IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the **Prospectus**) and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is confidential and intended only for you and **you agree you will not forward, reproduce or publish this electronic transmission or the attached Prospectus to any other person.**

The Prospectus and the offer when made are only addressed to and directed at persons in member states of the European Economic Area (**EEA**) who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**) (**Qualified Investors**). In addition, in the United Kingdom (**UK**), the Prospectus is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the **Order**) and Qualified Investors falling within Article 49 of the Order, and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as **relevant persons**). The Prospectus must not be acted on or relied on (i) in the UK, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which the Prospectus relates is available only to (i) in the UK, relevant persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

THE PROSPECTUS AND THE SECURITIES REFERENCED HEREIN MAY ONLY BE DISTRIBUTED IN (I) "OFFSHORE TRANSACTIONS" TO PERSONS OTHER THAN UNITED STATES PERSONS AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **U.S. SECURITIES ACT**), OR (II) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (**QIBs**) AS DEFINED IN AND IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT (**RULE 144A**). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES A PUBLIC OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES, EXCEPT (I) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB OR (II) IN AN OFFSHORE TRANSACTION TO PERSONS OTHER THAN UNITED STATES PERSONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: The attached Prospectus is delivered to you at your request and on the basis that you have confirmed to J.P. Morgan Securities plc and Merrill Lynch International (together, the **Joint Lead Managers**), JSC Galt and Taggart (the **Co-Manager,** and together with the Joint Lead Managers, the **Managers**) and Joint Stock Company BGEO Group (the **Issuer**) that (i) you are either (a) located outside United States and not a U.S. person (as defined in Regulation S under the U.S. Securities Act), or (b) a QIB; (ii) if you are in the UK, you are a relevant person; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) if you are acting as a financial intermediary (as that term is used in Article 3(2) of the Prospectus Directive), the securities acquired by you as a financial intermediary in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors; (v) you are outside of the UK or EEA (and the electronic mail addresses that you gave us and to which the Prospectus has been delivered are not located in such jurisdictions), or (vi) you are a person into whose possession the Prospectus may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

The Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version. By accessing the linked Prospectus, you consent to receiving it in electronic form.

A hard copy of the Prospectus will be made available to you only upon request to the Managers.

You are reminded that you have accessed the attached Prospectus on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver the Prospectus, electronically or otherwise, to any other person.

Restriction: Nothing in this electronic transmission constitutes an offer of securities for sale to persons other than the specified qualified institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

To the fullest extent permitted by law, none of the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the Prospectus or for any other statement, made or purported to be made by any of them or on behalf of any of them in connection with the Issuer or the issue and offering of the securities described herein. Each Joint Lead Manager accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of the Prospectus or any such statement.

The Joint Lead Managers are acting exclusively for the Issuer and no one else in connection with the offer. Neither Joint Lead Manager will regard any other person (whether or not a recipient of the Prospectus) as its client in relation to the offer and neither will be responsible to anyone other than the Issuer for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Joint Stock Company BGEO Group

(incorporated in Georgia with limited liability)

US$350,000,000 6.00% Notes due 2023

Issue Price 99.297%

The US$350,000,000 6.00% Notes due 2023 (the **Notes**) will be issued by Joint Stock Company BGEO Group (**BGEO**, the **Company** or the **Issuer**, and together with its consolidated subsidiaries, the **Group**). Interest on the Notes will accrue at the rate of 6.00% and will be payable semi-annually in arrear on 26 July and 26 January in each year, commencing on 26 January 2017.

The Notes may be redeemed by the Issuer in whole, but not in part, at their principal amount, plus accrued and unpaid interest thereon (if any), if, as a result of a change of law, the Issuer becomes obliged to pay certain additional amounts and otherwise as described under "*Terms and Conditions of the Notes—6(b) Redemption for Taxation and Other Reasons*". The Notes may be redeemed at the option of holders of the Notes (together, the **Noteholders**) at 101% of their principal amount, plus accrued and unpaid interest thereon (if any), under certain circumstances relating to a change of control of JSC Bank of Georgia (the **Bank**), as described below under "*Terms and Conditions of the Notes—Condition 6(c)* (*Redemption at the Option of Noteholders upon a Bank Change of Control*)". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 26 July 2023 (the **Maturity Date**).

The Notes will constitute unsecured and unsubordinated obligations of the Issuer (subject as described in Condition 4(a) (Negative Pledge)). See "*Terms and Conditions of the Notes—Condition 3* (*Status*)".

This prospectus (the **Prospectus**) has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive (as defined below). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list (the **Official List**) of the Irish Stock Exchange and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC. The approval of the Central Bank of Ireland relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Reference in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. There is no assurance that a trading market in the Notes will develop or be maintained.

The denominations of the Notes shall be US$200,000 and integral multiples of US$1,000 in excess thereof.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 6 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are being offered and sold outside the United States in accordance with Regulation S under the U.S. Securities Act (**Regulation S**) and within the United States to qualified institutional buyers (**QIBs**) in reliance on Rule 144A under the U.S. Securities Act (**Rule 144A**). Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or passed upon the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offence. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes that are being offered and sold in accordance with Regulation S (the **Regulation S Notes**) will initially be represented by a Regulation S global certificate (the **Regulation S Global Certificate**) in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on or about 26 July 2016 (the **Closing Date**). Notes that are offered and sold in reliance on Rule 144A (the **Rule 144A Notes**) will initially be represented by beneficial interests in a restricted global certificate (the **Rule 144A Global Certificate** and, together with the Regulation S Global Certificate, the **Global Certificates**) in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company (**DTC**). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their account holders. Definitive notes in respect of beneficial interests in the Regulation S Global Certificate and the Rule 144A Global Certificate (**Regulation S Definitive Certificates** and **Rule 144A Definitive Certificates**, respectively, and, together, the **Definitive Certificates**) will not be issued except as described under "*Terms and Conditions of the Notes*".

The Notes are expected to be rated "BB-" by Fitch Ratings Ltd., (**Fitch**) and "B1" by Moody's Investors Service Limited (**Moodys**). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Credit ratings included or referred to in this Prospectus have been issued by Fitch and Moodys, the first of which is established in the European Union (the **EU**) and all of whom are registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the **CRA Regulation**).

Joint Lead Managers

BofA Merrill Lynch **J.P. Morgan**

Co-Manager

Galt & Taggart

Prospectus dated 22 July 2016

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended (the **Prospectus Directive**), and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole and the Notes. The Issuer (the **Responsible Person**) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of J.P. Morgan Securities plc, or Merrill Lynch International (each a **Joint Lead Manager** and, together, the **Joint Lead Managers**), or JSC Galt & Taggart (the **Co-Manager** and, together with the Joint Lead Managers, the **Managers**), or the Issuer to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Notes and distribution of this Prospectus, see "*Transfer Restrictions*" and "*Subscription and Sale*".

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

None of the Managers, Citicorp Trustee Company Limited (the **Trustee**), the Agents (as defined below, see *"Terms and Conditions of the Notes"*), or any of their respective directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue and offering of the Notes and no representation or warranty, expressed or implied, is made by the Managers, the Trustee or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

Nothing contained in this Prospectus is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether relating to the past or the future, by the Managers, the Trustee, the Agents or any of their respective directors, affiliates, advisers or agents in any respect. Furthermore, none of the Managers nor the Trustee makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes, the performance and observance by the Issuer of its obligations in respect of the Notes or the recoverability of any sums due or to become due from the Issuer under the Notes or the accuracy or completeness of the information contained in this Prospectus.

In making any investment decision, investors must rely on their own examination of the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole, Georgia, the Notes and the terms of this offering, including the merits and risks involved. See "*Risk Factors*". Each potential investor must determine the suitability of an investment in the Notes in light of such investor's own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments (the US Dollar) is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of the financial markets in which they participate; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors should not construe anything in this Prospectus as legal, business or tax advice. Each investor should consult its own advisers as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. The Notes have not been approved or disapproved by any U.S. federal or state securities commission or regulatory authority. In addition, no U.S. federal or state securities commission or regulatory authority has confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

This Prospectus does not, and is not intended to, constitute or contain an offer to sell or solicitation of an offer to purchase the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer and the Managers to inform themselves about and to observe such restrictions. This Prospectus may only be used for the purpose for which it is published. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes have not been and will not be registered under the U.S. Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

The Trust Deed (as defined below) provides that the Trustee will be required to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or pre-funded and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions and accordingly in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity and/or prefunding and/or security to it, and it will be for Noteholders to take such actions directly.

NOTICE TO INVESTORS IN GEORGIA

This Prospectus and the information contained herein are not a public offer or advertisement of the Notes in Georgia and are not an offer, or an invitation to make offers, to purchase, sell, exchange or transfer any securities in Georgia or to or for the benefit of any Georgian person or entity, unless and to the extent otherwise permitted under Georgian law, and must not be made publicly available in Georgia. The Notes have not been and will not be registered in Georgia and are not intended for "placement", "public circulation", "offering" or "advertising" (each as defined in Georgian law) in Georgia except as permitted by Georgian law.

In connection with the issue of the Notes, J.P. Morgan Securities plc (the **Stabilising Manager**) (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the initial allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

ADDITIONAL INFORMATION

The Issuer has agreed that, so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) of the U.S. Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **U.S. Exchange Act**), nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owner of any such “restricted security”, or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) of the U.S. Securities Act upon the request of such holder or beneficial owner.

This Prospectus is being furnished by the Issuer in connection with an offering exempt from the registration requirements of the U.S. Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of Notes described herein. The information contained in this Prospectus has been provided by the Issuer and other sources identified herein. This Prospectus is being furnished on a confidential basis to QIBs in the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Notes offered hereby, is prohibited. Each potential investor in the Notes, by accepting delivery of this Prospectus, agrees to the foregoing.

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OVERVIEW OF THE OFFERING

This overview describes the principal terms of the Notes. This overview does not purport to be complete and is qualified in its entirety by the remainder of this Prospectus. See "Terms and Conditions of the Notes" for a more detailed description of the Notes.

The Offer	Offering of U.S.350,000,000 6.00% Notes due 2023. The Notes are being offered by the Issuer (i) in the United States to certain QIBs (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act; and (ii) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.
Issuer	Joint Stock Company BGEO Group
Joint Lead Managers	J.P. Morgan Securities plc and Merrill Lynch International
Co-Manager	JSC Galt & Taggart
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent	Citibank, N.A. London Branch
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG
Issue Price	99.297% of the principal amount of the Notes.
Interest	The Notes will bear interest at the rate of 6.00% per annum from and including 26 July 2016 to but excluding 26 July 2023. Interest on the Notes will be payable semi-annually in arrear on 26 January and 26 July in each year, commencing on 26 January 2017.
Status and Ranking of the Notes	The Notes constitute unsecured and unsubordinated obligations of the Issuer (subject as described in Condition 4(a) (*Negative Pledge*)) and shall at all times rank *pari passu* and without preference amongst themselves. The Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least *pari passu* in right of payment equally with all other unsubordinated creditors of the Issuer.
Form	The Notes will be issued in registered form, without coupons attached, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will be represented by interests in a Regulation S Global Certificate and a Rule 144A Global Certificate, each in registered form without coupons. The Regulation S Global Certificate will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Certificate will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Certificate and the Rule 144A Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg. The Global Certificates will be exchangeable for Definitive Certificates only in the limited circumstances described under "*Overview of Provisions Relating to the Notes in Global Form*".

Redemption	Subject to early redemption or acceleration, the Notes will be redeemed on 26 July 2023.
Tax Redemption	Upon the occurrence of certain events relating to taxation in Georgia as a result of which the Issuer becomes obligated to pay additional amounts on the Notes, the Issuer may redeem the outstanding Notes in whole (but not in part) at any time, at their principal amount plus accrued interest thereon (if any) to, but excluding the redemption date. See "*Terms and Conditions of the Notes—Condition 6(b)* (*Redemption for Taxation and Other Reasons*)".
Bank Change of Control	Upon the occurrence of a Bank Change of Control (as defined in the terms and conditions of the Notes (the **Conditions**)), the Noteholders will have the option to require the Issuer to redeem the Notes on the Bank Change of Control Put Date (as defined in the Conditions) at 101% of their principal amount, together with interest accrued thereon to (but excluding) the Bank Change of Control Put Date. See "*Terms and Conditions of the Notes—Condition 6(c)* (*Redemption at the Option of Noteholders upon a Bank Change of Control*)".
Negative Pledge and Other Covenants	Condition 4 (*Covenants*) contains a negative pledge; covenants limiting mergers by the Issuer and its Material Subsidiaries (as defined in the Conditions), disposals by the Issuer and its Material Subsidiaries and transactions between the Issuer, its Material Subsidiaries and its Affiliates (as defined in the Conditions); the payment of dividends and other distributions and payments by the Issuer, restrictions on the payment of dividends by Material Subsidiaries and the incurrence of Indebtedness (as defined in the Conditions) by the Issuer and the Bank; certain financial covenants; certain information furnishing requirements (including the provision of compliance certificates); and other covenants. See "*Terms and Conditions of the Notes—Condition 4* (*Covenants*)".
Events of Default	If an Event of Default (as defined in Condition 9 (*Events of Default*)) has occurred, the Trustee may give notice that the Notes are, and the Notes shall immediately become, due and payable at 100% of the principal amount together with (if applicable) accrued interest. See "*Terms and Conditions of the Notes—Condition 9* (*Events of Default*)".
Credit Ratings	The Issuer has local- and foreign-currency ratings of "B1" and "not-prime" for long-term and short-term issuer default ratings, respectively, from Moodys. Moodys' outlook on the long-term rating is stable. The Issuer has a "BB-" long-term foreign currency issuer default rating, a "B" short-term foreign currency issuer default rating, a "bb-" viability rating and a "5" support rating from Fitch. Fitch's outlook for the Issuer's long-term default rating is stable. In March 2016, Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**Standard & Poor's** or **S&P**) affirmed the Bank's "BB-/B" long- and short-term counterparty credit ratings. S&P's outlook for the Bank's ratings is stable. In May 2016 Fitch affirmed the Bank's long-term foreign and local currency issuer default rating at "BB-" and short-term foreign and local currency issuer default rating at "B", viability rating at "bb-" and support rating at 4, and the outlook is stable. In March 2016, Moodys published a credit opinion for the Bank with foreign and local currency deposits rated at "B1/NP" and "Ba3/NP" respectively, and the outlook is stable.

	The Notes are expected to be rated "BB-" by Fitch, and "B1" by Moodys. Fitch is established in the EU and Fitch and Moodys are registered under the CRA Regulation. S&P is not established in the EU and has not applied for registration pursuant to the CRA Regulation. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Withholding Tax or Increased Costs; Gross up	All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, in accordance with "*Terms and Conditions of the Notes—Condition 8 (Taxation)*", unless such withholding is required by law, in which event, the Issuer shall, save in certain circumstances provided in "*Terms and Conditions of the Notes—Condition 8 (Taxation)*", pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required.
Use of Proceeds	The net proceeds received by the Issuer from the issuance of the Notes (after deducting expenses, management, underwriting, selling and any additional fees and commissions) will be used as follows: • up to US$250 million will be funded to the Bank by way of senior debt and applied to fund the acquisition of 2017 Notes (as defined below) by the Bank as part of the tender offer and exit consent solicitation and otherwise used for the Bank's general corporate purposes; and • up to US$100 million will be retained by the Issuer and used for the Issuer's general corporate purposes, including to fund investments in existing Group businesses and potential opportunistic acquisitions, including the GGU Acquisition (as defined below). See "*Use of Proceeds*".
Tender Offer and Exit Consent Solicitation	On 30 June 2016, the Bank invited holders of the US$400,000,000 7.75% Notes due 2017 issued by the Bank (the **2017 Notes**) to tender any or all of the 2017 Notes held by them for purchase by the Bank

	for cash and to concurrently consent to amend by extraordinary resolution (i) the terms and conditions of the 2017 Notes to provide for mandatory early redemption of the 2017 Notes by the Bank and that all disputes arising out of the 2017 Notes are settled through arbitration only and (ii) the trust deed constituting the 2017 Notes to provide that all disputes arising out such trust deed are settled through arbitration only, in each case, on the terms and subject to the conditions set forth in the tender offer and consent solicitation memorandum dated 30 June 2016 relating to such invitation (the **Tender Offer and Consent Solicitation Memorandum**).
Listing and Admission to Trading	Applications have been made to the Irish Stock Exchange for the Notes to be admitted to listing on the Official List and for the Notes to be admitted to trading on the Main Securities Market.
Selling Restrictions	The Notes have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The offer and sale of Notes is also subject to restrictions in Azerbaijan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Georgia, Turkey, Hong Kong, Russia, Singapore, Switzerland, the United Kingdom and other jurisdictions. See "*Subscription and Sale*".
Governing Law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law.
Arbitration and Jurisdiction	The Notes and the Trust Deed provide that disputes are to be resolved by arbitration in London, England.
Risk Factors	Prospective purchasers of Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "*Risk Factors*" before making an investment in the Notes.
Security Codes	Regulation S Notes: ISIN: XS1405775880 Common Code: 140577588 Rule 144A Notes: ISIN: US47973XAA90 Common Code: 098266704 CUSIP: 47973XAA9

Overview of the Group

The Group is a Georgia-based banking group with an investment arm. The Company is the Georgian intermediate holding company for the Group's operating businesses, which comprise the banking business (**Banking Business**) and the investment business (**Investment Business**). Its parent company (and therefore the ultimate parent company of the Group) is BGEO Group PLC (formerly known as Bank of Georgia Holdings

PLC), a UK incorporated holding company which is listed on the premium segment of the London Stock Exchange plc (the **London Stock Exchange**). The market capitalisation of BGEO Group PLC as of 20 July 2016 was £1,050.50 million.

The Company is wholly owned directly by BGEO Group PLC and was established in May 2015 in response to the National Bank of Georgia's (**NBG**) stated intention to regulate banks in Georgia on a stand-alone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities. The Company holds BGEO Group PLC's former direct shareholding in the Bank and its non-banking subsidiaries, which became the Bank's sister companies under the Company as a result of the Group reorganisation described below. See *"Description of Business—History and Development*". As the Company is a holding company, the Group performs its principal business activities through the Company's subsidiaries and is dependent on the receipt of dividends from these subsidiaries.

The Banking Business consists of retail banking and payment services (**Retail Banking**) and corporate investment banking and leasing services (**CIB**), with ancillary business lines including property and casualty (**P&C**) insurance, leasing and payment services, as well as banking operations in Belarus (which the Group conducts through JSC Belarusky Narodny Bank (**BNB**)). The Group primarily conducts its Banking Business though its subsidiary, the Bank, which is the leading bank in Georgia based on total assets (with a 33.5% market share), total gross loans (with a 32.3% market share) and total customer deposits (with a 33.2% market share), according to statistics published by the NBG. The Bank strives to benefit from the underpenetrated banking sector in Georgia, especially through the provision of retail banking services. The Banking Business comprised 86.8% of the Group's total revenue in 2015 and 84.0% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations.

The Group's Investment Business, which is intended to allow the Group to take advantage of investment opportunities in Georgia's corporate sector, primarily comprises Georgia Healthcare Group plc (the **Healthcare Business** or **GHG**)—a hospital and medical insurance business, with a recently acquired pharmaceutical business, which is listed on the premium segment of the London Stock Exchange with a market capitalisation of £423.0 million as of 20 July 2016; m2 Real Estate (the **Real Estate Business** or **m2**), an indirectly wholly owned subsidiary of the Company; and other investments, including JSC Teliani Valley (**Teliani Valley**), a wine and beverage business in which the Group owns a 71% stake as of 31 March 2016. In addition, in 2016, the Investment Business is also expected to acquire all of Georgian Global Utilities Limited (**GGU**). See "*Description of Business—Recent Developments*". The Investment Business comprised 15.3% of the Group's total revenue in 2015 and 17.2% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations.

RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of Notes should carefully read this entire Prospectus. In addition to the other information in this Prospectus, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment in the Notes. Any of the risks described below could have a material adverse effect on the Group's business, financial condition and results of operations. If any of the following risks actually occurs, the market value of the Notes may be adversely affected. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. Although the Group believes that the risk factors described below represent the principal risks inherent in investing in the Notes, there may be additional risks and uncertainties that the Group currently considers immaterial or of which the Group is currently unaware, and any of these risks and uncertainties could have similar effects to those set forth below. Accordingly, the Group does not represent that the statements below regarding the risks of holding any Notes are exhaustive. As used in these Risk Factors, the terms "loan" and "loans to customers" means the sum of loans to customers and finance lease receivables.

Risks Relating to the Group's Banking Business

The Group's Banking Business loan portfolio is heavily US Dollar denominated, the quality of which may deteriorate as a result of slower economic growth and Lari depreciations and devaluations

As of 31 March 2016 and 31 December 2015, approximately 89.4% and 89.7% and approximately 55.7% and 53.6% of the Group's CIB loan and Retail Banking loan portfolios, respectively, were denominated in foreign currency (predominantly US Dollars), while US Dollar income represented approximately 24.8% of the Group's total loan portfolio as of each of 31 March 2016 and 31 December 2015. In contrast, as of 31 March 2016 and 31 December 2015, approximately 57.2% and 57.9% and approximately 76.5% and 74.1% of the Group's corporate banking deposits and retail deposits, respectively, were denominated in foreign currency (predominantly US Dollars). The quality of the Bank's loan portfolio is affected by changes in the creditworthiness of the Bank's customers, the ability of customers to repay their loans on time, the statutory priority of claims against customers, the Bank's ability to enforce its security interests over customers' collateral or real estate and control the value of such collateral should such customers fail to pay interest on, or repay the principal of, their loans, as well as other factors beyond the Bank's control, such as economic instability. Depreciation of the Lari against the US Dollar may result in customers having difficulty repaying their loans. The Bank's impairment charges and, in turn, the cost of credit risk may increase if a single large borrower defaults or a material concentration of smaller borrowers default. In addition, fluctuations of the Lari against the US Dollar may cause the value of the Bank's loan portfolio to fluctuate, in particular, in light of the high concentration of US Dollar denominated loans, as compared to US Dollar denominated deposits.

Real GDP growth slowed to 2.8% in 2015, as compared to 4.6% in 2014, according to statistics published by the Legal Entity of Public Law National Statistics Office of Georgia (**Geostat**), due to challenging global market conditions. The Georgian economy has been affected by Russia's recession and economic slowdown, as well as by currency depreciations among Georgia's main trading partners. As a result of these factors, in 2015, Georgia's exports decreased significantly and remittances were reduced, particularly from Russia and Greece (which are the largest sources of remittances to Georgia). The resulting shortfall in foreign earnings, combined with the worldwide strengthening of the US Dollar and related increase in deposit dollarisation, caused the Lari to depreciate by more than 20% against the US Dollar in 2015. See also "*—Currency fluctuations have affected, and may continue to affect, the Bank*." In order to mitigate the impact of depreciation related increases in inflation expectations, the NBG gradually tightened its monetary policy in 2015. As a result, there was slower credit growth during the second half of 2015, which in turn led to further liquidity in the banking sector, notwithstanding the increase in deposit dollarisation, and non performing loans (as defined by the NBG)) remained at stable levels (2.7% as of 31 December 2015, as compared to 3.0% as of 31 December 2014). Although economic growth in Georgia has accelerated since February 2016 (according to Geostat, GDP growth was 2.6% in February 2016, 3.4% in March 2016 and 4.3% in April 2016, compared to 0.8% in January 2016) global economic performance has remained weak in 2016 to date. There can be no assurances that any such factors will in factor contribute to further economic growth.

As the majority of the Bank's customers with foreign-currency denominated loans depend on Lari-denominated income, any depreciation of the Lari against the currency of the loan may result in customers facing difficulties repaying their loans. In 2015, there was an increase in foreign currency (predominantly US Dollar) non performing loans (which are loans on which principal and interest are more than 90 days overdue, as well as any additional potential losses that might be assessed by the management) (**NPLs**) in both the Retail Banking and CIB loan portfolios, principally as a result of the Lari devaluation and slower economic growth in Georgia. In 2015, the Banking Business foreign currency denominated deposits increased by 51.2% on a nominal basis, and 17.7% on a constant currency basis, as compared to 2014, primarily due to the Lari devaluation. In the three months ended 31 March 2016, Banking Business foreign currency denominated deposits continued to increase by 2.9% on a nominal basis, and 4.1% on a constant currency basis, as compared to the three months ended 31 March 2015. Banking Business foreign currency NPLs as a percentage of gross loans increased to 1.5% from 1.1% in Retail Banking and to 6.2% from 3.8% in CIB as of 31 December 2015, as compared to 31 December 2014. Banking Business foreign currency NPLs as a percentage of gross loans increased to 1.8% from 1.5% in Retail Banking and to 6.6% from 6.2% in CIB as of 31 March 2016, as compared to 31 December 2015.

The Group maintains and presently reviews its credit policies designed to manage risk, which are reviewed periodically. The Bank's Credit Committees set counterparty limits by the use of a credit risk classification and scoring system and approve individual transactions. In addition, in 2015, the Group increased its Banking Business NPL coverage ratio (which was 83.4% at the end of 2015 compared to 67.5% at the end of 2014). The Bank continuously monitors market conditions and reviews market changes, and it also performs stress and scenario testing to test its financial position under adverse economic conditions. Among other things, the Bank stress tests the loan book to estimate the size of the portfolio that may be impaired. In light of the recent Lari to US Dollar devaluation, the Bank stress tests using a GEL/US Dollar exchange rate of 2.7:1, allocates 75% more capital to the foreign currency loans of clients (as compared to such customers with Lari denominated loans) and discounts real estate collateral values due to exchange rate fluctuations by 20%. Although these policies are intended to manage risk related to the Bank's US Dollar-denominated loan book, however, the continued quality of the Banking Business loan book and its future cost of credit risk is dependent on macroeconomic conditions. In particular, any depreciation or devaluation of the Lari against the US Dollar may result in the Bank's customers facing difficulty in meeting their payment obligations. There is no assurance that the Bank's scenario testing and possible loss limitation will protect it from further losses. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to maintain the quality of its Banking Business loan portfolio

The quality of the Banking Business loan portfolio may deteriorate due to external factors beyond the Group's control such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio. For example, in 2015, the Banking Business loan book quality was negatively affected by the economic slowdown in Georgia. In the three months ended 31 March 2016, the Banking Business cost of credit risk was GEL 35.0 million, as compared to GEL 40.8 million in the corresponding period of 2015. The Banking Business impairment charges and, in turn, cost of credit risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. As of 31 March 2016 and 31 December 2015 and 2014, loans past-due more than 90 days accounted for 3.7%, 3.1% and 2.6% of Banking Business gross loans, respectively. Loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or potential inability to pay, accounted for 5.4% of Banking Business net loans as of 31 March 2016 and 3.9% and 3.0% as of 31 December 2015 and 2014, respectively. For more information regarding the credit quality of renegotiated loans, see "*Risk Management—Credit Risk*". Any future deterioration in the quality of the Banking Business loan portfolio or increase in its loan impairment charges could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Bank's corporate loan portfolio is concentrated

The Bank's CIB loan portfolio is concentrated, with its top ten borrowers accounting for 12.1% of the loan portfolio of the Banking Business (gross of allowances for impairment) as of 31 March 2016 as compared to 12.7% as of 31 December 2015 and 15.7% as of 31 December 2014. The Bank's top ten borrowers accounted for 29.7% of the CIB gross loan portfolio of as of 31 March 2016, as compared to 30.4% as of 31 December 2015 and 31.6% as of 31 December 2014. See "*Selected Statistical and Other Information*". In general, corporate customers are price sensitive and more likely than retail customers to move their business to banks which offer competitive rates and other terms. Although the Bank believes it offers highly competitive packages for its corporate customers, there can be no assurance that the Bank's corporate customers will not transfer a significant portion of their deposits and/or loans to one or more of the Bank's competitors. In addition, to the extent that such borrowers enter into further loan arrangements with the Bank, this will increase the credit and general counterparty risk of the Banking Business with respect to those counterparties. For example, as of 31 March

2016, one of the Bank's top twenty corporate loans, accounting for 1.4% of the Bank's total corporate gross loan portfolio, was past-due by more than 90 days. Although the Bank aims to strictly adhere to the limits set by the NBG for client exposures, it regularly monitors the level of concentration in its loan portfolio and closely monitors the financial performance of its largest borrowers, and also aims to further mitigate the risk of credit losses from large exposures by using collateral to minimise loss given default (**LGD**) on its largest exposures, there can be no assurance that any such measures will be successful. Any loss of a key corporate borrower or deterioration in the quality of the Bank's CIB gross loan portfolio could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

Collateral values may decline

As of 31 March 2016, the Group held collateral against gross loans amounting to GEL 4,672.1 million, corresponding to 83.3% of the total gross loans of its Banking Business. The main forms of collateral taken in the corporate lending business are charges over real estate, equipment, inventory and trade receivables. The main form of collateral taken in the retail lending business is a charge over residential property. For mortgage loans secured by real estate, the Bank imposes a loan-to-value ratio (based on a market value of the real estate used as collateral) of between 60% and 90% at the time the loan is advanced, depending on the value of the secured property. In general, the Bank requires a lower loan-to-value ratio the greater the value of the property. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Bank's customers operate, such as the economic downturns which occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing loans, including a decline to levels below the outstanding principal balance of those loans.

In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Bank to accurately value collateral it holds. If the fair value of the collateral that the Bank holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days. Further, changes to laws or regulations may impair the value of such collateral. See "*—Additional Risks Relating to the Group—The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable*". If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Significant changes or volatility in the Banking Business net interest margin could have an adverse effect on the Banking Business performance

The Bank derives the majority of its total net income from net interest income. As a result, the Bank is affected by fluctuations in its net interest margin (**NIM**). In particular, it depends on the management of key factors that affect its NIM, such as interest rates, competition for loans and deposits, customer demand and cost of funding. These key factors are influenced by factors beyond the Group's control, such as global and local economic conditions, the resources of competitors and consumer confidence. Interest rates and cost of funding are highly sensitive to many factors beyond the Group's control, including monetary policies, domestic and international economic and political conditions and the reserve policies of the NBG.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period could reduce the NIM. The NIM for the Banking Business was 7.5% and 8.1% in the three months ended 31 March 2016 and 2015, respectively, and was 8.1% and 7.1% in 2015 and 2014, respectively. The decrease in NIM in the three months ended 31 March 2016, as compared to the three months ended 31 March 2015, was primarily due to excess liquidity levels (which is the actual liquidity ratio (as calculated in accordance with NBG guidelines), less 30% (representing the minimum levels required by the NBG), multiplied by current liabilities (as calculated in accordance with NBG guidelines)), which the Group strategically built up during 2015 in order to have a strong liquid position during the depreciation of the Lari against the US Dollar. The NIM for the Banking Business increased to 8.1% in 2015, as compared to 7.1% in 2014, primarily as a result of the acquisition of Privatbank. Any reduction in NIM caused by changes in the key factors outlined above, or otherwise, could have a material adverse effect on net banking interest income, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, any increase in interest rates may result in an increase in the periodic instalment amounts payable by the Bank's customers in respect of loans. Such an increase may result in difficulties related to the repayment of loans, which, in turn, may lead to a decrease in the quality of the Bank's loan portfolio and an increase in impairment provisions for loans extended to its customers, which could have a material adverse effect on the Bank's, and, in turn, the Group's business, financial condition and results of operations.

