including Group elimination and consolidation adjustments. Effective 1Q17, and similar to other investment business entities, we are reporting stand-alone results for m^2 Real Estate

[9] The net revenue trend between the second quarter and first half of 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 recognized according to the percentage of completion method. Accordingly, we will not comment on y-o-y comparisons

- As a result, m^2 recognised a total revenue of GEL 22.9mln in 2Q17 (GEL 2.6mln in 1Q17) and net profit of GEL 21.6mln (GEL 0.6mln in 1Q17). Total revenue reached GEL 25.5mln in 1H17 and profit amounted to GEL 22.2mln during the same period
- **In 1H17, m^2 sold a total of 233 apartments with a total sales value of US$ 17.7mln, compared to 157 apartments sold with a total sales value of US$ 14.3mln during 1H16.** During 2Q17, m^2 sold a total of 90 apartments with a total sales value of US$ 7.6mln, compared to 104 apartments sold with the total sales value of US$ 8.8mln during 2Q16 and 143 apartments with a total sales value of US$ 10.1mln in 1Q17

BALANCE SHEET

GEL thousands, unless otherwise noted	**Jun-17**	**Jun-16**	**Change y-o-y**	**Mar-17**	**Change q-o-q**
Cash and cash equivalents	52,817	42,488	24.3%	48,636	8.6%
Amounts due from credit institutions	386	-	NMF	179	115.6%
Investment securities	2,979	2,359	26.3%	1,515	96.6%
Accounts receivable	6,517	530	NMF	6,130	6.3%
Prepayments	26,312	17,835	47.5%	17,842	47.5%
Inventories	68,822	119,821	-42.6%	83,922	-18.0%
Investment property, of which:	136,594	104,161	31.1%	110,831	23.2%
Land bank	*68,622*	*64,188*	*6.9%*	*68,789*	*-0.2%*
Commercial real estate	*67,972*	*39,973*	*70.0%*	*42,042*	*61.7%*
Property and equipment	14,486	1,594	NMF	9,110	59.0%
Other assets	20,604	22,008	-6.4%	17,557	17.4%
Total assets	**329,517**	**310,796**	**6.0%**	**295,722**	**11.4%**
Amounts due to credit institutions	56,723	36,052	57.3%	38,912	91.6%
Debt securities issued	60,268	47,484	26.9%	62,278	-6.4%
Accruals and deferred income	58,654	99,380	-41.0%	53,670	18.6%
Other liabilities	6,915	16,489	-58.1%	7,657	-19.4%
Total liabilities	**182,560**	**199,405**	**-8.4%**	**162,517**	**24.6%**
Share Capital	4,180	4,180	0.0%	4,180	0.0%
Additional paid-in capital	86,987	84,833	2.5%	86,227	1.8%
Other reserves	4,087	-	NMF	13,469	-139.4%
Retained earnings	51,703	22,378	131.0%	29,329	152.6%
Total equity	**146,957**	**111,391**	**21.1%**	**133,205**	**-0.8%**
Total liabilities and equity	**329,517**	**310,796**	**-1.5%**	**295,722**	**-41.2%**

- m^2 continued to have a strong, diversified and well managed balance sheet. At 30 June 2017, total assets were GEL 329.5mln (up 6.0% y-o-y and up 11.4% q-o-q), made up by 16.0% cash, 8.0% prepayments, 20.9% inventories (apartments in development), 41.5% investment property (land bank and commercial real estate), and 13.6% all other assets. Borrowings, which consist of debt raised from Development Financial Institutions ("**DFIs**") and debt securities issued in the local market, represent 35.5% of the total balance sheet. During 2Q17, m^2 drew down US$ 8mln (approximately GEL 20mln) from a DFI credit facility for its ongoing real estate project financing
- m^2 currently has a land bank with a total value of GEL 68.6mln 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

Operating highlights

The first half of 2017 was record breaking for m^2 with regards to the number of apartments and square meters sold. m^2 also took an important strategic step by acquiring BK Construction LLC. m^2 expects that the vertical integration brought by its new captive construction company will enable it to bring construction costs down and further improve the profitability. 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. The company is pleased that its existing income-generating properties are successfully leased at a 90% occupancy rate. m^2 continued its strong performance in construction with more than 180,000 square meters currently under construction across four ongoing projects, which are on schedule.

Construction work on the second m^2 hotel project in Tbilisi, to be operated under the Ramada brand, commenced in May 2017. As part of its expansion into the hospitality sector, during 2Q17 m^2 secured a prime location land plot in the historic city of Kutaisi, the second largest city in Georgia. Kutaisi operates an international airport, which has experienced double digit annual growth in the number of passengers since its reopening in 2012, leading to a shortage of available hotel rooms in the city. m^2 plans to develop a 120-room 3-star hotel under the Ramada Encore brand, on the land and has already engaged architects and engineers in order to start the design process.

In June 2017, m^2 completed the master-plan for its largest plot of land, located in the Digomi district of Tbilisi. m^2 plans to develop a mixed use project in stages over the next 5 years with more than 4,000 apartments, retail, school, kindergarten and offices. m^2 is currently in the process of submitting a master-plan to the city authorities for approval.

- **m^2 has started ten projects since its establishment in 2010, of which, six 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 on-going projects have the following characteristics:
  - **Kartozia Street project:** the largest ever project carried out by m^2, with a total of 819 apartments in a central location in Tbilisi, of which 418 units are sold
  - **Skyline project** - a luxury residential apartment building in Old Tbilisi neighbourhood with few apartments (19 in total, of which 10 are sold), with prices amounting to twice that of m^2 Real Estate's average prices charged on other projects
  - **Kazbegi Avenue II project -** a mixed-use development with 302 residential apartments and a hotel (m2 Real Estate 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 sales of 146 apartments to date
  - **50 Chavchavadze Avenue project -** the project is located in the central part of Tbilisi with a total of 82 apartments, of which 53 are sold
- **m^2 has a very good track record of selling apartments.** Out of the 1,672 apartments completed to date since inception, only 19 or 1.1% remain in stock as available for sale. The four ongoing projects, described above, have a total capacity of 1,222 apartments, of which 627 apartments or 51.3% are sold. Currently, a total of 614 units are available for sale, out of the total of 2,894 apartments either already developed or under development phase

OPERATING DATA
for completed and on-going projects, as of 30 June 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		**1,672**	**1,653**	**98.9%**	**19**			**100%**
1	Chubinashvili Street	123	123	100.0%	-	Sep-10	Aug-12	100%
2	Tamarashvili Street	525	523	100.0%	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 Avenue	238	225	94.5%	13	Sep-14	Jun-16	100%
On-going projects		**1,222**	**627**	**51.3%**	**595**			
7	Kartozia Street	819	418	51.0%	401	Nov-15	Oct-18	58%
8	Skyline	19	10	52.6%	9	Dec-15	Aug-17	95%
9	Kazbegi Street II	302	146	48.3%	156	Jun-16	Nov-18	25%
10	50 Chavchavadze Ave.	82	53	64.6%	29	Oct-16	Oct-18	30%
	Total	**2,894**	**2,280**	**78.8%**	**614**			

- Since its inception, m^2 Real Estate unlocked US$ 16.4mln in total land value from the six completed projects, while an additional US$ 16.5mln in land value is expected to be unlocked from the four ongoing projects

FINANCIAL DATA
for completed and on-going projects, as of 30 June 2017

#	Project name	Total Sales (US$ mln)	Recognised as revenue (US$ mln)	Deferred revenue (US$ mln)	Deferred revenue expected to be recognised as revenue in 2017	Land value unlocked (US$)	Realised & Expected IRR
Completed projects		**138.8**	**138.8**	**-**	**-**	**16.4**	
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 avenue	11.5	11.5	-	-	1.6	31%
On-going projects		**52.0**	**28.1**	**23.9**	**19.4**	**16.5**	
7	Kartozia Street	29.5	15.3	14.2	12.0	5.8	60%
8	Skyline	4.6	4.4	0.2	0.2	3.1	329%
9	Kazbegi Street II	12.3	5.2	7.0	4.9	4.3	51%
10	50 Chavchavadze ave.	5.7	3.2	2.5	2.3	3.3	75%
	Total	**190.9**	**167.0**	**23.9**	**19.4**	**32.9**	

The number of apartments financed with BOG mortgages in all m^2 projects reached 1,035 or GEL 123.6mln at 30 June 2017

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 37.3% based on gross premium written at 31 March 2017. The company offers a wide range of insurance products in Georgia to corporate and retail clients, covering more than 600,000 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, network of insurance agents, partner local banks and non–financial institutions (such as major car dealerships), insurance brokers and online portals.

Aldagi's P&C products principally include the following: a) motor insurance covering vehicle damage and third-party liability insurance services with 22,114 active clients and 37% market share, b) property insurance covering commercial property insurance, contractor's performance and damage risks with 14,129 active clients and 37% market share, c) credit life insurance covering loan-linked life insurance services with 557,144 active clients and 28% market share, d) liability insurance covering financial risks, employer's liability, professional indemnity, general third party liability, etc. with 1,813 active clients and 38% market share. Aldagi's other products include agro insurance, cargo insurance, livestock insurance, bankers blanket bond insurance, directors' and officers' liability insurance services with 13,541 active clients and 29% market share.

INCOME STATEMENT *GEL thousands, unless otherwise noted*	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Earned premiums, gross	20,900	16,859	24.0%	18,520	12.9%	39,420	32,393	21.7%
Earned premiums, net	**15,048**	**11,905**	**26.4%**	**14,436**	**4.2%**	**29,485**	**23,160**	**27.3%**
Insurance claims expenses, gross	(8,413)	(8,142)	3.3%	(10,700)	-21.4%	(19,112)	(14,278)	33.9%
Insurance claims expenses, net	**(5,906)**	**(3,740)**	**57.9%**	**(5,637)**	**4.8%**	**(11,543)**	**(7,946)**	**45.3%**
Acquisition costs, net	**(1,917)**	**(1,354)**	**41.6%**	**(1,677)**	**14.3%**	**(3,594)**	**(2,739)**	**31.2%**
Net underwriting profit	**7,225**	**6,811**	**6.1%**	**7,122**	**1.4%**	**14,348**	**12,475**	**15.0%**
Salaries and other employee benefits	(2,161)	(1,875)	15.3%	(1,978)	9.3%	(4,138)	(3,644)	13.6%
Selling, general administrative expenses	(664)	(684)	-2.9%	(893)	-25.6%	(1,557)	(1,408)	10.6%
Other operating income	21	127	-83.5%	212	-90.1%	233	251	-7.2%
Net Fee and commission income	113	104	8.7%	99	14.1%	212	203	4.4%
Impairment charges	(190)	(185)	2.7%	(242)	-21.5%	(432)	(358)	20.7%
Other operating expenses	(54)	(20)	170.0%	(52)	3.8%	(106)	(89)	19.1%
EBITDA	**4,290**	**4,278**	**0.3%**	**4,268**	**0.5%**	**8,560**	**7,430**	**15.2%**
Foreign exchange (loss)	(146)	(986)	-85.2%	(425)	-65.6%	(571)	(1,033)	-44.7%
Depreciation and amortization expenses	(241)	(175)	37.7%	(234)	3.0%	(475)	(383)	24.0%
Net interest income	598	770	-22.3%	767	-22.0%	1,365	1,495	-8.7%
Non-recurring income	51	77	-33.8%	11	NMF	62	88	-29.5%
Pre-tax profit	**4,552**	**3,964**	**14.8%**	**4,387**	**3.8%**	**8,941**	**7,597**	**17.7%**
Income tax expense	(713)	(1,009)	-29.3%	(638)	11.8%	(1,350)	(1,553)	-13.1%
Net profit	**3,839**	**2,955**	**29.9%**	**3,749**	**2.4%**	**7,591**	**6,044**	**25.6%**

Performance highlights

- **Aldagi recorded strong net underwriting profit in 2Q17(up 6.1% y-o-y and up 1.4% q-o-q) and in 1H17 (up 15.0% y-o-y) as a result of the following:**
  - **Net earned premiums.** The increases of 26.4% y-o-y and 4.2% q-o-q in 2Q17 and of 27.3% y-o-y in 1H17 were supported by organic growth of the motor insurance business line, approximately 36.0% of Aldagi's total insurance portfolio, which contributed an approximately 24.0% y-o-y increase in net premiums earned in 1H17. In addition, the property insurance and credit life insurance businesses, approximately 25.0% and 11.0% of total insurance portfolio, respectively, contributed approximately 10.0% and 21.0% 1H17 y-o-y increases, respectively, in net earned premiums through organic growth. New product introductions and enhancements of existing products described under Operating Highlights below resulted in a further increase to net premiums earned of 5.6% y-o-y in 1H17
  - **Net insurance claims.** Claims expenses were up 57.9% y-o-y and 4.8% q-o-q in 2Q17and up 45.3% y-o-y in 1H17. The y-o-y increases in net insurance claims expenses were primarily attributable to several separate property insurance claims following a major fire incident and increased loss severity in motor insurance in 1H17. The quarterly y-o-y increase in net insurance claims expenses is due to higher loss frequency experienced in motor claims due to heavy hailstorms in 2Q17. The increase in insurance claims expenses was also driven by shifting of the insurance portfolio to the retail segment, which is characterised by higher profit margin and slightly elevated loss ratio, compared to the corporate segment
  - **Net acquisition costs** were up 41.6% y-o-y and up 14.3% q-o-q in 2Q17 and up 31.2% y-o-y in 1H17, outpacing the increase in net earned premiums during respective periods. The primary trigger was the introduction of new insurance product lines in 2017, with higher average commission rates compared to average commission rates of insurance portfolio

- **Combined ratio** was 73.1% in 2Q17 (65.5% in 2Q16 and 72.1% in 1Q17) and 72.6% in 1H17 (69.6% in 1H16). The combined ratio remains healthy despite the incidents that increased losses in the first half 2017
- **Expense ratio** was 33.8% in 2Q17 (34.1% in 2Q16 and 33.0% in 1Q17) and 33.4% in 1H17 (35.3% in 1H16)
- **Loss ratio** was 39.2% in 2Q17 (31.4% in 2Q16 and 39.0% in 1Q17) and 39.1% in 1H17 (34.3% in 1H16)

- **Salaries and employee benefits** reached GEL 2.2mln in 2Q17 (up 15.3% y-o-y and up 9.3% q-o-q) and GEL 4.1mln in 1H17 (up 13.6% y-o-y) primarily as a result of the organic growth of the property and casualty insurance business and the related increase in headcount
- **Corporate income tax expense.** The y-o-y and q-o-q movements in income taxes reflect the impact of changes in the corporate taxation model
- **As a result of the developments described above, Aldagi's EBITDA reached GEL 4.3mln in 2Q17, flat y-o-y and q-o-q, and GEL 8.6mln in 1H17, up 15.2% y-o-y. Aldagi's net profit was GEL 3.8mln in 2Q17 (up 29.9% y-o-y and up 2.4% q-o-q) and GEL 7.6mln in 1H17 (up 25.6% y-o-y)**

BALANCE SHEET

GEL thousands, unless otherwise noted	Jun-17	Jun-16	Change y-o-y	Mar-17	Change q-o-q
Cash and cash equivalents	3,900	5,962	-34.6%	6,143	-36.5%
Amounts due from credit institutions	24,247	24,495	-1.0%	27,450	-11.7%
Investment securities: available-for-sale	4,551	3,128	45.5%	2,562	77.6%
Insurance premiums receivable, net	31,533	26,179	20.5%	21,812	44.6%
Ceded share of technical provisions	23,509	20,551	14.4%	14,998	56.7%
Property and equipment, net	9,177	8,572	7.1%	9,106	0.8%
Intangible assets, net	1,268	1,164	8.9%	1,331	-4.7%
Goodwill	13,051	13,051	-	13,051	-
Deferred acquisition costs	1,692	1,093	54.8%	1,658	2.1%
Pension fund assets	17,198	14,900	15.4%	16,721	2.9%
Other assets	5,467	4,534	20.6%	4,924	11.0%
Total assets	**135,593**	**123,629**	**9.7%**	**119,756**	**13.2%**
Gross technical provisions	55,016	51,368	7.1%	44,585	23.4%
Reinsurance premium payable	17,746	13,958	27.1%	8,224	115.8%
Salaries and other benefits payable	2,148	1,548	38.8%	4,197	-48.8%
Pension benefit obligations	17,198	14,900	15.4%	16,721	2.9%
Other Liabilities	3,025	2,629	15.1%	2,411	25.5%
Total liabilities	**95,133**	**84,403**	**12.7%**	**76,138**	**24.9%**
Share Capital	1,889	1,889	-	1,889	-
Additional paid-in capital	5,405	5,405	-	5,405	-
Revaluation and other reserves	422	359	17.5%	422	-
Retained earnings	25,153	25,529	-1.5%	32,153	-21.8%
Net profit	7,591	6,044	25.6%	3,749	102.5%
Total equity	**40,460**	**39,226**	**3.1%**	**43,618**	**-7.2%**
Total liabilities and equity	**135,593**	**123,629**	**9.7%**	**119,756**	**13.2%**

- Aldagi has a very strong balance sheet. As of 30 June 2017, total assets reached GEL 135.6mln. The growth in assets was largely driven by 20.5% y-o-y and 44.6% q-o-q increase in net insurance premiums receivable and 14.4% y-o-y and 56.7% q-o-q increase in ceded share of technical provisions. The latter is in line with the growth of Aldagi's net earned premiums during the respective periods
- Aldagi has paid dividends in the amount of GEL 14.1mln since 1H16, of which GEL 7.1mln was paid in 3Q16 and GEL 7.0mln in 2Q17
- 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 30 June 2017, Aldagi's solvency ratio was 155% as compared to 193% at 31 March 2017. The decrease was driven by the reduction in retained earnings as a result of the dividends paid in 2Q17

Operating Highlights

The first half of 2017 was very strong for Aldagi, as the company has already exceeded its annual targets for new product development. Through the introduction of livestock insurance via multi-channel distributions, Aldagi stepped into the previously underpenetrated regional markets of Georgia resulting in more than 9,000 insurance policies sold across the country. Aldagi's bond performance insurance and trip cancellation insurance products were also enhanced. Aldagi has a pipeline of additional exciting and innovative new products that we expect to launch in the coming months.