Currency fluctuations have affected, and may continue to affect, the Banking Business

A substantial portion of the total assets of the Banking Business, especially the Bank's loan portfolio (72.3% of gross loans of the Banking Business as of 31 March 2016), is denominated in foreign currencies, primarily US Dollars, while the majority of customers with foreign-currency denominated loans depend on Lari-denominated income. Consequently, any depreciation of the Lari against the currency of loans may result in customers facing difficulties repaying such loans. Although the Bank offers programmes to customers facing difficulties (for example, offering certain customers the opportunity to voluntarily restructure their mortgage loans), there can be no assurance that any of these programmes will materially reduce the number of customers facing difficulties. In 2015, the Lari depreciated against the US Dollar by 22.2%. NPLs to gross loans for the Banking Business increased to 4.3% as of 31 December 2015, as compared to 3.4% as of 31 December 2014, and the cost of risk ratio for the Banking Business increased to 2.9% in 2015, as compared to 1.1% in 2014. In the last three months of 2015, the GEL/US$ exchange rate stabilised. Since 1 January 2016, the Lari has appreciated against the US Dollar. The Group is unable to predict future changes in the GEL/US$ exchange rate. Future depreciation of the Lari against foreign currencies (particularly, the US Dollar) could lead to a decrease in the quality of the Bank's loan portfolio and an increase in impairment provisions for loans to customers.

In addition, the operations of the Banking Business are affected by the Lari to Belarusian Rouble exchange rate as this affects the value of the Bank's 80% equity interest (as of 31 March 2016) in BNB, on a consolidated basis, which may, in turn, affect the Bank's ability to comply with contractual covenants based on the Basel I Total Capital Adequacy Ratio, calculated on a consolidated basis. See "*Description of Business—Banking Business—Belarus Banking Operations*". A depreciation of the Belarusian Rouble against the Lari reduces BNB's contribution to the Group's consolidated capital, as it directly affects BNB's results of operations and indirectly affects the value of the Bank's equity interest. Notwithstanding the depreciation of the Lari/Belarussian Rouble (by 36.2% against the US Dollar in 2015), the regulatory capital of BNB increased slightly in Lari terms (by 1.8% between 2014 and 2015), and remained above the minimum regulatory capital requirement set by the National Bank of the Republic of Belarus (**NBRB**). As of 31 March 2016, the regulatory capital of BNB was GEL 63.5 million. Any subsequent depreciation or a devaluation of the Belarusian Rouble could result in further declines in BNB's regulatory capital. If the Lari exchange rate against the US Dollar or the Belarusian Rouble fluctuates, or, as a result of any currency depreciation or devaluation, any counterparties of the Banking Business default on their obligations, this could lead to the Banking Business suffering losses, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Banking Business is subject to operational risk inherent in banking activities

The Banking Business is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. The financial services industry is exposed to the risk of misconduct by employees, which could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines, as well as serious reputational or financial harm.

The proper functioning of the banking systems, risk management, internal controls, accounting, customer service and other information technology systems such as loan origination, are critical to the operations of the Banking Business. Over the past few years, as its operations have expanded, the Banking Business has seen an increase in external fraud, although losses from such fraud have not increased significantly and have declined since 2013. Cyber-security threats have also increased year on year, but have not affected the Bank's operations. The Bank is subject to five major cyber-security threats: data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance e-mail attacks. Although to date cyber-security threats have not materially affected the Bank's operations, it is expected that such threats will continue to increase, which will require the Bank to closely monitor such threats. Money laundering has also increased globally and is continuously monitored by the Bank's anti-money laundering (**AML**) compliance department.

Although the Issuer's Board of Directors and Senior Managers (the **Management**) believe that the risk management policies and procedures of the Banking Business (which are designed to identify and analyse relevant risks to the banking business, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis) are adequate and that the Banking Business is currently in compliance in all material respects with all laws, standards and recommendations applicable to it, any failure of the Group's risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties adequately to perform key outsourced activities, such as card processing and the transportation of cash, could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to implement its strategy to grow its Banking Business, and may be subject to risks relating to its expansion

The Group aims to achieve long-term sustainable growth and profitability of its Banking Business by increasing the relative and absolute size of its Retail Banking business and generating additional non-interest income from advisory and other fee-generating businesses. There can be no assurance, however, that the Group will be able to achieve its major strategic objectives, including increasing its revenue or profitability. The Group's ability to achieve its strategic objectives in its Banking Business may be adversely affected by negative trends in the Georgian economy, the economies of neighbouring countries and the performance of the global economy. In addition, the Bank's strategic objectives are based, in part, on the expectation that the Georgian banking sector will continue to grow in general and with respect to retail banking in particular. There can be no assurance that these expectations will be met, which could, in turn, adversely affect the Bank's ability to achieve its objectives. For example, in order to deliver on the Bank's current strategy of increasing retail loans by at least 20% per annum, the Bank may be willing to extend loans to higher credit risk customers. There can be no assurance that the anticipated growth in retail loans will offset any deterioration in the quality of the Bank's loan portfolio. Furthermore, the Bank's expansion strategy is expected to be financed through attracting more deposits, additional borrowings and possibly additional capital, as well as cash flows provided by operations. However, external financing and the cost of such financing are dependent on numerous factors, many of which are outside of the Bank's control. The Bank cannot provide any assurance that it will be able to arrange any such external financing on commercially reasonable terms, if at all, and the Bank's inability to access such funding at favourable rates could adversely affect its ability to implement its strategy. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's risk management policies and procedures may not effectively mitigate credit risk in Banking Business

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Group in the Banking Business to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of the Banking Business loan portfolio. In addition, even though the Bank requires regular financial disclosure by its corporate customers or counterparties, customer and counterparty financial statements may not always present a complete and accurate picture of each customer's or counterparty's financial condition. Some of the Group's corporate customers or counterparties may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to evaluate effectively the current financial condition of each prospective corporate borrower or counterparty and to evaluate effectively the ability of such corporate borrower or counterparty to repay its loans when due. Similarly, the creditworthiness of some retail customers or counterparties is difficult to assess and predict, as some retail borrowers or counterparties have limited credit history. Accordingly, the risk management systems employed by the Group in the Banking Business may prove insufficient in measuring and managing risks, which could, in turn, have a material adverse effect on the Group's business.

The Group faces liquidity and funding risk in the Banking Business

The Banking Business is exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Liquidity risk is inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability. Credit markets worldwide have in recent years experienced, and may continue to experience, a reduction in liquidity and long–term funding as a result of global economic and financial factors. The availability of credit in emerging markets, in particular, is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings of the Company, the Bank, the NBG or Georgia, or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for companies, such as the Bank or the Group, operating in any of these markets.

The Group seeks to manage its Banking Business liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including retail and CIB customer deposits, inter-bank borrowing and borrowing from the NBG) and longer-term sources of funding (including term retail and corporate deposits, borrowing from international credit institutions, sales and purchases of securities and long-term debt securities). The current liquidity of the Banking Business may be affected by unfavourable financial market conditions. If assets held by the Banking Business in order to provide liquidity become illiquid or their value drops substantially, the Group may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available on the Georgian inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to access such external funding sources depends on the level of credit lines available to the Banking Business, and this, in turn, is dependent on the Group's financial and credit condition, as well as general market liquidity.

Customer deposits are one of the most important sources of funding. As of 31 March 2016 and 31 December 2015 and 2014, 88.3%, 88.6%, and 88.2%, respectively, of amounts due from the Group to customers had maturities of one year or less, while 45.7%, 45.7%, and 44.2%, respectively, were payable on demand. As of the same dates, the ratio of net loans to client deposits and notes for the Banking Business was 108.7%, 107.5%, and 127.5%, respectively. In terms of current and short-term liquidity, the Banking Business is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to rapidly withdraw deposits in large volumes include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. By way of example, the Bank experienced a higher than usual volume of customer withdrawals in the period following the 2008 conflict with Russia (the **2008 conflict**). See *"—Macroeconomic Risks and Political Risks Related to Georgia—Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group's business*." If a substantial portion of Banking Business customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to certain regulatory ratios in the Banking Business

The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios"*.

The current NBG capital regulation is based on a combination of Basel II and III guidelines, with material regulatory discretions applied by the NBG due to the specifics of the local banking industry. In addition to Basel II/III requirements, from 30 June 2014 to 31 December 2017, Georgian banks are also required to comply with certain regulatory capital ratios under the existing NBG regulation, which, will be progressively phasing out by 1 January 2018. See "*Selected Consolidated Financial and Operating Information—Banking Business Statement of Financial Position—Selected Financial Ratios—Banking Business*" for certain of the Bank's regulatory capital ratios as of and for the three months ended 31 March 2016 and as of and for the years ended 31 December 2015 and 2014.

Pursuant to NBG Decree No. 100/04, commercial banks in Georgia were required to submit Pillar 2 requirements (the **ICAAP**) to the NBG by 1 October 2014. In October 2014, the Bank submitted its first Pillar 2 ICAAP Report to the NBG. The Bank also submitted to the NBG a full draft of its internal capital regulation and policies and received feedback from the NBG following its review in May 2015. Based on this feedback from the NBG, the Bank is updating its draft Pillar 2 package, and plans to re-submit it to the NBG for further review in August 2016. Once the regulatory review process is finalised, a final package of the Pillar 2 internal regulations will be approved by the Bank's Supervisory Board.

BNB is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. As of 31 March 2016, its total capital adequacy ratio (as calculated in accordance with the requirements set by the NBRB) was 15.9%, as compared to the 10% minimum requirement set by the NBRB. As of 31 March 2016, BNB had Tier I ratio of 10.2%, as compared to the 6% minimum requirement set by NBRB.

The Bank is not in breach of any applicable capital adequacy or regulatory ratios. However, the Bank's ability to comply with applicable capital adequacy and regulatory ratios could be affected by a number of factors, some of which are beyond its control, including:

- an increase of the Bank's risk-weighted assets;
- the Bank ability to raise capital;
- losses resulting from a deterioration in the Bank asset quality, a reduction in income levels, an increase in expenses or a combination of some or all of these factors;
- a decline in the values of the Bank's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and
- increases in minimum capital adequacy ratios imposed by the NBG.

Failure to maintain the minimum capital adequacy, liquidity, related party credit exposure and other regulatory ratios may have a material adverse effect on the Bank. The Bank may be subject to penalties from the NBG for violations of capital adequacy and other regulatory ratios. Depending on the seriousness of any violation, the NBG is also authorised to impose other sanctions, including suspension of the signatory authority of the Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of, receiving deposits or, in severe cases, withdrawal of the Bank's license. As is the case with the Bank, BNB is also subject to regulatory oversight and failure to maintain required levels of capital adequacy or any other ratio can similarly lead to potential administrative sanctions or business disruption. Sanctions imposed by a regulator in the case of a material breach of regulatory requirements could impact the Bank's or BNB's ability to conduct its business, and result in an increase in operating costs and loss of reputation, all of which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

The Banking Business operates in an evolving regulatory environment and changes to regulations are difficult to predict

The Banking Business operates in an evolving regulatory environment, which means that its Retail Banking business, CIB business and BNB are subject to changes in regulation imposed by various regulatory bodies. The Group cannot predict what regulatory changes will be introduced in the future or their effect. For example, the NBG has indicated that it might implement a new liquidity framework, although this remains uncertain. The Government of Georgia (the **Government**) may propose a deposit insurance scheme requiring all commercial banks to maintain insurance cover on deposits. The draft law prepared by the Government, which is still subject to further discussions and amendments prior to its submission for approval by the Georgian Parliament, will require insurance cover for all foreign currency and Lari denominated deposits of natural persons of up to GEL 5,000, with a monthly premium of 0.067% on Lari denominated deposits and 0.1% on foreign currency denominated deposits. The Government may focus more on the regulation of the banking sector and the Bank may become subject to stricter regulation, which may affect its business strategy, which may, in turn, have a material adverse effect on the Bank's business, financial condition and results of operations.

Regulation may also change as Georgia harmonises its laws with the EU in implementing an association agreement (the **EU Association Agreement**) to introduce a Deep and Comprehensive Free Trade Area (**DCFTA**) with the potential long-term goal of full integration into the EU market. As part of this harmonisation, Management anticipates that Georgia will adopt any incoming EU regulations. It is not possible to predict the timeframe or extent of such changes or the effect of such changes on the business of the Bank or the Group.

The Group faces competition in the Banking Business

In recent years, the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 March 2016, there were 19 commercial banks operating in Georgia, 18 of which are foreign controlled. The Bank competes with a number of these banks, including TBC Bank, Liberty Bank, ProCredit Bank, Bank Republic and VTB Georgia, in respect of retail, small and medium enterprise (**SME**) and micro finance loans and in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share.

Increased competition may have a negative impact on the Bank, particularly if the Bank's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding or a broader offering of products, or if the Bank's competitors merged to significantly enhance their financial resources, access to funding and product offerings. Unlike most of its competitors, the Bank has a relatively wide shareholder base (through its London listed ultimate parent, BGEO Group PLC) and does not have an international development financial institution as a majority shareholder, which the Bank believes provides it with access to a broader range of financing opportunities. An increase in competition could lead to significant pressure on the Bank's market share and has already led to and may, in the future, continue to lead to, increased pricing pressures on the Bank's products and services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Further, there can be no assurance that the current regulatory environment in which the Bank operates with respect to competition and anti-monopoly matters will not be subject to significant change in the future. Anti-monopoly matters with respect to the banking services sector in Georgia are currently overseen by the NBG. However, the Government may, in the future, seek to legislate or regulate competition and anti-monopoly matters in the Georgian banking industry through a governmental agency other than the NBG.

If the Bank fails to comply with any applicable regulations relating to, or is associated with, money laundering or terrorist financing, this could have an adverse effect on the Group

The Bank has implemented comprehensive AML, "know-your-customer" (**KYC**), "know your corresponding bank" and "know your employee" policies. Compliance with these policies is monitored by the Bank's AML Compliance Department and the Bank seeks to adhere to all requirements under applicable legislation in relation to money laundering. However, there can be no assurance that these measures will be effective. In addition, applicable regulations related to money laundering and terrorist financing are evolving and are subject to change, and the Bank cannot anticipate regulatory developments. Although EU and United States sanctions laws do not directly apply to Georgia, the Bank has undertaken an obligation in good faith to ensure compliance with targeted financial sanctions and, therefore, changes to existing regulations or the introduction of new regulations may have a direct effect on the Bank's policies and activities. If the Bank fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have a material adverse effect on its business, financial condition and results of operations. In addition, involvement in such activities may result in criminal or regulatory fines and sanctions. See "*Georgian Banking Sector—Anti-Money Laundering Compliance*".

Risks Relating to the Group's Investment Business

The Group may not be able to achieve its strategy for its Investment Business

As part of its current Investment Business strategy, the Group aims to achieve an internal rate of return (**IRR**) of at least 20% from its equity investments and up to a 20% contribution to the Group's profits from the Investment Business. The Group plans to target new investments that it believes will generate at least a 20% IRR through a partial or full exit within six years. The Group may not be able to expand its Investment Business in line with its strategy or realise its revenue and growth targets from the Investment Business.

The Group will continue to evaluate acquisition opportunities for its Investment Business. It might not be able to identify suitable acquisition opportunities, obtain the required financing for such acquisitions in the longer term, effectively compete with other potential acquirers of these businesses or negotiate attractive terms for such acquisitions. There may be a limited number of attractive acquisition opportunities and certain acquisition opportunities may command high valuations. The Group may not be able to realise the anticipated cost savings, synergies and revenue enhancements from any acquisitions that it does make. The costs of achieving synergies and other benefits may be higher than expected due to greater than expected expenditure on the integration and implementation of any future acquisitions, the Group's inability to eliminate duplicative functions, the Group's inability to avoid labour disruptions in connection with any business integration and its inability to make headcount reductions due to labour laws or other obstacles. The Group may not be able to achieve a full or partial exit from any of its existing or future businesses if it cannot identify suitable buyers or obtain a commercially acceptable price or valuation for these businesses and consequently it may not achieve its targeted IRR within six years, or at all.

In addition, if the Group's Investment Business fails to generate the level of profits which Management seeks to obtain, this would increase the Group's reliance on the Banking Business to generate sufficient dividend income to enable the Group to meet its obligations, including its obligations to holders of Notes. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks Relating to the Group's Healthcare Business

Healthcare services providers such as GHG may be the subject of litigation by patients, and it is possible that some of these cases will be adversely determined against it

Compared with Western countries, Georgia has historically experienced a low incidence of medical malpractice claims, and the awards for successful claims have been low. Claims have generally been made against the treating physician, or against both the physician and the physician's employer. Although GHG does not believe that the risk of litigation is significant at present, this may change in the future. As part of the overall development of the Georgian healthcare services market, and in light of increasing expectations as to the standards of medical care, medical malpractice claims and awards may increase. Consequently, these matters could require GHG to pay increased premiums for medical malpractice insurance, or risk incurring substantial damages or amounts in judgments or settlements, harming both GHG's reputation and the goodwill associated with its brand, potentially requiring significant time and attention from Management and requiring the Group to incur debt to finance any judgment or settlement. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

GHG success depends to a significant degree on its senior management and its ability to attract and retain qualified personnel

GHG's success depends to a significant degree on the skills, experience and efforts of its senior management team and other key managerial staff. Success also depends on its ability to recruit, train and retain an appropriate number of experienced physicians, nurses, technicians and other healthcare professionals at its healthcare facilities, as well as sales managers and underwriters at its insurance business. The factors that physicians may consider important in deciding where they will work include their compensation package, the reputation of the hospital, the quality of equipment and facilities and the quality and number of supporting staff. In some cases, physician recruitment and retention is affected by a shortage of physicians in certain specialties and the limited number of physicians proficient in the Georgian language. With respect to the insurance business, individuals with industry-specific experience in Georgia are scarce, and the market for such individuals is highly competitive. The factors that such professionals may consider important in deciding where they will work include their compensation package and the reputation of the insurance company. GHG competes with other healthcare providers and insurance companies located in Georgia, in neighbouring countries and (to a certain extent) elsewhere in Europe and Asia to recruit and retain highly-qualified physicians and other healthcare professionals, as well as sales managers and underwriters at its insurance business.

As a result of these factors, GHG may not be able to find adequate replacements for senior management or other key employees. The loss of services of one or more members of the senior management or other key employees could significantly weaken its ability to implement its strategy and to operate its business effectively. In addition, competition for qualified managers and staff may create increasing upward pressure on wages. If GHG is unable to transfer any increase in costs to customers effectively through the prices for its services and products or otherwise, then such increased costs could impose downward pressure on margins. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

GHG may not be able to achieve its strategy and it is subject to risks related to its expansion plans

GHG might not be able to expand its healthcare services business in line with its strategy or realise its revenue and growth targets and its expansion strategy may not generate the benefits expected, including those deriving from the recent acquisition of one of the top three pharmaceutical retailers and wholesalers in Georgia, JSC GPC (**GPC**), or any further acquisitions.

GHG intends to continue to expand its healthcare services business in Georgia by increasing capacity and occupancy rates at its existing healthcare facilities as well as by opening new healthcare facilities. This will place significant demands on its management and operational resources. A number of these projects will require substantial capital expenditure over a period of time, may incur significant cost overruns and may not be completed on time or at all. These projects may also divert management's attention from the day-to-day operation of GHG's business. Although GHG's management assess each organic growth project individually, each is subject to a number of assumptions concerning valuations, profitability, growth, demand for services and interest rates. These projects are also subject to assumptions about anticipated cost savings, synergies and revenue enhancements. Assessments might not prove to be correct because other factors, not accounted for in the relevant analyses, may cause actual developments to differ from their expectations. GHG may not achieve the operating levels that it expects from future projects and it may not be able to achieve its targeted return on investment, intended benefits or operating synergies from these projects.

In addition, in order to manage organic growth effectively, GHG must expand and continue to improve its operational systems and procedures on a timely basis. If GHG fails to do so, it may not be able to service its patients' needs, hire and retain new employees, pursue new business, effectively manage new hospital construction, properly budget costs, accurately estimate operating costs or otherwise operate the business effectively.

In view of the nature of the healthcare services, medical insurance and pharmaceutical industries in which GHG operates, GHG may have to revise its management estimates from time to time and, consequently, its funding requirements may also change over the longer term. This may result in the rescheduling of project expenditures and an increase or decrease in anticipated cash flows. Any unanticipated increase in the cost of expansion could adversely affect estimates of the cost and ability to implement GHG's organic growth plans as proposed. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

GHG cannot predict the effects of Georgia's new system of universal healthcare

GHG cannot predict the effects of Georgia's Universal Healthcare Programme (the **UHC**) on the Georgian healthcare sector. Previously, the Government had provided medical insurance coverage under certain State Insurance Programmes (the **SIPs**), which were introduced in 2007 and which, by 2012, provided medical insurance coverage (with no, or minimal, co-payments by beneficiaries) to approximately 2.1 million economically vulnerable citizens, including teachers, pensioners, young children, students and children with disabilities, by paying premiums to the private insurance companies that administered those programmes. Under the SIPs, the Government paid private healthcare insurers, including GHG, to provide insurance coverage. In March 2013, Georgia introduced the UHC, which is a Government funded healthcare programme that provides basic healthcare coverage to the entire population of Georgia, including more than 2.0 million people who had never previously held medical insurance and had previously purchased healthcare on an out-of-pocket basis. The UHC is not a healthcare insurance product, but an undertaking by the Government to reimburse healthcare providers directly for the delivery of treatment to patients and, accordingly, the UHC does not generate the payment of insurance premiums. Under the UHC, healthcare insurance coverage is consolidated and provided directly by the Government. Private medical insurance can be used to supplement or "top up" the basic state healthcare coverage. Although GHG believes that the recently implemented UHC will benefit the Georgian healthcare sector and, in turn, GHG's overall business, it may have unanticipated negative effects on GHG's insurance business or revenues. Following the introduction of the UHC, GHG no longer receives payments under the SIPs which, in turn, has decreased GHG's insurance business revenues. GHG's strategy assumes that, by making healthcare more accessible to a significant portion of the population, the UHC will increase demand for, and the total amount spent on, healthcare services in Georgia, but there is no assurance that these benefits will materialise. Among other things, the UHC may be amended as its effect becomes more apparent, and the Government may introduce new licensing or accreditation requirements or quality standards for healthcare providers. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

GHG depends on revenue from a limited number of customers, including the Government

GHG depends on revenue from a limited number of payors, including the Government. In the three months ended 31 March 2016, GHG received 2.8% of its total healthcare services revenue from its own medical insurance provider (JSC Insurance Company Imedi L (**Imedi L**)), 2.6% from other private medical insurance providers, 75.6% from the Government under the UHC and 19.0% from out of pocket payments by patients. In 2015 and 2014, respectively, GHG received 3.9% and 12.7% of its total healthcare services revenue from Imedi L, 1.8% and 9.2% from other private medical insurance providers, 76.1% and 55.7% from the Government under the UHC and 18.2% and 22.4% from out of pocket payments by patients. GHG expects that it will continue to depend on revenues from the Government and a small number of private medical insurance providers in the future. Accordingly, GHG's future success, and its ability to obtain favourable prices, will depend in part on its ability to maintain good working relationships with private insurance providers and may be impacted by any changes to the UHC or state funded healthcare programmes. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

GHG faces significant competition

GHG faces competition in the healthcare services industry in Georgia from a large and mainly fragmented group of competitors, in both the hospital and ambulatory clinic sectors, including Vienna Insurance Group, Gudushauri Chachava, Aversi and New Hospitals. Competition is based on factors such as reputation, clinical excellence, patient satisfaction and price. Competition is strongest in Tbilisi, although GHG faces competition in all of the regions in which it operates. In some cases, competing healthcare providers in certain regions are more established than GHG, and may have greater experience, infrastructure and brand loyalty than GHG. GHG also faces competition from other healthcare service providers, such as stand alone specialty centres and laboratories, for areas such as cardiology, oncology, urology and diagnostics. Although fewer in number and more limited in reach, GHG also competes with state owned hospitals and ambulatory clinics. Over time, GHG may also face competition from international healthcare companies with resources substantially greater than GHG's, which may begin providing services in Georgia in the future or attracting patients from Georgia as part of medical tourism. The prices that are charged to patients by healthcare providers are not regulated by the Government. GHG's competitors may consolidate, develop alliances or adopt predatory pricing policies to capture market share. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Fluctuations in currency exchange rates may affect GHG

All of GHG's revenues and expenses are in Lari, while a significant part of the medicines and medical disposables that it purchase are imported and the prices are in foreign currency (mostly US Dollars and Euro). Furthermore, the prices of almost all of the medical equipment that GHG purchases are also set in foreign currency (mostly US Dollars and Euro). A significant portion of GHG's borrowings (primarily loans to fund expansion plans) are also denominated in US Dollars. Accordingly, any depreciation of the Lari against the US Dollar or the Euro could increase GHG's costs and negatively affect its business. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations. See also "*—Risks Relating to the Group's Banking Business—Currency fluctuations have affected, and may continue to affect, the Bank*."

Risks Relating to the Group's Real Estate Business

m2 Real Estate is subject to the risks of developing and selling real estate

The Group's Real Estate Business, m2 Real Estate, is primarily engaged in developing affordable residential properties for sale and rental. Real estate property investments are subject to varying degrees of risk, which affect the level of income from the value of properties including:

- changes in the Georgian economic climate;
- local conditions such as a surplus of similar properties or a reduction in demand for property;
- the attractiveness of the property to tenants and purchasers;
- occupancy rates and the ability to collect rent from tenants;
- laws and governmental regulations, including environmental regulations, tax laws and insurance regulations; and
- acts of nature, such as earthquakes, floods and other extreme weather events that may damage property.

In addition, m2 Real Estate's projects are subject to the general risks associated with construction and development, including:

- cost overruns due to increased material, labour or other costs, which could make completion of the project unprofitable;
- the inability to obtain, or delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorisations, which could result in increased costs and delays in completion or could require m2 Real Estate to abandon a project entirely; and
- m2 Real Estate may be unable to complete construction and leasing of a property on schedule.

Although m2 Real Estate funds part of the cost of building and developing properties through pre-sales of units that are under construction and off plan sales of units before it starts construction, it also relies on third party funding, including loans from international finance institutions (**IFIs**), to finance certain of its projects. There can be no assurance that such funding will continue to be available on commercially acceptable terms, particularly if there is a decline in property prices in Georgia.

Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in Georgia may also result in illiquidity in the property market and a decline in the value of the Group's real estate portfolio. Because the Bank provides mortgage loans to the buyers of certain properties developed by m2 Real Estate, which are secured by mortgages over these properties, a decline in the value of these properties could also adversely affect the Banking Business. See "*—Risks Relating to the Group's Banking Business—Collateral values may decline*". Moreover, only three banks in Georgia (including the Bank) currently offer retail mortgage loans to finance the purchase of residential properties sold by m2 Real Estate. If any one or more of these banks stop offering mortgage loans to prospective buyers of these properties, or if there is a deterioration in economic conditions in Georgia, potential buyers of m2 Real Estate properties may not be able to obtain mortgage loans, which could lead to a decline in sales.

Any of these factors could have a material adverse effect on the financial condition and operating results of m2 Real Estate, which may, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

m2 Real Estate faces significant competition

m2 Real Estate faces competition in the real estate market in Georgia. The Georgian residential property market is dominated by local developers with a smaller number of foreign investors such as Dirsi (Azerbaijan), Hualing (China) and Dona Group (Israel). The Georgian commercial property market is fragmented, and m2 Real Estate mainly competes with smaller players with a small number of properties in their portfolio. Competition is based on price per square metre, rent, amenities and property maintenance services.

Developing three-star hotels is also part of m2 Real Estate's commercial property strategy. Although Georgia does not currently have an internationally branded chain of three-star hotels, the luxury and business hotel segment has expanded significantly in recent years and competition may increase in the budget hotel segment if the number of tourists visiting Georgia continues to increase. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Additional Risks Relating to the Group

The Group's businesses are subject to substantial regulation and oversight, and future changes in regulation, fiscal or other policies are unpredictable

The Group's businesses, particularly its Banking Business and its Healthcare Business, are subject to significant regulation and governmental supervision. If regulations change or the Group expands its businesses, the Group may become subject to additional rules and regulations at a national, international or supranational level, which may impact operations. Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of detailed rules relating to such change. There can be no assurance that the current regulatory environment in which it operates will not be subject to significant change in the future, including as a result of a change in government in Georgia or Belarus, or that the Group's Banking Business and Healthcare Business will be able to comply with any or all resulting regulations. See "*—Macroeconomic Risks and Political Risks Related to Georgia—Political and governmental instability in Georgia could have a material adverse effect on the local economy and on the Group's business.* " If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group depends on key management and qualified personnel

The current senior management team includes a number of individuals that the Bank believes contribute significant experience and expertise in the banking, healthcare, real estate and other industries in which the Group operates. The Group's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to its business. There can be no assurance that it will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of its senior management team or an inability to recruit, train or retain necessary personnel could have a material adverse effect on its business.

The Group's insurance policies may not cover, or fully cover, certain types of losses

The Group generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Georgia, including P&C insurance with JSC Insurance Company Aldagi (**Aldagi**) (which is reinsured by international insurance brokers) and health insurance for its employees with Imedi L. The Group seeks to insure against a range of risks, including fire, lightning, flooding, theft, vandalism and third-party liability. The Bank also maintains Bankers' Blanket Bond and directors' and officers' liability insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect its existing operations and could, in turn, have a material adverse effect on the business.

The Group faces certain risks associated with conducting international operations

The Bank has historically made investments in Ukraine and Belarus, although the Bank had liquidated all of its Ukrainian banking investments by 2014. The Bank's financial results in 2011 were adversely affected by a goodwill write down in the amount of GEL 23.4 million, due to the write off of the entire goodwill associated with BNB, as a result of a material devaluation of the Belarusian Rouble. The Bank intends to seek to exit from its investment in BNB at the appropriate time. While it retains its investment in BNB, it will continue to be subject to risks relating to its operations, including political and economic risks, compliance risks and foreign currency exchange risks, regulatory risks as well as the risk of failure to market adequately to potential customers in Belarus. See "*—Macroeconomic and Political Risks Related to Georgia—There are additional risks associated with investing in emerging markets such as Georgia*". Any failure to manage such risks may cause the Bank to incur increased liabilities, which could, in turn, have a material adverse effect on its business.

Macroeconomic and Political Risks Related to Georgia

Regional tensions could have an adverse effect on the local economy and the Group's business

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia, since Georgian independence in 1991. These disputes have led to sporadic violence and breaches of peace-keeping operations. In August 2008, the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war. Although Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russia recognised the independence of the breakaway regions and tensions persist as Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia. For example, in the summer of 2013, Russian border guards erected fences along portions of the demarcation line between Georgia and South Ossetia, which moved the de-facto border further into Georgian-controlled territory and similar future actions could further increase tensions. Russia is also opposed to the eastward enlargement of NATO, potentially including former Soviet republics such as Georgia. The Government has taken certain steps towards improving relations with Russia, but, as of the date of this Prospectus, these have not resulted in any formal or legal changes in the relationship between the two countries.

Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy. The crisis in Ukraine began in late 2013 and is ongoing. The United States and EU have imposed trade sanctions on various Russian and Crimean officials and against Russia, including several Russian banks and companies. The ongoing political instability, civil disturbances and military conflict in Ukraine, and any prolongation or further escalation of the geopolitical conflict between Russia and Ukraine, and any further decline in the Russian economy due to the impact of the trade sanctions, falling oil prices or currency depreciation, increasing levels of uncertainty, increasing levels of regional, political and economic instability and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia.

In addition, the political and economic stability of Georgia may be affected by any of the following:

- changes in Georgia's importance as a transit country for energy supplies;
- changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets; or
- significant deterioration in relations between Azerbaijan and Armenia.

If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Disruptions in Georgia's neighbouring markets may have an adverse effect on Georgia's economy

The Georgian economy is dependent on the economies of other countries within the region, including Azerbaijan, Armenia, Russia and Turkey.

Azerbaijan and Armenia used to be the two largest markets for Georgian exports, accounting for approximately 10.9% and 8.2% of Georgia's total exports, respectively, in 2015, although their share of Georgia's total exports significantly decreased to 4.3% and 6.8%, respectively, as of 30 April 2016, according to figures published by Geostat. In February 2015, the Central Bank of Azerbaijan devalued the Manat by 33.6% against the US Dollar and by 33.8% against the Euro. In December 2015, the Central Bank of Azerbaijan moved to a managed floating exchange rate for the Manat, resulting in a devaluation of 47.6% against the US Dollar and 47.9% against the Euro. Between October 2014 and February 2015, the Armenian Dram depreciated against the US Dollar by approximately 16.9% and, following a period of relative stability, the Central Bank of Armenia engaged in foreign currency exchange interventions to support the Armenian Dram, spending a significant part of its national reserves, which were subsequently replenished by a sovereign bond issuance. Between 31 December 2015 and 31 May 2016, the Armenian Dram appreciated against the US Dollar by 1.3%.

Russia is one of the largest markets for Georgian exports and imports, accounting for approximately 7.4% and 8.9% of Georgia's total exports and approximately 8.1% and 7.5% of Georgia's total imports as of 31 December 2015 and 30 April 2016, respectively, according to Geostat. In the spring of 2013, Russia lifted its trade embargo and the Russian market was reopened to Georgian producers. The export of Georgian products to Russia increased threefold in 2013. Recently, the Russian economy has witnessed an economic slowdown due, in part, to the decline in global oil prices and US and EU sanctions imposed as a result of the ongoing political tensions between Russia and Western countries arising from the conflict in Ukraine and Syria. In January 2016, the Russian Rouble declined to an all-time low against the US Dollar.

Turkey represents the biggest importer to Georgia, accounting for 17.2% of Georgia's total imports in 2015, according to figures published by Geostat. While the Turkish economy is estimated to grow by 3.8% in 2016, according to the International Monetary Fund (**IMF**), political uncertainty, unfavourable geopolitical developments, a sharp weakening of the Turkish Lira and rising inflation in Turkey are potential obstacles to further economic growth and there can be no assurance that the positive growth trend will continue.

The economic slowdowns and currency depreciations in Georgia's main trading partners have resulted in lower exports from, and remittances to, Georgia in recent periods. Any continuing or further economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations.

Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business

Since its independence from the former USSR in 1991, Georgia has experienced an ongoing and substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

Georgia faces several challenges, one of which is the need to implement further economic and political reforms. However, business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of existing reform policies or as a result of a rejection of reform policies by the president, the parliament or others.

In October 2010, the parliament of Georgia approved certain amendments to the constitution of Georgia (the **Constitution**) that were intended to enhance the primary governing authority of the parliament, to increase the powers of the prime minister of Georgia and to limit the scope of functions of the president of Georgia. Although the parliament unanimously adopted certain constitutional amendments further limiting the powers of the president of Georgia in March 2013, any further changes to Georgian parliamentary, presidential or prime ministerial powers might create political disruption or political instability or otherwise negatively affect the political climate in Georgia. Furthermore, no assurance can be given that the next parliamentary elections scheduled in October 2016 will proceed without creating political disruption, which could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on the Group.

Because the Group operates primarily within Georgia, it will be affected by changes in Georgian economic conditions

The Group's operations are primarily located in, and the vast majority of its revenue is sourced from, Georgia. The Group's results of operations are, and are expected to continue to be, significantly affected by financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia. Factors such as gross domestic product (**GDP**), inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand for its products and services.

Global and regional economic conditions remain volatile and there is significant economic uncertainty. Real GDP growth in Georgia slowed to 2.8% in 2015 from 4.6% in 2014, according to Geostat. This slowdown was due to a weaker external economic environment, which was reflected in weaker remittances, lower net exports from Georgia and lower foreign direct investment (**FDI**). According to the IMF's World Economic Outlook published in April 2016, GDP growth in the region is expected to be negative at 1.1% in 2016, as economic conditions are expected to decline in most economies in the Commonwealth of Independent States (**CIS**), primarily due to a spill over effect from the decline in the Russian economy, as well as the adverse impact of lower oil prices on oil-exporting countries. The recovery is projected to strengthen in 2017 and beyond as conditions in stressed economies begin to gradually normalise. The IMF projects a 1.3% growth rate in CIS economies in 2017, and an average growth rate of 2.1% from 2018 to 2021. Despite the regional downward revisions of growth in CIS economies, the IMF expects 2.5% growth in Georgia in 2016 and 4.5% in 2017. Although Management believes that real GDP growth in 2016 will be higher than forecasted by IMF or other organisations and will be further strengthened following reduced dependence on CIS economies, strong market fundamentals, new investment opportunities related to the DCFTA, strong tourism performance and government reform agenda aimed at tax and customs liberalisation, there can be no assurance that these growth levels will be achieved. Georgia continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of its customers in Georgia. Uncertain and volatile global economic conditions, such as heightened political tensions in Europe and the UK referendum in June 2016 in which the British people voted to leave the EU, could have substantial political and macroecnoomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on the business

Georgia is still developing an adequate legal framework with several fundamental civil, criminal, tax, administrative and commercial laws recently becoming effective. The recent introduction of this legislation and the rapid evolution of the Georgian legal system have resulted in ambiguities and inconsistencies in their application, including their enforceability. In addition, the court system in Georgia is understaffed and has been undergoing significant reform. Judges and courts in Georgia are generally less experienced in commercial and corporate law than in certain other countries, particularly in Europe and the United States. The uncertainties of the Georgian judicial system, and any decision made by the Georgian courts, could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on the Group.

There may be challenges associated with legislative harmonisation of the Georgian regulatory environment with the EU driven by the DCFTA

On 27 June 2014, Georgia signed the EU Association Agreement and established a DCFTA with the EU, which envisages bilateral trade liberalisation with the EU. The implementation of the EU Association Agreement is expected to create new business opportunities, although it may pose challenges for businesses, households and the state. The implementation of the EU Association Agreement and the DCFTA may require Georgia to conform to EU trade-related and sector-specific legislation, which is expected to be challenging, especially in the areas of environmental protection and customer safety, including product and safety information, among others.

Georgia has been gradually conforming its trade legislation to EU norms and practices since it became a member of the World Trade Organisation in 2000. Some of the recent changes in regulation include the 2013 amendments to the labour code to bring Georgian labour regulations closer to commitments under the EU

Association Agreement and the DCFTA. These amendments required employers to pay overtime, increased severance pay (from one to two months' salary), strengthened workers' rights to challenge employers' decisions in courts, prohibited dismissal without clear cause, and guaranteed basic working conditions. The amendments also strengthened the competition laws in Georgia, which could restrict the Group's ability to make further acquisitions in line with its growth strategy.

Other changes may be expected in governmental policy, including changes in the implementation or approach of previously announced government initiatives. In addition, the implementation of the EU Association Agreement may place a significant burden on regulatory bodies, divert their resources from on-going reforms and slow their efficiency.

As a result of expected regulatory amendments to achieve harmonisation with EU legislation, the Group may be required to adjust its policies and procedures to comply with any resulting changes in laws and regulations. For example, the Group has made changes to its labour contracts to reflect changes to the labour code described above. The Group expects that there will be further changes, although it cannot predict the extent to which it might be affected by, or able to comply with, any such changes. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Group and there may be changes in current tax laws and policies

Tax laws have not been in force in Georgia for significant periods of time compared to more developed market economies. This creates challenges in complying with tax laws, to the extent that such tax laws are unclear or subject to differing interpretations, and subjects companies to the risk that their attempted compliance could be challenged by the authorities. Tax law enforcement can also be unpredictable, such as the imposition of liens over Group assets.

Moreover, such tax laws are subject to changes and amendments, which can result in unusual complexities for businesses. A new tax code (the **Tax Code**) came into effect on 1 January 2011. In 2011, the Georgian Parliament passed the Organic Law on Economic Liberty prohibiting the introduction of new state-wide taxes or increases in the existing tax rates (other than excise) without a public referendum initiated by the Government (except in certain limited circumstances). This law has been in effect since 31 December 2013. Differing opinions regarding the interpretation of various provisions of the Tax Code exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. However, the Tax Code does provide for the Georgian tax authorities to give advance tax rulings on tax issues raised by taxpayers. While Management believes that the Group and members of the Group operating in Georgia (including the Bank) are currently in compliance with the tax laws, it is possible that the relevant authorities could take differing positions with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that the Group could face fines or penalties as a result of regular tax audits.

In addition, tax laws and government tax policies may be subject to change in the future, including changes resulting from a change of government. See "*—Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business*". Such changes could include the introduction of new taxes or an increase in the tax rates applicable to the Group or its customers, which may, in turn, have a material adverse effect on its business.

In May 2016, the Georgian Parliament adopted changes to the Tax Code related to corporate profit tax, whereby an enterprise will not be liable for the payment of profit tax until the enterprise distributes its profit to the shareholders or incurs such costs or makes supplies or payments that are subject to corporate profit tax. It is expected that this change will intensify the economic activity and increase the capitalisation of the private sector. Most of the relevant amendments to the Tax Code are expected to apply with effect from 1 January 2017. There can be no assurance, however, as to whether these amendments will achieve the desired result.

Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on the Group

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2015, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (including the sum of sales and purchase but excluding activities of the NBG) amounted to US$25.8 billion and €11.7 billion, respectively, and according to the same source, in the three months ended 31 March 2016, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$4.6 and €2.0 billion, respectively. According to the NBG, the NBG had US$2.5 billion in gross official reserves as of 31 March 2016. While the Government has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Bank's corporate customers and, in turn, a material adverse effect on the Group's business, financial condition and results of operations.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy. There was significant instability in the Lari to US Dollar exchange rate following the Russian financial crisis of August 1998, following the conflict with Russia in 2008 and following the regional economic slowdown due to the fall in oil prices in 2015. In 2015, the NBG allowed the Lari to depreciate by 22.2%, in a measure aimed at alleviating the negative impact of the economic slowdown in neighbouring countries on the Georgian economy. While the Lari generally appreciated against the US Dollar and other major international currencies in the three months ended 31 March 2016, primarily driven by an increase in the number of tourists travelling to Georgia, since then, the exchange rate has remained relatively stable. The Lari/US Dollar exchange rate was 1.8636 as of 31 December 2014, 2.3949 as of 31 December 2015, 2.3679 as of 31 March 2016, and 2.1472 as of 31 May 2016. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI and other currency inflows. Any failure to do so, or a major depreciation or further depreciation of the Lari, could adversely affect Georgia's economy. According to information published by Geostat, annual inflation in Georgia, as measured by the end-of-period Consumer Price Index (**CPI**), was 2.0% in 2014, 4.9% in 2015, 4.1% as of 31 March 2016 and 2.1% in as of 31 May 2016. Although inflationary pressures have been contained due to lower world oil and food prices, there is no guarantee that the Georgian economy will not be further affected by domestic or global increases in food and oil prices. Deflation, while increasing the purchasing power of the Lari, could adversely affect foreign investment and profitability in the lending activities of the Bank. On the other hand, high and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the Group's customers, which could, in turn, have a material adverse effect on its business.

There are additional risks associated with investing in emerging markets such as Georgia

Emerging markets may have higher volatility, more limited liquidity and a narrower export base than more mature markets and are subject to more frequent changes in the political, economic, social, legal and regulatory environment. They are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors may react to events, disfavouring an entire region or class of investment, a phenomenon known as the "contagion effect". If such a contagion effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by contagion effects in the past, including following the 1998 Russian financial crisis, the 2008-2009 global financial crisis, and recent regional turbulence due to lower oil prices, and may be affected by similar events in the future.

Increased volatility in global financial markets and lower capital flows to emerging market economies world-wide, weakness of global trade, elevated geopolitical risks, highly volatile and large and sustained declines in commodity prices, wide-ranging spill overs from Russia's recession, and the slowdown and rebalancing of China's economy may have an adverse effect on Georgia's economy. Financial or political instability in emerging markets also tends to have a material adverse effect on capital markets and the wider economy as investors generally move their money to more developed markets, which they may consider to be more stable. These risks may be compounded by incomplete, unreliable, unavailable or untimely economic and statistical data on Georgia, which may include information in this document.

Risks Relating to the Notes

The Issuer is a holding company and there is a risk of structural subordination

The Issuer is a holding company and conducts the vast majority of its operations through its subsidiaries, associates and joint ventures. The Issuer holds no significant assets other than shares of its subsidiaries, interests in its associates and joint ventures and shareholder loans to its subsidiaries and it is therefore dependent upon the receipt of dividends from its subsidiaries, associates and joint ventures and interest income on intercompany loans as well as the divesting of its shareholdings, to meet its obligations. Noteholders will be structurally subordinated to the creditors of the Issuer's subsidiaries, in that the Issuer's ability to benefit from the distribution of any assets upon the liquidation of any of its subsidiaries will be subject to the prior claims of that subsidiary's direct creditors. In addition, as of the date of this Prospectus, none of the Issuer's current Material Subsidiaries (except for the Bank) is subject to the limitation on the distribution of dividends provided in the Terms and Conditions of the Notes. A decrease in dividend or interest income from the Issuer's subsidiaries or the insolvency or liquidation of one or more of the Issuer's subsidiaries could adversely affect the market price of the Notes without regard to the Issuer's business, financial condition, prospects and results of operations and issuer's ability to service the Notes.

Noteholders may redeem the Notes upon a Bank Change of Control

Upon the occurrence of a Bank Change of Control, as such term is defined in the Conditions, the Noteholders will have the option to require the Issuer to redeem or purchase their Notes at 101% of their principal amount, plus any interest accrued to but excluding the Bank Change of Control Put Date (as defined in the Conditions). If a Bank Change of Control occurs, the Issuer may not have sufficient funds to pay the redemption or repurchase price and may be required to secure third-party financing to do so. The Issuer may not be able to obtain this financing on commercially reasonable terms, or on terms acceptable to it, or at all. The Issuer's future indebtedness may also contain restrictions on the Issuer's ability to redeem or repurchase the Notes upon certain events, including transactions that would constitute a Bank Change of Control under the Conditions. The Issuer's failure to redeem or repurchase the Notes following the occurrence of a Bank Change of Control would constitute an event of default under the Conditions.

The provisions relating to a Bank Change of Control set forth in the Conditions may not protect investors in the event the Issuer consummates a highly-leveraged transaction, reorganisation, restructuring, merger or other similar transaction, unless such transaction constitutes a Bank Change of Control under the Conditions. Except as otherwise described above, the Conditions do not contain provisions that permit the holders of the Notes to require the Issuer to repurchase or redeem the Notes in the event of a takeover, recapitalisation or similar transaction.

Noteholders may face difficulties enforcing judgments, including foreign arbitral awards, in respect of the Notes and against the Issuer

On the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Issuer in courts outside Georgia or in a jurisdiction to which the Issuer has not explicitly submitted.

The Issuer has not submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of London Court of International Arbitration (the **LCIA**). Georgia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the **New York Convention**). Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law. Pursuant to Article 45.1 of the Law of Georgia on Arbitration, arbitral awards against the Issuer may not be recognised and enforceable in Georgia if: (i) the party against whom the award is made proves before Georgian courts that: (a) a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had appointed a supporter in relation to issues under the arbitration agreement but did not receive any support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made; (b) a party was not duly informed about the appointment of an arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests; (c) the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim of the parties in the arbitration; (d) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or (e) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or (ii) the court establishes that: (a) the subject matter of the dispute is not subject to arbitration under Georgian law; or (b) the recognition and enforcement of the award is contrary to public order. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

The uncertainties of the Georgian tax system could have a material adverse effect on the taxation of the Notes, in particular, the sale of the Notes

The Tax Code does not provide a clear definition of the place of sale (or supply) of the Notes for the purposes of determining profit or income tax exposure, and, accordingly, while it is unlikely that the sale of Notes, absent a sale of Notes on the territory of Georgia or to a Georgian tax resident, will trigger any Georgian tax obligations on the part of Noteholders, there is a risk that the relevant provisions may be interpreted differently by the tax authorities. The ambiguities noted above concerning the application of the Tax Code, combined with the absence of established practices relating to the introduction of debt securities to the Georgian market generally may result in varying interpretations of the applicable provisions of the Tax Code by the tax authorities. See, *Taxation—Georgian Taxation—Taxation of sales of Notes—General.*

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, actual or anticipated variations in the operating results of the Issuer's competitors, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and actual or expected sales of a large number of Notes, as well as any other factors affecting the Issuer or the Group, including economic and market conditions in Georgia and its neighbouring countries and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's business, financial condition and results of operations. If an active trading market for the Notes develops, there can be no assurance that events in Georgia or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the financial condition and prospects of the Issuer or other factors some of which may be beyond the control of the Issuer.

The Notes are pari passu securities

Subject to the restrictions on the incurrence of indebtedness set out in the Conditions, there is no restriction on the amount of securities, which the Issuer may issue and which may rank equally in right of payment with the Notes. The issue of any such securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional debt could affect the Issuer's ability to repay principal of, and make payments of interest on, the Notes. This could have a material adverse effect on the trading price of the Notes.

The Notes constitute unsecured obligations of the Issuer

The Issuer's obligations under the Notes will constitute unsecured obligations of the Issuer. Accordingly, any claims against the Issuer under the Notes would be unsecured claims, which would be satisfied only after any secured creditors, if at all. The ability of the Issuer to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

Any change of law in England in the future may have a material adverse effect on the Notes

The Terms and Conditions of the Notes are based on the laws of England in effect as of the date of this Prospectus. There can be no assurance as to the impact of any possible judicial decision or change in law or administrative practice in England after the date of this Prospectus.

Any fluctuations in the credit ratings assigned to Georgia, the Issuer, the Bank or the Notes may cause trading in the Notes to be volatile and/or adversely affect the trading price of the Notes

The Issuer has local- and foreign-currency ratings of "B1" and "not-prime" for long-term and short-term issuer default ratings, respectively, from Moodys. Moodys' outlook on the long-term rating is stable. The Issuer has a "BB-" long-term foreign currency issuer default rating, a "B" short-term foreign currency issuer default rating, a "bb-" viability rating and a "5" for support rating from Fitch. Fitch's outlook for the Issuer's long-term default ratings is stable.

The Bank is the only commercial bank in Georgia rated by three international rating agencies. In March 2016, S&P affirmed its "BB-/B" long- and short-term counterparty credit ratings on the Bank. S&P's outlook for the Bank's ratings is stable. At the same time, the "ilA" S&P's Maalot (Israel) national scale rating was affirmed, and the outlook on the national scale rating is stable. In May 2016, Fitch affirmed the Bank's long-term foreign and local currency issuer default rating at "BB-" and short-term foreign and local currency issuer default rating at "B", viability rating at "bb-" and support rating at "4", and the outlook is stable. In March 2016, Moodys published a credit opinion for the Bank with foreign and local currency deposits rated at "B1/NP" and "Ba3/NP", respectively, and the outlook is stable.

The Notes are expected to be rated "BB-" by Fitch and "B1" by Moodys, each with a stable outlook. Moodys assigned a long-term foreign currency issuer rating of "Ba3" to Georgia, with a stable outlook, while Fitch assigned Georgia a long-term foreign and local currency issuer default rating of "BB-"with a stable outlook. Standard & Poor's assigned Georgia long-term foreign and local currency and short-term foreign and local currency sovereign credit ratings of "BB-" and "B", respectively, with a stable outlook. For the Banks ratings see "*The Georgian Banking Sector—Overview of the Georgian Banking Sector—Credit Ratings*".

As of the date of this Prospectus, each of Fitch and Moodys is established in the EU and is registered under the CRA Regulation. S&P is not established in the EU and has not applied for registration pursuant to the CRA Regulation.

The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. The Issuer has no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to Georgia, the Issuer or the Notes may cause trading in the Notes to be volatile or adversely affect the trading price of the Notes.

The credit ratings may not reflect the potential impact of the risks discussed above or of any other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Investors whose financial activities are denominated in a currency or currency unit other than US Dollars may receive less interest or principal than expected, or no interest or principal on the Notes, as a result of fluctuations in exchange rates or changes to exchange controls

The Issuer will pay principal and interest on the Notes in US Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than US Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US Dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Issuer's or the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US Dollar would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal on the Notes.

The proposed financial transactions tax (the FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). Estonia has, however, since stated that it will not participate.

The Commission's Proposal has broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is the subject of the dealings is issued in a participating Member State. The FTT proposal, however, remains subject to negotiation between participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may also decide to participate in the FTT.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

An investment in the Notes involves certain legal investment considerations

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used by it as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Transfer of the Notes will be subject to certain restrictions

The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws. Prospective investors may not offer or sell Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Prospective investors should read the discussion under the heading "*Notice to Investors*" for further information about these transfer restrictions. It is each investor's obligation to ensure that offers and sales of the Notes within the United States and other countries comply with any applicable securities laws.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures

The Regulation S Notes will be represented on issue by a Regulation S Global Certificate that will be deposited with a nominee for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Regulation S Global Certificate, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Regulation S Global Certificate. While the Notes are represented by the Regulation S Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes will be represented on issue by a Rule 144A Global Certificate that will be deposited with a nominee for DTC. Except in the circumstances described in the Rule 144A Global Certificate, investors will not be entitled to receive Notes in definitive form. DTC and its direct and indirect participants will maintain records of the beneficial interests in the Rule 144A Global Certificate. While the Notes are represented by the Rule 144A Global Certificate, investors will be able to trade their beneficial interests only through DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Terms and Conditions of the Notes may be modified or waivers for breaches of the Terms and Conditions of the Notes may be given in the future

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

There may not be an active trading market for the Notes

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected by a number of factors, some of which may be beyond the control of the Issuer. In addition, although no final decision has been made as of the date of this Prospectus, the Bank or its subsidiaries may from time to time purchase and hold Notes, either as part of the initial issuance or in subsequent trades, which could, in turn reduce liquidity of the Notes. Furthermore, although certain anchor or other investors may purchase and hold Notes as part of the initial issuance, there can be no assurance that any anchor or other investor will be granted any particular allocation of Notes. See "*Subscription and Sale—Anchor Investor*" and "*Subscription and Sale—Other Investors*". If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition and prospects of the Issuer.

FORWARD LOOKING STATEMENTS

Certain statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Group's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to the Group's financial position, future operations, development, and business strategy, the performance or growth of the Bank's loan portfolio and the trends the Group anticipates in the Georgian economy and in the industries and the political and legal environment in which it or its subsidiaries operate and other information that is not historical information. Forward-looking statements appear in various sections of this Prospectus, including, without limitation, under the headings "*Overview of the Group*," "*Risk Factors*," "*Description of Business*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Funding*" and "*Risk Management*".

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Accordingly, investors should not place undue reliance on forward-looking statements and, when looking at forward-looking statements, should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. The forward-looking statements in this Prospectus speak only as of the date of this Prospectus. The Group does not undertake any obligation to update or revise any of them (whether as a result of new information, future events or otherwise), other than as required by applicable law and/or regulation. The Group does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Group or persons acting on its behalf and any projections made by third parties included in this Prospectus.

ENFORCEABILITY OF FOREIGN JUDGMENTS AND ARBITRAL AWARDS

The Issuer is a joint stock company incorporated under the laws of Georgia. A substantial portion of the assets of the Issuer and most of the Management team and the Issuer's executive officers reside outside the United Kingdom and the United States and all of the assets of the Group and of such persons are located outside of the United States and the United Kingdom. The Issuer has not submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of the London Court of International Arbitration (the **LCIA**). Georgia is a party to the New York Convention. Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law.

Pursuant to Article 45.1 of the *Law of Georgia on Arbitration*, arbitral awards against the Issuer may not be recognised and enforceable in Georgia if:

(i) the party against whom the award is made proves before Georgian courts that:

  (a) a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had appointed a supporter in relation to issues under the arbitration agreement but did not receive any support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made;

  (b) a party was not duly informed about the appointment of an arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests;

  (c) the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim of the parties in the arbitration;

  (d) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or

  (e) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or

(ii) the court establishes that:

  (a) the subject matter of the dispute is not subject to arbitration under Georgian law; or

  (b) the recognition and enforcement of the award is contrary to public order.

It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

The Issuer has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on the directors and executive officers of the Issuer or enforce judgments against such persons or the Issuer. In addition, on the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Issuer in courts outside Georgia or in a jurisdiction to which the Issuer has not explicitly submitted. See "*Risk Factors—Risks Relating to the Notes—Noteholders may face difficulties enforcing judgments including foreign arbitral awards, in respect of the Notes and against the Issuer*".

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The audited consolidated financial statements of the Group as of and for the years ended 31 December 2015 and 2014 (the **Audited Financial Statements**) included in this Prospectus have been prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (the **IASB**), including all International Accounting Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB that are relevant to the Group's operations. The Audited Financial Statements were audited by the Group's independent auditors, EY Georgia LLC (**EY**), in accordance with International Standards on Auditing (**ISA**). EY is included in the register of the Georgian Federation of Professional Accountants and Auditors with the right to perform statutory and non-statutory audits. The Group's unaudited interim condensed consolidated financial statements as of and for the three months ended 31 March 2016 (the **Interim Financial Statements**) included in this Prospectus have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (**IAS 34**) and have been reviewed by EY in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The comparative financial information for the three months ended 31 March 2015 is not reviewed. Unless otherwise indicated, the financial information presented herein is extracted from the Annual Financial Statements and the Interim Financial Statements (collectively, the **Financial Statements**).

Certain amounts that appear in this Prospectus have been subject to rounding adjustments.

Non-IFRS Measures

This Prospectus includes certain measures required by the NBG, including information provided in "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*", which are calculated in accordance with NBG requirements. The measures required by the NBG are supplemental measures of the Bank's performance, are not in accordance with IFRS and may not be comparable to similarly titled measures of other companies. These measures should not be considered as an alternative to measures derived in accordance with IFRS.

Market, Industry and Economic Information

The Group obtained the market data used in this Prospectus from internal surveys, industry sources and public information currently available. The main source for market information and foreign exchange data used in this Prospectus is the NBG. The Group obtained Georgian macroeconomic data principally from Geostat, the Government, the IMF, Business Monitor International and the Georgian National Tourism Agency. Information regarding the banking market in Belarus has been obtained from the NBRB. In addition, certain market data relating to GHG and the healthcare sector was obtained from the Georgian National Centre for Disease Control and Public Health and Frost & Sullivan, and information on the market share of the Healthcare Business is based on the total number of beds, hospitals and clinics in Georgia. Information relating to the Real Estate Business was obtained from National Public Registry of Georgia (**NPRG**), Colliers International Georgia (**Colliers**), the Company's own data, and trade volumes in Georgia during 2015.

The Group accepts responsibility for having correctly reproduced information obtained from third parties, and, so far as the Group is aware and has been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

General Information

Unless otherwise stated, all information contained in this Prospectus, including all historical financial information, is information of the Group.

Except to the extent expressly set out in this Prospectus, neither the contents of the Group's website (or any other website) nor the content of any website accessible from hyperlinks on the Group's website (or any other website) is incorporated into, or forms any part of, this Prospectus.

Unless otherwise stated, the term "average", as used in reference to financial information included in this Prospectus, means the sum of such financial information at the start and at the end of the relevant period, divided by two.

Capitalised terms have the meanings ascribed to them in the "*Definitions*" section of this Prospectus.

Currency and Exchange Rates

In this Prospectus, all references to **Lari** and **GEL** are to the lawful currency of Georgia; all references to **dollars**, **US Dollars**, **US$** and **USD** are to the lawful currency of the United States of America; all references to **Euros**, **€** and **EUR** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references to **pounds sterling**, **£** or **GBP** are to the lawful currency of the United Kingdom; and all references to **BYR** are to the lawful currency of the Republic of Belarus. References to **billions** are to thousands of millions.

Solely for the convenience of the reader, this Prospectus contains translations of certain Lari amounts into US Dollars at exchange rates established by the NBG and effective as of the dates, or for the periods, specified herein. These exchange rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the Lari amounts actually represent such US Dollar amounts or that such amounts could have been converted into US Dollars at any particular rate, or at all.

The following table sets forth, for the years indicated, the high, low, average and period-end official exchange rates as reported by the NBG, in each case for the purchase of Lari, all expressed in Lari per US Dollar.

	High	**Low**	**Average**	**Period End**
		(Lari per US Dollar)		
2015	2.4499	1.8780	2.2702	2.3949
2014	1.9527	1.7241	1.7659	1.8636

Source: NBG.

The following table sets forth, for the months indicated, the high, low, average and period-end official exchange rates as reported by the NBG, in each case for the purchase of Lari, all expressed in Lari per US Dollar.

	High	**Low**	**Average**	**Period End**
		(Lari per US Dollar)		
2016 (up to and including 29 June 2016)	2.4985	2.1272	2.3238	2.3709
May 2016	2.2309	2.1459	2.1860	2.1472
April 2016	2.3177	2.2309	2.2652	2.2309
March 2016	2.4716	2.2953	2.3894	2.3679
February 2016	2.4948	2.4702	2.4829	2.4778
January 2016	2.4985	2.3966	2.4360	2.4719

Source: NBG.

The Lari per US Dollar exchange rate reported by the NBG on 20 July 2016 was GEL 2.3459.

USE OF PROCEEDS

The net proceeds received by the Company from the issuance of the Notes (after the deduction of management, underwriting and selling fees, and commissions and listing fees, but before the deduction of other expenses) are expected to be approximately US$346,800,000.