During 2Q17 Aldagi created a new department of Strategic Development under the CEO that combined product development, digital management and project management under one umbrella. The goal is to improve market intelligence through more direct communication and sharing about the Georgian insurance market's emerging demands. Aldagi targets solidifying its undisputed market leader position in the digital insurance over the next 5 years. Digitalisation of Aldagi's customer facing processes is a big part of this goal – the company is looking to have all its processes and procedures, including issuance of e-policies, remote claims regulation and building web/mobile customer profiles principally executed through digital channels. Aldagi is investing in the skills and expertise of its people and technical capacity to broaden its competitive advantages. In 2Q17, the total number of Aldagi's online agents reached 10,000, who are selling and promoting our retail insurance products through our unique web-portal onjob.ge, a digital platform that helps us attract customers.

The second quarter of 2017 was successful in getting one step closer to the introduction of Border Motor Third Party Liability Insurance (MTPL insurance for vehicles visiting Georgia either on a temporary or on transit basis). Through extensive cooperation with the Insurance State Supervision Service of Georgia (ISSSG), the insurance market regulator in Georgia, Border MTPL is in its final stages of approval by Parliament of Georgia and is expected to be effective from 1 January 2018. Approximately 1.8mln vehicles crossed the Georgian borders throughout 2016. Aldagi expects that MTPL insurance will increase the size of the existing property and casualty market by approximately GEL 30-50mln (15-25% of the existing P&C market). Aldagi is working closely with ISSSG to assist it in drafting a 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 company also believes that current low level of insurance market penetration of 1.1% in Georgia (of which 0.6% relates to for property and casualty insurance market penetration and 0.5% to medical insurance market) represents highly untapped retail growth potential.

- Based on the latest available market data as of 31 March 2017, Aldagi continues to be the most profitable insurance company in the local market with a 57.0% share of the insurance industry profit
- Aldagi continues to lead the market with a powerful distribution network of 211 points of sale and more than 687 sales agents as of 30 June 2017, compared to 214 points of sale and 454 sales agents as of 30 June 2016 and 212 point of sale and 589 sales agents as of 31 March 2017
- At 30 June 2017, Aldagi's portfolio included 606,403 insured customers, up 19.3% y-o-y and up 5.0% q-o-q. The increases were mainly driven by increase in motor insurance business line and introduction of new product lines in 2017. The number of new insurance policies written reached 265,984 in 2Q17 (212,836 and 200,436 new policies written in 2Q16 and 1Q17, respectively) and 466,420 in 1H17 (381,648 policies in 1H16)
- As discussed above, in 1H17 Aldagi shifted its focus to the retail market, which positively impacted the lapse ratio, i.e. the ratio of clients that fail to renew their insurance agreements at expiration to total contracts. The lapse ratio for retail clients decreased to 36.0% in 1H17 from 45.0% in 1H16, while corporate clients' lapse ratio was slightly up at 9.0% in 1H17 from 7.0% in 1H16

SELECTED FINANCIAL INFORMATION

INCOME STATEMENT (QUARTERLY)	BGEO Consolidated					Banking Business					Investment Business					Eliminations		
GEL thousands, unless otherwise noted	**2Q17**	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**	**2Q17**	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**	**2Q17**	**2Q16**	**Change y-o-y**	**1Q17**	**Change q-o-q**	**2Q17**	**2Q16**	**1Q17**
Banking interest income	271,006	215,568	25.7%	265,330	2.1%	272,946	216,867	25.9%	267,121	2.2%	-	-	-	-	-	(1,940)	(1,299)	(1,791)
Banking interest expense	(110,907)	(87,368)	26.9%	(104,995)	5.6%	(112,638)	(88,114)	27.8%	(106,241)	6.0%	-	-	-	-	-	1,731	746	1,246
Net banking interest income	**160,099**	**128,200**	**24.9%**	**160,335**	**-0.1%**	**160,308**	**128,753**	**24.5%**	**160,880**	**-0.4%**	-	-	-	-	-	**(209)**	**(553)**	**(545)**
Fee and commission income	45,359	40,139	13.0%	43,150	5.1%	45,903	40,605	13.0%	43,702	5.0%	-	-	-	-	-	(544)	(466)	(552)
Fee and commission expense	(14,332)	(10,900)	31.5%	(13,364)	7.2%	(14,501)	(11,081)	30.9%	(13,509)	7.3%	-	-	-	-	-	169	181	145
Net fee and commission income	**31,027**	**29,239**	**6.1%**	**29,786**	**4.2%**	**31,402**	**29,524**	**6.4%**	**30,193**	**4.0%**	-	-	-	-	-	**(375)**	**(285)**	**(407)**
Net banking foreign currency gain	19,282	16,492	**16.9%**	19,700	**-2.1%**	19,282	16,492	**16.9%**	19,700	**-2.1%**	-	-	-	-	-	-	-	-
Net other banking income	780	2,407	**-67.6%**	2,783	**-72.0%**	1,047	2,709	**-61.4%**	3,015	**-65.3%**	-	-	-	-	-	(267)	(302)	(232)
Net insurance premiums earned	23,518	23,854	-1.4%	25,795	-8.8%	-	-	-	-	-	24,110	24,732	-2.5%	26,357	-8.5%	(592)	(878)	(562)
Net insurance claims incurred	(14,100)	(15,445)	-8.7%	(15,572)	-9.5%	-	-	-	-	-	(14,100)	(15,445)	-8.7%	(15,572)	-9.5%	-	-	-
Gross insurance profit	**9,418**	**8,409**	**12.0%**	**10,223**	**-7.9%**	-	-	-	-	-	**10,010**	**9,287**	**7.8%**	**10,785**	**-7.2%**	**(592)**	**(878)**	**(562)**
Healthcare and pharmacy revenue	170,792	85,694	99.3%	172,131	-0.8%	-	-	-	-	-	170,792	85,694	99.3%	172,131	-0.8%	-	-	-
Cost of healthcare and pharmacy services	(119,459)	(54,862)	117.7%	(119,789)	-0.3%	-	-	-	-	-	(119,459)	(54,862)	117.7%	(119,789)	-0.3%	-	-	-
Gross healthcare and pharmacy profit	**51,333**	**30,832**	**66.5%**	**52,342**	**-1.9%**	-	-	-	-	-	**51,333**	**30,832**	**66.5%**	**52,342**	**-1.9%**	-	-	-
Real estate revenue	38,255	6,332	NMF	19,910	92.1%	-	-	-	-	-	38,490	6,332	NMF	20,166	90.9%	(235)	-	(256)
Cost of real estate	(15,576)	(3,905)	NMF	(17,192)	-9.4%	-	-	-	-	-	(15,576)	(3,905)	NMF	(17,192)	-9.4%	-	-	-
Gross real estate profit	**22,679**	**2,427**	**NMF**	**2,718**	**NMF**	-	-	-	-	-	**22,914**	**2,427**	**NMF**	**2,974**	**NMF**	**(235)**	-	**(256)**
Utility revenue	30,335	-	NMF	27,153	11.7%	-	-	-	-	-	30,432	-	NMF	27,236	11.7%	(97)	-	(83)
Cost of utility	(8,400)	-	NMF	(9,709)	-13.5%	-	-	-	-	-	(8,400)	-	NMF	(9,709)	-13.5%	-	-	-
Gross utility profit	**21,935**	**-**	**NMF**	**17,444**	**25.7%**	-	-	-	-	-	**22,032**	**-**	**NMF**	**17,527**	**25.7%**	**(97)**	**26**	**(83)**
Gross other investment profit	13,864	3,123	NMF	4,297	NMF	-	-	-	-	-	13,794	3,097	NMF	4,286	NMF	70	26	11
Revenue	**330,417**	**221,129**	**49.4%**	**299,628**	**10.3%**	**212,039**	**177,478**	**19.5%**	**213,788**	**-0.8%**	**120,083**	**45,643**	**163.1%**	**87,914**	**36.6%**	**(1,705)**	**(1,992)**	**(2,074)**
Salaries and other employee benefits	(74,450)	(50,875)	46.3%	(67,531)	10.2%	(47,507)	(38,972)	21.9%	(44,279)	7.3%	(27,683)	(12,520)	121.1%	(23,986)	15.4%	740	617	734
Administrative expenses	(42,575)	(27,865)	52.8%	(42,733)	-0.4%	(22,286)	(18,760)	18.8%	(22,519)	-1.0%	(20,853)	(9,791)	113.0%	(20,779)	0.4%	564	686	565
Banking depreciation and amortisation	(10,197)	(9,162)	11.3%	(9,525)	7.1%	(10,197)	(9,162)	11.3%	(9,525)	7.1%	-	-	-	-	-	-	-	-
Other operating expenses	(5,849)	(560)	NMF	(952)	NMF	(796)	(664)	19.9%	(730)	9.0%	(5,054)	104	NMF	(222)	NMF	1	-	-
Operating expenses	**(133,071)**	**(88,462)**	**50.4%**	**(120,741)**	**10.2%**	**(80,786)**	**(67,558)**	**19.6%**	**(77,053)**	**4.8%**	**(53,590)**	**(22,207)**	**141.3%**	**(44,987)**	**19.1%**	**1,305**	**1,303**	**1,299**
Operating income before cost of credit risk / EBITDA	**197,346**	**132,667**	**48.8%**	**178,887**	**10.3%**	**131,253**	**109,920**	**19.4%**	**136,735**	**-4.0%**	**66,493**	**23,436**	**183.7%**	**42,927**	**54.9%**	**(400)**	**(689)**	**(775)**
Profit from associates	606	1,952	-69.0%	514	17.9%	394	-	NMF	514	-23.3%	212	1,952	-89.1%	-	NMF	-	-	-
Depreciation and amortisation of investment business	(12,787)	(4,949)	158.4%	(11,470)	11.5%	-	-	-	-	-	(12,787)	(4,949)	158.4%	(11,470)	11.5%	-	-	-
Net foreign currency gain from investment business	(64)	(2,583)	-97.5%	6,529	NMF	-	-	-	-	-	(64)	(2,583)	-97.5%	6,529	NMF	-	-	-
Interest income from investment business	1,783	44	NMF	1,751	1.8%	-	-	-	-	-	3,513	790	NMF	2,997	17.2%	(1,730)	(746)	(1,246)
Interest expense from investment business	(13,385)	(2,498)	NMF	(10,307)	29.9%	-	-	-	-	-	(15,515)	(3,933)	NMF	(12,328)	25.9%	2,130	1,435	2,021
Operating income before cost of credit risk	**173,499**	**124,633**	**39.2%**	**165,904**	**4.6%**	**131,647**	**109,920**	**19.8%**	**137,249**	**-4.1%**	**41,852**	**14,713**	**184.5%**	**28,655**	**46.1%**	-	-	-
Impairment charge on loans to customers	(37,756)	(26,819)	40.8%	(41,341)	-8.7%	(37,756)	(26,819)	40.8%	(41,341)	-8.7%	-	-	-	-	-	-	-	-
Impairment charge on finance lease receivables	(67)	(130)	-48.5%	(139)	-51.8%	(67)	(130)	-48.5%	(139)	-51.8%	-	-	-	-	-	-	-	-
Impairment charge on other assets and provisions	(4,822)	(2,438)	97.8%	(7,765)	-37.9%	(2,193)	(1,016)	115.8%	(6,539)	-66.5%	(2,629)	(1,422)	84.9%	(1,226)	114.4%	-	-	-
Cost of credit risk	**(42,645)**	**(29,387)**	**45.1%**	**(49,245)**	**-13.4%**	**(40,016)**	**(27,965)**	**43.1%**	**(48,019)**	**-16.7%**	**(2,629)**	**(1,422)**	**84.9%**	**(1,226)**	**114.4%**	-	-	-
Profit before non-recurring items and income tax	**130,854**	**95,246**	**37.4%**	**116,659**	**12.2%**	**91,631**	**81,955**	**11.8%**	**89,230**	**2.7%**	**39,223**	**13,291**	**195.1%**	**27,429**	**43.0%**	-	-	-
Net non-recurring items	(2,708)	(48,745)	-94.4%	(3,371)	-19.7%	(1,017)	(46,351)	-97.8%	(1,695)	-40.0%	(1,691)	(2,394)	-29.4%	(1,676)	0.9%	-	-	-
Profit before income tax	**128,146**	**46,501**	**175.6%**	**113,288**	**13.1%**	**90,614**	**35,604**	**154.5%**	**87,535**	**3.5%**	**37,532**	**10,897**	**244.4%**	**25,753**	**45.7%**	-	-	-
Income tax (expense) benefit	(4,520)	64,735	NMF	(5,115)	-11.6%	(3,284)	36,148	NMF	(4,408)	-25.5%	(1,236)	28,587	NMF	(707)	74.8%	-	-	-
Profit	**123,626**	**111,236**	**11.1%**	**108,173**	**14.3%**	**87,330**	**71,752**	**21.7%**	**83,127**	**5.1%**	**36,296**	**39,484**	**-8.1%**	**25,046**	**44.9%**	-	-	-
Attributable to:																		
– shareholders of BGEO	117,176	94,641	*23.8%*	100,431	*16.7%*	86,961	70,646	*23.1%*	82,640	*5.2%*	30,215	23,995	*25.9%*	17,791	*69.8%*	-	-	-
– non-controlling interests	6,450	16,595	*-61.1%*	7,742	*-16.7%*	369	1,106	*-66.6%*	487	*-24.2%*	6,081	15,489	*-60.7%*	7,255	*-16.2%*	-	-	-
Earnings per share basic	**3.10**	**2.46**	**26.0%**	**2.64**	**17.4%**													
Earnings per share diluted	**2.97**	**2.46**	**20.7%**	**2.55**	**16.5%**													