The Company will use the net proceeds from the Offering as follows:

- up to US$250 million will be funded to the Bank by way of senior debt and applied to fund the acquisition of 2017 Notes by the Bank as part of the tender offer and exit consent solicitation and otherwise used for the Bank's general corporate purposes; and
- up to US$100 million will be retained by the Company and used for the Company's general corporate purposes, including to fund investments in existing Group businesses and potential opportunistic acquisitions, including the GGU Acquisition (as defined below).

CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation of the Group as of 31 March 2016 and 31 December 2015 and has been extracted without material adjustment from the Financial Statements. This information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements.

	As of 31 March 2016		As of 31 December 2015
	(unaudited)		*(audited)*
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Long-term debt[2]			
Senior long-term debt	543,965	1,288,054	1,351,918
Subordinated long-term debt	167,874	397,508	395,090
Total long-term debt, net of current portion	**711,839**	**1,685,562**	**1,747,008**
Equity			
Share capital	15,654	37,066	37,066
Additional paid-in-capital	271,289	642,386	641,964
Treasury shares	(413)	(977)	(1,522)
Other reserves	44,697	105,837	97,164
Retained earnings	453,192	1,073,113	1,000,239
Total equity attributable to shareholders of the Issuer	**784,419**	**1,857,425**	**1,774,911**
Non-controlling interests	91,265	216,107	222,041
Total equity	**875,684**	**2,073,532**	**1,996,952**
Total capitalisation[3]	**1,587,523**	**3,759,094**	**3,743,960**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) "Long-term debt" excludes indebtedness with a maturity of less than one year.

(3) Total capitalisation is the sum of long-term debt, non-controlling interests and total equity attributable to shareholders of the Issuer.

See "*Funding—Amounts due to Credit Institutions*".

Save as disclosed under "*Description of Business—Recent Developments*", there have been no material changes to the Group's capitalisation since 31 March 2016.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information of the Group as of the three months ended 31 March 2016 and 31 March 2015, and for the years ended 31 December 2015 and 31 December 2014. They have been extracted without material adjustment from, should be read in conjunction with, and are qualified in their entirety by, the Financial Statements and the notes thereto, as well as the sections entitled "*Capitalisation and Indebtedness*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Selected Statistical and Other Information*" and "*Funding*" included elsewhere in this Prospectus.

Consolidated Income Statement

The following tables set out the Group's consolidated profits for the periods indicated.

	For the three months ended 31 March			
	2016		2015	
	(unaudited)		*(unaudited, not reviewed)*	
	(thousands of US Dollars)[(1)]	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Banking interest income	94,941	224,810	12.6%	199,698
Banking interest expense	(40,532)	(95,975)	21.3%	(79,094)
Net banking interest income[(2)]	**54,409**	**128,835**	**6.8%**	**120,604**
Fee and commission income	16,111	38,149	6.0%	35,991
Fee and commission expense	(4,336)	(10,268)	13.8%	(9,019)
Net fee and commission income	**11,775**	**27,881**	**3.4%**	**26,972**
Net banking foreign currency gain	7,318	17,329	(4,577.8)%	(387)
Net other banking income	1,211	2,867	36.7%	2,098
Net insurance premiums earned	9,217	21,824	0.5%	21,709
Net insurance claims incurred	(6,507)	(15,408)	9.0%	(14,135)
Gross insurance profit	**2,710**	**6,416**	**(15.3)%**	**7,574**
Healthcare revenue	24,641	58,348	45.8%	40,017
Cost of healthcare services	(13,538)	(32,057)	38.5%	(23,140)
Gross healthcare profit	**11,103**	**26,291**	**55.8%**	**16,877**
Real estate revenue	12,147	28,764	606.0%	4,074
Cost of real estate	(9,603)	(22,740)	693.7%	(2,865)
Gross real estate profit	2,544	**6,024**	**398.3%**	**1,209**
Gross other investment profit	1,526	3,614	156.1%	1,411
Revenue	**92,596**	**219,257**	**24.3%**	**176,358**
Salaries and other employee benefits	(19,782)	(46,841)	3.5%	(45,273)
Administrative expenses	(10,300)	(24,389)	20.2%	(20,283)
Banking depreciation and amortisation	(3,859)	(9,138)	9.1%	(8,373)
Other operating expenses	(707)	(1,675)	88.8%	(887)
Operating expenses	**(34,648)**	**(82,043)**	**9.7%**	**(74,816)**
Operating income before cost of credit risk /EBITDA	**57,948**	**137,214**	**35.1%**	**101,542**
Depreciation and amortisation of investment business	(2,074)	(4,910)	82.7%	(2,688)
Net foreign currency gain (loss) from investment business	(326)	(773)	(150.2)%	1,541
Interest income from investment business	404	956	54.9%	617
Interest expense from investment business	(584)	(1,383)	(44.8)%	(2,506)
Operating income before cost of credit risk	**55,368**	**131,104**	**33.1%**	**98,506**
Impairment charge on loans to customers	(13,606)	(32,218)	(17.2)%	(38,928)
Impairment charge on finance lease receivables	(217)	(513)	331.1%	(119)
Impairment charge on other assets and provisions	(1,441)	(3,413)	22.1%	(2,795)
Cost of credit risk	**(15,264)**	**(36,144)**	**(13.6)%**	**(41,842)**
Net operating income before non-recurring items	**40,104**	**94,960**	**67.6%**	**56,664**
Net non-recurring items	576	1,365	(155.8)%	(2,447)
Profit before income tax expense	**40,680**	**96,325**	**77.7%**	**54,217**
Income tax expense	(4,186)	(9,911)	(8.3)%	(10,811)
Profit for the year	**36,494**	**86,414**	**99.1%**	**43,406**
Attributable to:				
—shareholders of the Issuer	33,871	80,203	82.7%	43,900
—non-controlling interests	2,623	6,211	(1,357.3)%	(494)
Earnings per share:				
—basic and diluted earnings per share	0.9414	2.2291	79.8%	1.2397

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Figures relating to banking interest income and expense in this table may differ to those set out in "*—Banking Business Income Statement*" due to eliminations of Banking Business income on loans to Investment Business companies upon consolidation.

	For the year ended 31 December			
	2015		2014	
	(thousands of US Dollars)[1]	*(audited) (thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Banking interest income	359,004	859,778	44.8%	593,612
Banking interest expense	(150,073)	(359,409)	47.5%	(243,655)
Net banking interest income[2]	**208,931**	**500,369**	**43.0%**	**349,957**
Fee and commission income	66,040	158,158	19.4%	132,435
Fee and commission expense	(16,426)	(39,339)	22.2%	(32,194)
Net fee and commission income	**49,614**	**118,819**	**18.5%**	**100,241**
Net banking foreign currency gain	21,948	52,564	(1.8)%	53,527
Net other banking income	7,865	18,836	103.2%	9,270
Net insurance premiums earned	38,791	92,901	(3.1)%	95,850
Net insurance claims incurred	(26,303)	(62,994)	(5.2)%	(66,420)
Gross insurance profit	**12,488**	**29,907**	**1.6%**	**29,430**
Healthcare revenue	76,827	183,993	46.4%	125,720
Cost of healthcare services	(43,031)	(103,055)	42.7%	(72,237)
Gross healthcare profit	**33,796**	**80,938**	**51.3%**	**53,483**
Real estate revenue	22,719	54,409	(9.9)%	60,376
Cost of real estate	(16,586)	(39,721)	(15.1)%	(46,810)
Gross real estate profit	**6,133**	**14,688**	**8.3%**	**13,566**
Gross other investment profit	8,695	20,823	59.6%	13,043
Revenue	**349,470**	**836,944**	**34.4%**	**622,517**
Salaries and other employee benefits	(76,549)	(183,328)	20.1%	(152,677)
Administrative expenses	(36,828)	(88,200)	24.0%	(71,104)
Banking depreciation and amortisation	(14,280)	(34,199)	33.4%	(25,641)
Other operating expenses	(1,789)	(4,285)	14.2%	(3,752)
Operating expenses	**(129,446)**	**(310,012)**	**22.5%**	**(253,174)**
Operating income before cost of credit risk / EBITDA	**220,024**	**526,932**	**42.7%**	**369,343**
Depreciation and amortisation of investment business	(5,940)	(14,225)	55.2%	(9,164)
Net foreign currency gain (loss) from investment business	(857)	(2,053)	(33.4)%	(3,082)
Interest income from investment business	977	2,340	78.9%	1,308
Interest expense from investment business	(4,364)	(10,452)	59.4%	(6,557)
Operating income before cost of credit risk	**209,840**	**502,542**	**42.8%**	**351,848**
Impairment charge on loans to customers	(59,635)	(142,819)	216.8%	(45,088)
Impairment charge on finance lease receivables	(818)	(1,958)	311.3%	(476)
Impairment charge on other assets and provisions	(4,426)	(10,599)	(21.2)%	(13,457)
Cost of credit risk	**(64,879)**	**(155,376)**	**163.3%**	**(59,021)**
Net operating income before non-recurring items	**144,961**	**347,166**	**18.6%**	**292,827**
Net non-recurring items	(6,324)	(15,146)	37.5%	(11,017)
Profit before income tax expense	**138,637**	**332,020**	**17.8%**	**281,810**
Income tax expense	(20,213)	(48,408)	35.1%	(35,826)
Profit for the year	**118,424**	**283,612**	**15.3%**	**245,984**
Attributable to:				
—shareholders of the Issuer	115,615	276,886	16.0%	238,644
—non-controlling interests	2,808	6,726	(8.4)%	7,340
Earnings per share:				
—basic and diluted earnings per share	3.2532	7.7911	13.9%	6.8414

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(2) Figures relating to banking interest income and expense in this table may differ to those set out in "—*Banking Business Income Statement*" due to eliminations of Banking Business income on loans to Investment Business companies upon consolidation.

Consolidated Statement of Financial Position

The following tables set out the Group's assets, liabilities and equity as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(unaudited)		(audited)		
	(thousands of US Dollars)[1]	(thousands of Lari)	(thousands of US Dollars)[2]	(thousands of Lari)	(thousands of Lari)
Assets					
Cash and cash equivalents	573,879	1,358,887	598,133	1,432,468	709,861
Amounts due from credit institutions	322,832	764,435	305,384	731,365	418,502
Investment securities	348,429	825,045	377,413	903,867	769,712
Loans to customers and finance lease receivables	2,267,279	5,368,689	2,226,169	5,331,451	4,355,460
Accounts receivable and other loans	35,776	84,715	36,733	87,972	70,207
Insurance premiums receivable	23,176	54,879	16,379	39,226	31,840
Prepayments	28,537	67,572	24,289	58,170	33,503
Inventories	52,986	125,466	53,041	127,027	101,442
Investment properties	107,363	254,224	102,884	246,398	190,860
Property and equipment	352,908	835,651	331,823	794,682	588,513
Goodwill	30,910	73,192	30,475	72,984	49,633
Intangible assets	18,191	43,074	16,918	40,516	34,432
Income tax assets	15,504	36,712	8,998	21,550	22,745
Other assets	58,334	138,129	76,523	183,265	160,591
Total assets	**4,236,104**	**10,030,670**	**4,205,162**	**10,070,941**	**7,537,301**
Liabilities					
Client deposits and notes	1,997,394	4,729,630	1,997,404	4,783,582	3,473,429
Amounts owed to credit institutions	726,349	1,719,921	747,030	1,789,062	1,409,213
Debt securities issued	436,572	1,033,758	434,174	1,039,804	856,695
Accruals and deferred income	60,172	142,481	61,237	146,657	108,509
Insurance contracts liabilities	30,223	71,565	23,318	55,845	46,586
Income tax liabilities	54,338	128,667	51,942	124,395	97,564
Other liabilities	55,372	131,116	56,222	134,644	84,218
Total liabilities	**3,360,420**	**7,957,138**	**3,371,327**	**8,073,989**	**6,076,214**
Equity					
Share capital	15,654	37,066	15,477	37,066	36,513
Additional paid-in capital	271,289	642,386	268,055	641,964	611,238
Treasury shares	(413)	(977)	(636)	(1,522)	(1,522)
Other reserves	44,697	105,837	40,571	97,164	31,211
Retained earnings	453,192	1,073,113	417,654	1,000,239	728,839
Total equity attributable to shareholders of the Issuer	**784,419**	**1,857,425**	**741,121**	**1,774,911**	**1,406,279**
Non-controlling interests	91,265	216,107	92,714	222,041	54,808
Total equity	**875,684**	**2,073,532**	**833,835**	**1,996,952**	**1,461,087**
Total liabilities and equity	**4,236,104**	**10,030,670**	**4,205,162**	**10,070,941**	**7,537,301**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Selected Financial Ratios—Group Consolidated	As of and for the three months ended 31 March 2016	As of and for the year ended 31 December 2015	2014
	(unaudited)		
Profitability ratios			
ROAA[(1)], Annualised	3.5%	3.2%	3.5%
ROAE[(2)], Annualised	17.8%	17.4%	18.4%
Net Interest Margin[(3)], Annualised	7.4%	7.9%	6.9%
Loan Yield[(4)], Annualised	14.7%	15.6%	13.5%
Liquid assets yield[(5)], Annualised	3.7%	3.9%	3.1%
Cost of Funds[(6)], Annualised	5.2%	5.5%	4.7%
Cost of Client Deposits and Notes[(7)], annualised	4.5%	4.5%	4.1%
Cost of Amounts Due to Credit Institutions[(8)], annualised	6.0%	7.0%	4.8%
Cost of Debt Securities Issued[(9)]	7.0%	7.4%	6.9%
Efficiency ratios			
Cost to income[(10)]	37.4%	37.0%	40.7%
Liquidity ratios (at period end)			
NBG Liquidity[(11)]	47.3%	46.2%	35.0%
Liquid Assets To Total Liabilities[(12)]	37.1%	38.0%	31.2%
Net Loans and Finance Lease Receivables To Client Deposits and Notes	113.5%	111.5%	125.4%
Leverage (Times)[(13)]	3.8	4.0	4.2
Asset quality			
Non-performing Loans and Finance Lease Receivables	251,959	241,142	153,628
Non-performing Loans and Finance Lease Receivables to Gross Loans and Finance Lease Receivables	4.5%	4.4%	3.4%
Non-performing Loans and Finance Lease Receivables Coverage[(14)]	86.0%	83.4%	68.0%
Non-performing Loans and Finance Lease Receivables Coverage, Adjusted for Discounted Value of Collateral[(15)]	122.6%	120.6%	111.1%
Allowance at period end for loans and finance lease receivables impairment to gross loans and finance lease receivables	3.9%	3.6%	2.3%
Cost of Risk, Annualised[(16)]	2.4%	2.9%	1.1%
Capital adequacy (at period end)			
NBG (Basel II/III) Tier I Capital Adequacy Ratio[(17)]	10.1%	10.9%	11.1%
NBG (Basel II/III) Total Capital Adequacy Ratio[(18)]	15.8%	16.7%	14.1%
NBG (Only) Tier I Capital Adequacy Ratio[(19)]	10.7%	9.3%	13.3%
NBG (Only) Total Capital Adequacy Ratio[(20)]	16.3%	16.9%	13.8%

Notes:

(1) Profit for the period divided by average totals assets of the period.

(2) Profit for the period attributable to the Issuer's shareholders divided by average total equity of the period attributable to the Issuer's shareholders.

(3) Net interest income divided by average-interest-earning assets of the period. Interest-earning assets include amounts due from credit institutions, loans to customers and finance lease receivables (net) and investment securities (interest-earning securities only).

(4) Interest income from loans and finance lease receivables for the period divided by average gross loans and finance lease receivables of the period.

(5) Interest income from liquid assets for the period divided by average interest-earning liquid assets of the period. Interest-earning liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities but exclude cash on hand from cash and cash equivalents, and corporate shares from investment securities.

(6) Interest expense for the period divided by average interest-bearing liabilities of the period. Interest-bearing liabilities include client deposits and notes, amounts owed to credit institutions and debt securities issued.

(7) Interest expense on client deposits and notes for the period divided by average client deposits and notes of the period.

(8) Interest expense on amounts owed to credit institutions for the period divided by average amounts owed to credit institutions of the period.

(9) Interest expense on debt securities issued for the period divided by average debt securities issued of the period.

(10) Operating expenses divided by revenue.

(11) Average liquid assets (as defined by the NBG) during the month divided by average liabilities (as defined by the NBG) during the same month.

(12) Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities.

(13) Total liabilities divided by total equity.

(14) Allowance at period end for loans and finance lease receivables impairment divided by non-performing loans.

(15) Allowance at period end for loans and finance lease receivables impairment divided by non-performing loans (collateral discount is added back to allowance for impairment).

(16) Impairment charges for loans and finance lease receivables for the period divided by average gross loans and finance lease receivables of the period.

(17) Tier I Capital divided by Risk-Weighted Assets under Basel II/III as adopted by the NBG.

(18) Total Regulatory Capital divided by Risk-Weighted Assets under Basel II/III as adopted by the NBG.

(19) Tier I Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II/III as adopted by the NBG).

(20) Total Regulatory Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II/III as adopted by the NBG).

Banking Business Income Statement

The following tables set out the Banking Business profits for the periods indicated, as derived from the Bank's financial statements.

	For the three months ended 31 March			
	2016		2015	
	(unaudited)		*(unaudited, not reviewed)*	
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Banking interest income	95,535	226,217	11.8%	202,353
Banking interest expense	(40,549)	(96,015)	20.5%	(79,680)
Net banking interest income	**54,986**	**130,202**	**6.1%**	**122,673**
Fee and commission income	16,252	38,484	3.1%	37,343
Fee and commission expense	(4,393)	(10,402)	13.9%	(9,135)
Net fee and commission income	**11,859**	**28,082**	**(0.4)%**	**28,208**
Net banking foreign currency gain	7,318	17,329	(4,577.8)%	(387)
Net other banking income	1,338	3,168	31.8%	2,403
Net insurance premiums earned	4,033	9,550	3.3%	9,242
Net insurance claims incurred	(1,776)	(4,206)	6.9%	(3,936)
Gross insurance profit	**2,257**	**5,344**	**0.7%**	**5,306**
Revenue	**77,758**	**184,125**	**16.4%**	**158,203**
Salaries and other employee benefits	(16,593)	(39,291)	2.9%	(38,184)
Administrative expenses	(8,214)	(19,451)	15.7%	(16,808)
Banking depreciation and amortisation	(3,859)	(9,138)	9.1%	(8,373)
Other operating expenses	(364)	(863)	9.0%	(792)
Operating expenses	**(29,031)**	**(68,743)**	**7.1%**	**(64,157)**
Operating income before cost of credit risk	**48,727**	**115,382**	**22.7%**	**94,046**
Impairment charge on loans to customers	(13,606)	(32,218)	(17.2)%	(38,928)
Impairment charge on finance lease receivables	(217)	(513)	331.1%	(119)
Impairment charge on other assets and provisions	(964)	(2,282)	32.3%	(1,725)
Cost of credit risk	**(14,787)**	**(35,013)**	**(14.1)%**	**(40,772)**
Net operating income before non-recurring items	**33,940**	**80,369**	**50.9%**	**53,274**
Net non-recurring items	(599)	(1,419)	(34.5)%	(2,167)
Profit before income tax expense	**33,341**	**78,950**	**54.5%**	**51,107**
Income tax expense	(3,454)	(8,178)	(22.0)%	(10,483)
Profit for the year	**29,887**	**70,772**	**74.2%**	**40,624**
Attributable to:				
—shareholders of the Issuer	29,448	69,729	74.1%	40,060
—non-controlling interests	440	1,043	84.9%	564
Earnings per share:				
—basic and diluted earnings per share	**0.8184**	**1.9380**	**71.3%**	**1.1313**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Figures relating to banking interest income and expense in this table may differ to those set out in "—*Consolidated Income Statement*" due to eliminations of Banking Business income on loans to Investment Business companies upon consolidation.

	For the year ended 31 December			
	2015			2014
		(audited)		
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Banking interest income	364,232	872,299	45.2%	600,925
Banking interest expense	(150,484)	(360,393)	47.9%	(243,655)
Net banking interest income	**213,748**	**511,906**	**43.3%**	**357,270**
Fee and commission income	67,598	161,891	20.4%	134,488
Fee and commission expense	(16,656)	(39,889)	23.9%	(32,194)
Net fee and commission income	**50,942**	**122,002**	**19.3%**	**102,294**
Net banking foreign currency gain	21,948	52,564	(1.8)%	53,527
Net other banking income	8,412	20,145	103.7%	9,890
Net insurance premiums earned	16,769	40,160	42.8%	28,129
Net insurance claims incurred	(8,398)	(20,113)	71.8%	(11,705)
Gross insurance profit	**8,371**	**20,047**	**22.1%**	**16,424**
Revenue	**303,421**	**726,664**	**34.7%**	**539,405**
Salaries and other employee benefits	(64,280)	(153,944)	19.6%	(128,706)
Administrative expenses	(30,035)	(71,932)	26.8%	(56,708)
Banking depreciation and amortisation	(14,280)	(34,199)	33.4%	(25,641)
Other operating expenses	(1,476)	(3,534)	9.3%	(3,232)
Operating expenses	**(110,071)**	**(263,609)**	**23.0%**	**(214,287)**
Operating income before cost of credit risk	**193,350**	**463,055**	**42.4%**	**325,118**
Impairment charge on loans to customers	(59,635)	(142,819)	216.8%	(45,088)
Impairment charge on finance lease receivables	(818)	(1,958)	311.3%	(476)
Impairment charge on other assets and provisions	(2,814)	(6,739)	(33.7)%	(10,169)
Cost of credit risk	**(63,267)**	**(151,516)**	**171.9%**	**(55,733)**
Net operating income before non-recurring items	**130,083**	**311,539**	**15.6%**	**269,385**
Net non-recurring items	(5,447)	(13,046)	10.2%	(11,838)
Profit before income tax expense	**124,636**	**298,493**	**15.9%**	**257,547**
Income tax expense	(18,643)	(44,648)	38.0%	(32,343)
Profit for the year	**105,993**	**253,845**	**12.7%**	**225,204**
Attributable to:				
—shareholders of the Issuer	104,613	250,537	13.1%	221,584
—non-controlling interests	1,381	3,308	(8.6)%	3,620
Earnings per share:				
—basic and diluted earnings per share	**2.9436**	**7.0497**	**11.0%**	**6.3523**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Banking Business Statement of Financial Position

The following tables set out the Banking Business assets, liabilities and equity as of the dates indicated, as derived from the Bank's financial statements.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(unaudited)		*(audited)*		
	(thousands of US Dollars)(1)	*(thousands of Lari)*	*(thousands of US Dollars)*(2)	*(thousands of Lari)*	*(thousands of Lari)*
Assets					
Cash and cash equivalents	561,624	1,329,870	575,487	1,378,233	650,479
Amounts due from credit institutions	304,254	720,442	301,391	721,802	399,430
Investment securities	348,757	825,821	378,609	906,730	768,559
Loans to customers and finance lease receivables	2,278,206	5,394,565	2,240,914	5,366,764	4,438,032
Accounts receivable and other loans	2,172	5,144	4,333	10,376	12,653
Insurance premiums receivable	6,996	16,567	8,280	19,829	14,573
Prepayments	10,410	24,649	8,782	21,033	15,502
Inventories	4,091	9,686	3,941	9,439	6,857
Investment properties	56,721	134,310	56,559	135,453	128,552
Property and equipment	140,734	333,243	140,742	337,064	314,369
Goodwill	20,943	49,592	20,707	49,592	38,537
Intangible assets	15,883	37,609	14,682	35,162	31,768
Income tax assets	11,538	27,321	6,682	16,003	14,484
Other assets	51,106	121,013	68,366	163,730	153,763
Total assets	**3,813,435**	**9,029,832**	**3,829,475**	**9,171,210**	**6,987,558**
Liabilities					
Client deposits and notes	2,095,710	4,962,432	2,085,131	4,993,681	3,482,000
Amounts owed to credit institutions	688,500	1,630,299	706,734	1,692,557	1,324,608
Debt securities issued	404,356	957,474	401,664	961,944	827,721
Accruals and deferred income	10,847	25,685	8,503	20,364	19,897
Insurance contracts liabilities	14,625	34,630	14,425	34,547	27,979
Income tax liabilities	39,598	93,765	37,572	89,980	79,987
Other liabilities	20,068	47,520	26,336	63,073	51,031
Total liabilities	**3,273,704**	**7,751,805**	**3,280,365**	**7,856,146**	**5,813,223**
Equity					
Share capital	15,654	37,066	15,477	37,066	36,513
Additional paid-in capital	238,189	564,008	235,618	564,281	552,411
Treasury shares	(413)	(977)	(636)	(1,522)	(1,522)
Other reserves	4,603	10,899	1,124	2,691	44,382
Retained earnings	274,150	649,159	289,623	693,618	523,907
Total equity attributable to shareholders of the Issuer	**532,183**	**1,260,155**	**541,206**	**1,296,134**	**1,155,691**
Non-controlling interests	7,548	17,872	7,904	18,930	18,644
Total equity	**539,731**	**1,278,027**	**549,110**	**1,315,064**	**1,174,335**
Total liabilities and equity	**3,813,435**	**9,029,832**	**3,829,475**	**9,171,210**	**6,987,558**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Selected Financial Ratios—Banking Business	As of and for the three months ended 31 March 2016	As of and for the year ended 31 December 2015	2014
	(unaudited)		
Profitability ratios			
ROAA[(1)], Annualised	3.1%	3.1%	3.4%
ROAE[(2)], Annualised	21.9%	20.4%	20.1%
Net Interest Margin[(3)], Annualised	7.5%	8.1%	7.1%
Loan Yield[(4)], Annualised, currency blended	14.6%	15.7%	13.5%
Loan Yield[(4)], Annualised, Lari	23.4%	25.0%	19.2%
Loan Yield[(4)], Annualised, foreign currency	11.2%	12.0%	11.0%
Retail Banking Loan Yield[(4)], Annualised, currency blended	17.5%	19.2%	16.8%
Retail Banking Loan Yield[(4)], Annualised, Lari	25.3%	27.2%	21.0%
Retail Banking Loan Yield[(4)], Annualised, foreign currency	11.0%	12.0%	11.8%
CIB Loan Yield[(4)], Annualised, currency blended	10.6%	11.1%	9.9%
CIB Loan Yield[(4)], Annualised, Lari	12.9%	13.3%	9.3%
CIB Loan Yield[(4)], Annualised, foreign currency	10.3%	10.7%	10.0%
Liquid assets yield[(5)], Annualised	3.7%	4.0%	3.1%
Cost of Funds[(6)], Annualised	5.1%	5.4%	4.6%
Cost of Client Deposits and Notes[(7)], Annualised, currency blended	4.3%	4.5%	4.0%
Cost of Client Deposits and Notes[(7)], Annualised, Lari	6.9%	5.4%	3.5%
Cost of Client Deposits and Notes[(7)], Annualised, foreign currency	3.5%	4.2%	4.3%
Retail Banking Cost of Client Deposits and Notes[(7)], Annualised, currency blended	3.6%	4.3%	3.6%
Retail Banking Cost of Client Deposits and Notes[(7)], Annualised, Lari	4.9%	5.8%	3.8%
Retail Banking Cost of Client Deposits and Notes[(7)], Annualised, foreign currency	3.2%	3.8%	3.5%
CIB Cost of Client Deposits and Notes[(7)], Annualised, currency blended	4.5%	4.1%	4.0%
CIB Cost of Client Deposits and Notes[(7)], Annualised, Lari	7.9%	5.3%	3.3%
CIB Cost of Client Deposits and Notes[(7)], Annualised, foreign currency	3.2%	3.6%	4.3%
Cost of Amounts Due to Credit Institutions[(8)], Annualised	6.1%	6.7%	4.6%
Cost of Debt Securities Issued[(9)]	7.3%	7.7%	7.0%
Efficiency ratios			
Cost to income ratio[(10)]	37.3%	36.3%	39.7%
Liquidity ratios (at period end)			
NBG Liquidity[(11)]	47.3%	46.2%	35.0%
Liquid Assets To Total Liabilities[(12)]	37.1%	38.3%	31.3%
Net Loans and Finance Lease Receivables To Client Deposits and Notes	108.7%	107.5%	127.5%
Leverage (Times)[(13)]	6.1	6.0	5.0
Asset quality			
Non-performing Loans and Finance Lease Receivables	251,959	241,142	153,628
Non-performing Loans and Finance Lease Receivables to Gross Loans and Finance Lease Receivables	4.5%	4.3%	3.4%
Non-performing Loans and Finance Lease Receivables Coverage[(14)]	86.0%	83.4%	67.5%
Non-performing Loans and Finance Lease Receivables Coverage, Adjusted for Discounted Value of Collateral[(15)]	122.6%	120.6%	110.6%
Allowance at period end for loans and finance lease receivables impairment to gross loans and finance lease receivables	3.9%	3.6%	2.3%
Cost of Risk, Annualised[(16)]	2.4%	2.9%	1.1%
Capital adequacy (at period end)			
NBG (Basel II/III) Tier I Capital Adequacy Ratio[(17)]	10.1%	10.9%	11.1%
NBG (Basel II/III) Total Capital Adequacy Ratio[(18)]	15.8%	16.7%	14.1%
NBG (Only) Tier I Capital Adequacy Ratio[(19)]	10.7%	9.3%	13.3%
NBG (Only) Total Capital Adequacy Ratio[(20)]	16.3%	16.9%	13.8%

Notes:

(1) Return on average total assets: profit for the period divided by average totals assets of the period.

(2) Return on average total equity: profit for the period attributable to the Issuer's shareholders divided by average total equity of the period attributable to the Issuer's shareholders.

(3) Net interest income divided by average-interest-earning assets of the period. Interest-earning assets include amounts due from credit institutions, loans to customers and finance lease receivables (net) and investment securities (interest-earning securities only).

(4) Interest income from loans and finance lease receivables for the period divided by average gross loans and finance lease receivables of the period.

(5) Interest income from liquid assets for the period divided by average interest-earning liquid assets of the period. Interest-earning liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities but exclude cash on hand from cash and cash equivalents, and corporate shares from investment securities.

(6) Interest expense for the period divided by average interest-bearing liabilities of the period. Interest-bearing liabilities include client deposits and notes, amounts owed to credit institutions and debt securities issued.

(7) Interest expense on client deposits and notes for the period divided by average client deposits and notes of the period.

(8) Interest expense on amounts owed to credit institutions for the period divided by average amounts owed to credit institutions of the period.

(9) Interest expense on debt securities issued for the period divided by average debt securities issued of the period.

(10) Operating expenses divided by revenue.

(11) Average liquid assets (as defined by the NBG) during the month divided by average liabilities (as defined by the NBG) during the same month.

(12) Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities.

(13) Total liabilities divided by total equity.

(14) Allowance at period end for loans and finance lease receivables impairment divided by non-performing loans.

(15) Allowance at period end for loans and finance lease receivables impairment divided by non-performing loans (collateral discount is added back to allowance for impairment).

(16) Impairment charges for loans and finance lease receivables for the period divided by average gross loans and finance lease receivables of the period.

(17) Tier I Capital divided by Risk-Weighted Assets under Basel II/III as adopted by the NBG.

(18) Total Regulatory Capital divided by Risk-Weighted Assets under Basel II/III as adopted by the NBG.

(19) Tier I Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II/III as adopted by the NBG).

(20) Total Regulatory Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II/III as adopted by the NBG).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations of the Group covers the years ended 31 December 2015 and 31 December 2014, and the three months ended 31 March 2016 and 31 March 2015. Unless otherwise specified, the financial information for the periods presented in this discussion has been extracted from the Financial Statements. This section should be read in conjunction with the Financial Statements and the notes thereto and the other financial information included elsewhere in the Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the sections entitled "Risk Factors" and "Forward-Looking Statements". Unless otherwise noted, all information relating to the Bank's market ranking and market share is based on information published by the NBG on 31 March 2016 and based on stand-alone financial information filed with the NBG by various Georgian banks, respectively.

The terms "loan" and "loans to customers", as used in this section, means the sum of loans to customers and finance lease receivables. Translations of Lari amounts as of and for the three months ended 31 March 2016 into US Dollars in this Prospectus have been made using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016. Translations of Lari amounts as of and for the year ended 31 December 2015 into US Dollars in this Prospectus have been made using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Overview

The Group is a Georgia-based banking group with an investment arm. The Company is the Georgian intermediate holding company for the Group's operating businesses, which comprise the Banking Business and the Investment Business. Its parent company (and therefore the ultimate parent company of the Group) is BGEO Group PLC (formerly known as Bank of Georgia Holdings PLC), a UK incorporated holding company which is listed on the premium segment of the London Stock Exchange. The market capitalisation of BGEO Group PLC as of 20 July 2016 was £1,050.50 million.

The Company is wholly owned directly by BGEO Group PLC and was established in May 2015 in response to the NBG's stated intention to regulate banks in Georgia on a stand-alone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities. The Company holds BGEO Group PLC's former direct shareholding in the Bank and its non-banking subsidiaries, which became the Bank's sister companies under the Company as a result of the Group reorganisation described below. See *"Description of Business—History and Development*". As the Company is a holding company, the Group performs its principal business activities through the Company's subsidiaries and is dependent on the receipt of dividends from these subsidiaries.

The Banking Business consists of Retail Banking and CIB, with ancillary business lines including P&C insurance, leasing and payment services, as well as banking operations in Belarus (which the Group conducts through BNB). The Group primarily conducts its Banking Business though its subsidiary, the Bank, which is the leading bank in Georgia based on total assets (with a 33.5% market share), total gross loans (with a 32.3% market share) and total customer deposits (with a 33.2% market share), according to statistics published by the NBG. The Bank strives to benefit from the underpenetrated banking sector in Georgia, especially through the provision of retail banking services. The Banking Business comprised 86.8% of the Group's total revenue in 2015 and 84.0% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations.

The Group's Investment Business, which is intended to allow the Group to take advantage of investment opportunities in Georgia's corporate sector, primarily comprises GHG—a hospital and medical insurance business, with a recently acquired pharmaceutical business, which is listed on the premium segment of the London Stock Exchange with a market capitalisation of £423.0 million as of 20 July 2016; m2, an indirectly wholly owned subsidiary of the Company; and other investments, including Teliani Valley, a wine and beverage business in which the Group owns a 71% stake as of 31 March 2016. The Investment Business comprised 15.3%

of the Group's total revenue in 2015 and 17.2% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations. In addition, in 2016, the Investment Business is also expected to acquire all of GGU. See "*Description of Business—Recent Developments*".

Factors Affecting the Group's Financial Statements

Key factors affecting the Group's financial results during the period under review and expected to continue to affect the Group's financial results in the future are discussed below.

Macroeconomic Conditions

The Group operates primarily in Georgia, and its Georgian operations accounted for 94.3% of its total consolidated revenue for the first three months ended 31 March 2016 (93.1% in the year ended 31 December 2015). Accordingly, the Group's results of operations and financial condition are, and will continue to be in the future, significantly affected by Georgian political and economic factors, including those in the below table.

	As of and for the three months ended 31 March	As of and for the year ended 31 December	
	2016	2015	2014
GDP growth (%)	2.3	2.8	4.6
Current account deficit (GEL millions)	N/A	1,641	1,753
Inflation (%)	4.1	4.9	2.0
Foreign direct investment (US$ millions)	376	1,315	1,758
Public debt as a % of GDP	N/A	41.5	35.6
Tourist visits	1,134,436	5,897,685	5,515,559

The Georgian economy slowed in 2015, along with the surrounding regional economies, which were all affected by lower oil prices. Economic conditions in Georgia and regionally began to improve in the first three months of 2016, as inflation moderated and the Lari appreciated 1% against the US Dollar.

Reflecting the economic decline of 2014 and 2015, the NBG increased the refinancing rate from 4% in 2014 to 8% in 2015 and maintained it at 8% in the first three months of 2016. The increased refinancing rate significantly affected the Bank's loan portfolio, as well as its funding costs, as described below. In April 2016, the NBG decreased the refinancing rate to 7.5%, and in June 2016, it further decreased the refinancing rate to 7.0%, in part reversing its previous increases. Although there is a time lag in repricing debt and deposits, absent further changes in rates this reduction is expected to reduce the Group's funding costs and its interest income.

The declining refinancing rate is expected to support the de-dollarisation efforts by the NBG and the Group, in particular, measured as the share of Lari denominated loans and deposits. As of 31 December 2014 and 31 December 2015, the Group's share of Lari denominated loans was 28.4% and 27.6%, respectively, and the Group's share of Lari denominated deposits was 28.9% and 25.5%, respectively. As of 31 March 2016, the Group's share of Lari denominated loans and deposits was 27.2% and 23.4%, respectively.

As growth slowed in 2015, the Lari depreciated by more than 20% against the US Dollar in 2015. This depreciation helped to absorb the external shock by reducing imports by 15.2% in 2015, as compared to 2014, excluding one-offs, thus preserving foreign currency reserves. However, the depreciation of the Lari contributed to an increase in Georgia's public debt as a percentage of GDP.

Despite the regional economic slowdown, tourism increased during the periods under review, which contributed to a 12.2% increase in net remittances (public and private) in 2015, while service exports increased by 3.8% to US$ 3.1 billion.

Changes in the size of the Loan Portfolio

Increases or decreases in the overall size of the Bank's loan portfolio and in the mix of its portfolio significantly impacts the Group's total interest income. In addition, the proportion of loans to total interest-earning assets also has an effect, as non-loan interest-earning assets (which are primarily amounts due from credit institutions or investment securities) generally have lower yields. Similarly, the percentage of Lari-denominated loans affects interest income as these loans generally have a higher yield. The table below presents the Group's key loan portfolio metrics for the periods and at the dates indicated.

	As of and for the three months ended 31 March		As of and for the year ended 31 December	
	2016	2015	2015	2014
	(unaudited)	*(unaudited, not reviewed)*		
Loans to customers, gross (GEL millions)	5,585.3	5,315.8	5,532.5	4,460.0
Loans to customers, net (GEL millions)	5,368.7	5,177.0	5,331.5	4,355.5
Total interest earning assets (GEL millions)	6,956.7	6,602.1	6,965.2	5,542.3
Loans to total interest-earning assets (%)	77.2%	78.4%	76.5%	78.6%
Portion of Lari-denominated loans of total loans (%)	27.2%	24.9%	27.6%	28.4%
Net total interest income (GEL millions)	128.4	118.7	492.3	344.7
Total interest income from loans (GEL millions)	202.6	183.5	781.4	548.4
Loan yield	14.7%	15.2%	15.6%	13.5%

The size of the Bank's loan portfolio has continued to increase as a result of growth in lending activity, as well as the 2015 acquisition of Privatbank and its loan portfolio. In addition to the positive effect on interest income from the increase in the loan portfolio, the Bank's loan yield also increased due to the addition Privatbank's higher-yielding loan portfolio upon the acquisition of Privatbank in 2015. The increase in interest income was partially offset by a decrease in loans as a percentage of total interest-earning assets, as well as a shift away from Lari-denominated loans from 2014 to 2015. The size of the Group's loan portfolio continued to increase in the three months ended 31 March 2016 from higher lending activity and an increase in Lari-denominated loans also contributed to higher interest income. However, this increase was partially offset by a decrease in loans as a percentage of total interest-earning assets and a decrease in loan yield in the first three months of 2016. Management believes that, as excess liquidity in the market decreases, the Group's loan portfolio will continue to increase.

Cost of Credit Risk

The Group's cost of credit risk is comprised of impairment charges on loans to customers, finance lease receivables and other assets and provisions, such as insurance premiums receivable, guarantees and other debts. The Group had loan and finance lease impairment charges of GEL 144.8 million and GEL 45.6 million in 2015 and 2014, respectively, and GEL 32.7 million and GEL 39.0 million in the first three months of 2016 and the first three months of 2015, respectively. The increase in impairment charges in 2015 in both the Retail Banking and CIB loan portfolios was due to the impact of slower economic growth and the currency devaluation of neighbouring countries related to falling oil prices during 2015, as well as the subsequent related weakening of the Georgian economic environment and its impact on the Group's clients, including their ability to service their loans. The increase in loan impairment charges in 2015 also reflected the integration of the loan portfolio of Privatbank in 2015, which added a higher yielding and relatively higher risk loan portfolio to the Bank's loan portfolio. In the first three months of 2016, the Group's cost of risk decreased to 2.4%, from 3.2% in the first three months of 2015, primarily reflecting the improved economic environment in Georgia and strengthening local currency. See *"Risk Factors—Macroeconomic and Political Risks Relating to Georgia"*.

Changes in Client Deposits and Notes

Client deposits and notes are the Group's largest source of funding, accounting for 59.4% of total liabilities as of 31 March 2016, as compared to and 59.2% as of 31 December 2015 and 57.2% as of 31 December 2014. The Group's client deposits and notes increased from GEL 3.5 billion as of 31 December 2014 to GEL 4.8 billion as of 31 December 2015 and decreased only slightly to GEL 4.7 billion as of 31 March 2016. See "—*Cost of Funds*". The growth was primarily attributable to the acquisition of Privatbank and the overall growth in the Georgian economy during the periods under review relating to recovery following the global financial crisis.

Cost of Funds

The Group's principal liabilities are:

- client deposits and notes (59.4% of total Group liabilities as of 31 March 2016);
- borrowings from international credit institutions, including Development Finance Institutions (**DFIs**) and non-convertible subordinated debt, as a source of long-term funding (13.6% of total Group liabilities as of 31 March 2016);
- notes and other debt securities issued by members of the Group (13.0% of total Group liabilities as of 31 March 2016); and
- other liabilities, including amounts due to credit institutions, deposits and loans from the inter-bank market, to manage short-term liquidity needs (14.0% of total Group liabilities as of 31 March 2016).

The Group's total interest expense has been increasing in line with the growth of its Banking Business. In 2015, the Group continued to reduce interest rates on foreign currency denominated client deposits and notes, in line with the general trends across the Georgian economy and the Group's aim to decrease its funding costs. However, during 2015, costs for Lari-denominated client deposits and notes increased, following a series of NBG refinancing rate increases, as well as the Privatbank acquisition, which added more costly, primarily Lari-denominated client deposits to the Banking Business. In the first three months of 2016, the Group continued to reduce interest rates on foreign currency denominated client deposits and notes, and the Bank reversed the trend of higher Lari deposit rates following stabilisation of Lari exchange rate and repricing of the Privatbank deposits. In particular, interest rates on the Bank's foreign currency and Lari client deposits and notes with different maturities were reduced by up to 150 basis points from 31 December 2015 to 31 March 2016. The Group's deposit costs increased from 4.1% in 2014 to 4.5% in 2015 and remained flat at 4.5% in the first three months of 2016.

Cost Management

In 2015, the Group announced that cost efficiency would be a strategic priority, and that it would seek to reduce the Banking Business cost-to-income ratio to no more than 35%. In 2015, the Banking Business cost base improved as a result of several cost efficiency measures, the success of the Express Banking model for cost efficient transactional banking and synergies achieved as part of the successful integration of Privatbank. As a result, in 2015, the Group's operating expense increased by 22.5%, as compared to 2014, which was less than the 34.4% revenue increase between those years. The Group's cost-to-income ratio also improved in 2015 to 37.0% from 40.7% in 2014. In the three months ended 31 March 2016, the Group's operating expenses increased by 9.7%, compared to the three months ended 31 March 2015, while revenue increased by 24.3% between periods, resulting in a 37.4% cost-to-income ratio for the three months ended 31 March 2016.

The Group is implementing more disciplined budgeting, cost analysis and control procedures across all business lines. These will include monthly cost centre budgeting and reporting by department. Additionally, the cost efficiency of each of the Group's subsidiaries is being reported and analysed separately on a regular basis, with feedback provided to the respective subsidiary. For the Group's Healthcare Business, capturing economies of scale is a significant part of the growth strategy. GHG has centralised certain functions across its healthcare services facilities and its medical insurance business, and is focussed on implementing other cost management practices. For example, GHG centralises administration activities, including purchasing, and seeks to rationalise resources across its network of facilities. The Group's Real Estate Business has also implemented cost controls. These include outsourcing construction and transferring construction cost over-run risk to the retained construction companies. Management expects to be able to achieve additional cost reductions from these measures in the future.

Currency Fluctuations

Fluctuations in the US Dollar to Lari exchange rate affect the value, in Lari terms, of the Group's gross loans to customers and finance lease receivables and, in turn, total assets. As of 31 March 2016, 72.8% of the Group's gross loans to customers and finance lease receivables were denominated in foreign currencies (mainly US Dollars). An appreciation of the Lari against the US Dollar will increase the value of these loans and finance lease receivables. Conversely, a depreciation of the Lari against the US Dollar will reduce the value of these loans and finance lease receivables. In addition, the Group incurs expenses that are linked to foreign currencies, primarily rental expenses that are US Dollar-linked. A depreciation of the Lari will increase these costs. The Lari depreciated 22% and 13% against the US Dollar and Euro, respectively, in 2015. In the first three months of 2016, the Lari appreciated by 1% against the US Dollar and depreciated by 2% against the Euro.

The Group is also affected by fluctuations in the Belarusian Rouble to Lari exchange rate, as the depreciation of Belarusian Rouble in relation to the Lari tends to reduce the value of the non-monetary assets of BNB, which are fixed in Belarusian Roubles, in Lari terms. The Belarusian Rouble depreciated by 22% and 10% against the Lari in 2015 and the first three months of 2016, respectively.

Although the Group seeks to minimise the effect of currency fluctuations, such fluctuations may affect its results.

Introduction of Universal Healthcare in Georgia

The table below presents the Investment Business revenues from insurance and healthcare for the periods presented.

	For the three months ended 31 March		For the year ended 31 December	
	2016	2015	2015	2014
	(unaudited)	*(unaudited, not reviewed)*		
	(thousands of Lari)			
Healthcare revenue	58,348	40,017	183,993	125,720
Net insurance premiums earned	12,924	12,890	54,997	69,700

Previously, the Government had provided medical insurance coverage under certain SIPs, which were introduced in 2007 and which, by 2012, provided medical insurance coverage (with no, or minimal, co-payments by beneficiaries) to approximately 2.1 million economically vulnerable citizens, including teachers, pensioners, young children, students and children with disabilities, by paying premiums to the private insurance companies that administered those programmes. Under the SIPs, the Government paid private healthcare insurers, including GHG, to provide insurance coverage. In March 2013, Georgia introduced the UHC, which is a Government funded healthcare programme that provides basic healthcare coverage to the entire population of Georgia, including more than 2.0 million people who had never previously held medical insurance and had previously purchased healthcare on an out-of-pocket basis. The UHC is not a healthcare insurance product, but an undertaking by the Government to reimburse healthcare providers directly for the delivery of treatment to patients and, accordingly, the UHC does not generate the payment of insurance premiums. Under the UHC, healthcare insurance coverage is consolidated and provided directly by the Government. Private medical insurance can be used to supplement or "top up" the basic state healthcare coverage. See "*Risk Factors—Risks relating to the Group's Investment Business—Risks Relating to the Group's Healthcare Business—GHG cannot predict the effects of Georgia's new system of universal healthcare*".

Management believes that by making healthcare more accessible to a significant portion of the population, the UHC has increased, and will continue to increase, the demand for, and the total amount spent on, healthcare services in Georgia. This increased demand has contributed, and is expected to continue to contribute, to an increase in GHG's healthcare services revenue, particularly revenue from its referral hospitals.

However, the introduction of the UHC has, to date, had a net negative effect on GHG's healthcare insurance revenues. The consolidation of insurance coverage under the UHC (with coverage provided directly by the Government rather than through private insurers under the prior SIPs model) had, by the end of 2015, eliminated the premiums paid to GHG for its provision of medical insurance under the SIPs programs. GHG has increased its revenues from private medical insurance used to supplement or ''top up'' the basic state healthcare coverage. Management believes that the limited cover available under the UHC programme has raised awareness within Georgia of the benefits of medical insurance and will continue to increase total demand over time for private medical insurance, particularly as an employee benefit in the corporate insurance market.

Acquisitions

The Group has made significant acquisitions, particularly in the Healthcare Business, during the period under review, which have affected the Group's total revenue, expenses and profitability.

The Group's significant acquisitions for the period from 1 January 2014 to 31 March 2016 are described below. The Group did not have significant disposals for the period from 1 January 2014 to 31 March 2016. See *"Description of Business—History and Development"*.

Acquisition of Avante Hospital Management Group LLC. On 20 February 2014, Unimedi Kakheti LLC acquired 80% of Avante, a healthcare company operating in Tbilisi, and acquired the remaining 20% on 5 March 2014. The total consideration for the acquisitions was GEL 24.8 million.

Acquisition of Traumatology LLC. On 30 September 2014, JSC Medical Corporation EVEX (**EVEX**) acquired all of the shares in Traumatology LLC, a healthcare company operating in Georgia. The total consideration for the acquisition was GEL 6.3 million.

Acquisition of JSC PrivatBank. On 9 January 2015, the Bank acquired all of the shares in JSC PrivatBank, a Georgian commercial bank, for a total consideration of GEL 94.2 million. See "*Description of Business—Banking Business—Retail Banking*".

Acquisition of Healthcare Subsidiaries. During the year ended 31 December 2015, GHG acquired the following Georgian healthcare companies:

- on 5 August 2015, 50% of the shares of LLC GNCo for consideration of GEL 39.0 million;
- on 30 June 2015, 95% of the shares of LLC Deka for consideration of GEL 28.8 million; and
- on 1 March 2015, 100% of the shares of LLC Tbilisi Emergency Center for consideration of GEL 1.0 million.

Acquisition of minority stake at major hospital. On 7 March 2016, GHG increased its interest in Iashvili Referral Hospital, from 66.7% to 100%. In March 2016, GHG paid cash consideration of US$1.0 million and transferred all of its assets in Tbilisi Maternity Hospital "New Life" to the seller, worth GEL 6.2 million.

The Group has also made the following significant acquisitions after the periods under review:

Acquisition of a pharmaceutical retailer. In April 2016, GHG acquired all of the shares of GPC, one of the leading pharmaceutical retailers and wholesalers in Georgia, for consideration of US$14.0 million. See "*Description of Business—Investment Business—Healthcare Business*".

Acquisition of the remaining 75% interest in GGU. In June 2016, JSC BGEO Investments entered into the SPA to acquire the remaining 75% interest in GGU, subject to customary conditions precedent. See "*Description of Business—Recent Developments*".

As the Group intends to continue to seek strategic acquisitions in the future, Management expects that the financial results of the Group will continue to be affected by acquisitions. In particular, the Group is continuing to increase its number of referral hospitals, in line with GHG's strategy to increase its market share in hospitals to 33.3% across Georgia through further investments in the renovation and expansion of existing referral hospital facilities. Accordingly, GHG expects a significant portion of the future growth of GHG's hospital revenue to come from referral hospitals.

Segment Information

The Group's segments are organised under its Banking Business, Investment Business and Corporate Center, which includes Group administrative costs. Intercompany revenue and expenses are eliminated in the Group's consolidated financials. The following table sets forth the revenue attributable to the Group's primary segments for the periods indicated.

	For the three months ended 31 March			For the year ended 31 December	
	2016		2015	2015	2014
	(unaudited)		*(unaudited, not reviewed)*	*(audited)*	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Banking Businesses:					
Retail Banking	44,901	106,320	95,667	416,269	296,840
CIB	25,004	59,208	47,630	237,649	185,407
P&C insurance	2,777	6,575	941	17,195	17,001
BNB	5,242	12,413	14,760	57,739	42,289
Other Banking Businesses	192	455	(30)	1,299	1,131
Banking Business eliminations	(357)	(846)	(765)	(3,487)	(3,263)
Total Banking Businesses	**77,759**	**184,125**	**158,203**	**726,664**	**539,405**
Investment businesses:					
Healthcare Business	12,180	28,842	19,773	96,830	68,846
Real Estate Business	3,238	7,668	1,292	21,634	13,752
Other Investment Businesses	511	1,210	1,278	9,996	12,372
Investment business eliminations	**—**	**—**	**(10)**	**(33)**	**—**
Total investment businesses	**15,929**	**37,720**	**22,333**	**128,427**	**94,970**
Interbusiness elimination	**(1,093)**	**(2,588)**	**(4,178)**	**(18,147)**	**(11,858)**
Total	**92,595**	**219,257**	**176,358**	**836,944**	**622,517**

The Banking Business contribution to the Group's total revenue decreased from 89.7% in the first three months of 2015 to 84.0% in the first three months of 2016, primarily as a result of the higher growth of the Investment Business, which contributed 12.7% of total revenue in the first three months of 2015 and 17.2% in the first three months of 2016. The increase in the contribution by the Investment Business to the Group's total revenue was primarily driven by an increase in the contribution by the Real Estate Business and the Healthcare Business, which grew from 0.7% to 3.5% and 11.2% to 13.2%, respectively, for the three months ended 2015 and three months ended 2016. Growth in the Real Estate Business was due to revenue recognition on finished projects by the Real Estate Business in the first three months of 2016 and growth in the Healthcare Business was due to acquisitions during 2015, as well as organic growth.

The Banking Business and Investment Business contributions to the Group's total revenue were relatively flat in 2015, as compared to 2014. The contribution of Retail Banking to the Group's total revenue increased to 49.7% in 2015 from 47.7% in 2014, while revenue contributions from the CIB and P&C insurance segments decreased from 29.8% and 2.7% in 2014 to 28.4% and 2.1% in 2015, respectively. These changes reflected the decreasing concentration of CIB loans and deposits and foreign currency translation losses of the P&C insurance business in 2015. Similarly, contributions from the Healthcare and Real Estate Businesses increased from 11.1% and 2.2% in 2014 to 11.6% and 2.6% in 2015, respectively, while the contribution from other investment businesses, primarily Teliani Valley, decreased from 2.0% in 2014 to 1.2% in 2015, reflecting the impact of the Lari devaluation on Teliani Valley's operations in 2015. The Investment Business comprised 15.3% of the Group's total revenue in 2015 and 17.2% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations.

The Group also monitors amounts of equity attributable to BGEO shareholders as allocated to each segment (**Allocated Capital**). As of 31 March 2016, the Group had GEL 596.4 million (US$251.9 million) of Allocated Capital to Retail Banking, GEL 554.8 million (US$234.3 million) of Allocated Capital to CIB, GEL 62.9 million (US$26.6 million) of Allocated Capital to BNB, GEL 39.4 million (US$16.6 million) of Allocated Capital to P&C insurance, and GEL 1.4 million (US$0.6 million) of Allocated Capital to Other Banking Businesses, with a total Banking Business Allocated Capital of GEL 1,254.9 million (US$530.0 million). As of 31 March 2016, the Group had GEL 283.5 million (US$119.7 million) of Allocated Capital to GHG, GEL 111.4 million

(US$47.0 million) of Allocated Capital to m2, and GEL 18.1 million (US$7.7 million) of Allocated Capital to other investment businesses, of which GEL 11.2 million (US$4.7 million) was Allocated Capital to Teliani Valley, with a total Investment Business Allocated Capital of GEL 413.0 million (US$174.4 million). GEL 189.5 million (US$80.0 million) was unallocated capital (cash) held at the holding company level.

The Group also monitors the market value of its GHG shares, valued at a total of GEL 797.9 million (US$337.0 million), calculated based on a price of £2.85 per share and a British Pound to Lari exchange rate of 3.2692, which was the prevailing exchange rate as of 22 June 2016.

Consolidated Income Statement

Three Months Ended 31 March 2016 and 2015

The following table sets out a condensed consolidated income statement for the Group for the periods indicated.

	For the first three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Net banking interest income	54,409	128,835	120,604
Net fee and commission income	11,775	27,881	26,972
Net banking foreign currency gain	7,318	17,329	(387)
Net other banking income	1,211	2,867	2,098
Gross insurance profit	2,710	6,416	7,574
Gross healthcare profit	11,103	26,291	16,877
Gross real estate profit	2,544	6,024	1,209
Gross other investment profit	1,526	3,614	1,411
Revenue	**92,596**	**219,257**	**176,358**
Operating expenses	(34,648)	(82,043)	(74,816)
Operating income before cost of credit risk / EBITDA[1]	**57,948**	**137,214**	**101,542**
Depreciation and amortisation of investment business	(2,074)	(4,910)	(2,688)
Net foreign currency gain (loss) from investment business	(326)	(773)	1,541
Interest income from investment business	404	956	617
Interest expense from investment business	(584)	(1,383)	(2,506)
Operating income before cost of credit risk	**55,368**	**131,104**	**98,506**
Cost of credit risk	(15,264)	(36,144)	(41,842)
Net non-recurring items	576	1,365	(2,447)
Income tax expense	(4,186)	(9,911)	(10,811)
Profit	**36,494**	**86,414**	**43,406**

Note:

(1) EBITDA represents earnings before interest, taxes, depreciation and amortisation.

Net Interest Income

Net interest income is defined as net banking interest income plus interest income from Investment Business less interest expense from the investment business. The following table shows a summary of net interest income for the Group.

	For the first three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Banking interest income	94,941	224,810	199,698
Banking interest expense	(40,532)	(95,975)	(79,094)
Net banking interest income	**54,409**	**128,835**	**120,604**
Interest income from investment business	404	956	617
Interest expense from investment business	(584)	(1,383)	(2,506)
Net investment business interest expense	**(180)**	**(427)**	**(1,889)**
Total interest income	95,344	225,766	200,315
Total interest expense	(41,116)	(97,358)	(81,600)
Net interest income	**54,228**	**128,408**	**118,715**

Net interest income increased by GEL 9.7 million, or 8.2%, to GEL 128.4 million (US$54.2 million) in the first three months of 2016 from GEL 118.7 million in the first three months of 2015. Of this, GEL 8.2 million (US$3.5 million) was due to the increase in net banking interest income. This increase, in turn, was principally due to a GEL 25.1 million, or 12.6%, increase in banking interest income, which was only partially offset by a GEL 16.9 million, or 21.3%, increase in banking interest expense.

Net interest margin (**NIM**) is defined as net interest income divided by the average of interest-earning assets at the beginning and the end of the relevant period. Interest-earning assets include amounts due from credit institutions, loans to customers (net) and investment securities available-for-sale (debt securities only).

The NIM of the Group was 7.4% and 7.9% in first three months of 2016 and the first three months of 2015, respectively. The loan yield was 14.7% and 15.2% in the first three months of 2016 and the first three months of 2015, respectively, while the consolidated cost of funds was 5.2% in both the first three months of 2016 and the first three months of 2015.

Total Interest Income

Total interest income is the sum of the banking interest income and interest income from the investment business. It principally comprises the interest income on loans to customers, interest income on securities portfolio, interest income on amounts due from credit institutions and interest income from finance lease receivables. The following table sets out the Group's total interest income as of the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Interest income attributable to:			
Loans to customers	84,600	200,324	181,540
Finance lease receivable	943	2,234	1,922
Amounts due from credit institutions	1,319	3,123	2,345
Investment securities: available-for-sale	8,482	20,085	14,508
Total interest income	**95,344**	**225,766**	**200,315**

The following table sets out the amounts of the Group's interest-earning assets by type as of the dates indicated:

	As of 31 March 2016		As of 31 December 2015
	(unaudited)		*(audited)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Interest-earning assets			
Amounts due from credit institutions	322,832	764,435	731,365
Investment securities available-for-sale	347,817	823,596	902,419
Loans to customers and finance lease receivables, net	2,267,279	5,368,689	5,331,451
Total interest-earning assets	**2,937,928**	**6,956,720**	**6,965,235**

Total interest income increased by GEL 25.5 million, or 12.7%, from GEL 200.3 million in the first three months of 2015 to GEL 225.8 million (US$95.3 million) in the first three months of 2016, primarily as a result of a 14.6% increase in average interest-earning assets for the same period, in line with growth in the banking business. The increase in interest income was primarily attributable to a GEL 19.1 million, or 10.4%, increase in interest income from loans to customers and finance lease receivables, which was, in turn, primarily due to a 13.7% increase in average gross loans and finance lease receivables.

Interest income from amounts due from credit institutions and investment securities increased in the first three months of 2016, by 33.2% and 38.4%, respectively, as compared to the first three months of 2015. This reflected the increase in the total amounts of investment securities, and amounts due from credit institutions, partially offset by lower interest rates.

Amounts due from credit institutions comprise inter-bank deposits (time deposits with a contractual maturity of more than 90 days), short-term inter-bank loans (inter-bank loan receivables, obligatory reserves with central banks and deposits pledged as security for open commitments. Interest income from this line item increased by GEL 0.8 million, or 33.2%, to GEL 3.1 million (US$1.3 million) in the first three months of 2016 from GEL 2.3 million in the first three months of 2015. This increase was principally due to the higher inter-bank deposit rates in line with the increase of NBG's refinancing rates from 4.5% as of 31 March 2015 to 8.0% as of 31 March 2016, which was intended to reduce pressure on the Lari.

Interest income from the investment securities portfolio increased in the first three months of 2016, as compared to the first three months of 2015, as yields on Government treasury bills and treasury bonds and NBG certificates of deposit continued to increase. Interest income on interest-earning investment securities (including debt instruments only) increased by GEL 5.6 million, or 38.4%, to GEL 20.1 million (US$8.5 million) in the first three months of 2016 from GEL 14.5 million in the first three months of 2015. This reflected the increase in the amount of debt investment securities and higher interest rates.

Total Interest Expense

Total interest expense is the sum of the banking interest expense and interest expense from the investment business and principally comprises the interest expense on client deposits and notes, interest expense on amounts due to credit institutions and interest expense on debt securities issued. The following table sets out the Group's total interest expense as of the periods indicated.