INCOME STATEMENT (HALF YEAR)	BGEO Consolidated			Banking Business			Investment Business			Eliminations		
GEL thousands, unless otherwise noted	1H17	1H16	Change y-o-y	1H17	1H16	Change y-o-y	1H17	1H16	Change y-o-y	1H17	1H16	Change y-o-y
Banking interest income	536,337	440,037	21.9%	540,068	442,697	22.00%	-	-	-	(3,731)	(2,660)	40.3%
Banking interest expense	(215,903)	(183,325)	17.8%	(218,880)	(184,450)	18.70%	-	-	-	2,977	1,125	164.6%
Net banking interest income	**320,434**	**256,712**	**24.8%**	**321,188**	**258,247**	**24.4%**	**-**	**-**	**-**	**(754)**	**(1,535)**	**-50.9%**
Fee and commission income	88,508	78,177	13.2%	89,605	78,978	13.5%	-	-	-	(1,097)	(801)	37.0%
Fee and commission expense	(27,696)	(21,223)	30.5%	(28,011)	(21,561)	29.9%	-	-	-	315	338	-6.8%
Net fee and commission income	**60,812**	**56,954**	**6.8%**	**61,594**	**57,417**	**7.3%**	**-**	**-**	**-**	**(782)**	**(463)**	**68.9%**
Net banking foreign currency gain	**38,982**	**33,929**	**14.9%**	**38,982**	**33,929**	**14.9%**	-	-	-	-	-	-
Net other banking income	**3,563**	**5,140**	**-30.7%**	**4,063**	**5,878**	**-30.9%**	-	-	-	**(500)**	**(738)**	**-32.2%**
Net insurance premiums earned	49,314	45,678	8.0%	-	-	-	50,468	47,435	6.4%	(1,154)	(1,757)	-34.3%
Net insurance claims incurred	(29,673)	(30,853)	-3.8%	-	-	-	(29,673)	(30,853)	-3.8%	-	-	-
Gross insurance profit	**19,641**	**14,825**	**32.5%**	**-**	**-**	**-**	**20,795**	**16,582**	**25.4%**	**(1,154)**	**(1,757)**	**-34.3%**
Healthcare and pharmacy revenue	342,923	144,042	138.1%	-	-	-	342,923	144,042	138.1%	-	-	-
Cost of healthcare and pharmacy services	(239,248)	(86,919)	175.3%	-	-	-	(239,248)	(86,919)	175.3%	-	-	-
Gross healthcare and pharmacy profit	**103,675**	**57,123**	**81.5%**	**-**	**-**	**-**	**103,675**	**57,123**	**81.5%**	**-**	**-**	**-**
Real estate revenue	58,166	35,104	65.7%	-	-	-	58,657	35,104	67.1%	(491)	-	NMF
Cost of real estate	(32,768)	(26,691)	22.8%	-	-	-	(32,768)	(26,691)	22.8%	-	-	-
Gross real estate profit	**25,398**	**8,413**	**NMF**	**-**	**-**	**-**	**25,889**	**8,413**	**NMF**	**(491)**	**-**	**NMF**
Utility revenue	57,488	-	NMF	-	-	-	57,668	-	NMF	(180)	-	NMF
Cost of utility	(18,109)	-	NMF	-	-	-	(18,109)	-	NMF	-	-	-
Gross utility profit	**39,379**	**-**	**NMF**	**-**	**-**	**-**	**39,559**	**-**	**NMF**	**(180)**	**-**	**NMF**
Gross other investment profit	18,161	6,952	161.2%	-	-	-	18,079	6,996	158.4%	82	(44)	NMF
Revenue	**630,045**	**440,048**	**43.2%**	**425,827**	**355,471**	**19.8%**	**207,997**	**89,114**	**133.4%**	**(3,779)**	**(4,537)**	**-16.7%**
Salaries and other employee benefits	(141,982)	(98,288)	44.5%	(91,786)	(77,012)	19.2%	(51,671)	(22,499)	129.7%	1,475	1,223	20.6%
Administrative expenses	(85,308)	(52,882)	61.3%	(44,805)	(38,506)	16.4%	(41,632)	(15,829)	163.0%	1,129	1,453	-22.3%
Banking depreciation and amortisation	(19,722)	(18,092)	9.0%	(19,722)	(18,092)	9.0%	-	-	-	-	-	-
Other operating expenses	(6,800)	(2,233)	NMF	(1,527)	(1,475)	3.5%	(5,273)	(758)	NMF	-	-	-
Operating expenses	**(253,812)**	**(171,495)**	**48.0%**	**(157,840)**	**(135,085)**	**16.8%**	**(98,576)**	**(39,086)**	**152.2%**	**2,604**	**2,676**	**-2.7%**
Operating income before cost of credit risk / EBITDA	**376,233**	**268,553**	**40.1%**	**267,987**	**220,386**	**21.6%**	**109,421**	**50,028**	**118.7%**	**(1,175)**	**(1,861)**	**-36.9%**
Profit from associates	1,120	3,818	-70.7%	909	-	NMF	211	3,818	-94.5%	-	-	-
Depreciation and amortisation of investment business	(24,257)	(10,068)	140.9%	-	-	-	(24,257)	(10,068)	140.9%	-	-	-
Net foreign currency gain from investment business	6,465	(3,396)	NMF	-	-	-	6,465	(3,396)	NMF	-	-	-
Interest income from investment business	3,535	1,341	163.6%	-	-	-	6,512	2,433	167.7%	(2,977)	(1,092)	172.6%
Interest expense from investment business	(23,694)	(3,879)	NMF	-	-	-	(27,846)	(6,832)	NMF	4,152	2,953	40.6%
Operating income before cost of credit risk	**339,402**	**256,369**	**32.4%**	**268,896**	**220,386**	**22.0%**	**70,506**	**35,983**	**95.9%**	**-**	**-**	**-**
Impairment charge on loans to customers	(79,097)	(59,036)	34.0%	(79,097)	(59,036)	34.0%	-	-	-	-	-	-
Impairment charge on finance lease receivables	(207)	(643)	-67.8%	(207)	(643)	-67.8%	-	-	-	-	-	-
Impairment charge on other assets and provisions	(12,584)	(5,851)	115.1%	(8,732)	(3,126)	179.3%	(3,852)	(2,725)	41.4%	-	-	-
Cost of credit risk	**(91,888)**	**(65,530)**	**40.2%**	**(88,036)**	**(62,805)**	**40.2%**	**(3,852)**	**(2,725)**	**41.4%**	**-**	**-**	**-**
Profit before non-recurring items and income tax	**247,514**	**190,839**	**29.7%**	**180,860**	**157,581**	**14.8%**	**66,654**	**33,258**	**100.4%**	**-**	**-**	**-**
Net non-recurring items	(6,080)	(47,379)	-87.2%	(2,711)	(47,769)	-94.3%	(3,369)	390	NMF	-	-	-
Profit before income tax	**241,434**	**143,460**	**68.3%**	**178,149**	**109,812**	**62.2%**	**63,285**	**33,648**	**88.1%**	**-**	**-**	**-**
Income tax (expense) benefit	(9,635)	54,824	NMF	(7,692)	28,514	NMF	(1,943)	26,310	NMF	-	-	-
Profit	**231,799**	**198,284**	**16.9%**	**170,457**	**138,326**	**23.2%**	**61,342**	**59,958**	**2.3%**	**-**	**-**	**-**
Attributable to:												
– shareholders of BGEO	*217,607*	*175,478*	*24.0%*	*169,601*	*136,177*	*24.5%*	*48,006*	*39,301*	*22.1%*	-	-	-
– non-controlling interests	*14,192*	*22,806*	*-37.8%*	*856*	*2,149*	*-60.2%*	*13,336*	*20,657*	*-35.4%*	-	-	-
Earnings per share basic	**5.74**	**4.57**	**25.6%**									
Earnings per share diluted	**5.51**	**4.57**	**20.6%**									

BALANCE SHEET	**BGEO Consolidated**					**Banking Business**					**Investment Business**					**Eliminations**		
GEL thousands, unless otherwise noted	**Jun-17**	**Jun-16**	**Change y-o-y**	**Mar-17**	**Change q-o-q**	**Jun-17**	**Jun-16**	**Change y-o-y**	**Mar-17**	**Change q-o-q**	**Jun-17**	**Jun-16**	**Change y-o-y**	**Mar-17**	**Change q-o-q**	**Jun-17**	**Jun-16**	**Mar-17**
Cash and cash equivalents	1,454,387	1,059,359	37.3%	1,285,483	13.1%	1,401,728	1,033,832	35.6%	1,198,302	17.0%	349,166	251,557	38.8%	359,628	-2.9%	(296,507)	(226,030)	(272,447)
Amounts due from credit institutions	1,090,259	876,655	24.4%	1,090,111	0.0%	976,811	861,753	13.4%	970,653	0.6%	152,634	53,444	185.6%	174,248	-12.4%	(39,186)	(38,542)	(54,790)
Investment securities	1,398,097	989,331	41.3%	1,231,332	13.5%	1,396,832	986,996	41.5%	1,229,431	13.6%	47,625	3,749	1170.3%	3,350	1321.6%	(46,360)	(1,414)	(1,449)
Loans to customers and finance lease receivables	6,517,773	5,469,120	19.2%	6,408,711	1.7%	6,579,996	5,507,414	19.5%	6,470,771	1.7%	-	-	-	-	-	(62,223)	(38,294)	(62,060)
Accounts receivable and other loans	155,463	89,162	74.4%	143,417	8.4%	4,050	3,731	8.5%	3,106	30.4%	152,309	87,201	74.7%	140,488	8.4%	(896)	(1,770)	(177)
Insurance premiums receivable	59,658	58,667	1.7%	51,595	15.6%	-	-	-	-	-	60,188	59,711	0.8%	53,256	13.0%	(530)	(1,044)	(1,661)
Prepayments	98,073	103,842	-5.6%	101,297	-3.2%	26,623	21,568	23.4%	27,356	-2.7%	71,701	82,274	-12.9%	74,167	-3.3%	(251)	-	(226)
Inventories	204,433	178,534	14.5%	205,132	-0.3%	9,374	9,010	4.0%	9,185	2.1%	195,059	169,524	15.1%	195,947	-0.5%	-	-	-
Investment property	306,140	245,849	24.5%	285,996	7.0%	162,538	138,546	17.3%	154,618	5.1%	147,937	107,303	37.9%	131,378	12.6%	(4,335)	-	-
Property and equipment	1,453,730	852,680	70.5%	1,388,938	4.7%	336,909	327,441	2.9%	333,388	1.1%	1,112,486	525,239	111.8%	1,055,550	5.4%	4,335	-	-
Goodwill	159,569	106,134	50.3%	157,824	1.1%	33,453	33,453	0.0%	33,453	0.0%	126,116	72,681	73.5%	124,371	1.4%	-	-	-
Intangible assets	77,150	49,617	55.5%	63,121	22.2%	52,347	37,150	40.9%	42,520	23.1%	24,803	12,467	98.9%	20,601	20.4%	-	-	-
Income tax assets	6,453	26,585	-75.7%	11,277	-42.8%	1,333	18,836	-92.9%	6,986	-80.9%	5,120	7,749	-33.9%	4,291	19.3%	-	-	-
Other assets	190,555	217,688	-12.5%	182,290	4.5%	112,474	96,882	16.1%	107,801	4.3%	83,663	124,172	-32.6%	79,974	4.6%	(5,582)	(3,366)	(5,485)
Total assets	**13,171,740**	**10,323,223**	**27.6%**	**12,606,524**	**4.5%**	**11,094,468**	**9,076,612**	**22.2%**	**10,587,570**	**4.8%**	**2,528,807**	**1,557,071**	**62.4%**	**2,417,249**	**4.6%**	**(451,535)**	**(310,460)**	**(398,295)**
Client deposits and notes	5,319,398	4,554,012	16.8%	5,294,462	0.5%	5,655,341	4,820,169	17.3%	5,622,023	0.6%	-	-	-	-	-	(335,943)	(266,157)	(327,561)
Amounts due to credit institutions	3,077,869	1,892,437	62.6%	3,133,422	-1.8%	2,602,303	1,766,999	47.3%	2,662,909	-2.3%	538,534	163,730	228.9%	532,573	1.1%	(62,968)	(38,292)	(62,060)
Debt securities issued	1,582,431	1,065,516	48.5%	1,157,082	36.8%	1,312,990	990,370	32.6%	827,025	58.8%	319,033	79,136	303.1%	335,773	-5.0%	(49,592)	(3,990)	(5,716)
Accruals and deferred income	141,801	137,967	2.8%	131,372	7.9%	28,639	11,547	148.0%	26,110	9.7%	113,162	126,431	-10.5%	105,262	7.5%	-	(11)	-
Insurance contracts liabilities	81,446	80,643	1.0%	71,620	13.7%	-	-	-	-	-	81,446	80,643	1.0%	71,620	13.7%	-	-	-
Income tax liabilities	12,930	44,510	-71.0%	17,228	-24.9%	11,363	42,814	-73.5%	15,566	-27.0%	1,567	1,696	-7.6%	1,662	-5.7%	-	-	-
Other liabilities	412,467	338,757	21.8%	348,585	18.3%	38,364	88,832	-56.8%	45,032	-14.8%	377,135	251,935	49.7%	306,511	23.0%	(3,032)	(2,010)	(2,958)
Total liabilities	**10,628,342**	**8,113,842**	**31.0%**	**10,153,771**	**4.7%**	**9,649,000**	**7,720,731**	**25.0%**	**9,198,665**	**4.9%**	**1,430,877**	**703,571**	**103.4%**	**1,353,401**	**5.7%**	**(451,535)**	**(310,460)**	**(398,295)**
Share capital	1,152	1,154	-0.2%	1,153	-0.1%	1,152	1,154	-0.2%	1,153	-0.1%	-	-	-	-	-	-	-	-
Additional paid-in capital	140,480	228,679	-38.6%	177,793	-21.0%	-	88,253	-100.0%	38,474	-100.0%	140,480	140,426	0.0%	139,319	0.8%	-	-	-
Treasury shares	(51)	(35)	45.7%	(40)	27.5%	(51)	(35)	45.7%	(40)	27.5%	-	-	-	-	-	-	-	-
Other reserves	143,308	88,226	62.4%	84,162	70.3%	(24,983)	(9,907)	152.2%	(27,452)	-9.0%	168,291	98,133	71.5%	111,614	50.8%	-	-	-
Retained earnings	1,964,893	1,652,868	18.9%	1,945,830	1.0%	1,462,965	1,256,852	16.4%	1,370,631	6.7%	501,928	396,016	26.7%	575,199	-12.7%	-	-	-
Total equity attributable to shareholders of the Group	**2,249,782**	**1,970,892**	**14.2%**	**2,208,898**	**1.9%**	**1,439,083**	**1,336,317**	**7.7%**	**1,382,766**	**4.1%**	**810,699**	**634,575**	**27.8%**	**826,132**	**-1.9%**	**-**	**-**	**-**
Non-controlling interests	293,616	238,489	23.1%	243,855	20.4%	6,385	19,564	-67.4%	6,139	4.0%	287,231	218,925	31.2%	237,716	20.8%	-	-	-
Total equity	**2,543,398**	**2,209,381**	**15.1%**	**2,452,753**	**3.7%**	**1,445,468**	**1,355,881**	**6.6%**	**1,388,905**	**4.1%**	**1,097,930**	**853,500**	**28.6%**	**1,063,848**	**3.2%**	**-**	**-**	**-**
Total liabilities and equity	**13,171,740**	**10,323,223**	**27.6%**	**12,606,524**	**4.5%**	**11,094,468**	**9,076,612**	**22.2%**	**10,587,570**	**4.8%**	**2,528,807**	**1,557,071**	**62.4%**	**2,417,249**	**4.6%**	**(451,535)**	**(310,460)**	**(398,295)**
Book value per share	**59.75**	**51.46**	**16.1%**	**58.00**	**3.0%**													

BELARUSKY NARODNY BANK (BNB)

INCOME STATEMENT, HIGHLIGHTS *GEL thousands, unless otherwise stated*	2Q17	2Q16	Change y-o-y	1Q17	Change q-o-q	1H17	1H16	Change y-o-y
Net banking interest income	7,946	6,997	13.6%	8,702	-8.7%	16,647	14,900	11.7%
Net fee and commission income	2,278	1,868	21.9%	2,350	-3.1%	4,627	3,730	24.0%
Net banking foreign currency gain	2,818	2,100	34.2%	1,798	56.7%	4,616	4,581	0.8%
Net other banking income	155	80	93.8%	109	42.2%	266	247	7.7%
Revenue	**13,197**	**11,045**	**19.5%**	**12,959**	**1.8%**	**26,156**	**23,458**	**11.5%**
Operating expenses	(7,233)	(4,950)	46.1%	(6,400)	13.0%	(13,634)	(9,440)	44.4%
Operating income before cost of credit risk	**5,964**	**6,095**	**-2.1%**	**6,559**	**-9.1%**	**12,522**	**14,018**	**-10.7%**
Cost of credit risk	(3,241)	(1,075)	NMF	(5,634)	-42.5%	(8,874)	(3,592)	147.0%
Net non-recurring items	2	(8)	NMF	(57)	NMF	(55)	(10)	NMF
Profit before income tax	**2,725**	**5,012**	**-45.6%**	**868**	**NMF**	**3,593**	**10,416**	**-65.5%**
Income tax expense	(455)	(4,845)	-90.6%	(199)	128.6%	(654)	(5,990)	-89.1%
Profit	**2,270**	**167**	**NMF**	**669**	**NMF**	**2,939**	**4,426**	**-33.6%**

BALANCE SHEET, HIGHLIGHTS *GEL thousands, unless otherwise stated*	Jun-17	Jun-16	Change y-o-y	Mar-17	Change q-o-q
Cash and cash equivalents	61,709	75,561	-18.3%	66,619	-7.4%
Amounts due from credit institutions	4,154	3,366	23.4%	3,981	4.3%
Investment securities	99,333	16,986	484.8%	95,758	3.7%
Loans to customers and finance lease receivables	369,647	310,546	19.0%	335,538	10.2%
Other assets	29,240	26,050	12.2%	30,969	-5.6%
Total assets	**564,083**	**432,509**	**30.4%**	**532,865**	**5.9%**
Client deposits and notes	263,681	202,382	30.3%	235,877	11.8%
Amounts due to credit institutions	195,466	141,577	38.1%	193,494	1.0%
Debt securities issued	28,334	15,416	83.8%	25,512	11.1%
Other liabilities	4,730	6,070	-22.1%	5,254	-10.0%
Total liabilities	**492,211**	**365,445**	**34.7%**	**460,137**	**7.0%**
Total equity attributable to shareholders of the Group	**71,872**	**53,810**	**33.6%**	**72,728**	**-1.2%**
Non-controlling interests	-	13,254	-100.0%	-	-
Total equity	**71,872**	**67,064**	**7.2%**	**72,728**	**-1.2%**
Total liabilities and equity	**564,083**	**432,509**	**30.4%**	**532,865**	**5.9%**