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Interest expense attributable to:			
Client deposits and notes	22,327	52,868	43,966
Amounts due to credit institutions	11,135	26,367	21,907
Debt securities issued	7,654	18,123	15,727
Total interest expense	**41,116**	**97,358**	**81,600**

The following table sets out the amounts of the Group's interest-bearing liabilities as of the dates indicated:

	As of 31 March 2016		As of 31 December 2015
	(unaudited)		*(audited)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Interest-bearing liabilities			
Client deposits and notes	1,997,394	4,729,630	4,783,582
Amounts due to credit institutions	726,349	1,719,921	1,789,062
Debt securities issued	436,572	1,033,758	1,039,804
Total interest-bearing liabilities	**3,160,315**	**7,483,309**	**7,612,448**

Total interest expense increased by GEL 15.8 million, or 19.3%, to GEL 97.4 million (US$41.1 million) in the first three months of 2016 from GEL 81.6 million in the first three months of 2015. The increase was primarily driven by a GEL 8.9 million, or 20.2%, increase in total interest expense on client deposits and notes as a result of an increase in the Bank's deposit portfolio. This was partially offset by a decrease in the average cost of client deposits and notes from 4.7% in the first three months of 2015 to 4.5% in the first three months of 2016. Although total interest expense increased as the Group's deposit portfolio grew, the average cost of client deposits and notes between the periods decreased as a result of a number of interest rate cuts on client deposits in 2015 and in the first three months of 2016. Between the periods, contractual deposit rates at the end of each respective period decreased to 3.3% from 4.1% on US Dollar denominated deposits and increased to 7.2% from 4.9% on Lari deposits. The growth in total client deposits and notes was primarily due to greater inflow of both Retail Banking and CIB client deposits throughout 2015 and in the first three months of 2016.

Interest expense on amounts due to credit institutions increased by GEL 4.5 million, or 20.4%, to GEL 26.4 million in the first three months of 2016, as compared to GEL 21.9 million the first three months of 2015. The increase was primarily driven by the increase in the cost of amounts due to credit institutions, which grew from 5.6% in the first three months of 2015 to 6.0% in the first three months of 2016, reflecting the NBG increasing the refinancing rate from a 4.0% to 4.5% range in the first three months of 2015 to 8.0% in the first three months of 2016, as well as the effect of US$90 million of subordinated debt borrowed by the Bank in June 2015.

Net Fee and Commission Income

The Group's net fee and commission income comprises (i) fee and commission income from settlement operations (including wire transfers, credit card processing and other current accounts-related services), guarantees and letters of credit, cash operations, brokerage service fees, currency conversion operations, advisory and other fee and commission income, less (ii) fee and commission expense from settlement operations, cash operations, guarantees and letters of credit, insurance brokerage services, currency conversion operations and other fee and commission expenses.

The following table sets out the principal components of the Group's net fee and commission income for the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Settlement operations	11,906	28,193	25,701
Guarantees and letters of credit	2,390	5,660	5,228
Cash operations	1,158	2,741	3,245
Currency conversion operations	58	137	734
Brokerage service fee	121	287	347
Advisory	76	181	—
Other	401	950	736
Fee and commission income	**16,110**	**38,149**	**35,991**
Settlement operations	(3,086)	(7,307)	(6,438)
Cash operations	(532)	(1,260)	(1,094)
Guarantees and letters of credit	(333)	(788)	(1,092)
Insurance brokerage service fees	(210)	(497)	(106)
Currency conversion operations	(3)	(8)	(21)
Other	(172)	(408)	(268)
Fee and commission expense	**(4,336)**	**(10,268)**	**(9,019)**
Net fee and commission income	**11,774**	**27,881**	**26,972**

Net fee and commission income increased by GEL 0.9 million, or 3.4%, to GEL 27.9 million (US$11.8 million) in the first three months of 2016 from GEL 27.0 million in the first three months of 2015. The increase was primarily due to the increase in settlement operations as a result of the expansion of the Bank's Express Banking operations, through which the Bank delivers self-service transactional and remote banking services.

Fee and commission expense increased by GEL 1.2 million, or 13.8%, to GEL 10.3 million (US$4.3 million) in the first three months of 2016 from GEL 9.0 million in the first three months of 2015. The increase was primarily due to an increase in fee and commission expenses relating to increased settlement operations.

Net banking foreign currency gain

Net banking foreign currency gain comprises Banking Business income from foreign currency dealing, and gains and losses from currency translation differences of the Banking Business. Net banking foreign currency gain increased by GEL 17.7 million to GEL 17.3 million (US$7.3 million) in the first three months of 2016 from a GEL 0.4 million loss in the first three months of 2015. The increase was primarily due to the Group having no currency translation losses in the first three months of 2016, which was the result of a short position in the Banking Business combined with the 16% Lari devaluation against US Dollar during the first three months of 2015.

Net other banking income

Net other banking income comprises Banking Business operating lease income and gains and losses from the sale of investment securities, trading securities and real estate properties.

The Group's net other banking income increased by GEL 0.8 million, or 36.7%, to GEL 2.9 million (US$1.2 million) in the first three months of 2016 from GEL 2.1 million in the first three months of 2015. The increase was primarily due to a GEL 0.5 million increase in operating lease income, primarily due to the Lari devaluation against the US Dollar, as the Group's operating lease agreements are predominantly US Dollar-denominated.

Gross insurance profit

The Group's gross insurance profit equals net insurance premiums earned from clients, less net insurance claims incurred, in the P&C insurance portion of the Banking Business, the medical insurance business of GHG and the Investment Business. Net insurance premiums earned consist of premium income from insurance contracts, net of reinsurance. Net insurance claims represent incurred claim expenses on insurance contracts, net of reinsurance. The following table sets forth the principal components of the Group's gross insurance profit for the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Gross insurance profit from P&C insurance business	2,257	5,344	5,306
Net insurance premiums earned	*4,033*	*9,550*	*9,242*
Net insurance claims incurred	*(1,776)*	*(4,206)*	*(3,936)*
Gross insurance profit from medical insurance business	727	1,722	2,691
Net insurance premiums earned	*5,458*	*12,924*	*12,890*
Net insurance claims incurred	*(4,731)*	*(11,202)*	*(10,199)*
Eliminations	(275)	(650)	(423)
Gross insurance profit	**2,709**	**6,416**	**7,574**

Gross insurance profit decreased by GEL 1.2 million, or 15.3%, to GEL 6.4 million (US$2.7 million) in the first three months of 2016, as compared to GEL 7.6 million in the first three months of 2015, primarily due to a decline in net insurance premium earned from the medical insurance business resulting from the adoption of UHC as UHC insurance coverage is provided centrally by the Government rather than through private insurers (including GHG) as was the case under the SIPs.

Gross insurance profit from the P&C insurance business remained flat at GEL 5.3 million (US$2.3 million) in the first three months of 2016 and in the first three months of 2015. Net insurance premiums earned and net insurance claims each increased by GEL 0.3 million in the first three months of 2016, as compared to the first three months of 2015.

Gross insurance profit from the medical insurance business decreased by GEL 1.0 million, or 36.0%, to GEL 1.7 million (US$0.7 million) in the first three months of 2016, from GEL 2.7 million in the first three months of 2015, while net insurance premiums earned stayed flat at GEL 12.9 million (US$5.5 million) in the first three months of 2016 and in the first three months of 2015. Net insurance claims incurred in the medical insurance business increased by GEL 1.0 million, or 9.8%, to GEL 11.2 million (US$4.7 million) in the first three months of 2016, from GEL 10.2 million in the first three months of 2015, reflecting growth in the total amount of insurance underwritten.

Gross healthcare profit

The Group's gross healthcare profit comprises revenues less costs of GHG, but does not include revenues attributable to GHG's medical insurance business. The following table sets forth the principal components of the Group's gross healthcare profit for the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Healthcare services revenue	24,641	58,348	40,017
Cost of healthcare services	(13,538)	(32,057)	(23,140)
Gross healthcare profit	**11,103**	**26,291**	**16,877**

Healthcare services revenue increased by GEL 18.3 million, or 45.8%, to GEL 58.3 million (US$24.6 million) in the first three months of 2016 from GEL 40.0 million in the first three months of 2015, principally due to the growth of the Healthcare Business through both organic growth and acquisitions. See "*—Factors Affecting the Group's Financial Statements—Acquisitions*".

Cost of healthcare services increased by GEL 8.9 million, or 38.5%, to GEL 32.1 million (US$13.5 million) in the first three months of 2016 from GEL 23.1 million in the first three months of 2015, primarily due to growth of the Healthcare Business through both organic growth and acquisitions.

Gross real estate profit

Gross real estate profit consists of revenue from the Real Estate Business less the direct costs of this revenue, as well as the operating lease income from the Investment Business. The following table sets forth the components of the Group's gross real estate profit for the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Real estate revenue	**12,147**	**28,764**	**4,074**
Cost of real estate	9,603	22,740	2,865
Gross real estate profit	**2,544**	**6,024**	**1,209**

Gross real estate profit increased by GEL 4.8 million, or 398.3%, to GEL 6.0 million (US$2.5 million) in the first three months of 2016, as compared to GEL 1.2 million in the first three months of 2015, principally reflecting the completion of more real estate projects in the first three months of 2016 compared to the first three months of 2015. See "*Description of Business—Investment Business—Real Estate Business (m2 Real Estate)*".

Gross other investment profit

Gross other investment profit consists of income from the sale of wine and spirits by Teliani Valley, gains and losses from the sale of real estate properties and gains from the revaluation of investment properties of the Investment Business. Properties are revalued at least every three years, or sooner if objective evidence suggests that there has been a material change in value.

Gross other investment profit increased by GEL 2.2 million, or 156.1%, to GEL 3.6 million (US$1.5 million) in the first three months of 2016, as compared to GEL 1.4 million in the first three months of 2015, principally reflecting the gain from a revaluation of Real Estate Business investment properties.

Revenue

As a result of the foregoing, the Group's revenue increased by GEL 42.9 million, or 24.3%, to GEL 219.3 million (US$92.6 million) in the first three months of 2016 from GEL 176.4 million in the first three months of 2015.

Operating Expenses

The Group's operating expenses comprise salaries and other employee benefits, administrative expenses, banking depreciation and amortisation and other operating expenses. The following table shows the composition of the Group's operating expenses for the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Salaries and other employee benefits	19,782	46,841	45,273
Administrative expenses	10,300	24,389	20,283
Banking depreciation and amortisation	3,859	9,138	8,373
Other operating expenses	707	1,675	887
Operating expense	**34,648**	**82,043**	**74,816**

In line with the growth of the Group's businesses, operating expenses increased by GEL 7.2 million, or 9.7%, to GEL 82.0 million (US$34.6 million) in the first three months of 2016 from GEL 74.8 million in the first three months of 2015. The increase was principally due to the GEL 4.1 million, or 20.2%, increase in administrative expenses and the GEL 1.6 million, or 3.5%, increase in salaries and employee benefits. As a percentage of revenue, operating expenses decreased from 42.4% in the first three months of 2015 to 37.4% in the first three months of 2016.

Salaries and other employee benefits include salaries and bonuses, as well as social security costs. Salaries and other employee benefits increased by GEL 1.6 million, or 3.5%, to GEL 46.8 million (US$19.8 million) in the first three months of 2016 from GEL 45.3 million in the first three months of 2015, primarily due to an increase in headcount to support the growth in the Group, in particular at GHG.

Administrative expenses include expenses for marketing and advertising, occupancy and rent, repairs and maintenance, legal and other professional services, operating taxes, communications, office supplies, travel expenses, security, corporate hospitality and entertainment, personnel training and recruitment, insurance expenses and other administrative expenses. Administrative expenses increased by GEL 4.1 million, or 20.2%, to GEL 24.4 million (US$10.3 million) in the first three months of 2016 from GEL 20.3 million in the first three months of 2015, largely reflecting increased spending on marketing the Bank's Solo banking products. See *"Description of Business—Strategy—Strengths"*.

Banking depreciation and amortisation consists of depreciation and amortisation expenses of the Banking Business. It increased by GEL 0.8 million, or 9.1%, to GEL 9.1 million (US$3.9 million) in the first three months of 2016 from GEL 8.4 million in the first three months of 2015, primarily as a result of the increasing number of service centres of the Bank.

Other operating expenses comprise other operating expenses of the Group. Other operating expenses increased by GEL 0.8 million, or by 88.8%, to GEL 1.7 million (US$0.7 million) in the first three months of 2016 from GEL 0.9 million in the first three months of 2015, primarily as a result of GHG writing off small equipment and inventory items.

Operating Income Before Cost of Credit Risk / EBITDA

Operating Income Before Cost of Credit Risk / EBITDA is calculated as revenue less operating expenses and represents operating income before cost of credit risk for the Banking Business and EBITDA (earnings before interest, taxes, depreciation and amortisation) for the Investment Business.

As a result of the foregoing factors, the Group's operating income before cost of credit risk / EBITDA increased by GEL 35.7 million, or 35.1%, to GEL 137.2 million (US$57.9 million) in the first three months of 2016 from GEL 101.5 million in the first three months of 2015.

Depreciation and amortisation of investment business

Depreciation and amortisation of investment business relates to the assets of the Investment Business. Depreciation and amortisation increased by GEL 2.2 million, or 82.7%, to GEL 4.9 million (US$2.1 million) in the first three months of 2016 from GEL 2.7 million in the first three months of 2015, primarily due to increased property and equipment balances from capital expenditures to support the organic growth of the business, as well as from acquisitions.

Net foreign currency (loss) gain from investment business

Foreign currency (loss) gain from investment business relates to the relevant expenses from the Investment Business. The Group recorded a GEL 0.8 million loss (US$0.3 million) in the first three months of 2016 and a gain of GEL 1.5 million in the first three months of 2015. GHG held a long position in US Dollars in the first three months of 2015, which resulted in a gain from the Lari devaluation, while GHG held a short-position in the first three months of 2016, resulting in a loss from the appreciation of the Lari.

Operating income before cost of credit risk

As a result of the foregoing, the Group's operating income before cost of credit risk increased by GEL 32.6 million, or 33.1%, to GEL 131.1 million (US$55.4 million) in the first three months of 2016 from GEL 98.5 million in the first three months of 2015.

Cost of Credit Risk

The following table shows the composition of the Group's cost of credit risk for the periods indicated:

	For the three months ended 31 March		
	2016		2015
	(unaudited)		*(unaudited, not reviewed)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Impairment charge on loans to customers	13,606	32,218	38,928
Impairment charge finance lease receivables	217	513	119
Impairment charge on other assets and provisions	1,441	3,413	2,795
Cost of credit risk	**15,264**	**36,144**	**41,842**

Cost of credit risk decreased by GEL 5.7 million, or 13.6%, to GEL 36.1 million (US$15.3 million) in the first three months of 2016 from GEL 41.8 million in the first three months of 2015, primarily reflecting improving economic conditions in Georgia and the consequent strengthening of the Lari against the US Dollar in the first three months of 2016. The cost of risk was 2.4% and 3.2% during the first three months of 2016 and the first three months of 2015, respectively.

Impairment charge on loans to customers comprises charges relating to allowances for impairment of loans to customers. Impairment charge on loans to customers decreased by GEL 6.7 million, or 17.2%, to GEL 32.2 million (US$13.6 million) in the first three months of 2016 from GEL 38.9 million in the first three months of 2015. This decrease was primarily due to the currency translation effect on impairment charges for the first three months of 2015, during which the Lari was devalued against the US Dollar by 16%, as well as a GEL 2.6 million decrease in impairment charges for BNB's loan book in the first three months of 2016.

Impairment charge on finance lease receivables comprises charges relating to allowances for finance lease receivables held by the Group's leasing subsidiaries in Georgia and Belarus. This item increased by GEL 0.4 million, or 331.1%, to GEL 0.5 million (US$0.2 million) in the first three months of 2016 from GEL 0.1 million in the first three months of 2015. The increase was primarily attributable to BNB's leasing activities.

Impairment charge on other assets and provisions comprises provisions for guarantees and impairment of other assets (essentially non-loan and non-lease receivables), net of impairment charge reversals. This item increased by GEL 0.6 million, or 22.1%, to GEL 3.4 million (US$1.4 million) in the first three months of 2016 from GEL 2.8 million in the first three months of 2015. The increase was primarily attributable to the impairment of prepayments to suppliers in the Georgian leasing subsidiary.

Net non-recurring items

The Group recorded a gain from non-recurring items of GEL 1.4 million (US$0.6 million) in the first three months of 2016, primarily due to the recognition of a deferred tax asset at the GHG level, as compared to a loss of GEL 2.4 million in the first three months of 2015, primarily due to adjustments made by BNB for hyperinflation.

Income Tax Expense

The Group had income tax expense of GEL 9.9 million (US$4.2 million) in the first three months of 2016, as compared to GEL 10.8 million in the first three months of 2015. This decrease relates to a tax adjustment made in the first three months of 2016 in respect of tax paid in a prior period.

Profit for the Period

As a result of the foregoing factors, the Group generated a net profit for the period of GEL 86.4 million (US$36.5 million) for the first three months of 2016, as compared to GEL 43.4 million for the first three months of 2015.

Years Ended 31 December 2015 and 2014

The following table sets out a condensed consolidated income statement for the Group for the periods indicated.

	For the year ended 31 December			
	2015			2014
	(audited)			
	(thousands of US Dollars)	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Net banking interest income	208,931	500,369	43.0%	349,957
Net fee and commission income	49,613	118,819	18.5%	100,241
Net banking foreign currency gain	21,948	52,564	-1.8%	53,527
Net other banking income	7,865	18,836	103.2%	9,270
Gross insurance profit	12,488	29,907	1.6%	29,430
Gross healthcare profit	33,796	80,938	51.3%	53,483
Gross real estate profit	6,133	14,688	8.3%	13,566
Gross other investment profit	8,695	20,823	59.6%	13,043
Revenue	**349,469**	**836,944**	**34.4%**	**622,517**
Operating expenses	(129,447)	(310,012)	22.5%	(253,174)
Operating income before cost of credit risk / EBITDA	**220,022**	**526,932**	**42.7%**	**369,343**
Depreciation and amortisation of investment business	(5,940)	(14,225)	55.2%	(9,164)
Net foreign currency loss from investment business	(857)	(2,053)	-33.4%	(3,082)
Interest income from investment business	977	2,340	78.9%	1,308
Interest expense from investment business	(4,364)	(10,452)	59.4%	(6,557)
Operating income before cost of credit risk	**209,838**	**502,542**	**42.8%**	**351,848**
Cost of credit risk	(64,878)	(155,376)	163.3%	(59,021)
Net non-recurring items	(6,324)	(15,146)	37.5%	(11,017)
Income tax expense	(20,213)	(48,408)	35.1%	(35,826)
Profit	**118,423**	**283,612**	**15.3%**	**245,984**

Net Interest Income

The following table shows a summary of net interest income for the Group.

	For the year ended 31 December		
	2015	2015	2014
		(audited)	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Banking interest income	359,004	859,778	593,612
Banking interest expense	(150,073)	(359,409)	(243,655)
Net banking interest income	**208,931**	**500,369**	**349,957**
Interest income from investment business	977	2,340	1,308
Interest expense from investment business	(4,364)	(10,452)	(6,557)
Net investment business interest expense	**(3,387)**	**(8,112)**	**(5,249)**
Total interest income	359,981	862,118	594,920
Total interest expense	(154,437)	(369,861)	(250,212)
Net interest income	**205,544**	**492,257**	**344,708**

Net interest income increased by GEL 147.5 million, or 42.8%, to GEL 492.3 million (US$205.5 million) in 2015 from GEL 344.7 million in 2014. Total interest income increased by GEL 267.2 million, or 44.9%, while interest expense increased by GEL 119.6 million, or 47.8%. The net increase was primarily attributable to the 24.0% increase in gross loans to customers, the 17.5% increase in interest earning investment securities available for sale and the 74.8% increase in amounts due from credit institutions in 2015, as well as higher interest rates in 2015.

The NIM of the Group was 7.9% and 6.9% in 2015 and 2014, respectively. The consolidated currency-blended loan yield was 15.6% and 13.5% in 2015 and 2014, respectively, while the consolidated cost of funds was 5.5% and 4.7% in 2015 and 2014, respectively.

Total Interest Income

Total interest income is the sum of the banking interest income and interest income from investment business. The following table sets out the Group's total interest income as of the periods indicated.

	For the year ended 31 December		
	2015		2014
	(thousands of US Dollars)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Interest income attributable to:			
Loans to customers	322,233	771,716	539,983
Finance lease receivables	4,062	9,728	8,370
Amounts due from credit institutions	4,692	11,238	6,579
Investment securities available-for-sale	28,993	69,436	39,988
Total interest income	**359,980**	**862,118**	**594,920**

The following table sets out the amounts of the Group's interest-earning assets by type as of the dates indicated:

	As of 31 December 2015		As of 31 December 2014
	(thousands of US Dollars)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Interest-earning assets			
Amounts due from credit institutions	305,384	731,365	418,502
Investment securities available-for-sale	376,809	902,419	768,300
Loans to customers and finance lease receivables, net	2,226,169	5,331,451	4,355,460
Total interest-earning assets	**2,908,362**	**6,965,235**	**5,542,262**

Total interest income increased by GEL 267.2 million, or 44.9%, from GEL 594.9 million in 2014 to GEL 862.1 million (US$360.0 million) in 2015. This increase was primarily attributable to a GEL 233.1 million, or 42.5%, increase in interest income from loans to customers and finance lease receivables, which was, in turn, primarily due to a 23.2% increase in the average portfolio of gross loans and finance lease receivables. The increase was also partially attributable to the increase in loan yield to 15.6% in 2015 from 13.5% in 2014, primarily as a result of the acquisition of Privatbank, which had a higher yielding loan book.

Interest income from amounts due from credit institutions and investment securities increased in 2015, by 70.8% and 73.6%, respectively, as compared to 2014. These increases were due to increases in total amounts due from credit institutions and investment securities, as well as higher interest rates in 2015.

Interest income from amounts due from credit institutions increased by GEL 4.7 million, or 70.8%, to GEL 11.2 million (US$4.7 million) in 2015 from GEL 6.6 million in 2014. This was principally due to the increase in inter-bank deposit rates in line with the increase of NBG's refinancing rates from 4.0% in 2014 to between 4.0% and 8.0% during 2015 (which decreased to 7% in the three months ended 31 March 2016), which were aimed at controlling the pressure on the local currency in Georgia.

Interest income from the investment securities portfolio increased as yields on Government treasury bills and treasury bonds and NBG certificates of deposit continued to increase. Interest income on interest-earning investment securities (including debt instruments) increased by GEL 29.4 million, or 73.6%, to GEL 69.4 million (US$29.0 million) in 2015 from GEL 40.0 million in 2014.

Total Interest Expense

Total interest expense is the sum of the banking interest expense and interest expense from investment business. The following table sets out the Group's total interest expense as of the periods indicated.

	For the year ended 31 December		
	2015		2014
	(thousands of US Dollars)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Interest expense attributable to:			
Client deposits and notes	78,427	187,825	133,835
Amounts due to credit institutions	46,859	112,222	61,940
Debt securities issued	29,151	69,814	54,437
Total interest expense	**154,437**	**369,861**	**250,212**

The following table sets out the amounts of the Group's interest-bearing liabilities as of the dates indicated:

	As of 31 December 2015		As of 31 December 2014
	(thousands of US Dollars)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Interest-bearing liabilities			
Client deposits and notes	1,997,404	4,783,582	3,473,429
Amounts due to credit institutions	747,030	1,789,062	1,409,213
Debt securities issued	434,174	1,039,804	856,695
Total interest-bearing liabilities	**3,178,608**	**7,612,448**	**5,739,337**

Total interest expense increased by GEL 119.6 million, or 47.8%, to GEL 369.9 million (US$154.4 million) in 2015 from GEL 250.2 million in 2014 as a result of the 24.3% growth in average interest-bearing liabilities in 2015, including increased deposits and a new US$90 million subordinated loan entered into by the Bank in June 2015, to support the Group's growth. See "*Funding—Amounts Due to Credit Institutions*". The increase was also partly attributable to an increase in the cost of funds from 4.7% in 2014 to 5.5% in 2015. The cost of client deposits and notes increased from 4.1% in 2014 to 4.5% in 2015, which was due to the acquisition of more costly Privatbank deposits (which were gradually re-priced as Privatbank was integrated into the Bank), as well as the increased cost of Lari denominated deposits as a result of the Lari devaluation in 2015. The cost of amounts due to credit institutions increased from 4.8% in 2014 to 7.0% in 2015, which was due to an increase in the NBG refinancing rate from 4.0% in 2014 to a range of 4.0% to 8.0% in 2015.

Net Fee and Commission Income

The following table shows the principal components of the Group's net fee and commission income for the years indicated:

	For the year ended 31 December		
	2015		2014
	(thousands of US Dollars)	*(audited) (thousands of Lari)*	*(thousands of Lari)*
Settlement operations	46,992	112,540	87,076
Guarantees and letters of credit	10,827	25,930	21,503
Cash operations	5,771	13,822	9,665
Currency conversion operations	647	1,550	3,204
Brokerage service fee	336	805	7,214
Advisory	194	465	—
Other	1,272	3,046	3,773
Fee and commission income	**66,039**	**158,158**	**132,435**
Settlement operations	(12,264)	(29,371)	(21,354)
Cash operations	(1,950)	(4,670)	(3,726)
Guarantees and letters of credit	(1,602)	(3,836)	(3,991)
Insurance brokerage service fees	(123)	(295)	(688)
Currency conversion operations	(26)	(62)	(108)
Other	(461)	(1,105)	(2,327)
Fee and commission expense	**(16,426)**	**(39,339)**	**(32,194)**
Net fee and commission income	**49,613**	**118,819**	**100,241**

Net fee and commission income increased by GEL 18.6 million, or 18.5%, to GEL 118.8 million (US$49.6 million) in 2015 from GEL 100.2 million in 2014. Fee and commission income increased by GEL 25.7 million, or 19.4%, to GEL 158.2 million (US$66.0 million) in 2015 from GEL 132.4 million in 2014. The increase was principally attributable to the growth of the Bank's Express Banking service, which experienced a 16.0% growth in customers in 2015, compared to 2014. The growth was partially the result of the integration of Privatbank, whose clients were a main target segment for Express products. This growth positively impacted fee and commission income from the Bank's settlement operations, card business and cash operations, all of which generate fee and commission income. Increased foreign trade and macroeconomic growth also helped to support increased fee and commission income from the issuance of guarantees and letters of credit.

Fee and commission expense increased by GEL 7.1 million, or 22.2%, from GEL 32.2 million in 2014 to GEL 39.3 million (US$16.4 million) in 2015. This increase was principally the result of increased fee and commission expenses on settlement operations in line with the growth of the volume of such transactions.

Net banking foreign currency gain

Net banking foreign currency gain decreased by GEL 1.0 million, or 1.8%, to GEL 52.6 million (US$21.9 million) in 2015 from GEL 53.5 million in 2014. The decrease was primarily due to the combined effects of the short position held by the Banking Business and the 22.2% devaluation of the Lari against the US Dollar in 2015.

Net other banking income

Net other banking income increased by GEL 9.6 million, or 103.2%, to GEL 18.8 million (US$7.9 million) in 2015 from GEL 9.3 million in 2014. This increase was primarily due to a GEL 6.8 million increase in gain from disposal of real estate properties held by the Banking Business and a GEL 6.4 million gain from revaluation of Banking Business investment properties.

Gross insurance profit

The following table sets forth the principal components of the Group's net insurance revenue for the years indicated:

	For the year ended 31 December		
	2015		2014
	(thousands of US Dollars)	(audited) (thousands of Lari)	(thousands of Lari)
Gross insurance profit from P&C insurance business	8,371	20,047	16,424
Net insurance premiums earned	*16,769*	*40,160*	*28,129*
Net insurance claims incurred	*(8,398)*	*(20,113)*	*(11,705)*
Gross insurance profit from medical insurance business	5,059	12,116	14,985
Net insurance premiums earned	*22,964*	*54,997*	*69,700*
Net insurance claims incurred	*(17,905)*	*(42,881)*	*(54,715)*
Eliminations	(942)	(2,256)	(1,979)
Gross insurance profit	**12,488**	**29,907**	**29,430**

Gross insurance profit increased by GEL 0.5 million, or 1.6%, to GEL 29.9 million (US$12.5 million) in 2015 from GEL 29.4 million in 2014. The increase was driven primarily by profit from the P&C insurance business, which was partially offset by a decrease in profit from the medical insurance business as a result of the adoption of UHC. See "*Risk Factors—Risks relating to the Group's Investment Business—Risks Relating to the Group's Healthcare Business—GHG cannot predict the effects of Georgia's new system of universal healthcare*".

Gross insurance profit from the P&C insurance business increased by GEL 3.6 million, or 22.1%, to GEL 20.0 million (US$8.4 million) in 2015 from GEL 16.4 million in 2014. The increase was primarily due to the increase in net insurance premiums earned.

Gross insurance profit from the medical insurance business decreased by GEL 2.9 million, or 19.1%, to GEL 12.1 million (US$5.1 million) in 2015 from GEL 15.0 million in 2014. As government spending on healthcare was consolidated under the UHC, replacing the Government's previous funding of medical coverage provided by private insurers, the medical insurance business revenue from the Government declined in 2014 and was reduced to zero by the end of 2015. However, revenue from private medical insurance products grew by 32.0%, partially offsetting the decline from the State insurance premiums. This increase in private medical insurance revenue was due to the addition of two new large corporate clients in the beginning of 2015 as well as improved pricing with the existing corporate clients in the second half of 2015.

Gross healthcare profit

The following table sets forth the principal components of the Group's gross healthcare profit for the periods indicated:

	For the year ended 31 December		
	2015		2014
	(thousands of US Dollars)	(audited) (thousands of Lari)	(thousands of Lari)
Healthcare services revenue	76,827	183,993	125,720
Cost of healthcare services	(43,031)	(103,055)	(72,237)
Gross healthcare profit	**33,796**	**80,938**	**53,483**

Gross healthcare profit increased by GEL 27.5 million, or 51.3%, to GEL 80.9 million (US$33.8 million) in 2015 from GEL 53.5 million in 2014. The increase reflected the 46.4% growth in revenues, which outpaced the 42.7% growth in the cost of healthcare services during the year.

Healthcare services revenue increased by GEL 58.3 million, or 46.4%, to GEL 184.0 million (US$76.8 million) in 2015 from GEL 125.7 million in 2014. GHG's organic healthcare services revenue growth was largely sourced from referral hospitals and from government-funded healthcare programs, especially the UHC. The Group's medical insurance business contributed GEL 12.1 million to total revenue in 2015, representing a decrease of 19.1% compared to 2014. The decrease in medical insurance business revenue primarily reflected loss of State payments due to the implementation of the UHC, which was only partially offset by growth in revenue from private medical insurance products.

The cost of healthcare services increased by GEL 30.8 million, or 42.7%, to GEL 103.1 million (US$43.0 million) in 2015 from GEL 72.2 million in 2014, primarily due to the addition of headcount to support the growth of GHG's healthcare services business. During 2015, the healthcare services headcount increased by 1,659 employees, of which 1,165 were added through acquisitions completed in 2015.

Gross real estate profit

The following table sets forth the components of the Group's gross real estate profit for the periods indicated:

	For the year ended 31 December		
	2015		2014
		(audited)	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Revenue from affordable housing	18,755	44,917	56,993
Revaluation of investment property developed by the Group	2,958	7,083	1,910
Income from operating lease	1,006	2,409	1,473
Real estate revenue	**22,719**	**54,409**	**60,376**
Cost of real estate	(16,586)	(39,721)	(46,810)
Gross real estate profit	**6,133**	**14,688**	**13,566**

The Group's gross real estate profit increased by GEL 1.1 million, or 8.3%, to GEL 14.7 million (US$6.1 million) in 2015 from GEL 13.6 million in 2014. This increase was driven primarily by a GEL 5.2 million, or 270.8%, increase in gain from revaluation of investment property developed by m2. This was offset by GEL 5.0 million, or 49.0%, decline in net revenue from affordable housing (revenue from affordable housing less cost of real estate) to GEL 5.2 million (US$2.2 million) in 2015, from GEL 10.2 million in 2014, due to fewer projects being completed in 2015, as compared to 2014. Income from operating leases of the Investment Business increased by GEL 0.9 million, or 63.5%, to GEL 2.4 million (US$1.0 million) in 2015 from GEL 1.5 million in 2014, primarily resulting from the Lari devaluation (as the operating leases are US Dollar denominated) and acquisitions completed by GHG (which includes related real estate property) in 2015.

Gross other investment profit

The Group's gross other investment profit increased by GEL 7.8 million, or 59.6%, to GEL 20.8 million (US$8.7 million) in 2015 from GEL 13.0 million in 2014. The increase was principally due to a GEL 7.3 million increase in gain from revaluation of Investment Business investment properties.

Revenue

As a result of the foregoing, the Group's revenue increased by 34.4% to GEL 836.9 million (US$349.5 million) in 2015 from GEL 622.5 million in 2014.

Operating Expenses

The following table shows the composition of the Group's operating expenses for the years indicated:

	For the year ended 31 December		
	2015		2014
		(audited)	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Salaries and other employee benefits	76,549	183,328	152,677
Administrative expenses	36,828	88,200	71,104
Banking depreciation and amortisation	14,280	34,199	25,641
Other operating expenses	1,789	4,285	3,752
Operating expenses	**129,446**	**310,012**	**253,174**

Operating expenses increased by GEL 56.8 million, or 22.5%, to GEL 310.0 million (US$129.4 million) in 2015 from GEL 253.2 million in 2014. This increase was primarily due to increases in salaries and other employee benefits, primarily in connection with GHG's expansion and the acquisition of Privatbank in 2015. In addition, administrative expenses increased due to higher rental rates and operating costs relating to leased properties resulting from the appreciation of the US Dollar as commercial rent and operating costs, including utilities, in Georgia are linked to the US Dollar. To a lesser extent, the increase in administrative expenses was due to the addition of 47 leased branches from the Privatbank acquisition, which also contributed to the increase in depreciation and amortisation.

Operating Income Before Cost of Credit Risk / EBITDA

As a result of the foregoing factors, the Group's operating income before cost of credit risk / EBITDA increased by 42.7% to GEL 526.9 million (US$220.0 million) in 2015 from GEL 369.3 million in 2014.

Depreciation and amortisation of investment business

The Group's depreciation and amortisation of investment business increased by GEL 5.1 million, or 55.2%, to GEL 14.2 million (US$5.9 million) in 2015 from GEL 9.2 million in 2014, primarily due to the Healthcare Business expansion.

Net foreign currency loss from investment business

Net foreign currency loss from investment business decreased by GEL 1.0 million, or 33.4%, to a loss of GEL 2.1 million (US$0.9 million) in 2015 from a loss of GEL 3.1 million in 2014. The decrease in net foreign currency loss resulted from efforts to de-dollarise the borrowings of the Group's Investment Business subsidiaries.

Operating income before cost of credit risk

As a result of the foregoing, the Group's operating income before cost of credit risk increased by GEL 150.7 million, or 42.8%, to GEL 502.5 million (US$209.8 million) in 2015 from GEL 351.8 million in 2014.

Cost of Credit Risk

The following table shows the composition of the Group's cost of credit risk for the years indicated:

	For the year ended 31 December		
	2015		2014
		(audited)	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Impairment charge on loans to customers	59,635	142,819	45,088
Impairment charge on finance lease receivables	818	1,958	476
Impairment charge on other assets and provisions	4,426	10,599	13,457
Cost of credit risk	**64,879**	**155,376**	**59,021**

Cost of credit risk increased by 163.3% to GEL 155.4 million (US$64.9 million) in 2015 from GEL 59.0 million in 2014. The increase from 2014 to 2015 was primarily the result of the increase in impairment charges on loans to customers. Cost of risk was 2.9% in 2015 and 1.1% in 2014.

Impairment charge on loans to customers increased by GEL 97.7 million, or 216.8%, to GEL 142.8 million (US$59.6 million) in 2015 from GEL 45.1 million in 2014. The increase was primarily due to the growth in the gross loan portfolio, which increased the total impairment charges on the Retail Banking, CIB and BNB loan books. In addition, the acquisition of Privatbank in 2015, which added a relatively higher risk loan portfolio, contributed to the higher rate of impairment charges in the customer loan portfolio in 2015.

Allowance for loan and finance lease receivables impairment to gross loans and finance lease receivables was 3.6% and 2.3% as of 31 December 2015 and 31 December 2014, respectively.

Net non-recurring items

The Group had a loss from non-recurring items of GEL 15.1 million (US$6.3 million) in 2015, as compared to GEL 11.0 million in 2014. This change primarily resulted from the Privatbank integration costs and impairment of certain financial and non-financial assets of the Group. See Note 5 (*Business Combinations*) to the Audited Financial Statements.

Income Tax Expense

The Group had income tax expense of GEL 48.4 million (US$20.2 million) in 2015, as compared to GEL 35.8 million in 2014. This increase reflected higher profits in 2015, as well as a tax correction relating to a one-off recognition of GEL 5.8 million in respect of a deferred tax asset on an impairment of BNB goodwill in 2014, impairment of which was recorded in prior periods.

Profit for the Period

The Group generated a net profit for the period of GEL 283.6 million (US$118.4 million) for 2015, as compared to GEL 246.0 million for 2014.

Analysis of Consolidated Financial Position

As of 31 March 2016 and 31 December 2015

The following table sets out the Group's assets, liabilities and equity as of the dates indicated:

	As of 31 March		As of 31 December	
	2016		2015	2014
	(unaudited)		*(audited)*	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*	
Cash and cash equivalents	573,879	1,358,887	1,432,468	709,861
Amounts due from credit institutions	322,832	764,435	731,365	418,502
Investment securities	348,429	825,045	903,867	769,712
Loans to customers and finance lease receivables	2,267,279	5,368,689	5,331,451	4,355,460
Accounts receivable and other loans	35,776	84,715	87,972	70,207
Insurance premiums receivable	23,176	54,879	39,226	31,840
Prepayments	28,537	67,572	58,170	33,503
Inventories	52,986	125,466	127,027	101,442
Investment properties	107,363	254,224	246,398	190,860
Property and equipment	352,908	835,651	794,682	588,513
Goodwill	30,910	73,192	72,984	49,633
Intangible assets	18,191	43,074	40,516	34,432
Income tax assets	15,504	36,712	21,550	22,745
Other assets	58,334	138,129	183,265	160,591
Total assets	**4,236,104**	**10,030,670**	**10,070,941**	**7,537,301**
Liabilities				
Client deposits and notes	1,997,394	4,729,630	4,783,582	3,473,429
Amounts owed to credit institutions	726,349	1,719,921	1,789,062	1,409,213
Debt securities issued	436,572	1,033,758	1,039,804	856,695
Accruals and deferred income	60,172	142,481	146,657	108,509
Insurance contracts liabilities	30,223	71,565	55,845	46,586
Income tax liabilities	54,338	128,667	124,395	97,564
Other liabilities	55,372	131,116	134,644	84,218
Total liabilities	**3,360,420**	**7,957,138**	**8,073,989**	**6,076,214**
Equity				
Share capital	15,654	37,066	37,066	36,513
Additional paid-in capital	271,289	642,386	641,964	611,238
Treasury shares	(413)	(977)	(1,522)	(1,522)
Other reserves	44,697	105,837	97,164	31,211
Retained earnings	453,192	1,073,113	1,000,239	728,839
Total equity attributable to shareholders of the Issuer	**784,419**	**1,857,425**	**1,774,911**	**1,406,279**
Non-controlling interest	91,265	216,107	222,041	54,808
Total equity	**875,684**	**2,073,532**	**1,996,952**	**1,461,087**
Total liabilities and equity	**4,236,104**	**10,030,670**	**10,070,941**	**7,537,301**

Total Assets

As of 31 March 2016, the Group had total assets of GEL 10,030.7 million (US$4,236.1 million), as compared to total assets of GEL 10,070.9 million as of 31 December 2015. The GEL 40.3 million, or 0.4%, decrease was primarily due to a reduction in investment securities and cash and cash equivalents. This decrease was primarily due to a reduction of certificates of deposit of central banks, partially offset by increases in property and equipment, investment properties insurance payments receivable and prepayments, which reflect the overall growth of the Group. The Group's consolidated gross loans to customers and finance lease receivables in Lari terms increased by GEL 52.7 million, or 1.0%, between 31 December 2015 and 31 March 2016.

The Group had total assets of GEL 10,070.9 million (US$4,205.2 million) as of 31 December 2015, as compared to total assets of GEL 7,537.3 million as of 31 December 2014. The GEL 2,533.6 million, or 33.6%, increase in total assets was driven by almost all asset lines, but, in particular, the GEL 976.0 million, or 22.4%, increase in loans to customers and finance lease receivables, the GEL 722.6 million, or 101.8%, increase in cash and cash equivalents, the GEL 312.9 million, or 74.8%, increase in amounts due from credit institutions, the GEL 206.2 million, or 35.0%, increase in property and equipment and the GEL 134.2 million, or 17.4%, increase in investment securities. Only income tax assets decreased between 31 December 2014 and 31 December 2015 by the GEL 1.2 million, or 5.3%.

The increase in loans to customers and finance lease receivables reflected greater demand for loans as a result of macroeconomic growth in Georgia during the periods under review (which fluctuated during the relevant periods but remained positive, contributing to increased demand). The Bank's loan portfolio also increased as a result of the Privatbank acquisition in 2015. The increase in cash and cash equivalents from 31 December 2014 to 31 December 2015 was primarily due to a GEL 337.4 million, or 244.5%, increase in current accounts with other credit institutions, a GEL 336.5 million, or 1,297.2%, increase in time deposits with credit institutions with maturity of up to 90 days and a GEL 49.0 million, or 12.5%, increase in cash in hand. The increase in amounts due from credit institutions from 31 December 2014 to 31 December 2015 was primarily due to a GEL 237.3 million, or 62.0%, increase in obligatory reserves with central banks driven by the growth in foreign currency-denominated client deposits and notes, as well as the Lari devaluation in 2015. The increase in investment securities from 31 December 2014 to 31 December 2015 was primarily due to a GEL 116.2 million, or 25.3%, increase in Georgian treasury bonds held by the Group.

The Group had liquid assets of GEL 2,948.4 million (US$1,245.1 million), as compared to total assets of GEL 10,030.7 million as of 31 March 2016. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

Total Liabilities

As of 31 March 2016, the Group had total liabilities of GEL 7,957.1 million (US$3,360.4 million), as compared to total liabilities of GEL 8,074.0 million as of 31 December 2015. The GEL 116.9 million, or 1.4%, decrease was primarily due to decreases in amounts due to credit institutions and client deposits and notes. The decrease in these items was primarily due to the 1% appreciation of the Lari against the US Dollar since the year end 2015.

As of 31 December 2015, the Group had total liabilities of GEL 8,074.0 million (US$3,371.3 million) as compared to total liabilities of GEL 6,076.2 million as of 31 December 2014. The GEL 1,997.8 million, or 32.9%, increase was due to the GEL 1,310.2 million, or 37.7%, increase in client deposits and notes, the GEL 379.8 million, or 27.0%, increase in amounts due to credit institutions, the GEL 183.1 million, or 21.4%, increase in debt securities issued, and the GEL 50.4 million, or 59.9%, increase in other liabilities.

The increase in client deposits and notes was primarily due to growth in the Bank's Express Banking Business and the Privatbank acquisition in 2015. The increase in amounts due to credit institutions, a key funding source for the Bank, was in line with the 24.0% growth in gross loans to customers, and higher rates, from 31 December 2014 to 31 December 2015. Similarly, the increase in debt securities issued reflected the Group's growth, as well as the incurrence of a US$90 million subordinated loan in the second half of 2015.

The GEL 1,310.2 million, or 37.7%, increase in client deposits and notes was due to the acquisition of Privatbank, organic growth and the 22.2% Lari devaluation against the US Dollar in 2015, as 71.1% and 74.5% of client deposits and notes were denominated in foreign currency (primarily US Dollar) as of 31 December 2014 and 31 December 2015, respectively.

The GEL 379.8 million, or 27.0%, increase in amounts due to credit institutions was primarily driven by the Lari devaluation against the US Dollar in 2015, as 60.0% and 68.5% of amounts due to credit institutions were denominated in foreign currency (primarily US Dollar) as of 31 December 2014 and 31 December 2015, respectively, as well as a result of the entry into non-convertible subordinated debt of US$90 million with the IFC in June 2015. See "*—Factors Affecting the Group's Financial Statements—Cost of Funds*" and "*—Funding—Amounts Due to Credit Institutions*".

The GEL 183.1 million, or 21.4%, increase in debt securities issued was driven by the Lari devaluation against the US Dollar, as debt securities issued are all denominated in foreign currency.

Total Equity

As of 31 March 2016, the Group had total equity of GEL 2,073.5 million (US$875.7 million), as compared to total equity of GEL 1,997.0 million as of 31 December 2015. The GEL 76.6 million, or 3.8%, increase in total equity was due to increases in all equity items, except non-controlling interests, which decreased by GEL 5.9 million, or 2.7%, primarily due to acquisition of the remaining 33.3% non-controlling interest of the Group's largest paediatric hospital, Iashvili Referral Hospital, by GHG in March 2016. See *"—Factors Affecting the Group's Financial Statements—Acquisitions"*.

As of 31 December 2015, the Group had total equity of GEL 1,997 million (US$833.8 million), as compared to total equity of GEL 1,461.1 million as of 31 December 2014. The GEL 535.9 million, or 36.7%, increase in total equity was mostly due the increase in retained earnings by GEL 271.4 million, or 37.2%.

Liquidity and Capital Resources

The Group's principal sources of liquidity are deposits, borrowings from international credit institutions, inter-bank deposit agreements, debt issues, proceeds from sale of securities, principal repayments on loans, interest income and fees and commissions income.

Analysis of Consolidated Cash Flows

Three Months Ended 31 March 2016 and 31 March 2015, and years ended 31 December 2015 and 31 December 2014

The following table summarises the Group's cash flows for the first three months ended 31 March 2016 and 31 March 2015, and for the years ended 31 December 2015 and 31 December 2014.

	For the three months ended 31 March			For the year ended 31 December	
	2016		2015	2015	2014
	(unaudited)		*(unaudited, not reviewed)*		
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Net cash flows (used in) from operating activities	**(23,962)**	**(56,739)**	**425,852**	**774,416**	**130,727**
Cash flows from (used in) investing activities					
Acquisition of subsidiaries, net of cash acquired	5	11	22,645	(24,467)	(22,177)
Repayment of remaining holdback amounts from previous year acquisitions	(16,050)	(38,005)	—	—	—
Proceeds from the sale of (purchase of) investment securities available-for-sale	34,601	81,931	(122,403)	(157,509)	(255,710)
Proceeds from sale of investments in associates	—	—	—	—	300
Proceeds from sale of investment properties	617	1,461	6,787	19,815	7,383
Purchase of investment properties	(3,305)	(7,827)	(6,931)	(18,947)	(49,348)
Proceeds from sale of property and equipment and intangible assets	457	1,082	5,971	24,616	2,648
Purchase of property and equipment and intangible assets	(18,424)	(43,626)	(23,520)	(157,488)	(80,459)
Net cash flows used in investing activities	**(2,099)**	**(4,973)**	**(117,451)**	**(313,980)**	**(397,363)**
Cash flows used in financing activities					
Proceeds from issue of share capital	—	—	—	43,244	—
Dividends paid	(1,269)	(3,005)	(1,308)	(1,604)	(72,729)
Purchase of treasury shares	(2,676)	(6,336)	—	(28,945)	(5,142)
Sale of treasury shares	—	—	—	—	27,994
Net proceeds from sale of non-controlling interest in existing subsidiary	—	—	—	221,219	—
Proceeds from sale (purchase) of interests in existing subsidiaries, net of cash acquired	(1,810)	(4,287)	(2,013)	14,358	(28,972)
Net cash flows used in financing activities	**(5,755)**	**(13,628)**	**(3,321)**	**248,272**	**(78,849)**
Effect of exchange rates changes on cash and cash equivalents	743	1,759	(14,841)	13,899	6,277
Net (decrease) increase in cash and cash equivalents	**(31,073)**	**(73,581)**	**290,239**	**722,607**	**(339,208)**

Net Cash Flows From Operating Activities

Net cash flows from operating activities were GEL 56.7 million (US$24.0 million) during the first three months ended 31 March 2016 and were GEL 425.9 million during the first three months ended 31 March 2015. The GEL 482.6 million decrease in net cash flows from operating activities during the first three months of 2016, as compared to the first three months of 2015, was due to an increase in disbursements of new loans and a decrease in amounts due to credit institutions.

Net cash flows from operating activities were GEL 774.4 million (US$323.4 million) in 2015 and GEL 130.7 million in 2014. The GEL 643.7 million, or 492.4%, increase in net cash flows from operating activities in the year ended 31 December 2015 was mostly due to a decrease in disbursements of new loans and increases in net interest and net healthcare revenue received. The GEL 209.3 million, or 54.2%, increase in net cash flows from operating activities before changes in operating assets and liabilities during 2015 was primarily due to the GEL 273.8 million, or 46.5%, increase in interest received, the GEL 76.1 million, or 79.3%, increase in healthcare revenue received and the GEL 19.1 million, or 14.3%, increase in fee and commissions received, which were only partially offset by increases of GEL 90.9 million, or 33.5%, in interest paid, GEL 22.1 million, or 31.4%, in cost of healthcare services paid, and GEL 6.9 million, or 21.3%, in fee and commissions paid.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities were GEL 5.0 million (US$2.1 million) in the first three months of 2016 and GEL 117.5 million in the first three months of 2015. The decrease mainly related to investment securities available-for-sale. In particular, the decrease reflected GEL 81.9 million in proceeds from the sale of investment securities available-for-sale in the first three months of 2016, as compared to GEL 122.4 million used in the purchase of investment securities available-for-sale in the first three months of 2015.

Net cash flows used in investing activities were GEL 314.0 million (US$131.1 million) and GEL 397.4 million in 2015 and 2014, respectively. The 21.0% decrease in the cash outflows used in investing activities from 2014 to 2015 was mainly caused by a 38.4% decrease in amounts used to purchase investment securities available-for-sale, to GEL 157.5 million (US$65.8 million) in 2015, demonstrating a 38.4% decrease from GEL 255.7 million in 2014.

Cash Flows from (used in) Financing Activities

Net cash flows used in financing activities were GEL 13.6 million (US$5.8 million) in the first three months of 2016 and GEL 3.3 million in the first three months of 2015. The increase was mainly due to the purchase of GEL 6.3 million of treasury shares in the first three months of 2016.

Net cash flows from financing activities were GEL 248.3 million (US$103.7 million) in 2015 and GEL 78.8 million in 2014. Net cash flows from financing activities in 2015 were primarily attributable to the GEL 221.2 million (US$92.4 million) net proceeds from the sale of a non-controlling interest in an existing subsidiary, primarily relating to the sale of non-controlling interests in GHG. Net cash flows used in financing activities in 2014 were primarily attributable to GEL 72.7 million of dividends paid.

Off-Balance Sheet Arrangements

The Group entered into certain financial instruments with off-balance sheet risk in the normal course of its business to meet the needs of its clients and for purposes of its treasury operations. These instruments, which include guarantees, letters of credit and undrawn loan facilities, expose the Group to credit risk and are not reflected in the consolidated statement of financial position. The Group's exposure to such instruments is represented by the maximum contractual amount of these instruments. Off-balance sheet arrangements are included in the table below, which sets out the details of commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated. See "—*Commitments and Contingencies*" below.

Commitments and Contingencies

The Group has commitments and contingent liabilities in respect of, *inter alia*, guarantees and letters of credit on behalf of its clients. These instruments bear a credit risk similar to that of loans granted to customers. The Group also has commitments in respect of operating leases and capital expenditures. The following tables set out the details of commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated.

	As of 31 March		As of 31 December	
	2016		2015	2014
	(unaudited)		*(audited)*	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*	
Guarantees	167,322	396,202	473,839	465,527
Undrawn loan facilities	109,710	259,782	273,851	144,634
Letters of credit	62,161	147,191	43,126	95,669
Total credit related commitments	**339,193**	**803,175**	**790,816**	**705,830**
Operating lease commitments	24,845	58,830	53,825	37,503
Capital expenditure commitments	11,644	27,571	27,624	10,035
Provisions	(1,025)	(2,428)	(2,240)	(4,732)
Cash held as security against letters of credit and guarantees	(80,773)	(191,263)	(64,534)	(53,393)
Total financial commitments and contingencies, net	**293,884**	**695,885**	**805,491**	**695,243**

The outstanding contractual amount of any guarantee or letter of credit included in the total credit commitments does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded. In addition to guarantees and letters of credit, as of 31 December 2015, the Group had a total of GEL 273.9 million (US$114.3 million) undrawn loan facilities to various borrowers. However, with respect to most borrowers, the Group must disburse undrawn portions of these credit facilities to the extent such borrowers satisfy certain conditions precedent, and the Group otherwise has the discretion to cancel any remaining undrawn facilities.

Net financial commitments and contingencies of the Group as of 31 March 2016, 31 December 2015 and 2014 were GEL 695.9 million (US$293.9 million), GEL 805.5 million (US$336.3 million) and GEL 695.2 million, respectively. Net financial commitments and contingencies increased by 15.9% between 31 December 2014 and 31 December 2015 primarily due to an increase in letters of credit, and decreased by 13.6% between 31 December 2015 and 31 March 2016, primarily due to a decrease in guarantees outstanding.

Capital Expenditure Commitments

As of 31 March 2016, the Group's capital expenditure commitments comprised the commitment for purchase of property and capital repairs of GEL 25.5 million and software and other intangible assets of GEL 2.1 million. As of 31 December 2015, the Group's capital expenditure commitments comprised the commitment for purchase of property and capital repairs of GEL 25.9 million and software and other intangible assets of GEL 1.7 million. As of 31 December 2014, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 9.8 million and software and other intangible assets of GEL 0.2 million.

Maturity Analysis of the Group's 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 as of 31 March 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
				(unaudited) *(thousands of Lari)*				
Financial assets								
Cash and cash equivalents	864,321	494,566	—	—	—	—	—	1,358,887
Amounts due from credit institutions	636,070	67,638	5,829	15,603	37,245	—	2,050	764,435
Investment securities available–for–sale[(1)]	399,944	322,122	4,463	21,388	75,549	389	1,190	825,045
Loans to customers and finance lease receivables, net	—	837,073	447,325	1,042,757	1,614,150	705,985	721,399	5,368,689
Total	**1,900,335**	**1,721,399**	**457,617**	**1,079,748**	**1,726,944**	**706,374**	**724,639**	**8,317,056**
Financial liabilities								
Client deposits and notes	809,517	856,031	423,675	2,085,394	468,118	65,732	21,163	4,729,630
Amounts due to credit institutions	69,631	551,331	115,993	176,052	431,516	120,532	254,866	1,719,921
Debt securities issued	—	746	50,828	103,536	878,648	—	—	1,033,758
Total	**879,148**	**1,408,108**	**590,496**	**2,364,982**	**1,778,282**	**186,264**	**276,029**	**7,483,309**
Net	**1,021,187**	**313,291**	**(132,879)**	**(1,285,234)**	**(51,338)**	**520,110**	**448,610**	**833,747**
Accumulated gap	**1,021,187**	**1,334,478**	**1,201,599**	**(83,635)**	**(134,973)**	**385,137**	**833,747**	

Note:

(1) The Bank can obtain a loan(s) from the NBG at any time for an amount equal to 95% of the then current market value of the treasury securities and certificates of deposit it holds if it pledges the relevant treasury securities and certificates of deposit as security for such loan(s).

The Group's ability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. In the Georgian marketplace, some 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.

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Capital Adequacy

The Bank is required to comply with the NBG's capital adequacy requirements. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

On 28 October 2013, the NBG adopted new capital adequacy, based on Basel II/III requirements, which became effective on 30 June 2014. A transition period is in place until 1 January 2018, during which the Bank will be required to comply with both the new and the existing capital regulations of the NBG.

As the NBG requires the Bank to calculate and comply with capital adequacy in accordance with the NBG's (current) methodology as well as the new requirements during the transition period, the table below is presented to show the calculation of the Bank's capital adequacy ratios under the NBG methodology only (and not under Basel II/III as adopted by the NBG), for which the minimum requirements for Tier 1 Capital ratio were 8.0% for 2014 and 7.6% for 2015 and are 7.2% for 2016 and 6.4% for 2017, while the minimum requirements for Total Capital ratio were 12.0% for 2014 and 11.4% for 2015, and are 10.8% for 2016 and 9.6% for 2017. The amounts presented are that of the Bank on a standalone basis calculated in accordance with NBG standards:

	As of 31 March		As of 31 December
	2016		2015
	(unaudited)		*(audited)*
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Ordinary shares	11,258	26,659	26,659
Additional paid-in capital	127,483	301,868	295,233
Retained earnings	231,830	548,951	462,544
Intangible assets[1]	(24,909)	(58,982)	(56,297)
Tier I (Core) capital	**345,662**	**818,496**	**728,139**
Current year profit (loss)	11,298	26,753	186,037
General loan loss provisions	41,377	97,977	99,500
Subordinated debt	159,000	376,496	364,070
Tier II (Supplementary) capital	**211,675**	**501,226**	**649,607**
Deductions from capital	(29,096)	(68,896)	(60,311)
Total regulatory capital	**528,241**	**1,250,826**	**1,317,435**
Risk-weighted assets	**3,233,274**	**7,656,069**	**7,811,398**
Capital adequacy ratios			
Tier I ratio according to NBG methodology only (and not under Basel II/III as adopted by the NBG)	**10.7%**	**10.7%**	**9.3%**
Total capital adequacy ratio according to NBG methodology only (and not under Basel II/III as adopted by the NBG)	**16.3%**	**16.3%**	**16.9%**

Note:

(1) Based on the Bank's application of the NBG methodology (and not under Basel II/III as adopted by the NBG).

	As of 31 December 2015		As of 31 December 2014
		(audited)	
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*
Ordinary shares	11,132	26,659	34,990
Additional paid-in capital	123,276	295,233	608,348
Retained earnings	193,137	462,544	302,208
Intangible assets[1]	(23,507)	(56,297)	(50,228)
Tier I (Core) capital	**304,038**	**728,139**	**895,318**
Current year profit (loss)	77,680	186,037	180,936
General loan loss provisions	41,547	99,500	85,346
Subordinated debt	152,019	364,070	132,316
Tier II (Supplementary) capital	**271,246**	**649,607**	**398,598**
Deductions from capital	(25,183)	(60,311)	(365,487)
Total regulatory capital	**550,101**	**1,317,435**	**928,429**
Risk-weighted assets	**3,261,680**	**7,811,398**	**6,719,169**
Capital adequacy ratios			
Tier I ratio according to the NBG methodology only (and not under Basel II/III as adopted by the NBG)	**9.3%**	**9.3%**	**13.3%**
Total capital adequacy ratio according to the NBG methodology only (and not under Basel II/III as adopted by the NBG)	**16.9%**	**16.9%**	**13.8%**

Note:
(1) Based on the Bank's application of the NBG methodology (and not under Basel II/III as adopted by the NBG).

The following tables provide an analysis of the Bank's regulatory capital based on new NBG regulations, adopted pursuant to Basel II/III methodology which is also based on the Bank's standalone numbers. The minimum requirements under new NBG capital regulations are 8.5% and 10.5%, respectively, for Tier 1 and Total Capital.

	As of 31 March 2016	
	(unaudited)	
	(thousands of US Dollars)	*(thousands of Lari)*
Ordinary shares	11,749	27,821
Additional paid-in capital	127,483	301,868
Retained earnings	243,128	575,703
Deductions from Tier I capital	(25,162)	(59,580)
Tier I capital	**357,198**	**845,812**
General loan loss provisions	41,377	97,977
Tier II qualifying instruments	159,000	376,496
Tier II capital	**200,377**	**474,473**
Total capital	**557,575**	**1,320,285**
Risk-weighted assets	**3,527,919**	**8,353,759**
Capital adequacy ratios		
Tier I ratio according to Basel II/III	**10.1%**	**10.1%**
Total capital adequacy ratio according to Basel II/III	**15.8%**	**15.8%**

	As of 31 December 2015		As of 31 December 2014
	(thousands of US Dollars)	(audited) (thousands of Lari)	(thousands of Lari)
Ordinary shares	11,617	27,821	36,513
Additional paid-in capital	123,276	295,233	608,348
Retained earnings	270,818	648,581	483,144
Deductions from Tier I capital	(23,738)	(56,851)	(327,540)
Tier I capital	**381,973**	**914,784**	**800,465**
General loan loss provisions	41,081	98,386	84,784
Tier II qualifying instruments	159,000	380,790	132,316
Tier II capital	**200,081**	**479,176**	**217,100**
Total capital	**582,054**	**1,393,960**	**1,017,565**
Risk-weighted assets	**3,492,158**	**8,363,369**	**7,204,080**
Capital adequacy ratios			
Tier I ratio	**10.9%**	**10.9%**	**11.1%**
Total capital adequacy ratio	**16.7%**	**16.7%**	**14.1%**

A subsidiary of the Group, BNB, is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. BNB is well capitalised, with capital adequacy ratios well above the requirements of its regulating Central Bank. As of 31 December 2015, the total capital adequacy ratio was 16.5%, above the 10% minimum requirement by the NBRB, and Tier I Capital Adequacy Ratio was 8.1%, above the 5% minimum requirement by NBRB. See "*Risk Factors—Risks relating to the Group's Banking Business—The Group is subject to certain regulatory ratios*" and "*Risk Factors—Risks Relating to the Group's Banking Business—Currency fluctuations have affected, and may continue to affect, the Group*".