BANKING BUSINESS KEY RATIOS	2Q17	2Q16	1Q17	Jun-17	Jun-16
Profitability					
ROAA, Annualised	3.2%	3.3%	3.1%	3.1%	3.1%
ROAE, Annualised	23.5%	22.3%	23.1%	23.4%	21.4%
RB ROAE	*26.5%*	*29.2%*	*27.2%*	*26.9%*	*26.6%*
CIB ROAE	*20.0%*	*17.2%*	*18.3%*	*19.1%*	*17.4%*
Net Interest Margin, Annualised	7.3%	7.5%	7.4%	7.3%	7.5%
RB NIM	*8.6%*	*9.1%*	*8.8%*	*8.7%*	*9.2%*
CIB NIM	*3.3%*	*3.7%*	*3.4%*	*3.3%*	*3.7%*
Loan Yield, Annualised	14.3%	14.1%	14.0%	14.1%	14.3%
RB Loan Yield	*16.4%*	*16.9%*	*15.9%*	*16.1%*	*17.2%*
CIB Loan Yield	*10.6%*	*10.0%*	*10.7%*	*10.6%*	*10.2%*
Liquid Assets Yield, Annualised	3.4%	3.3%	3.3%	3.3%	3.2%
Cost of Funds, Annualised	4.8%	4.8%	4.6%	4.7%	4.9%
Cost of Client Deposits and Notes, Annualised	3.6%	4.0%	3.5%	3.5%	4.2%
RB Cost of Client Deposits and Notes	*3.0%*	*3.4%*	*3.0%*	*3.0%*	*3.5%*
CIB Cost of Client Deposits and Notes	*4.2%*	*4.2%*	*3.9%*	*4.0%*	*4.4%*
Cost of Amounts Due to Credit Institutions, Annualised	6.6%	5.9%	6.3%	6.4%	5.9%
Cost of Debt Securities Issued	7.1%	7.0%	6.0%	6.5%	7.1%
Operating Leverage, Y-O-Y	-0.1%	-6.5%	6.0%	2.9%	-5.0%
Operating Leverage, Q-O-Q	-5.7%	-0.3%	3.4%	0.0%	0.0%
Efficiency					
Cost / Income	38.1%	38.1%	36.0%	37.1%	38.0%
RB Cost / Income	*38.8%*	*39.9%*	*37.6%*	*38.2%*	*41.6%*
CIB Cost / Income	*32.8%*	*31.8%*	*30.1%*	*31.4%*	*29.3%*
Liquidity					
NBG Liquidity Ratio	44.1%	43.5%	37.4%	44.1%	43.5%
Liquid Assets To Total Liabilities	39.1%	37.3%	36.9%	39.1%	37.3%
Net Loans To Client Deposits and Notes	116.4%	114.3%	115.1%	116.4%	114.3%
Net Loans To Client Deposits and Notes + DFIs	97.6%	95.3%	95.6%	97.6%	95.3%
Leverage (Times)	6.7	5.7	6.6	6.7	5.7
Asset Quality:					
NPLs (in GEL)	304,320	251,383	311,940	304,320	251,383
NPLs To Gross Loans To Clients	4.4%	4.4%	4.6%	4.4%	4.4%
NPL Coverage Ratio	90.2%	85.8%	87.1%	90.2%	85.8%
NPL Coverage Ratio, Adjusted for discounted value of collateral	131.5%	129.7%	126.9%	131.5%	129.7%
Cost of Risk, Annualised	2.2%	2.0%	2.4%	2.3%	2.1%
RB Cost of Risk	*3.1%*	*2.3%*	*3.4%*	*3.2%*	*2.4%*
CIB Cost of Risk	*0.5%*	*1.5%*	*0.3%*	*0.4%*	*1.8%*
Capital Adequacy:					
NBG (Basel 2/3) Tier I Capital Adequacy Ratio	10.6%	10.2%	10.1%	10.6%	10.2%
NBG (Basel 2/3) Total Capital Adequacy Ratio	15.6%	15.5%	15.2%	15.6%	15.5%
Selected Operating Data:					
Total Assets Per FTE, BOG Standalone	1,640	1,499	1,603	1,640	1,499
Number Of Active Branches, Of Which:	280	273	279	280	273
- Express Branches (including Metro)	*138*	*119*	*130*	*138*	*119*
- Bank of Georgia Branches	*131*	*144*	*138*	*131*	*144*
- Solo Lounges	*11*	*10*	*11*	*11*	*10*
Number Of ATMs	827	763	813	827	763
Number Of Cards Outstanding, Of Which:	2,117,652	1,946,828	2,099,488	2,117,652	1,946,828
- Debit cards	*1,342,214*	*1,152,319*	*1,307,135*	*1,342,214*	*1,152,319*
- Credit cards	*775,438*	*794,509*	*792,353*	*775,438*	*794,509*
Number Of POS Terminals	11,303	9,044	10,774	11,303	9,044
FX Rates:					
GEL/US$ exchange rate (period-end)	2.4072	2.3423	2.4452		
GEL/GBP exchange rate (period-end)	3.1192	3.1394	3.0418		

	Jun-17	Jun-16	Mar-17
Full Time Employees, Group, Of Which:	24,823	18,045	24,091
Total Banking Business Companies, of which:	6,764	6,056	6,605
- Full Time Employees, BOG Standalone	*5,297*	*4,693*	*5,183*
- Full Time Employees, BNB	*649*	*574*	*622*
- Full Time Employees, BB other	*818*	*789*	*800*
Total Investment Business Companies, of which:	18,059	11,989	17,486
- Full Time Employees, Georgia Healthcare Group	*14,677*	*11,481*	*14,510*
- Full Time Employees, Aldagi	*291*	*276*	*293*
- Full Time Employees, GGU	*2,428*	*-*	*2,373*
- Full Time Employees, m2	*81*	*60*	*84*
- Full Time Employees, IB Other	*582*	*172*	*226*

Shares Outstanding	Jun-17	Jun-16	Mar-17
Ordinary Shares Outstanding	37,652,034	38,299,053	38,085,220
Treasury Shares Outstanding	1,760,286	1,201,267	1,384,100
Total Shares Outstanding	39,412,320	39,500,320	39,469,320

Principal risks and uncertainties

Understanding our risks

The table below describes the principal risks and uncertainties faced by the Group and their potential impact, as well the trends and outlook associated with these risks and the mitigating actions we take to address these risks. If any of the following risks actually occur, the Group's business, financial condition, results of operations or prospects could be materially affected. The risks and uncertainties described below may not be the only ones the Group faces. Additional risks and uncertainties, including those that the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities.

CURRENCY AND MACROECONOMIC ENVIRONMENT	
PRINCIPAL RISK / UNCERTAINTY	**Depreciation of Lari against the US dollar and macroeconomic factors relating to Georgia may have a material impact on our loan book.**
KEY DRIVERS / TRENDS	Lari depreciated against the US dollar by 10% in 2016, while appreciated by 9% in the first half of 2017. The volatility of Lari against the US 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 loan book and mortgage portfolio are heavily dollar-denominated and many of our customers' earnings are denominated in Lari. The creditworthiness of our customers may be adversely affected by the depreciation, which could result in them having difficulty repaying their loans. The depreciation of Lari may also adversely affect the value of our customers' collateral. Our Banking Business cost of credit risk increased by 40.2% in the first half 2017 compared to the first half 2016. Macroeconomic factors relating to Georgia, such as GDP, inflation and interest rates, may have a material impact on loan losses, our margins and customer demand for our products and services. Real GDP growth in Georgia increased to 4.5% in the first half of 2017 from the modest 2.7% growth in 2016 and 2.9% in 2015, according to Geostat. Georgia's economy has remained resilient despite the external shock related to low world commodity prices, which have affected the economy negatively since the end of 2014 through reduced exports and remittances. Inflation remains contained.
MITIGATION	The Asset and Liability Management Committee sets our open currency position limits and the Bank's proprietary trading position limits, which are currently more conservative than those imposed by the National Bank of Georgia (NBG), our regulator. The Treasury Department manages our open currency position on a day-to-day basis. The open currency position is also monitored by the Quantitative Risk Management and Risk Analytics Department. In order to assess the creditworthiness of our customers, we take into account currency volatility when there is a currency mismatch between the customer's loan and revenue. We allocate 75% additional capital to the foreign currency loans of clients, whose source of income is denominated Lari and discount real estate collateral values by 20%. Terms of our foreign currency loans are shorter. 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. 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 30 June 2017 our Lari-denominated loan book increased by 59.1% y-o-y and by 11.6% q-o-q , while our foreign currency-denominated loan book increased by 4.3% y-o-y and decreased by 3.3% q-o-q. The trend was supported by the Georgian government's "de-dollarisation" initiatives: a) a one-off program, effective from 15 January 2017 until 25 March 2017, allowing

	qualified borrowers to convert eligible US 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 thousand (equivalent).
CORPORATE LOAN PORTFOLIO EXPOSURE	
PRINCIPAL RISK / UNCERTAINTY	**Our corporate banking loan portfolio is smaller than our target retail/corporate mix and remains concentrated. It is also subject to cyclicality of certain economic sectors. This exposes us to increased cost of credit risk and impairment charges, if a single large borrower defaults or a material concentration of smaller borrowers default.**
KEY DRIVERS / TRENDS	As at 30 June 2017, corporate loans accounted for 33.9% of total gross loans and loans to our ten largest borrowers represented 11.1% of total gross loans. Our corporate loan portfolio is also exposed to certain cyclical economic sectors, such as trade of consumer durables (retail trade of cars), construction and real estate development, as well as to certain commodities, such as gold and ammonium nitrate.
MITIGATION	We are continuing to implement our strategy to reduce the size of and de-concentrate our corporate loan portfolio and will continue to do so until our targets are met. At the same time, we are also taking various steps to reduce our credit risk. Corporate loans accounted for 45% of total gross loans as at 31 December 2015 and reduced to 39% and 33.9% of total gross loans as at 31 December 2016 and 30 June 2017, respectively. Loans to our ten largest borrowers represented 12.7% of total gross loans as at 31 December 2015 and reduced to 11.8% one year later, with a further reduction to 11.1% as at 30 June 2017. We aim to further reduce the proportion of our loans to our top ten borrowers to 10%. In order to reduce our credit risk, we: • reduce our large guarantee exposures in the construction sector; • increase our collateral from our top borrowers; • securitise our corporate loans; • manage the issuance of Lari-denominated bonds by our large corporate borrowers; and • maintain well-diversified loan book sector concentration. Our Credit Committees continuously perform credit quality reviews in order to provide early identification of possible changes in the creditworthiness of our customers, potential losses and corrective actions needed to reduce our risk.
REGIONAL TENSIONS	
PRINCIPAL RISK / UNCERTAINTY	**The Georgian economy and our business may be adversely affected by regional tensions.** Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories, Abkhazia and the Tskhinvali Region/South Ossetia. Countries within the region, including Azerbaijan, Armenia, Russia and Turkey are key trading partners of Georgia. 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	Russia imposed economic sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed Georgian borders and recognised the independence of Abkhazia and the Tskhinvali Region/South Ossetia regions. Russian troops continue to occupy the 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 the countries. The Government has taken certain steps towards improving relations with Russia, but, as of the date of this Announcement, these have not resulted in any formal or legal changes in the relationship between the two countries. The crisis in Ukraine began in late 2013 and is still ongoing, directly and adversely affecting the economies of both Ukraine and Russia. Sanctions by the United States against Russia continue and

	there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. In late 2015, relations between Russia and Turkey deteriorated after an airspace dispute close to the Syria-Turkey border, after which Russia imposed strict sanctions on Turkey. In 2016, the relationship between the two countries began to improve, with Russia partially lifting the economic sanctions it had imposed. Tension between the countries renewed following the use of chemical weapons in Syria. Russia repealed other sanctions on Turkey in March 2017, although certain sanctions and legal limitations on Turkish nationals remain. Relations between the countries remain uncertain. 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. The implementation of the proposed 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 actions plans are also developed. One of the most significant changes in the Georgian export market was a shift away from the Russian market after Russia's 2006 embargo. Despite tensions in the breakaway territories, Russia has continued to open its export market to Georgian exports since 2013. While lower global commodity prices and macroeconomic factors have affected Georgia's regional trading partners, leading to lower exports within the region, Georgia has benefited from increased exports earnings from non-traditional markets such as Switzerland, China, Egypt, Saudi Arabia, South Korea and Singapore. 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 the first half of 2017, Georgia delivered real GDP growth of 4.5%, whilst inflation was well contained at 7.1% at the end of first half 2017. Foreign direct investment continued to be solid and tourist arrivals, a significant driver of dollar inflows for the country, continued to increase. Tax revenues increased 14.2% y-o-y and were above the budgeted figure for the first half of 2017. The Georgian Government's fiscal position continues to be strong.
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, wine and beverages. Many of these industries are highly regulated. The regulatory environment continues to evolve. We, however, cannot predict what additional regulatory changes will be introduced in the future or the impact they may have on our operations.
KEY DRIVERS / TRENDS	Our banking operations must comply with capital adequacy and other regulatory ratios set by our regulator, the NBG, including reserve requirements and mandatory financial ratios. Our ability to comply with existing or amended NBG requirements may be affected by a number of factors, including those outside of our control, such as our ability to raise capital, losses resulting from deterioration in our asset quality as well as weakening of the global and Georgian economies. Each of our Investment Businesses is subject to different regulators and regulation. Legislation in certain industries such as healthcare and energy and utilities are continuously evolving. Different changes, including but not limited to Governmental funding, licensing and accreditation requirements and tariff structures may adversely affect our businesses.
MITIGATION	Continued investment in our people and processes is enabling us to meet our current regulatory requirements and means that we are well placed to respond to any future changes in regulation. In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as

	required to fulfil our compliance obligations. Our compliance framework, at all levels, is subject to regular review by internal audit and external assurance providers.
CYBER SECURITY, INFORMATION SYSTEMS AND FINANCIAL CRIME	
PRINCIPAL RISK / UNCERTAINTY	**We are at risk of experiencing cyber-security breaches, unauthorised access to our systems and financial crime, which could disrupt our customer services, result in financial loss, have legal or regulatory implications and/or affect our reputation.** We are highly dependent on the proper functioning of our risk management, internal controls and systems, including those related to IT and information security in order to manage these threats.
KEY DRIVERS / TRENDS	Cyber-security threats have increased y-o-y and during the first half of 2017 we saw a number of major organisations subject to cyber-attacks. Fortunately, our operations have not been affected. The external threat profile is continuously changing and threats continue to increase. Over the past few years, as our operations have expanded, we have seen an increase in electronic crimes, including fraud, although losses have not increased significantly. Money laundering has also increased globally in recent years.
MITIGATION	We have an integrated control framework encompassing operational risk management and control, IT and information security and Anti-Money Laundering (AML) compliance, each of which is managed by a separate department. We identify and assess operational risk categories within our risk management framework and internal control processes, identifying critical risk areas or groups of operations with an increased risk level. In response to these risks, we develop and implement policies and security procedures to mitigate these risks. We have security controls in place including policies, procedures and security technologies. We also regularly carry out IT and information security checks internally and with the assistance of external consultants. We have sophisticated anti-virus protection and firewalls to deny the execution of potentially malicious software. We have increased our internal and external penetration testing and have back-up disaster recovery and business continuity plans in place across the Group. Access control and password protections have been improved through the implementation of "Privileged Access Monitoring" for employees with the highest privileged access to confidential and customer data. We continue to invest in technology to enhance our ability to prevent, detect and respond to increasing and evolving threats. Our Internal Audit function provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems in place. These types of operational risk are on the regular agenda for the Audit Committee and are also frequently discussed at the Board level.
INVESTMENT BUSINESS STRATEGY	
PRINCIPAL RISK / UNCERTAINTY	**Our Investment Businesses may underperform and other factors beyond our control may affect our ability to divest them in line with our strategy.** Our Investment Businesses have growth and expansion strategies and we face execution risk in implementing these strategies. Our Investment Business Strategy is to divest an Investment Business (in full or partially) within six years in order to unlock the value for our shareholders. In order for an Investment Business to be divestment ready, targets in respect of EBITDA margin, revenue growth, market share, IRR and capital return must be achieved and the business must be led by strong management and have a culture of good corporate governance among other things. With respect to future divestments by way of a stock market listing or trade sale, we face potential exit risks, as it may not be possible, or desirable, to divest our other investment businesses in line with our strategy due to a number of factors, including supportive equity issuance markets, the ability to achieve favourable terms for an IPO or trade sale (as the case may be) and/or the political and macroeconomic environment.
KEY DRIVERS / TRENDS	We have a solid track record of growth. The Group's market capitalisation has grown from GBP 380mln in 2012 when we listed on the London Stock Exchange, to over GBP 1.4bln in June 2017.

	We successfully completed the IPO of our healthcare business, GHG, through a premium listing on the London Stock Exchange in 2015. GHG has grown its revenue from GEL 119.4mln in 2012 to GEL 426.4mln in 2016 and GEL 371.0mln in the first half of 2017. It has also doubled its market capitalisation since listing. m2 Real Estate, our real estate subsidiary and currently the major real estate developer in Georgia, started its first residential development in 2010. Since then, m2 Real Estate has recorded total sales of US$ 190.9mln and has completed six residential projects with 99% of apartments sold and has four ongoing projects, with 51% apartments pre-sold. In July 2016, we completed the acquisition of the remaining 75% equity stake in GGU. Our beverages business, Teliani, finished the construction of a beer production facility in 2016 and acquired a ten-year exclusive license to sell Heineken in Georgia, Armenia and Azerbaijan. Our P&C business, Aldagi, is a leading player in the Georgian P&C insurance market, with a market share of 37.3% based on gross premiums earned at 31 March 2017. Our investment businesses are aiming to deliver solid further growth through organic growth as well as potential acquisitions.
MITIGATION	The Group has a strong track record of growth and has accessed the capital markets on multiple occasions. Our acquisition history has also been successful and we have been able to integrate businesses due to strong management with integration experience. For each business, we focus on building a strong management team and have successfully been able to do so thus far. Management succession planning is a regular agenda for the Nomination Committee and the Board as whole. We closely monitor the implementation of strategy, financial and operational performance, risk management and internal control framework and corporate governance structure of our businesses. We hold management accountable for meeting targets. For each industry in which we operate, we closely monitor industry trends, market conditions and regulatory environment. We have also sought and continue to seek advice from experienced global professionals in our industries. 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. The Board 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 believes the demerger will benefit the two businesses in the following areas: business flexibility, pursuing growth opportunities, regulatory clarity and flexibility, efficient capital structure, improvement management focus, alignment of incentives and investor clarity and understanding.

Responsibility Statements

We confirm that to the best of our knowledge:

- The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”, as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- This Results Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- This Results Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties’ transactions and changes therein)

After making enquiries, the Directors considered it appropriate to adopt the going concern basis in preparing this Results Report.

By order of the board

Neil Janin
Chairman

Irakli Gilauri
Chief Executive Officer

15 August 2017

Interim Condensed Consolidated Financial Statements

CONTENTS

INDEPENDENT REVIEW REPORT

SELECTED EXPLANATORY NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT REVIEW REPORT TO BGEO GROUP PLC (the "Company")

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2017, which comprises the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Income Statement, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 23. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
15 August 2017

Notes:

1. The maintenance and integrity of the BGEO Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(Thousands of Georgian Lari)

	Notes	*As at 30 June 2017 (unaudited)*				*As at 31 December 2016*			
		Banking Business	Investment Business	Elimi-nations	Total	Banking Business	Investment Business	Elimi-nations	Total
Assets									
Cash and cash equivalents	6	1,401,728	349,166	(296,507)	1,454,387	1,480,783	401,969	(309,142)	1,573,610
Amounts due from credit institutions	7	976,811	152,634	(39,186)	1,090,259	940,485	178,425	(63,927)	1,054,983
Investment securities	8	1,396,832	47,625	(46,360)	1,398,097	1,283,903	3,672	(1,572)	1,286,003
Loans to customers and finance lease receivables	9	6,579,996	-	(62,223)	6,517,773	6,681,672	-	(33,190)	6,648,482
Accounts receivable and other loans		4,050	152,309	(896)	155,463	55,377	125,962	(52,833)	128,506
Insurance premiums receivable		-	60,188	(530)	59,658	-	48,390	(1,967)	46,423
Prepayments		26,623	71,701	(251)	98,073	18,716	58,161	(600)	76,277
Inventories		9,374	195,059	-	204,433	8,809	179,535	-	188,344
Investment properties	10	162,538	147,937	(4,335)	306,140	152,597	135,630	-	288,227
Property and equipment		336,909	1,112,486	4,335	1,453,730	330,303	993,567	-	1,323,870
Goodwill		33,453	126,116	-	159,569	33,453	73,533	-	106,986
Intangible assets		52,347	24,803	-	77,150	39,941	18,966	-	58,907
Income tax assets		1,333	5,120	-	6,453	19,325	4,718	-	24,043
Other assets		112,474	83,663	(5,582)	190,555	111,510	86,302	(13,020)	184,792
Total assets		**11,094,468**	**2,528,807**	**(451,535)**	**13,171,740**	**11,156,874**	**2,308,830**	**(476,251)**	**12,989,453**
Liabilities									
Client deposits and notes	11	5,655,341	-	(335,943)	5,319,398	5,755,767	-	(373,069)	5,382,698
Amounts owed to credit institutions	12	2,602,303	538,534	(62,968)	3,077,869	3,067,651	435,630	(33,190)	3,470,091
Debt securities issued	13	1,312,990	319,033	(49,592)	1,582,431	858,036	404,450	(6,843)	1,255,643
Accruals and deferred income		28,639	113,162	-	141,801	21,778	161,893	(53,352)	130,319
Insurance contract liabilities		-	81,446	-	81,446	-	67,871	-	67,871
Income tax liabilities		11,363	1,567	-	12,930	22,601	5,190	-	27,791
Other liabilities		38,364	377,135	(3,032)	412,467	45,095	196,324	(9,797)	231,622
Total liabilities		**9,649,000**	**1,430,877**	**(451,535)**	**10,628,342**	**9,770,928**	**1,271,358**	**(476,251)**	**10,566,035**

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2017

(Thousands of Georgian Lari)

	Notes	30 June 2017 (unaudited)				31 December 2016			
		Banking Business	Investment Business	Elimi-nations	Total	Banking Business	Investment Business	Elimi-nations	Total
Equity	14								
Share capital		1,152	-	-	1,152	1,154	-	-	1,154
Additional paid-in capital		-	140,480	-	140,480	45,072	138,800	-	183,872
Treasury shares		(51)	-	-	(51)	(54)	-	-	(54)
Other reserves		(24,983)	168,291	-	143,308	(31,538)	133,807	-	102,269
Retained earnings		1,462,965	501,928	-	1,964,893	1,350,632	528,313	-	1,878,945
Total equity attributable to shareholders of BGEO		**1,439,083**	**810,699**	**-**	**2,249,782**	**1,365,266**	**800,920**	**-**	**2,166,186**
Non-controlling interests		6,385	287,231	-	293,616	20,680	236,552	-	257,232
Total equity		**1,445,468**	**1,097,930**	**-**	**2,543,398**	**1,385,946**	**1,037,472**	**-**	**2,423,418**
Total liabilities and equity		**11,094,468**	**2,528,807**	**(451,535)**	**13,171,740**	**11,156,874**	**2,308,830**	**(476,251)**	**12,989,453**

The financial statements on page 47 to 83 were approved by the Board of Directors on 15 August 2017 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer

15 August 2017

BGEO Group PLC

Registered No. 07811410

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2017 (unaudited) Banking Business	Investment Business	Elimi-nations	Total	30 June 2016 (unaudited) Banking Business	Investment Business	Elimi-nations	Total
Banking interest income		540,068	-	(3,731)	536,337	442,697	-	(2,660)	440,037
Banking interest expense		(218,880)	-	2,977	(215,903)	(184,450)	-	1,125	(183,325)
Net banking interest income	16	**321,188**	**-**	**(754)**	**320,434**	**258,247**	**-**	**(1,535)**	**256,712**
Fee and commission income		89,605	-	(1,097)	88,508	78,978	-	(801)	78,177
Fee and commission expense		(28,011)	-	315	(27,696)	(21,561)	-	338	(21,223)
Net fee and commission income	17	**61,594**	**-**	**(782)**	**60,812**	**57,417**	**-**	**(463)**	**56,954**
Net banking foreign currency gain		38,982	-	-	38,982	33,929	-	-	33,929
Net other banking income		4,063	-	(500)	3,563	5,878	-	(738)	5,140
Net insurance premiums earned		-	50,468	(1,154)	49,314	-	47,435	(1,757)	45,678
Net insurance claims incurred		-	(29,673)	-	(29,673)	-	(30,853)	-	(30,853)
Gross insurance profit		**-**	**20,795**	**(1,154)**	**19,641**	**-**	**16,582**	**(1,757)**	**14,825**
Healthcare and pharma revenue		-	342,923	-	342,923	-	144,042	-	144,042
Cost of healthcare and pharma services		-	(239,248)	-	(239,248)	-	(86,919)	-	(86,919)
Gross healthcare and pharma profit		**-**	**103,675**	**-**	**103,675**	**-**	**57,123**	**-**	**57,123**
Real estate revenue		-	58,657	(491)	58,166	-	35,104	-	35,104
Cost of real estate		-	(32,768)	-	(32,768)	-	(26,691)	-	(26,691)
Gross real estate profit		**-**	**25,889**	**(491)**	**25,398**	**-**	**8,413**	**-**	**8,413**
Utility revenue		-	57,668	(180)	57,488	-	-	-	-
Cost of utility		-	(18,109)	-	(18,109)	-	-	-	-
Gross utility profit		**-**	**39,559**	**(180)**	**39,379**	**-**	**-**	**-**	**-**
Gross other investment profit		-	18,079	82	18,161	-	6,996	(44)	6,952
Revenue		**425,827**	**207,997**	**(3,779)**	**630,045**	**355,471**	**89,114**	**(4,537)**	**440,048**
Salaries and other employee benefits		(91,786)	(51,671)	1,475	(141,982)	(77,012)	(22,499)	1,223	(98,288)
Administrative expenses		(44,805)	(41,632)	1,129	(85,308)	(38,506)	(15,829)	1,453	(52,882)
Banking depreciation and amortisation		(19,722)	-	-	(19,722)	(18,092)	-	-	(18,092)
Other operating expenses		(1,527)	(5,273)	-	(6,800)	(1,475)	(758)	-	(2,233)
Operating expenses		**(157,840)**	**(98,576)**	**2,604**	**(253,812)**	**(135,085)**	**(39,086)**	**2,676**	**(171,495)**
Operating income before cost of credit risk / EBITDA		**267,987**	**109,421**	**(1,175)**	**376,233**	**220,386**	**50,028**	**(1,861)**	**268,553**

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 June 2017

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2017 (unaudited) Banking Business	Investment Business	Elimi-nations	Total	30 June 2016 (unaudited) Banking Business	Investment Business	Elimi-nations	Total
Operating income before cost of credit risk / EBITDA		**267,987**	**109,421**	**(1,175)**	**376,233**	**220,386**	**50,028**	**(1,861)**	**268,553**
Profit from associates		909	211	-	1,120	-	3,818	-	3,818
Depreciation and amortization of investment business		-	(24,257)	-	(24,257)	-	(10,068)	-	(10,068)
Net foreign currency gain (loss) from investment business		-	6,465	-	6,465	-	(3,396)	-	(3,396)
Interest income from investment business	16	-	6,512	(2,977)	3,535	-	2,433	(1,092)	1,341
Interest expense from investment business	16	-	(27,846)	4,152	(23,694)	-	(6,832)	2,953	(3,879)
Operating income before cost of credit risk		**268,896**	**70,506**	**-**	**339,402**	**220,386**	**35,983**	**-**	**256,369**
Impairment charge on loans to customers	9	(79,097)	-	-	(79,097)	(59,036)	-	-	(59,036)
Impairment charge on finance lease receivables		(207)	-	-	(207)	(643)	-	-	(643)
Impairment charge on other assets and provisions		(8,732)	(3,852)	-	(12,584)	(3,126)	(2,725)	-	(5,851)
Cost of credit risk		**(88,036)**	**(3,852)**	**-**	**(91,888)**	**(62,805)**	**(2,725)**	**-**	**(65,530)**
Profit before non-recurring items and income tax		**180,860**	**66,654**	**-**	**247,514**	**157,581**	**33,258**	**-**	**190,839**
Net non-recurring items	18	(2,711)	(3,369)	-	(6,080)	(47,769)	390	-	(47,379)
Profit before income tax (expense) benefit		**178,149**	**63,285**	**-**	**241,434**	**109,812**	**33,648**	**-**	**143,460**
Income tax (expense) benefit		(7,692)	(1,943)	-	(9,635)	28,514	26,310	-	54,824
Profit for the period		**170,457**	**61,342**	**-**	**231,799**	**138,326**	**59,958**	**-**	**198,284**
Attributable to:									
– shareholders of BGEO		169,601	48,006	-	217,607	136,177	39,301	-	175,478
– non-controlling interests		856	13,336	-	14,192	2,149	20,657	-	22,806
		170,457	**61,342**	**-**	**231,799**	**138,326**	**59,958**	**-**	**198,284**
Earnings per share:	14								
– basic earnings per share					5.7353				4.5685
– diluted earnings per share					5.5084				4.5685

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

(Thousands of Georgian Lari)

	For the six months ended	
	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Profit for the period	**231,799**	**198,284**
Other comprehensive (loss) income		
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:		
– Unrealized revaluation of available-for-sale securities	514	56,935
– Realised gain on available-for-sale securities reclassified to the consolidated income statement	(1,974)	(205)
– Loss from currency translation differences	(26,628)	(4,487)
Income tax effect	28	(7,394)
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods	**(28,060)**	**44,849**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Income tax effect related to revaluation of property and equipment	-	4,323
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-**	**4,323**
Other comprehensive (loss) income for the period, net of tax	**(28,060)**	**49,172**
Total comprehensive income for the period	**203,739**	**247,456**
Attributable to:		
– shareholders of BGEO	190,640	225,491
– non-controlling interests	13,099	21,965
	203,739	**247,456**

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(Thousands of Georgian Lari)

	Attributable to shareholders of BGEO							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2015	**1,154**	**240,593**	**(44)**	**32,844**	**1,577,050**	**1,851,597**	**222,041**	**2,073,638**
Profit for the six months ended 30 June 2016 (unaudited)	-	-	-	-	175,478	175,478	22,806	198,284
Other comprehensive gain (loss) for the for the six months ended 30 June 2016 (unaudited)	-	-	-	54,864	(4,851)	50,013	(841)	49,172
Total comprehensive income for the six months ended 30 June 2016 (unaudited)	**-**	**-**	**-**	**54,864**	**170,627**	**225,491**	**21,965**	**247,456**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(226)	226	-	-	-
Increase in equity arising from share-based payments	-	10,164	19	-	-	10,183	992	11,175
Dividends to shareholders of BGEO (Note 14)	-	-	-	-	(95,035)	(95,035)	-	(95,035)
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	(461)	(461)
Dilution of interests in subsidiaries	-	-	-	(1,764)	-	(1,764)	(310)	(2,074)
Acquisition and sale of non-controlling interests in existing subsidiaries	-	-	-	2,508	-	2,508	(5,738)	(3,230)
Purchase of treasury shares	-	(22,078)	(10)	-	-	(22,088)	-	(22,088)
30 June 2016 (unaudited)	**1,154**	**228,679**	**(35)**	**88,226**	**1,652,868**	**1,970,892**	**238,489**	**2,209,381**
31 December 2016	**1,154**	**183,872**	**(54)**	**102,269**	**1,878,945**	**2,166,186**	**257,232**	**2,423,418**
Effect of early adoption of IFRS 15 (Note 3)	-	-	-	-	(27,624)	(27,624)	-	(27,624)
1 January 2017	**1,154**	**183,872**	**(54)**	**102,269**	**1,851,321**	**2,138,562**	**257,232**	**2,395,794**
Profit for the six months ended 30 June 2017 (unaudited)	-	-	-	-	217,607	217,607	14,192	231,799
Other comprehensive loss for the for the six months ended 30 June 2017 (unaudited)	-	-	-	(24,004)	(2,963)	(26,967)	(1,093)	(28,060)
Total comprehensive income for the six months ended 30 June 2017 (unaudited)	**-**	**-**	**-**	**(24,004)**	**214,644**	**190,640**	**13,099**	**203,739**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(429)	429	-	-	-
Increase in equity arising from share-based payments	-	24,632	16	-	-	24,648	1,140	25,788
Buyback and cancelation of own shares (Note 14)	(2)	(9,247)	-	-	-	(9,249)	-	(9,249)
Dividends to shareholders of BGEO (Note 14)	-	-	-	-	(101,501)	(101,501)	-	(101,501)
Dilution of interests in subsidiaries	-	-	-	(220)	-	(220)	1,358	1,138
Increase in share capital of subsidiaries	-	-	-	-	-	-	11,855	11,855
Sale of interests in existing subsidiaries*	-	-	-	70,331	-	70,331	38,234	108,565
Acquisition of non-controlling interests in existing subsidiaries (Note 4, 14)	-	-	-	(4,639)	-	(4,639)	(54,045)	(58,684)
Non-controlling interests arising on acquisition of a subsidiary	-	-	-	-	-	-	24,743	24,743
Purchase of treasury shares	-	(58,777)	(13)	-	-	(58,790)	-	(58,790)
30 June 2017 (unaudited)	**1,152**	**140,480**	**(51)**	**143,308**	**1,964,893**	**2,249,782**	**293,616**	**2,543,398**

* ***The Group sold approximately 7% equity interests in Georgia Healthcare Group PLC, its healthcare subsidiary, without losing the control.***

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2017 (unaudited)	30 June 2016 (unaudited)
Cash flows from (used in) operating activities			
Interest received		536,425	430,282
Interest paid		(237,223)	(188,327)
Fee and commissions received		93,808	78,438
Fee and commissions paid		(27,972)	(21,279)
Insurance premiums received		43,167	40,559
Insurance claims paid		(20,162)	(26,467)
Healthcare and pharma revenue received		327,213	100,893
Cost of healthcare and pharma services paid		(251,468)	(80,613)
Utility revenue received		60,314	-
Cost of utility services paid		(24,461)	-
Net cash inflow (outflow) from real estate		24,528	(16,151)
Net realised gain from trading securities		-	812
Net realised gain from investment securities available-for-sale		-	205
Net realised gain from foreign currencies		30,730	29,918
Recoveries of loans to customers previously written off	9	21,196	17,892
Other income received		1,471	2,101
Salaries and other employee benefits paid		(120,060)	(92,233)
General and administrative and operating expenses paid		(100,290)	(45,666)
Cash flows from operating activities before changes in operating assets and liabilities		**357,216**	**230,364**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		(120,198)	(145,291)
Loans to customers and finance lease receivables		(536,346)	(212,635)
Prepayments and other assets		(43,657)	52,543
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(220,845)	82,624
Debt securities issued		407,129	30,692
Amounts due to customers		332,935	(195,816)
Other liabilities		(18,633)	1,730
Net cash flows from (used in) operating activities before income tax		**157,601**	**(155,789)**
Income tax paid		(3,033)	(21,520)
Net cash flows from (used in) operating activities		**154,568**	**(177,309)**
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	4	(35,599)	(24,714)
Payment of remaining holdback amounts from previous year acquisitions		(5,295)	(38,006)
Net purchase of investment securities available-for-sale		(111,442)	(23,480)
Realized loss from trading securities		(183)	-
Proceeds from sale of investment properties	10	7,011	4,745
Purchase and construction of investment properties	10	(9,452)	(12,116)
Proceeds from sale of property and equipment and intangible assets		2,781	3,200
Purchase of property and equipment and intangible assets		(172,396)	(78,467)
Net cash flows used in investing activities		**(324,575)**	**(168,838)**

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2017

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2017 (unaudited)	30 June 2016 (unaudited)
Cash flows from (used in) financing activities			
Buyback and cancelation of own shares	14	(9,249)	-
Dividends paid		(1,120)	(2,726)
Purchase of treasury shares		(58,790)	(22,088)
Purchase of additional interests in existing subsidiaries		(16,279)	(3,230)
Net proceeds from sale of non-controlling interest in existing subsidiary		108,565	-
Increase in share capital of subsidiaries		12,940	-
Net cash from (used in) financing activities		**36,067**	**(28,044)**
Effect of exchange rates changes on cash and cash equivalents		14,717	616
Net decrease in cash and cash equivalents		**(119,223)**	**(373,575)**
Cash and cash equivalents, beginning of period	6	**1,573,610**	**1,432,934**
Cash and cash equivalents, end of period	6	**1,454,387**	**1,059,359**

The accompanying selected explanatory notes on pages 55 to 83 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari)

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 30 June 2017, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, BGEO makes up a group of companies (the "Group") and provide banking, healthcare, insurance, real estate, utility, pharmaceutical, leasing, brokerage and investment management services to corporate and individual customers. The shares of BGEO ("BGEO Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2017, the Bank has 280 operating outlets in all major cities of Georgia (31 December 2016: 278). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

As at 30 June 2017 and 31 December 2016, the following shareholders owned more than 4% of the total outstanding shares of BGEO. Other shareholders individually owned less than 4% of the outstanding shares.

	As at	
Shareholder	*30 June 2017 (unaudited)*	*31 December 2016*
Harding Loevner Management LP	8.32%	9.63%
Schroders Investment Management	4.22%	5.36%
Artemis Investment Management	3.90%	4.47%
Others	83.56%	80.54%
Total*	**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 share-based compensation purposes of the Group.***

As at 30 June 2017 the members of the Board of Directors of BGEO and the CEO of the Bank owned 451,005 shares or 1.1% (31 December 2016: 308,388 shares or 0.8%) of BGEO. Interests of the members of the Board of Directors of BGEO Group PLC and the CEO of the Bank were as follows:

	As at	
Shareholder	*30 June 2017, shares held (unaudited)*	*31 December 2016, shares held*
Irakli Gilauri	329,765	202,315
Neil Janin	39,229	35,729
David Morrison	26,357	26,357
Kaha Kiknavelidze	38,004	26,337
Al Breach	16,400	16,400
Kim Bradley	1,250	1,250
Tamaz Georgadze	-	-
Hanna Loikkanen	-	-
Jonathan Muir*	-	-
Total	**451,005**	**308,388**

***** *Jonathan Muir joined the Board of Directors of BGEO in June 2017.***

2. Basis of Preparation

General

The financial information set out in these interim condensed consolidated financial statements does not constitute the Group's statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements were prepared for the year ended 31 December 2016 under IFRS, as adopted by the European Union and reported on by BGEO's auditors and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These interim condensed consolidated financial statements for the six months ended 30 June 2017 were prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union, and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim condensed consolidated financial statements. Although these estimates and assumptions are based on management's best judgment at the date of the interim condensed consolidated financial statements, actual results may differ from these estimates.

Assumptions and significant estimates in these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2016, signed and authorized for release on 13 April 2017.

These interim condensed consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts, which are presented in Georgian Lari, and unless otherwise noted.

The interim condensed consolidated financial statements are unaudited, reviewed by the auditors and their review conclusion is included in this report.

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 twelve months from the date of approval of the interim condensed consolidated 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 interim condensed consolidated financial statements continue to be prepared on the going concern basis.

3. Summary of Significant Accounting Policies

Accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017, early adoption of IFRS 15 and a voluntary change in segment reporting.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2017, they do not have a material impact on the interim condensed consolidated financial statements of the Group. The nature and the impact of each amendment is described below:

3. Summary of Significant Accounting Policies (continued)

Accounting policies (continued)

The amendments that apply for the first time in 2017, except for the effect of early adoption of IFRS 15, do not have a material impact on the interim condensed consolidated financial statements of the Group. The nature and the impact of early adoption of IFRS 15 and the voluntary change in segment reporting are described 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 a modified retrospective approach. The impact of early adoption was GEL 27,624 decrease of retained earnings, with a corresponding increase of other liabilities, inventories, income tax liabilities and accounts receivables and other loans.

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 programs, real estate revenue and connection fees from utility services. For those 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 programs, residential construction completion progress and estimated connection service periods.

No other new or revised IFRS standard had an impact on the Group's financial position or performance during the six months ended 30 June 2017.

Change in segment reporting

As at 30 June 2017 and in light of the anticipated de-merger (refer to note 23 for detail), which was approved by the Board of Directors, 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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Accounting policies (continued)

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. Due to the increase in revenues from pharmacy business, pharmacy revenues and respective costs were reclassified to healthcare and pharmacy revenues. Previously, such revenues and respective costs had been classified as other investment revenues. As at 30 June 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 the six months ended 30 June 2016 consolidated income statement to conform to the six months ended 30 June 2017 presentation requirements. Management believes that current period presentation provides a better view of the consolidated income statement of the Group:

Account **Consolidated income statement:**	*As previously reported*	*Reclassification*	*As reclassified*
Banking interest income	440,705	(668)	440,037
Interest income from investment business	673	668	1,341
Fee and commission income	78,398	(221)	78,177
Fee and commission expense	(21,241)	18	(21,223)
Healthcare revenue	113,351	(113,351)	-
Healthcare and pharma revenue	-	144,042	144,042
Cost of healthcare services	(61,861)	61,861	-
Cost of healthcare and pharma services	-	(86,919)	(86,919)
Real estate revenue	35,087	17	35,104
Cost of real estate	(26,598)	(93)	(26,691)
Administrative expenses	(52,975)	93	(52,882)
Banking depreciation and amortisation	(18,475)	383	(18,092)
Depreciation and amortization of investment business	(9,685)	(383)	(10,068)
Net banking foreign currency gain	32,896	1,033	33,929
Net other banking income	5,497	(357)	5,140
Net foreign currency gain (loss) from investment business	(2,363)	(1,033)	(3,396)
Gross other investment profit	12,043	(5,091)	6,952

Revenue recognition accounting policy under IFRS 15

Income and expense recognition
Revenue is recognized 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 also be met before revenue and expense is recognized.

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 income 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 recognized as an adjustment to the effective interest rate on the loan.

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

3. Summary of Significant Accounting Policies (continued)

Accounting policies (continued)

IFRS 15 accounting policy (continued)

Income and expense recognition continued healthcare and pharma revenue
The Group recognizes 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 recognized net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state), to recognize revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized 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, which the Group has a contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered calculated according to contractual tariffs.

Utility revenue
The Group recognizes 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 recognized:

- Revenue from water supply – includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognizes revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.
- Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for the general population.
- Revenue from connection service is recognized based on the completion of works with respect to connection services to individual customers. In respect of long-term contracts, revenue is recognized based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts. The up-front payment for water meter installation and connection services is recognised over the period that the Group provides the customer access to the water supply network.

Gross real estate profit and gross other investment profit
Gross real estate profit comprises revenue from sale of developed real estate property and revaluation gains on investment properties developed by the Group.

Revenue from the sale of developed real estate property is recognized over the period of development based on the proportion of costs incurred to date to total expected project cost.

Gross other investment profit comprises revenue from the sale of other finished goods and revaluation of other investment properties that were not developed by the Group.

Revenue from the sale of other finished goods is recognized when the performance obligation has been satisfied, usually on delivery of the goods.

3. Summary of Significant Accounting Policies (continued)

Accounting policies (continued)

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

Introduction
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 for annual periods on or after 1 January 2018, with early application permitted. In 2016, the Group set up a multidisciplinary implementation team with members from Risk, Finance and Operations teams and hired an external consultant to initiate the implementation of IFRS 9. The project is sponsored by the Chief Risk and Chief Financial Officers who provide regular updates to the Group's Management Board. Implementation consists of six key phases: the initial assessment and analysis, design, build, testing, parallel running and go live.

The IFRS 9 implementation project is progressing in line with the developed schedule. As of the date of this financial statements, the Group finalised impairment methodology development and has advanced to the next stage for developing the required IT systems and process architecture. The Group made an initial determination of business models and assessed the contractual cash flow characteristics of the financial assets to determine the potential classification and measurement changes as a result of IFRS 9 implementation project. As a result of the analysis performed thus far, the Group has identified a population of financial assets, which are expected to be measured at either amortized cost or fair value through other comprehensive income, which will be subject to the IFRS 9 impairment rules. However, the actual impact that IFRS 9 classification and measurement will have on the Group is mainly dependent on business models and the inventory of financial assets, which exist at the effective date, and as such, the Group will roll forward its analysis during 2017 to take into consideration any changes in business strategies and composition of financial assets at transition date.

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), and amortized cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

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

Impairment of financial assets
IFRS 9 is expected to fundamentally change the current loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Accounting policies (continued)

Standards issued but not yet effective (continued)

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, and shall be applied retrospectively, unless impracticable in which case a modified retrospective approach shall be used. Early application is permitted, after the standard is endorsed by European Union, 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.

4. Business Combinations

Acquisitions in period ended 30 June 2017 (unaudited)

JSC ABC Pharamcy

On 6 January 2017 JSC GEPHA ("GEPHA"), a wholly owned subsidiary of GHG, 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
Income tax assets	270
Other assets	1,045
	70,842
Accounts payable	27,525
Accruals and deferred income	1,861
Other liabilities	1,122
	30,508
Total identifiable net assets	**40,334**
Non-controlling interests [3]	13,311
Goodwill arising on business combination	46,796
Consideration given [2]	**73,819**

The net cash outflow on acquisition was as follows:

	30 June 2017
Cash paid	(32,501)
Cash acquired with the subsidiary	4,184
Net cash outflow	**(28,317)**

[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) a holdback amount was GEL 30,971 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 amortized cost and interest is unwound on each reporting date.

(Thousands of Georgian Lari)

4. Business Combinations (continued)

JSC ABC Pharamcy (continued)

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 Group's revenue and profit if the combination had taken place at the beginning of the period.

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.

LLC New Coffee Georgia

On 15 February 2017 JSC BGEO Investment ("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 provisional fair values of aggregate identifiable assets and liabilities of New Coffee Georgia as at the acquisition date was:

	Provisional 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**

The net cash outflow on acquisition was as follows:

	30 June 2017
Cash paid	(5,304)
Cash acquired with the subsidiary	208
Net cash outflow	**(5,096)**

[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 Group decided to increase its presence and investment 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.

(Thousands of Georgian Lari)

4. Business Combinations (continued)

LLC New Coffee Georgia (continued)

Since the acquisition, New Coffee Georgia recorded GEL 1,420 and GEL 114 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 630,651 and GEL 231,888 of revenue and profit, respectively.

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'.

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 provisional fair values of aggregate identifiable assets and liabilities of the BK Construction as at the date of acquisition were:

	Provisional 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**

The net cash outflow on acquisition was as follows:

	30 June 2017
Cash paid	(2,186)
Cash acquired with the subsidiary	-
Net cash outflow	**(2,186)**

[1] Consideration given comprises of cash payment.

The Group decided to vertically integrate operations by acquiring LLC BK Construction. Management considers that the deal will have a positive impact on the value of the Group.

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'.

Since the acquisition, BK Construction has recorded GEL 2,484 and GEL 121 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 642,464 and GEL 232,549 of revenue and profit, respectively.

5. 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 transfer and settlement services, and handling customers' deposits for both individuals as well as legal entities, targets 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.

Investment Business - the Group's investment arm segments, with disciplined development paths and exit strategies:

GHG - Georgia Healthcare Group - principally providing wide-scale healthcare, health insurance and pharmaceutical services to clients and insured individuals;

m2 - 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 and Casualty Insurance business - principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals.

Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the condensed consolidated financial statements.

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the six months ended 30 June 2017 and 30 June 2016.

(Thousands of Georgian Lari)

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2017 (unaudited):

	Banking Business						*Investment Business*								
	Retail banking	*CIB*	*BNB*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*	*GHG*	*M2*	*GGU*	*Aldagi*	*Other Investment Business*	*Investment Busines Eliminations*	*Investment Business*	*Inter-Business Eliminations*	*Group Total*
Net banking interest income	224,086	75,082	16,647	5,373	-	321,188	-	-	-	-	-	-	-	(754)	320,434
Net fee and commission income	46,215	10,967	4,627	(215)	-	61,594	-	-	-	-	-	-	-	(782)	60,812
Net banking foreign currency gain (loss)	12,552	21,839	4,616	(25)	-	38,982	-	-	-	-	-	-	-	-	38,982
Net other banking income	131	4,187	266	1	(522)	4,063	-	-	-	-	-	-	-	(500)	3,563
Gross insurance profit	-	-	-	-	-	-	6,986	-	-	14,347	-	(538)	20,795	(1,154)	19,641
Gross healthcare and pharma profit	-	-	-	-	-	-	103,268	-	-	-	-	407	103,675	-	103,675
Gross real estate profit	-	-	-	-	-	-	473	25,472	-	47	-	(103)	25,889	(491)	25,398
Gross utility profit	-	-	-	-	-	-	-	-	39,966	-	-	(407)	39,559	(180)	39,379
Gross other investment profit	-	-	-	-	-	-	8,896	92	2,478	461	6,152	-	18,079	82	18,161
Revenue	**282,984**	**112,075**	**26,156**	**5,134**	**(522)**	**425,827**	**119,623**	**25,564**	**42,444**	**14,855**	**6,152**	**(641)**	**207,997**	**(3,779)**	**630,045**
Operating expenses	(108,169)	(35,196)	(13,634)	(1,363)	522	(157,840)	(66,648)	(3,237)	(12,412)	(5,802)	(11,118)	641	(98,576)	2,604	(253,812)
Operating income (expense) before cost of credit risk/EBITDA	**174,815**	**76,879**	**12,522**	**3,771**	**-**	**267,987**	**52,975**	**22,327**	**30,032**	**9,053**	**(4,966)**	**-**	**109,421**	**(1,175)**	**376,233**
Profit from associates	909	-	-	-	-	909	211	-	-	-	-	-	211	-	1,120
Investment Business related income statement items	-	-	-	-	-	-	(23,384)	(93)	(15,513)	319	(455)	-	(39,126)	1,175	(37,951)
Operating income before cost of credit risk	**175,724**	**76,879**	**12,522**	**3,771**	**-**	**268,896**	**29,802**	**22,234**	**14,519**	**9,372**	**(5,421)**	**-**	**70,506**	**-**	**339,402**
Cost of credit risk	(65,433)	(13,729)	(8,874)	-	-	(88,036)	(2,123)	-	(1,200)	(432)	(97)	-	(3,852)	-	(91,888)
Net operating income (loss) before non-recurring items	**110,291**	**63,150**	**3,648**	**3,771**	**-**	**180,860**	**27,679**	**22,234**	**13,319**	**8,940**	**(5,518)**	**-**	**66,654**	**-**	**247,514**
Net non-recurring (expense/loss) income/gain	(1,242)	(1,414)	(55)	-	-	(2,711)	(3,271)	117	(251)	-	36	-	(3,369)	-	(6,080)
Profit (loss) before income tax	**109,049**	**61,736**	**3,593**	**3,771**	**-**	**178,149**	**24,408**	**22,351**	**13,068**	**8,940**	**(5,482)**	**-**	**63,285**	**-**	**241,434**
Income tax (expense) benefit	(5,368)	(2,965)	(654)	1,295	-	(7,692)	(107)	-	(390)	(1,350)	(96)	-	(1,943)	-	(9,635)
Profit (loss) for the period	**103,681**	**58,771**	**2,939**	**5,066**	**-**	**170,457**	**24,301**	**22,351**	**12,678**	**7,590**	**(5,578)**	**-**	**61,342**	**-**	**231,799**
Assets and liabilities															
Total assets	6,458,302	4,114,080	564,083	12,810	(54,807)	11,094,468	1,064,216	326,552	502,710	138,306	734,574	(237,551)	2,528,807	(451,535)	13,171,740
Total liabilities	5,679,293	3,532,279	492,211	24	(54,807)	9,649,000	531,253	183,778	208,381	95,194	649,822	(237,551)	1,430,877	(451,535)	10,628,342
Other segment information															
Property and equipment	17,406	2,476	684	73	-	20,639	37,024	9,555	49,671	359	29,797	-	126,406	-	147,045
Intangible assets	14,008	2,028	331	-	-	16,367	8,568	94	181	63	80	-	8,986	-	25,353
Capital expenditure	**31,414**	**4,504**	**1,015**	**73**	**-**	**37,006**	**45,592**	**9,649**	**49,852**	**422**	**29,877**	**-**	**135,392**	**-**	**172,398**
Depreciation & amortization	(16,635)	(2,480)	(607)	-	-	(19,722)	(12,353)	(129)	(9,892)	(474)	(1,409)	-	(24,257)	-	(43,979)

(Thousands of Georgian Lari)

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2016 (unaudited) and as at 31 December 2016:

	Banking Business (represented)						*Investment Business (represented)*							*Inter-Business Eliminations (represented)*	*Group Total (represented)*
	Retail banking	*CIB*	*BNB*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*	*GHG*	*M2*	*GGU*	*Aldagi*	*Other Investment Business*	*Investment Business Eliminations*	*Investment Business*		
Net banking interest income	167,406	73,483	14,900	2,458	-	258,247	-	-	-	-	-	-	-	(1,535)	256,712
Net fee and commission income	40,981	13,150	3,730	(287)	(157)	57,417	-	-	-	-	-	-	-	(463)	56,954
Net banking foreign currency gain (loss)	9,063	20,289	4,581	(4)	-	33,929	-	-	-	-	-	-	-	-	33,929
Net other banking income	1,746	4,408	247	-	(523)	5,878	-	-	-	-	-	-	-	(738)	5,140
Gross insurance profit	-	-	-	-	-	-	4,289	-	-	12,472	-	(179)	16,582	(1,757)	14,825
Gross healthcare and pharma profit	-	-	-	-	-	-	57,123	-	-	-	-	-	57,123	-	57,123
Gross real estate profit	-	-	-	-	-	-	531	7,865	-	17	-	-	8,413	-	8,413
Gross other investment profit	-	-	-	-	-	-	677	1,937	(15)	544	3,886	(33)	6,996	(44)	6,952
Revenue	**219,196**	**111,330**	**23,458**	**2,167**	**(680)**	**355,471**	**62,620**	**9,802**	**(15)**	**13,033**	**3,886**	**(212)**	**89,114**	**(4,537)**	**440,048**
Operating expenses	(91,078)	(32,592)	(9,440)	(2,655)	680	(135,085)	(26,469)	(3,314)	(355)	(5,159)	(4,001)	212	(39,086)	2,676	(171,495)
Operating income (expense) before cost of credit risk/EBITDA	**128,118**	**78,738**	**14,018**	**(488)**	**-**	**220,386**	**36,151**	**6,488**	**(370)**	**7,874**	**(115)**	**-**	**50,028**	**(1,861)**	**268,553**
Profit from associates	-	-	-	-	-	-	-	-	3,818	-	-	-	3,818	-	3,818
Investment Business related income statement items	-	-	-	-	-	-	(16,395)	741	83	80	(2,372)	-	(17,863)	1,861	(16,002)
Operating income before cost of credit risk	**128,118**	**78,738**	**14,018**	**(488)**	**-**	**220,386**	**19,756**	**7,229**	**3,531**	**7,954**	**(2,487)**	**-**	**35,983**	**-**	**256,369**
Cost of credit risk	(35,727)	(23,486)	(3,592)	-	-	(62,805)	(2,216)	-	-	(358)	(151)	-	(2,725)	-	(65,530)
Net operating income (loss) before non-recurring items	**92,391**	**55,252**	**10,426**	**(488)**	**-**	**157,581**	**17,540**	**7,229**	**3,531**	**7,596**	**(2,638)**	**-**	**33,258**	**-**	**190,839**
Net non-recurring (expense/loss) income/gain	(32,379)	(15,393)	(10)	13	-	(47,769)	(816)	(158)	-	-	1,364	-	390	-	(47,379)
Profit (loss) before income tax	**60,012**	**39,859**	**10,416**	**(475)**	**-**	**109,812**	**16,724**	**7,071**	**3,531**	**7,596**	**(1,274)**	**-**	**33,648**	**-**	**143,460**
Income tax (expense) benefit	24,858	10,121	(5,990)	(475)	-	28,514	28,425	(937)	(95)	(1,553)	470	-	26,310	-	54,824
Profit (loss) for the period	**84,870**	**49,980**	**4,426**	**(950)**	**-**	**138,326**	**45,149**	**6,134**	**3,436**	**6,043**	**(804)**	**-**	**59,958**	**-**	**198,284**
Assets and liabilities															
Total assets	6,078,581	4,596,897	549,132	2,838	(70,574)	11,156,874	910,310	371,332	421,576	118,449	711,461	(224,298)	2,308,830	(476,251)	12,989,453
Total liabilities	5,369,591	3,995,932	475,324	655	(70,574)	9,770,928	370,222	234,382	139,164	75,541	676,347	(224,298)	1,271,358	(476,251)	10,566,035
Other segment information															
Property and equipment	13,818	2,366	540	71	-	16,795	47,528	523	-	361	517	-	48,929	-	65,724
Intangible assets	6,265	842	66	-	-	7,173	5,315	88	-	170	95	-	5,668	-	12,841
Capital expenditure	**20,083**	**3,208**	**606**	**71**	**-**	**23,968**	**52,843**	**611**	**-**	**531**	**612**	**-**	**54,597**	**-**	**78,565**
Depreciation & amortization	(14,981)	(2,576)	(535)	-	-	(18,092)	(8,724)	(114)	-	(383)	(847)	-	(10,068)	-	(28,160)

6. Cash and Cash Equivalents

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Cash on hand	488,750	450,264
Current accounts with central banks, excluding obligatory reserves	141,005	150,152
Current accounts with other credit institutions	190,699	540,801
Time deposits with credit institutions with maturity of up to 90 days	633,933	432,393
Cash and cash equivalents	**1,454,387**	**1,573,610**

As at 30 June 2017, GEL 865,868 (31 December 2016: GEL 837,721) was placed on current and time deposit accounts with internationally recognised Organization for Economic Cooperation and Development ("OECD") banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.80% interest per annum on these deposits (31 December 2016: up to 0.90%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts Due from Credit Institutions

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Obligatory reserves with central banks	897,482	934,997
Time deposits with maturities of more than 90 days	175,310	113,035
Deposits pledged as security for open commitments	3,466	3,287
Inter-bank loan receivables	14,001	3,664
Amounts due from credit institutions	**1,090,259**	**1,054,983**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned 0.75% interest on obligatory reserves with NBG and NBRB for the years ended 30 June 2017 (31 December 2016: 0.25%).

As at 30 June 2017, inter-bank loan receivables include GEL 1,964 (31 December 2016: GEL 2,164) placed with non-OECD banks.

As of 30 June 2017 amounts due from credit institutions in amount of GEL 73,656 was pledged for short-term loans from NBG (31 December 2016: Nil) and GEL 41,104 was pledged for loans from local banks or other financial institutions (31 December 2016: 112,692).

8. Investment Securities

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Georgian ministry of Finance treasury bonds*	805,778	811,532
Georgian ministry of Finance treasury bills**	117,270	88,411
Certificates of deposit of central banks***	99,333	24,015
Other debt instruments****	374,268	360,597
Corporate shares	1,448	1,448
Investment securities	**1,398,097**	**1,286,003**

** GEL 351,464 was pledged for short-term loans from the NBG (31 December 2016: GEL 712,169).*
*** GEL 11,531 was pledged for short-term loans from the NBG (31 December 2016: GEL 55,842).*
**** GEL no assets were pledged for loans from the NBG (31 December 2016: GEL 9,402).*
***** GEL 368,587 was pledged for short-term loans from the NBG (31 December 2016: GEL 286,832).*

(Thousands of Georgian Lari)

8. Investment Securities (continued)

Other debt instruments as at 30 June 2017 include mostly GEL denominated bonds issued by European Bank for Reconstruction and Development ("EBRD") of GEL 133,218 (31 December 2016: GEL 133,055), GEL denominated bonds issued by the International Finance Corporation ("IFC") of GEL 109,533 (31 December 2016:GEL 28,402), GEL denominated bonds issued by the Asian Development Bank of GEL 65,264 (31 December 2016: GEL 64,921), and GEL denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,572 (31 December 2016: GEL 60,454).

9. Loans to Customers and Finance Lease Receivables

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Commercial loans	2,322,942	2,699,506
Consumer loans	1,526,533	1,367,228
Micro and SME loans	1,536,100	1,493,937
Residential mortgage loans	1,287,952	1,234,176
Gold – pawn loans	66,206	60,685
Loans to customers, gross	**6,739,733**	**6,855,532**
Less – Allowance for loan impairment	(271,722)	(252,769)
Loans to customers, net	**6,468,011**	**6,602,763**
Finance Lease Receivables, gross	**52,077**	**48,267**
Less – Allowance for finance lease receivables impairment	(2,315)	(2,548)
Finance Lease Receivables , net	**49,762**	**45,719**
Loans to customers and finance lease receivables, net	**6,517,773**	**6,648,482**

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	8,776	47,873	2,583	19,865	79,097
Recoveries	3,605	11,283	3,257	3,051	21,196
Write-offs	(5,950)	(33,131)	(4,893)	(13,825)	(57,799)
Accrued interest on written-off loans	(10,028)	(8,256)	(371)	(1,232)	(19,887)
Currency translation differences	(1,304)	(153)	-	(2,197)	(3,654)
At 30 June (Unaudited)	**154,858**	**76,401**	**4,467**	**35,996**	**271,722**

	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	21,120	30,320	2,252	5,344	59,036
Recoveries	2,272	10,536	1,940	3,144	17,892
Write-offs	(12,368)	(32,733)	(3,588)	(4,256)	(52,945)
Accrued interest on written-off loans	(2,165)	(5,640)	(986)	(352)	(9,143)
Currency translation differences	(195)	(144)	-	(405)	(744)
At 30 June (Unaudited)	**133,976**	**53,356**	**5,679**	**19,979**	**212,990**

(Thousands of Georgian Lari)

9. Loans to Customers and Finance Lease Receivables (continued)

Allowance for loan impairment (continued)

Interest income accrued on loans, for which individual impairment allowances was recognised as at 30 June 2017 comprised GEL 12,663 (31 December 2016: GEL 31,433).

Concentration of loans to customers

As at 30 June 2017, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 762,466, accounting for 11% of the gross loan portfolio of the Group (31 December 2016: GEL 815,363 and 12%, respectively). An allowance of GEL 39,536 (31 December 2016: GEL 20,123) was established against these loans.

As at 30 June 2017, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,011,031, accounting for 15% of the gross loan portfolio of the Group (31 December 2016: GEL 1,242,944 and 18%, respectively). An allowance of GEL 69,769 (31 December 2016: GEL 51,831) was established against these loans.

As at 30 June 2017 loans to customers carried at GEL 332,579 have been pledged for short-term loans from the NBG (31 December 2016: 171,664).

As at 30 June 2017 and 31 December 2016, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Individuals	3,552,473	3,336,589
Trade	718,451	812,141
Manufacturing	712,286	925,333
Real estate	400,876	423,124
Construction	340,189	304,890
Hospitality	236,063	233,891
Service	190,516	136,792
Transport & communication	153,820	166,288
Mining and quarrying	105,817	114,115
Financial intermediation	80,191	130,435
Electricity, gas and water supply	55,155	34,835
Other	193,896	237,099
Loans to customers, gross	**6,739,733**	**6,855,532**
Less – allowance for loan impairment	(271,722)	(252,769)
Loans to customers, net	**6,468,011**	**6,602,763**

Loans have been extended to the following types of customers:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Individuals	3,552,473	3,336,589
Private companies	3,176,944	3,497,322
State-owned entities	10,316	21,621
Loans to customers, gross	**6,739,733**	**6,855,532**
Less – allowance for loan impairment	(271,722)	(252,769)
Loans to customers, net	**6,468,011**	**6,602,763**

(Thousands of Georgian Lari)

10. Investment Properties

	2017	*2016*
At 1 January	**288,227**	**246,398**
Additions*	34,949	19,144
Disposals	(7,011)	(4,745)
Net gains from revaluation of investment property	21,784	1,726
Transfers to property and equipment and other assets	(13,997)	(16,137)
Currency translation differences	(17,812)	(537)
At 30 June (Unaudited)	**306,140**	**245,849**

***** GEL 9,452 paid in six months ended 30 June 2017 for acquisition of properties by the Group's Real Estate business for development (six months ended 30 June 2016: GEL 12,116). The remaining additions comprise foreclosed properties, no cash transactions were involved.***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2016 and was carried out by professional valuators. In June 2017 the Group engaged professional valuators to revalue its investment property under construction, previously stated at cost as their fair value was not reliably measurable.

11. Client Deposits and Notes

The client deposits and notes include the following:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Time deposits	2,640,777	2,787,419
Current accounts	2,606,113	2,521,051
Promissory notes issued	72,508	74,228
Client deposits and notes	**5,319,398**	**5,382,698**
Held as security against letters of credit and guarantees (Note15)	**87,767**	**96,692**

As at 30 June 2017 and 31 December 2016 promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 13 months (31 December 2016: 16 months).

At 30 June 2017, client deposits and notes of GEL 465,834 (9%) were due to the 10 largest customers (31 December 2016: GEL 635,303 (12%)).

Client deposits and notes include accounts with the following types of customers:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Individuals	3,305,537	3,134,251
Private enterprises	1,831,338	2,110,975
State and state-owned entities	182,523	137,472
Client deposits and notes	**5,319,398**	**5,382,698**

(Thousands of Georgian Lari)

11. Client Deposits and Notes (continued)

The breakdown of client deposits and notes by industry sector is as follows:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Individuals	3,305,537	3,134,251
Trade	377,523	420,402
Financial intermediation	273,217	365,515
Construction	235,320	272,351
Service	214,346	264,609
Manufacturing	199,930	208,145
Transport & communication	199,606	213,301
Government services	167,175	102,530
Real estate	67,151	66,207
Electricity, gas and water supply	41,966	95,651
Hospitality	27,224	22,248
Other	210,403	217,488
Client deposits and notes	**5,319,398**	**5,382,698**

12. Amounts Owed to Credit Institutions

Amounts due to credit institutions comprise:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Borrowings from international credit institutions	1,100,418	1,221,070
Short-term loans from the National Bank of Georgia	998,014	1,085,000
Time deposits and inter-bank loans	472,111	397,506
Correspondent accounts	109,719	329,609
	2,680,262	**3,033,185**
Non-convertible subordinated debt	397,607	436,906
Amounts due to credit institutions	**3,077,869**	**3,470,091**

During the six months ended 30 June 2017, the Group paid up to 6.15% on USD borrowings from international credit institutions (six months ended 30 June 2016: up to 5.60%). During the six months ended 30 June 2017, the Group paid up to 8.80% on USD subordinated debt (six months ended 30 June 2016: up to 8.25%).

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 30 June 2017 and 31 December 2016 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

(Thousands of Georgian Lari)

13. Debt Securities Issued

Debt securities issued comprise:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Eurobonds and notes issued	1,279,954	937,406
Certificates of deposit	219,143	177,272
Georgian local bonds	83,334	140,965
Debt securities issued	**1,582,431**	**1,255,643**

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

14. Equity

Share capital

As at 30 June 2017, issued share capital comprised 39,412,320 common shares (31 December 2016: 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 30 June 2017 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2015	**39,500,320**	**1,154**
30 June 2016 (unaudited)	**39,500,320**	**1,154**
31 December 2016	**39,500,320**	**1,154**
Buyback and cancelation	(88,000)	(2)
30 June 2017 (unaudited)	**39,412,320**	**1,152**

In 2016 the Management Board has approved a USD 50 million share buyback and cancellation programme over a two year period. During the six months ended 30 June 2017 the Group repurchased and cancelled 88,000 shares worth GEL 9,249.

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 30 June 2017 comprised 1,760,286 (31 December 2016: 1,843,091).

Nominal amount of treasury shares of GEL 51 as at 30 June 2017 comprise the Group's shares owned by the Group (31 December 2016: GEL 54).

Dividends

Shareholders are entitled to dividends in British Pounds Sterling.

On 1 June 2017, the Shareholders of BGEO approved a final dividend for 2016 of Georgian Lari 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 final dividends was received by shareholders on 7 July 2017.

On 26 May 2016, the Shareholders of BGEO approved a final dividend for 2015 of Georgian Lari 2.4 per share. The currency conversion date was set at 11 July 2016, with the official GEL – GBP exchange rate of 3.0376, resulting in a GBP denominated final dividend of 0.7901 per share. Payment of the total GEL final dividends was received by shareholders on 22 July 2016.

(Thousands of Georgian Lari)

14. Equity (continued)

In January 2017 the Group acquired 15% interest in BNB for consideration of GEL 16,269.

Movements in other reserves during the six months ended 30 June 2017 and 30 June 2016 are presented in the statements of changes in equity.

Earnings per share

	For the six months ended	
	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Basic earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	217,607	175,478
Weighted average number of ordinary shares outstanding during the year	37,941,460	38,410,753
Basic earnings per share	5.7353	4.5685
Diluted earnings per share		
Effect of dilution on weighted average number of ordinary shares:		
Dilutive unvested share options	1,562,952	-
Weighted average number of ordinary shares adjusted for the effect of dilution	39,504,412	38,410,753
Diluted earnings per share	5.5084	4.5685

(Thousands of Georgian Lari)

15. 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 30 June 2017 and 31 December 2016 the Group's financial commitments and contingencies comprised the following:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Credit-related commitments		
Guarantees issued	458,329	508,685
Undrawn loan facilities	233,486	231,704
Letters of credit	56,181	58,561
	747,996	**798,950**
Less – Cash held as security against letters of credit and guarantees (Note 11)	(87,767)	(96,692)
Less – Provisions	(5,539)	(4,086)
Operating lease commitments		
Not later than 1 year	39,916	35,823
Later than 1 year but not later than 5 years	104,029	110,466
Later than 5 years	35,379	18,994
	179,324	**165,283**
Capital expenditure commitments	**12,126**	**13,174**
Financial commitments and contingencies, net	**846,140**	**876,629**

As at 30 June 2017, capital expenditure represented the commitment for the purchase of property and capital repairs of GEL 11,445 and software and other intangible assets of GEL 681. As at 31 December 2016, capital expenditure represented the commitment for the purchase of property and capital repairs of GEL 11,240 and software and other intangible assets of GEL 1,934.

(Thousands of Georgian Lari)

16. Net Interest Income

	For the six months ended							
	30 June 2017 (unaudited)				30 June 2016 (unaudited)			
	Banking Business	Investment Business	Elimi-nations	Total	Banking Business	Investment Business	Elimi-nations	Total
Loans to customers	475,222	317	(3,742)	471,797	391,801	-	(2,605)	389,196
Investment securities: available-for-sale	53,003	434	(487)	52,950	40,793	62	(22)	40,833
Finance lease receivable	6,017	-	-	6,017	4,776	-	-	4,776
Amounts due from credit institutions	5,826	5,761	(2,479)	9,108	5,327	2,371	(1,125)	6,573
Interest Income	**540,068**	**6,512**	**(6,708)**	**539,872**	**442,697**	**2,433**	**(3,752)**	**441,378**
Client deposits and notes	(100,842)	-	2,479	(98,363)	(102,337)	-	3,548	(98,789)
Amounts owed to credit institutions	(88,539)	(20,042)	4,004	(104,577)	(48,467)	(5,106)	391	(53,182)
Debt securities issued	(29,499)	(7,804)	646	(36,657)	(33,646)	(1,726)	139	(35,233)
Interest Expense	**(218,880)**	**(27,846)**	**7,129**	**(239,597)**	**(184,450)**	**(6,832)**	**4,078**	**(187,204)**
Net Interest Income	**321,188**	**(21,334)**	**421**	**300,275**	**258,247**	**(4,399)**	**326**	**254,174**

17. Net Fee and Commission Income

	For the six months ended	
	30 June 2017 (unaudited)	30 June 2016 (unaudited)
Settlement operations	71,372	59,093
Guarantees and letters of credit	7,805	9,946
Cash operations	6,157	5,656
Currency conversion operations	240	275
Brokerage service fees	968	480
Advisory	-	639
Other	1,966	2,088
Fee and commission income	**88,508**	**78,177**
Settlement operations	(21,669)	(14,979)
Cash operations	(2,687)	(2,647)
Guarantees and letters of credit	(1,172)	(1,647)
Insurance brokerage service fees	(1,375)	(1,179)
Currency conversion operations	(11)	(14)
Other	(782)	(757)
Fee and commission expense	**(27,696)**	**(21,223)**
Net fee and commission income	**60,812**	**56,954**

(Thousands of Georgian Lari)

18. Net Non-recurring Items

	For the six months ended	
	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Termination / sign-up compensation expenses	(2,380)	(1,308)
Write-off of miscellaneous healthcare related assets	(1,583)	(2,972)
Provision for early redemption of Eurobonds	-	(42,484)
Impairment of prepayments	-	(2,205)
Other	(2,117)	1,590
Net non-recurring items	**(6,080)**	**(47,379)**

19. 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:

30 June 2017 (unaudited)	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment properties	-	-	306,140	306,140
Investment securities	-	1,396,537	1,560	1,398,097
Other assets – derivative financial assets	-	5,691	4,691	10,382
Other assets – trading securities owned	1,647	-	-	1,647
Revalued property	-	-	983,585	983,585
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,454,387	-	1,454,387
Amounts due from credit institutions	-	1,090,259	-	1,090,259
Loans to customers and finance lease receivables	-	-	6,595,893	6,595,893
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	3,185	-	3,185
Liabilities for which fair values are disclosed				
Client deposits and notes	-	5,325,889	-	5,325,889
Amounts owed to credit institutions	-	2,729,836	348,033	3,077,869
Debt securities issued	-	1,381,999	302,477	1,684,476

(Thousands of Georgian Lari)

19. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment properties	-	-	*288,227*	288,227
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
Revalued property	-	-	936,739	936,739
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

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 options and swaps, and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

The call option represents an option on acquisition of the remaining 33% equity interest in JSC GEPHA, the pharma business of GHG, from non-controlling interests during 2022 based on a pre-determined EBITDA multiple (6.0 times EBITDA) of JSC Gepha. The Group has applied the binomial model for option valuation. The major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of GHG's market capitalisation from the January 1, 2013 till 30 June 2017 period, i.e. 37.3%. If the volatility was 10% higher, fair value of the call option would increase by GEL 1,219 and if the volatility was 10% lower the call option value would decrease by GEL 1,249.

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.

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

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

(Thousands of Georgian Lari)

19. Fair Value Measurements (continued)

Fair value of financial assets and liabilities not carried at fair value (continued)

	Carrying value 30 June 2017 (unaudited)	*Fair value 30 June 2017 (unaudited)*	*Unrecognised gain (loss) 30 June 2017 (unaudited)*	*Carrying value 31 December 2016*	*Fair value 31 December 2016*	*Unrecognised gain (loss) 31 December 2016*
Financial assets						
Cash and cash equivalents	1,454,387	1,454,387	-	1,573,610	1,573,610	-
Amounts due from credit institutions	1,090,259	1,090,259	-	1,054,983	1,054,983	-
Loans to customers and finance lease receivables	6,517,773	6,595,893	78,120	6,648,482	6,725,662	77,180
Financial liabilities						
Client deposits and notes	5,319,398	5,325,889	(6,491)	5,382,698	5,388,768	(6,070)
Amounts owed to credit institutions	3,077,869	3,077,869	-	3,470,091	3,470,091	-
Debt securities issued	1,582,431	1,684,476	(102,045)	1,255,643	1,314,400	(58,757)
Total unrecognised change in unrealised fair value			**(30,416)**			**12,353**

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 condensed 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.

20. Maturity Analysis of Financial Assets and Liabilities

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

	30 June 2017 (unaudited)							
	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	827,517	626,870	-	-	-	-	-	1,454,387
Amounts due from credit institutions	977,625	84,261	6,182	36	19,965	-	2,190	1,090,259
Investment securities	543,837	759,712	11,833	61,246	12,382	4,696	4,391	1,398,097
Loans to customers and finance lease receivables	-	1,206,743	568,467	1,095,987	1,669,810	872,250	1,104,516	6,517,773
Total	**2,348,979**	**2,677,586**	**586,482**	**1,157,269**	**1,702,157**	**876,946**	**1,111,097**	**10,460,516**
Financial liabilities								
Client deposits and notes	824,483	912,843	529,977	2,569,570	415,268	39,450	27,807	5,319,398
Amounts owed to credit institutions	77,866	1,448,249	165,562	200,580	519,933	327,140	338,539	3,077,869
Debt securities issued	-	64,987	25,057	124,312	640,998	93,847	633,230	1,582,431
Total	**902,349**	**2,426,079**	**720,596**	**2,894,462**	**1,576,199**	**460,437**	**999,576**	**9,979,698**
Net	**1,446,630**	**251,507**	**(134,114)**	**(1,737,193)**	**125,958**	**416,509**	**111,521**	**480,818**
Accumulated gap	**1,446,630**	**1,698,137**	**1,564,023**	**(173,170)**	**(47,212)**	**369,297**	**480,818**	

(Thousands of Georgian Lari)

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

	31 December 2016							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,115,012	458,598	-	-	-	-	-	1,573,610
Amounts due from credit institutions	944,403	14,334	19,913	69,842	5,094	-	1,397	1,054,983
Investment securities	109,868	1,080,617	38,414	11,488	6,269	38,971	376	1,286,003
Loans to customers and finance lease receivables	-	1,124,962	501,429	1,520,939	1,765,099	810,045	926,008	6,648,482
Total	**2,169,283**	**2,678,511**	**559,756**	**1,602,269**	**1,776,462**	**849,016**	**927,781**	**10,563,078**
Financial liabilities								
Client deposits and notes	1,004,823	876,865	550,296	2,462,509	408,091	54,055	26,059	5,382,698
Amounts owed to credit institutions	330,899	1,373,489	176,065	358,190	582,783	299,309	349,356	3,470,091
Debt securities issued	-	82,247	34,338	70,208	271,276	87,892	709,682	1,255,643
Total	**1,335,722**	**2,332,601**	**760,699**	**2,890,907**	**1,262,150**	**441,256**	**1,085,097**	**10,108,432**
Net	**833,561**	**345,910**	**(200,943)**	**(1,288,638)**	**514,312**	**407,760**	**(157,316)**	**454,646**
Accumulated gap	**833,561**	**1,179,471**	**978,528**	**(310,110)**	**204,202**	**611,962**	**454,646**	

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

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

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

As at 30 June 2017 amounts due to customers amounted to GEL 5,319,398 (31 December 2016: GEL 5,382,698) and represented 50% (31 December 2016: 51%) 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 30 June 2017 amounts owed to credit institutions amounted to GEL 3,077,869 (31 December 2016: GEL 3,470,091) and represented 29% (31 December 2016: 33%) of total liabilities. As at 30 June 2017 debt securities issued amounted to GEL 1,582,431 (31 December 2016: GEL 1,255,643) and represented 15% (31 December 2016: 12%) of total liabilities.

The Bank was in compliance with regulatory liquidity requirements as at 30 June 2017 and 31 December 2016. In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

(Thousands of Georgian Lari)

20. 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:

	30 June 2017 (unaudited)			*31 December 2016*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,454,387	-	1,454,387	1,573,610	-	1,573,610
Amounts due from credit institutions	1,068,104	22,155	1,090,259	1,048,492	6,491	1,054,983
Investment securities	1,376,628	21,469	1,398,097	1,240,387	45,616	1,286,003
Loans to customers and finance lease receivables	2,871,197	3,646,576	6,517,773	3,147,330	3,501,152	6,648,482
Accounts receivable and other loans	155,307	156	155,463	128,222	284	128,506
Insurance premiums receivable	59,652	6	59,658	46,379	44	46,423
Prepayments	75,559	22,514	98,073	57,465	18,812	76,277
Inventories	147,620	56,813	204,433	88,375	99,969	188,344
Investment properties	-	306,140	306,140	-	288,227	288,227
Property and equipment	-	1,453,730	1,453,730	-	1,323,870	1,323,870
Goodwill	-	159,569	159,569	-	106,986	106,986
Intangible assets	-	77,150	77,150	-	58,907	58,907
Income tax assets	5,119	1,334	6,453	22,329	1,714	24,043
Other assets	84,780	105,775	190,555	137,258	47,534	184,792
Total assets	**7,298,353**	**5,873,387**	**13,171,740**	**7,489,847**	**5,499,606**	**12,989,453**
Client deposits and notes	4,836,873	482,525	5,319,398	4,894,493	488,205	5,382,698
Amounts owed to credit institutions	1,892,257	1,185,612	3,077,869	2,238,643	1,231,448	3,470,091
Debt securities issued	214,356	1,368,075	1,582,431	186,793	1,068,850	1,255,643
Accruals and deffered income	71,941	69,860	141,801	58,726	71,593	130,319
Insurance contracts liabilities	71,163	10,283	81,446	62,247	5,624	67,871
Income tax liabilities	1,576	11,354	12,930	5,548	22,243	27,791
Other liabilities	308,768	103,699	412,467	213,063	18,559	231,622
Total liabilities	**7,396,934**	**3,231,408**	**10,628,342**	**7,659,513**	**2,906,522**	**10,566,035**
Net	**(98,581)**	**2,641,979**	**2,543,398**	**(169,666)**	**2,593,084**	**2,423,418**

21. Related Party Disclosures

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

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

(Thousands of Georgian Lari)

21. Related Party Disclosures (continued)

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

	2017 (unaudited)		*2016 (unaudited)*	
	Associates	*Key management personnel**	*Associates*	*Key management personnel**
Loans outstanding at 1 January, gross	**15,247**	**2,006**	**13,541**	**1,258**
Loans issued during the period	15,435	2,542	208	5,035
Loan repayments during the period	(15,088)	(4,147)	(374)	(6,346)
Other movements	(361)	1,523	13,794	2,675
Loans outstanding at 30 June, gross	**15,233**	**1,924**	**27,169**	**2,622**
Less: allowance for impairment at 30 June	-	-	(254)	(15)
Loans outstanding at 30 June, net	**15,233**	**1,924**	**26,915**	**2,607**
Interest income on loans	607	89	1,444	127
Loan impairment charge	-	1	(138)	(12)
Deposits at 1 January	**1,241**	**28,419**	**1,419**	**20,129**
Deposits received during the period	-	27,379	-	14,743
Deposits repaid during the period	(831)	(11,752)	(258)	(16,502)
Other movements	-	1,958	(5)	2,942
Deposits at 30 June	**410**	**46,004**	**1,156**	**21,312**
Interest expense on deposits	(1)	(373)	(50)	(426)
Other income	-	33	-	77

**** Key management personnel include members of BGEO Group PLC's and JSC BGEO Group's Board of Directors and Chief Executive Officer and Deputies of the Bank.***

Compensation of key management personnel comprised the following:

	For the six months ended	
	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Salaries and other benefits	3,940	4,083
Share-based payments compensation	19,294	11,525
Social security costs	36	30
Total key management compensation	**23,270**	**15,638**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based. The number of key management personnel at 30 June 2017 was 20 (30 June 2016: 20).

(Thousands of Georgian Lari)

22. 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, the new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. A transition period is to continue through to 31 December 2017, during which the Bank will be required to comply with both the new, and the current, capital regulations of the NBG.

During six months ended 30 June 2017, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

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

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 9.6% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 30 June 2017 and 31 December 2016, the Bank's capital adequacy ratio on this basis was as follows:

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Core capital	808,611	676,692
Supplementary capital	691,109	669,940
Less: Deductions from capital	(96,066)	(79,059)
Total regulatory capital	**1,403,654**	**1,267,573**
Risk-weighted assets	**9,056,233**	**9,360,857**
Total capital adequacy ratio	**15.5%**	**13.5%**

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

(Thousands of Georgian Lari)

22. Capital Adequacy (continued)

New NBG (Basel II/III) capital adequacy ratio

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

	As at	
	30 June 2017 (unaudited)	*31 December 2016*
Tier 1 capital	1,007,507	892,613
Tier 2 capital	475,267	519,726
Total capital	**1,482,774**	**1,412,339**
Risk-weighted assets	**9,495,340**	**9,790,282**
Total capital ratio	**15.6%**	**14.4%**

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.

23. Events after the Reporting Period

De-merger

On 3 July 2017, the Group announced its intention to de-merge the Group operations to form two separate corporate groups: Bank of Georgia Group PLC and BGEO investments PLC. Management believes a de-merger 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. Following the de-merger, each company will operate its business as an independent publicly listed company with listing on the London Stock exchange. Bank of Georgia Group PLC will continue to be a fully-licensed and regulated, systemically important, universal banking business focused on Georgia with industry-leading characteristics. BGEO Investments PLC will remain a Georgia-focused investment platform positioned to use its superior access to capital and management to take advantage of the significant investment opportunities in the fast developing Georgian corporate sector. There are no plans to raise capital as part of this de-merger process. Management expects the de-merger, which will be subject to shareholder approval, to be completed in the first half of 2018. The Group is currently assessing the potential financial effect from the de-merger.

Acquisition of community hospitals

In July 2017, the Group signed a Sale and Purchase Agreement (SPA) to acquire a 100% equity stake in Khashuri and Qareli community hospitals from IC Group member companies for a total cash consideration of GEL 10 million. IC Group is an insurance company operating in Georgia and owns several small-to-medium sized hospitals.

Bond issuance by the Healthcare business

In July 2017, EVEX, a wholly owned subsidiary of GHG, issued two-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 9.5% 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate.). The proceeds will be used to refinance borrowings from local commercial banks and also to fund planned ongoing capital expenditures.

Bond issuance by the Utility business

In August 2017, Georgian Water and Power, a wholly owned subsidiary of GGU, issued six-month term local bonds of GEL 40 million. The bonds were issued with an annual coupon rate of NBG refinance rate plus 4%. The proceeds will be used to fund capital projects.

Annex:

Glossary

1. Return on average total assets (ROAA) equals Profit for the period divided by monthly average total assets for the same period;
2. Return on average total equity (ROAE) equals Profit for the period attributable to shareholders of BGEO divided by monthly average equity attributable to shareholders of BGEO for the same period;
3. Net Interest Margin (NIM) equals Net Banking Interest Income of the period divided by monthly Average Interest Earning Assets Excluding Cash for the same period; Interest Earning Assets Excluding Cash comprise: Amounts Due From Credit Institutions, Investment Securities (but excluding corporate shares) and net Loans To Customers And Finance Lease Receivables;
4. Loan Yield equals Banking Interest Income From Loans To Customers And Finance Lease Receivables divided by monthly Average Gross Loans To Customers And Finance Lease Receivables;
5. Cost of Funds equals banking interest expense of the period divided by monthly average interest bearing liabilities; interest bearing liabilities include: amounts due to credit institutions, client deposits and notes, and debt securities issued;
6. Operating Leverage equals percentage change in revenue less percentage change in operating expenses;
7. Cost / Income Ratio equals operating expenses divided by revenue;
8. NBG Liquidity Ratio equals daily average liquid assets (as defined by NBG) during the month divided by daily average liabilities (as defined by NBG) during the month;
9. Liquid assets include: cash and cash equivalents, amounts due from credit institutions and investment securities;
10. Leverage (Times) equals total liabilities divided by total equity;
11. NPL Coverage Ratio equals allowance for impairment of loans and finance lease receivables divided by NPLs;
12. 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)
13. 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;
14. NBG (Basel 2/3) Tier I Capital Adequacy ratio equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions;
15. NBG (Basel 2/3) Total Capital Adequacy ratio equals total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
16. Loss ratio equals net insurance claims expense divided by net earned premiums
17. Expense ratio equals sum of acquisition costs and operating expenses divided by net earned premiums
18. Combined ratio equals sum of the loss ratio and the expense ratio
19. NMF – Not meaningful

BGEO Group PLC 2Q17 and 1H17 Results Conference Call Details

BGEO Group PLC ("**BGEO**" or the "**Group**") will publish its financial results for the 2nd quarter 2017 and the first half of 2017 at 07:00 London time on Wednesday, 16 August 2017. The results announcement will be available on the Group's website at www.bgeo.com. An investor/analyst conference call, organised by BGEO, will be held on, 16 August 2017, at 14:00 UK / 15:00 CET / 9:00 U.S Eastern Time. The duration of the call will be 60 minutes and will consist of a 15-minute update and a 45-minute Q&A session.

Dial-in numbers:
Pass code for replays/Conference ID: **65484086**
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US: 16315107498
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Finland: 0923195187
France: 0176742428
Germany: 06922224918
Hungary: 0618088303
Ireland: 014319648
Italy: 0236008146
Luxembourg: 20880695
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FORWARD LOOKING STATEMENTS

This announcement contains 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, include, among other things: currency fluctuations, including depreciation of the Georgian Lari, and macroeconomic risk; corporate loan portfolio exposure risk; regional tensions; regulatory risk; cyber security, information systems and financial crime risk; investment business strategy risk; and other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including the 'Principal Risks and Uncertainties' included in BGEO Group PLC's Annual Report and Accounts 2016 and in this announcement. No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in BGEO Group PLC or any other entity, including any future entity such as BGEO Investments PLC or Bank of Georgia PLC, 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.