Selected Significant Accounting Judgments and Estimates

The notes to the Financial Statements, appearing elsewhere in this Prospectus, contain an overview of the Group's significant accounting policies, including a discussion of changes in accounting policies resulting from adoption of new or revised standards. These policies, as well as estimates and judgments made by the Group's management, are integral to the presentation of the Group's consolidated statement of financial position and income statement. It is important to note that these accounting policies in certain cases require management to make difficult, complex or subjective estimates and judgments, often regarding matters that are inherently uncertain. On an ongoing basis, the Group's management evaluates its estimates and judgments, including those related to allowance for impairment of financial assets, acquisition of subsidiaries, goodwill, income taxes, valuation of investment securities, de-recognition of financial assets and liabilities, insurance contract liabilities and other provisions. The Group's management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. See Note 4 (*Significant Accounting Judgements and Estimates*) to the Audited Financial Statements.

The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties, and office buildings and service centres included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method. The Group performs valuation of its investment properties, and office buildings and service centres once in every three years, unless there is a sign of material change in fair values on the market. The last valuation was performed by Colliers International Georgia as of 31 December 2015. The estimates described above are subject to change as new transaction data and market evidence become available.

Allowance for impairment of loans and finance lease receivables

The Group regularly reviews its loans and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and finance lease receivables. The Group uses its judgment to adjust observable data for a group of loans and finance lease receivables to reflect current circumstances.

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralised loans and finance lease receivables. Management monitors the market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value of collateral to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted without material adjustment from the Audited Financial Statements included elsewhere in this Prospectus. Prospective investors should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Audited Financial Statements. Certain other information included in this section has been extracted from the Group's management accounts and is unaudited.

The Banking Business Weighted Average Effective Interest Rates

The following table (extracted from management accounts) represents the Banking Business weighted average effective annual interest rates, analysed by currencies of denomination, for the principal categories of interest-earning assets and interest-bearing liabilities, for the periods indicated. The weighted average effective interest rate for each financial asset or financial liability in the table below is the Banking Business interest income or expense, as applicable, for the last month of the applicable period in the relevant currency, divided by the average outstanding balance of the financial asset or financial liability, then divided by the actual number of days in the period multiplied by 366 for 2016 and 365 for 2015 and 2014.

	As of 31 March			
	2016		2015	
	GEL	Foreign currencies	GEL	Foreign currencies
	(unaudited) *(in percentages)*			
Assets				
Amounts due from credit institutions	2.3%	0.3%	2.8%	0.4%
Investment securities—available-for-sale	10.2%	7.8%	7.1%	6.9%
Loans to customers and finance lease receivables	24.7%	10.3%	21.6%	11.4%
Liabilities				
Client deposits and notes	7.2%	3.3%	4.9%	4.2%
Amounts due to credit institutions	7.1%	5.3%	5.5%	5.5%
Debt securities issued	—	7.1%	—	7.1%

	As of 31 December			
	2015		2014	
	GEL	Foreign currencies	GEL	Foreign currencies
	(unaudited) *(in percentages)*			
Assets				
Amounts due from credit institutions	3.0%	0.4%	1.0%	0.3%
Investment securities—available-for-sale	8.9%	6.9%	6.7%	8.0%
Loans to customers and finance lease receivables	24.8%	11.7%	20.4%	11.8%
Liabilities				
Client deposits and notes	7.7%	3.6%	4.0%	4.4%
Amounts due to credit institutions	9.0%	5.9%	4.2%	5.4%
Debt securities issued	—	7.1%	—	7.2%

Average Balance Sheets and Yield Rates

The following table (extracted from management accounts) shows the Group's consolidated average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of yield rates for the periods indicated. Average balances are based on the Group's consolidated quarterly balances (as of the end of each quarter) during the period, from the beginning of the period to its end.

	For the three months ended 31 March					
	2016			2015		
	Average Balance[3]	Interest Income (Expense)	Yield Rate	Average Balance[3]	Interest Income (Expense)	Yield Rate
	(amounts in thousands of Lari, except percentages) (unaudited)					
Average assets:						
Amounts due from credit institutions	747,900	3,123	1.7%	482,108	2,345	2.0%
Investment securities[1] (interest-earning)	863,008	20,085	9.4%	823,816	14,508	7.1%
Loans to customers and finance lease receivables, gross	5,558,918	202,558	14.7%	4,887,888	183,462	15.2%
Less: reserve for loan and finance lease receivables losses	(208,848)			(121,647)		
Loans to customers and finance lease receivables, net	5,350,070	202,558	15.2%	4,766,241	183,462	15.6%
Total average interest-earning assets	**6,960,978**	**225,766**	**13.0%**	**6,072,165**	**200,315**	**13.4%**
Cash on hand	458,000			398,426		
Investment securities (non interest-earning)	1,449			1,440		
All other assets	2,630,380			1,791,484		
Total average assets	**10,050,807**			**8,263,515**		
Average liabilities:						
Client deposits and notes	4,756,606	(52,868)	4.5%	3,865,284	(43,966)	4.6%
Amounts due to credit institutions[2]	1,754,492	(26,367)	6.0%	1,594,925	(21,907)	5.6%
Debt securities issued	1,036,781	(18,123)	7.0%	941,692	(15,727)	6.8%
Total average interest-bearing liabilities	**7,547,879**	**(97,358)**	**5.2%**	**6,401,901**	**(81,600)**	**5.2%**
All other liabilities	467,685			377,925		
Total average liabilities	**8,015,564**			**6,779,826**		
Average equity:						
Equity attributable to shareholders of the Issuer	1,816,168			1,430,717		
Non-controlling interest	219,075			52,972		
Total average equity	**2,035,243**			**1,483,689**		
Total average liabilities and equity	**10,050,807**			**8,263,515**		

Notes:

(1) Comprises available-for-sale investments securities that are debt securities (i.e., interest-bearing securities) only. Includes: treasury bills, central bank certificates of deposits, government bonds, corporate bonds and similar.

(2) Comprises deposits and loans from banks (including NBG loans), borrowings from international credit institutions and subordinated debt.

(3) Calculated as averages of the balances as of 31 March 2016 and 31 December 2015, and 31 March 2015 and 31 December 2014, respectively.

	For the year ended 31 December					
	2015			2014		
	Average Balance(3)	Interest Income (Expense)	Yield Rate	Average Balance(3)	Interest Income (Expense)	Yield Rate
	(amounts in thousands of Lari, except percentages) (unaudited)					
Average assets:						
Amounts due from credit institutions	594,835	11,238	1.9%	376,105	6,579	1.7%
Investment securities(1) (interest-earning)	868,116	69,436	8.0%	612,665	39,988	6.5%
Loans to customers and finance lease receivables, gross	5,217,681	781,444	15.0%	3,893,762	548,353	14.1%
Less: reserve for loan and finance lease receivables losses	(161,211)			(116,613)		
Loans to customers and finance lease receivables, net	5,056,470	781,444	15.5%	3,777,149	548,353	14.5%
Total average interest-earning assets	**6,519,421**	**862,118**	**13.2%**	**4,765,919**	**594,920**	**12.5%**
Cash on hand	427,801			324,744		
Investment securities (non interest-earning)	1,215			2,955		
All other assets	2,210,854			1,742,598		
Total average assets	**9,159,291**			**6,836,216**		
Average liabilities:						
Client deposits and notes	4,269,803	(187,825)	4.4%	3,165,010	(133,835)	4.2%
Amounts due to credit institutions(2)	1,828,585	(112,222)	6.1%	1,255,687	(61,940)	4.9%
Debt securities issued	993,164	(69,814)	7.0%	780,193	(54,437)	7.0%
Total average interest-bearing liabilities	**7,091,552**	**(369,861)**	**5.2%**	**5,200,890**	**(250,212)**	**4.8%**
All other liabilities	426,604			317,506		
Total average liabilities	**7,518,156**			**5,518,396**		
Average equity:						
Equity attributable to shareholders of the Issuer	1,546,836			1,262,870		
Non-controlling interest	94,298			54,951		
Total average equity	**1,641,134**			**1,317,821**		
Total average liabilities and equity	**9,159,290**			**6,836,217**		

Notes:

(1) Comprises available-for-sale investments securities that are debt securities (i.e. interest-bearing securities only). Includes: treasury bills, central bank certificates of deposits, government bonds, corporate bonds and similar.

(2) Comprises deposits and loans from banks (including NBG loans), borrowings from international credit institutions and subordinated debt.

(3) Calculated as averages of the balances as of quarter end dates of respective periods and last quarter end date of the preceding period.

Loan Portfolio

As of 31 March 2016, 31 December 2015 and 31 December 2014, the Group had GEL 5,327.7 million, GEL 5,290.7 million and GEL 4,316.9 million respectively, in loans to customers (net of allowance for impairment losses), representing 53.1%, 52.5% and 57.3% of the Group's total assets, respectively. The period-on-period increases between 31 December 2014, 31 December 2015 and 31 March 2016 were primarily due to the growth in the Retail Banking, CIB and BNB loan portfolios. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Group's Financial Statements—Changes in the Size of the Loan Portfolio*".

Loans to Customers by Type of Customer

The following table sets out the Group's consolidated total loans to customers (gross of allowance for impairment losses) by type of customer as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(unaudited)		*(audited)*		
	(thousands of US Dollars)(1)	*(thousands of Lari)*	*(thousands of US Dollars)(2)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	1,099,376	2,603,212	1,036,531	2,482,389	1,831,479
Private entities	1,226,613	2,904,497	1,239,083	2,967,479	2,539,298
State entities	14,384	34,060	16,605	39,767	49,944
Total loans to customers, gross	**2,340,373**	**5,541,769**	**2,292,219**	**5,489,635**	**4,420,721**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Of the Group's total loans to customers, 47.0%, 45.2% and 41.4% represented loans to individuals as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively, and 52.4%, 54.1% and 57.4% represented loans to private entities as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively, and 0.6%, 0.7% and 1.1% represented loans to state entities as of 31 March 2016, 31 December 2015 and 2014, respectively.

Distribution of Loans by Category of Loan

The following table sets out information on the Group's consolidated loans to customers by category of loan for the periods indicated.

	As of 31 March	As of 31 December	
	2016	2015	2014
	(amounts in thousands of Lari) *(unaudited)*	*(amounts in thousands of Lari)* *(audited)*	
Gross loans to customers, by products			
Commercial loans	2,360,347	2,407,115	2,189,036
Consumer loans	1,173,611	1,165,107	801,474
Residential mortgage loans	889,765	814,344	604,143
Micro and SME loans	1,055,286	1,041,929	772,283
Gold—pawn loans	62,760	61,140	53,785
Total loans to customers, gross	**5,541,769**	**5,489,635**	**4,420,721**
Loan loss reserves, by products:			
Commercial loans	(138,495)	(125,312)	(72,885)
Consumer loans	(50,219)	(51,017)	(23,648)
Residential mortgage loans	(7,218)	(6,061)	(2,993)
Micro and SME loans	(18,111)	(16,504)	(4,254)
Gold—pawn loans	—	—	—
Total loan loss reserves	**(214,043)**	**(198,894)**	**(103,780)**
Net loans to customers, by products:			
Commercial loans	2,221,852	2,281,803	2,116,151
Consumer loans	1,123,392	1,114,090	777,826
Residential mortgage loans	882,547	808,283	601,150
Micro and SME loans	1,037,175	1,025,425	768,029
Gold—pawn loans	62,760	61,140	53,785
Total loans to customers, net	**5,327,726**	**5,290,741**	**4,316,941**

Of the Group's total gross loans to customers, 42.6%, 43.8%, and 49.5% represented commercial loans as of 31 March 2016, 31 December 2015, and 31 December 2014, respectively; 21.2%, 21.2%, and 18.1% represented consumer loans as of 31 March 2016, 31 December 2015, and 31 December 2014, respectively; 16%, 14.8%, and 13.7% represented residential mortgage loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 19.0%, 19.0% and 17.5% represented Micro and SME loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; and 1.1%, 1.2% and 1.2% represented Gold—pawn loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively.

The Group's total loan loss reserves increased by GEL 15.1 million, or 7.6%, as of 31 March 2016, as compared to 31 December 2015 and increased by GEL 95.1 million, or 91.6%, from 31 December 2014 to 31 December 2015. The year-on-year increases between 2014 and 2015 were primarily due to a deterioration in the overall quality of loans, in line with trends among Georgian banks in 2015, as well as the addition of Privatbank loans (which generally had higher yields than the Bank's existing loans) and the devaluation of GEL. Of the Group's total loan loss reserves 64.7%, 63.0% and 70.2% represented reserves for commercial loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 23.5%, 25.7% and 22.8% represented reserves for consumer loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 3.4%, 3.0% and 2.9% represented reserves for residential mortgage loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; and 8.4%, 8.3% and 4.1% represented reserves for micro and SME loans as of 31 March 2016, 31 December 2015 and 2014, respectively.

Loan and Finance Lease Receivables Quality Data

The following table sets out the Group's consolidated gross non-performing loans to customers and finance lease receivables, and net renegotiated loans to customers and finance lease receivables as of 31 March 2015, 31 December 2015 and 31 December 2014.

	As of 31 March	As of 31 December	
	2016	2015	2014
	Amount	*Amount*	*Amount*
	(thousands of Lari) (unaudited)		*(thousands of Lari) (unaudited)*
Loans and finance lease receivables overdue by over 90 days	205,150	172,208	118,813
Other non-performing loans and finance lease receivables	46,809	68,934	34,815
Total non-performing loans and finance lease receivables, of which:	**251,959**	**241,142**	**153,628**
Retail Banking	*48,009*	*45,005*	*18,845*
CIB	*171,560*	*166,210*	*123,506*
BNB	*32,390*	*29,927*	*11,277*
Allowance for impairment, loans and finance lease receivables	216,599	201,096	104,509
Non-performing loans and finance lease receivables coverage	**86.0%**	**83.4%**	**68.0%**
Total net renegotiated loans and finance lease receivables	**289,597**	**211,705**	**132,909**

NPLs comprised 4.5% of total gross loans and finance lease receivables as of 31 March 2016, compared to 4.4% and 3.4% as of 31 December 2015 and 31 December 2014, respectively. Net renegotiated loans and finance lease receivables comprised net loans and finance lease receivables that would otherwise be past due or impaired whose terms have been renegotiated. Net renegotiated loans and finance lease receivables comprised 5.4% of total net loans and finance lease receivables as of 31 March 2016, compared to 4.0% and 3.1% as of 31 December 2015 and 31 December 2014, respectively. The growth in NPLs and net renegotiated loans and finance lease receivables in absolute terms, and as a percentage of gross and net loans and finance lease receivables, respectively, during the year ended 31 December 2015 and three months ended 31 March 2016 was primarily attributable to slower economic growth and the rapid depreciation of the Lari from the second half of 2014 and throughout 2015.

Loans by Economic Sector

The following table sets out the Group's consolidated loans to customers (gross of allowance for impairment losses) by economic sector as of the dates indicated.

	As of 31 March		As of 31 December			
	2016		2015		2014	
	Amount	*% of Total Loans (unaudited)*	*Amount*	*% of Total Loans*	*Amount (audited)*	*% of Total Loans*
	(thousands of Lari, except percentages)					
Individuals	2,603,212	47.0%	2,482,389	45.2%	1,831,479	41.4%
Trade	692,807	12.5%	727,214	13.2%	647,858	14.7%
Manufacturing	692,938	12.5%	711,677	13.0%	719,003	16.3%
Real estate	337,918	6.1%	354,331	6.5%	244,134	5.5%
Service	215,119	3.9%	232,422	4.2%	164,008	3.7%
Construction	201,291	3.6%	178,642	3.3%	114,891	2.6%
Hospitality	177,604	3.2%	168,011	3.1%	166,214	3.8%
Transport & communication	157,343	2.8%	165,330	3.0%	151,715	3.4%
Mining and quarrying	129,333	2.3%	127,706	2.3%	15,310	0.3%
Financial intermediation	79,997	1.4%	77,662	1.4%	109,201	2.5%
Electricity, gas and water supply	73,388	1.3%	77,633	1.4%	124,772	2.8%
Other	180,819	3.3%	186,618	3.4%	132,136	3.0%
Total loans to customers, gross	**5,541,769**	**100.0%**	**5,489,635**	**100.0%**	**4,420,721**	**100.0%**

The Group's loans to individual customers increased by GEL 120.8 million, or 4.9% between 31 December 2015 and 31 March 2016, having increased by GEL 650.9 million, or 35.5% between 31 December 2014, and 31 December 2015, primarily as a result of acquisition of Privatbank. The Group's loans in the trade sector decreased by GEL 34.4 million, or 4.7%, between 31 December 2015 and 31 March 2016, having increased by GEL 79.4 million, or 12.2%, between 31 December 2014 and 31 December 2015. The Group's loans in the manufacturing sector decreased by GEL 18.7 million, or 2.6% between 31 December 2015 and 31 March 2016, having decreased by GEL 7.3 million, or 1.0%, between 31 December 2014 and 31 December 2015. The Group's loans in the real estate sector decreased by GEL 16.4 million, or 4.6%, between 31 December 2015 and 31 March 2016, having increased by GEL 110.2 million, or 45.1%, between 31 December 2014 and 31 December 2015. The Group's loans in the service sector decreased by GEL 17.3 million, or 7.4%, between 31 December 2015 and 31 March 2016, having increased by GEL 68.4 million, or 41.7%, between 31 December 2014 and 31 December 2015. The Group's loans in the construction sector increased by GEL 22.6 million, or 12.7%, between 31 December 2015 and 31 March 2016, having increased by GEL 63.8 million, or 55.5%, between 31 December 2014 and 31 December 2015. The Group's loans in the hospitality sector increased by GEL 9.6 million, or 5.7%, between 31 December 2015 and 31 March 2016, having increased by GEL 1.8 million, or 1.1%, between 31 December 2014 and 31 December 2015. The Group's loans in the transportation and communication sector decreased by GEL 8.0 million, or 4.8% between 31 December 2015 and 31 March 2016, having increased by GEL 13.6 million, or 9.0% between 31 December 2014 and 31 December 2015. The Group's loans in the mining and quarrying sector increased by GEL 1.6 million, or 1.3% between 31 December 2015 and 31 March 2016, having increased by GEL 112.4 million, or 734.1% between 31 December 2014 and 31 December 2015. The Group's loans in the financial intermediation sector increased by GEL 2.3 million, or 3.0% between 31 December 2015 and 31 March 2016, having decreased by GEL 31.5 million, or 28.9% between 31 December 2014 and 31 December 2015. The Group's loans in the electricity, gas and water supply sector decreased by GEL 4.2 million, or 5.5% between 31 December 2015 and 31 March 2016, having decreased by GEL 47.1 million, or 37.8% between 31 December 2014 and 31 December 2015. The Group's loans in the other sector decreased by GEL 5.8 million, or 3.1% between 31 December 2015 and 31 March 2016, having increased by GEL 54.5 million, or 41.2% between 31 December 2014 and 31 December 2015. In general, increases in loans to customers between 31 December 2015 and 31 March 2016 were mainly driven by the increase in loans to individuals and in loans to customers in the construction and hospitality sectors. The increases in loans to customers between 2014 and 2015 were driven by the increases in loans to customers across almost every sector with the exception of manufacturing, financial intermediation and electricity, gas and water supply sectors.

Collateralisation

The following table (extracted from management accounts) sets out the Group's consolidated loans to customers and finance lease receivables (gross of allowance for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015	2015	2014
	(thousands of US Dollars)[(1)]	*(thousands of Lari)*	*(unaudited) (thousands of US Dollars)*[(2)]	*(thousands of Lari)*	*(thousands of Lari)*
Secured by pledge of real estate	1,392,811	3,298,038	1,335,105	3,197,442	2,489,079
Collateralised by pledge of inventory	220,967	523,228	211,842	507,340	534,802
Secured by pledge of deposits & securities	117,262	277,665	105,731	253,216	204,014
Secured by corporate guarantees	112,812	267,127	109,319	261,808	264,950
Collateralised by pledge of transport	71,203	168,602	99,006	237,109	184,098
Secured by pledge of gold	26,715	63,259	25,863	61,940	54,785
Other collateralised loans and finance lease receivables[(3)]	31,323	74,169	30,433	72,884	64,746
Unsecured loans and finance lease receivables	385,658	913,200	392,838	940,808	663,495
Total loans to customers and finance lease receivables, gross	**2,358,751**	**5,585,288**	**2,310,137**	**5,532,547**	**4,459,969**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) Other collateralised loans comprise loans to customers collateralised by machinery and equipment and other types of collateral.

Of the Group's consolidated loans to customers, 59.0%, 57.8% and 57.8% represented loans and finance lease receivables were secured by pledges over real estate as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 9.4%, 9.2% and 12.0% represented loans collateralised by pledges over inventory as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 5.0%, 4.6% and 4.6% represented loans and finance lease receivables secured by pledges over deposits and securities as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 4.8%, 4.7% and 5.9% represented loans and finance lease receivables secured by corporate guarantees as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 3.0%, 4.3% and 4.1% represented loans collateralised by pledges over transport as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; 1.1%, 1.1% and 1.2% represented loans secured by pledges over gold as of each of 31 March 2016, 31 December 2015 and 31 December 2014; 1.3%, 1.3% and 1.5% represented other collateralised loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively; and 16.4%, 17.0% and 14.9% represented unsecured loans as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively. Other collateral consists of movable property and assets.

Loans by Currency

The following table (extracted from management accounts) sets out the Group's consolidated loans to customers and finance lease receivables (gross of allowance for impairment losses), by currency as of the dates indicated.

	As of 31 March		As of 31 December			
	2016		2015		2014	
	Amount	*% of Total Loans*	*Amount*	*% of Total Loans*	*Amount*	*% of Total Loans*
	(unaudited)					
	(thousands of Lari, except percentages)					
GEL	1,516,878	27.2%	1,526,602	27.6%	1,264,596	28.4%
Foreign currencies (freely convertible being USD, EUR and GBP)	4,023,087	72.0%	3,956,942	71.5%	3,123,727	70.0%
Other currencies (non-convertible)	45,323	0.8%	49,003	0.9%	71,646	1.6%
Total loans to customers and finance lease receivables, gross	**5,585,288**	**100.0%**	**5,532,547**	**100.0%**	**4,459,969**	**100.0%**

Lari-denominated loans to customers and finance lease receivables accounted for 27.2%, 27.6% and 28.4% of total loans to customers and finance lease receivables as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively, and foreign currency-denominated loans to customers and finance lease receivables accounted for 72.8%, 72.4% and 71.6% of total loans to customers and finance lease receivables as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively. Lari-denominated loans to customers and finance lease receivables decreased by GEL 9.7 million, or 0.6%, between 31 December 2015 and 31 March 2016 and increased by GEL 262.0 million, or 20.7%, between 2014 and 2015. Loans to customers and finance lease receivables denominated in and convertible into US Dollars, Euros and pounds sterling increased by GEL 66.1 million, or 1.7%, between 31 December 2015 and 31 March 2016, GEL 833.2 million, or 26.7%, between 2014 and 2015. Loans to customers and finance lease receivables denominated in and not convertible into other foreign currencies decreased by GEL 3.7 million, or 7.5%, between 31 December 2015 and 31 March 2016, decreased by GEL 22.6 million, or 31.6%, between 2014 and 2015.

Concentrations of Loans and Finance Lease Receivables

As of 31 March 2016, the Group had no concentration of loans and finance lease receivables to one borrower that exceeded 2.0% of total consolidated net loans and finance lease receivables. As of 31 December 2015, the Group had no concentration of loans and finance lease receivables to one borrower that exceeded 2.0% of total consolidated net loans and finance lease receivables.

Changes in Loan Loss Reserves

The following tables set out information on changes in the Group's consolidated loan loss reserves for the periods indicated.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro and SME loans	Total
			(amounts in thousands of Lari) *(audited)*		
At 1 January 2015	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Charge	59,090	62,638	3,410	17,681	142,819
Recoveries	4,331	21,079	3,066	5,209	33,685
Write-offs	(10,324)	(47,075)	(2,847)	(10,694)	(70,940)
Interest accrued on written off loans	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation difference	416	(238)	—	1,046	1,224
At 31 December 2015	**125,312**	**51,017**	**6,061**	**16,504**	**198,894**
Individual impairment	118,960	1,850	4,380	13,745	138,935
Collective impairment	6,352	49,167	1,681	2,759	59,959
Total	**125,312**	**51,017**	**6,061**	**16,504**	**198,894**
As % of total reserves	**63.0%**	**25.7%**	**3.0%**	**8.3%**	**100.0%**
Ratio of charge to average gross loans during the period[(1)]	**2.4%**	**6.3%**	**0.5%**	**1.9%**	**2.8%**

Note:

(1) Impairment charge for the period divided by the quarterly average net loans for the same period (balances of quarter end dates within the period and the end date balance of the last preceding quarter).

	Commercial loans	Consumer loans	Residential mortgage loans	Micro & SME loans	Total
			(amounts in thousands of Lari) *(audited)*		
At 1 January 2014	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Charge (reversal)	34,617	14,147	(2,280)	(1,396)	45,088
Recoveries	3,104	14,730	5,661	5,211	28,706
Write-offs	(41,894)	(22,556)	(2,777)	(4,748)	(71,975)
Interest accrued on written off loans	(13,581)	(3,341)	(704)	(348)	(17,974)
Currency translation difference	(310)	(104)	—	(436)	(850)
At 31 December 2014	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Individual impairment	63,816	1,403	2,525	3,637	71,381
Collective impairment	9,069	22,245	468	617	32,399
Total	72,885	23,648	2,993	4,254	103,780
As % of total reserves	**70.2%**	**22.8%**	**2.9%**	**4.1%**	**100.0%**
Ratio of charge to average gross loans during the period[(1)]	**1.8%**	**2.0%**	**-0.4%**	**-0.2%**	**1.2%**

Note:

(1) Impairment charge for the period divided by the quarterly average net loans for the same period (balances of quarter end dates within the period and the end date balance of the last preceding quarter).

Loans and Finance Lease Receivables by Maturity

Maturity Structure of the Loans and Finance Lease Receivable Portfolio

The following table sets out the maturity structure of the Group's consolidated loans to customers and finance lease receivables (gross of allowance for impairment losses) as of the dates indicated.

	As of 31 March		As of 31 December			
	2016		2015		2014	
	Amount	*% of Total Loans (unaudited)*	*Amount*	*% of Total Loans*	*Amount (audited)*	*% of Total Loans*
	(thousands of Lari, except percentages)					
On demand and up to one month	530,109	9.5%	415,214	7.5%	357,781	8.0%
One to three months	393,143	7.0%	487,660	8.8%	383,150	8.6%
Three months to one year	1,534,047	27.5%	1,610,948	29.1%	1,285,343	28.8%
More than one year	3,127,989	56.0%	3,018,725	54.6%	2,433,695	54.6%
Total loans to customers and finance lease receivables, gross	**5,585,288**	**100.0%**	**5,532,547**	**100.0%**	**4,459,969**	**100.0%**

As of 31 March 2016, loans and finance lease receivables due within one year or less represented 44.0% of the Group's loans and finance lease receivables portfolio (gross of allowance for impairment losses), compared with 45.4% and 45.4% as of 31 December 2015 and 31 December 2014, respectively.

Maturity Profile of the Loan Portfolio by Type of Loan

The following table (extracted from management accounts) sets out information on the Group's consolidated loans to customers maturity profile as of 31 March 2016.

	Due In				
	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
	(amounts in thousands of Lari) (unaudited)				
Gross loans, by products					
Commercial loans	1,004,561	1,085,490	270,296	—	2,360,347
Consumer loans	793,112	337,509	40,851	2,139	1,173,611
Micro and SME loans	446,055	550,644	58,587	—	1,055,286
Residential mortgage loans	117,457	397,212	304,817	70,279	889,765
Gold—pawn loans	62,760	—	—	—	62,760
Total gross loans, by products	**2,423,945**	**2,370,855**	**674,551**	**72,418**	**5,541,769**
Gross loans due in < 1 year, of which:	**2,423,945**				
Loans with fixed (pre-determined) interest rates	2,232,956				
Loans with floating or adjustable interest rates	190,989				

The following table (extracted from management accounts) sets out information on the Group's consolidated loans to customers maturity profile as of 31 December 2015.

	Due In				
	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
	(amounts in thousands of Lari) (unaudited)				
Gross loans, by products					
Commercial loans	1,072,028	1,082,811	252,276	—	2,407,115
Consumer loans	800,759	327,009	35,428	1,911	1,165,107
Micro and SME loans	439,298	546,284	56,344	3	1,041,929
Residential mortgage loans	109,024	372,841	276,178	56,301	814,344
Gold—pawn loans	61,140	—	—	—	61,140
Total gross loans, by products	**2,482,249**	**2,328,945**	**620,226**	**58,215**	**5,489,635**
Gross loans due in < 1 year, of which:	**2,482,249**				
Loans with fixed (pre-determined) interest rates	2,317,486				
Loans with floating or adjustable interest rates	164,763				

Of the Group's total loans to customers as of 31 March 2016, 43.7% represented loans with maturities of less than one year, 42.8% represented loans with maturities of between one and five years, 12.2% represented loans with maturities of between five and ten years and 1.3% represented loans with maturities of more than ten years. Of the Group's total commercial loans as of 31 March 2016, 42.6% represented loans with maturities of less than one year, 46.0% represented loans with maturities of between one and five years, 11.5% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total consumer loans as of 31 March 2016, 67.6% represented loans with maturities of less than one year, 28.8% represented loans with maturities of between one and five years, 3.5% represented loans with maturities of between five and ten years and 0.2% represented loans with maturities of more than 10 years. Of the Group's total micro and SME loans as of 31 March 2016, 42.3% represented loans with maturities of less than one year, 52.2% represented loans with maturities of between one and five years, 5.6% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total residential mortgage loans as of 31 March 2016, 13.2% represented loans with maturities of less than one year, 44.6% represented loans with maturities of between one and five years, 34.3% represented loans with maturities of between five and ten years and 7.9% represented loans with maturities of more than 10 years. Of the Group's total gold pawn loans as of 31 March 2016, 100% represented loans with maturities of less than one year.

Of the Group's total loans to customers as of 31 December 2015, 45.2% represented loans with maturities of less than one year, 42.4% represented loans with maturities of between one and five years 11.3% represented loans with maturities of between five and ten years, and 1.1% represented loans with maturities of more than ten years. Of the Group's total commercial loans as of 31 December 2015, 44.5% represented loans with maturities of less than one year, 45.0% represented loans with maturities of between one and five years, 10.5% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total consumer loans as of 31 December 2015, 68.7% represented loans with maturities of less than one year, 28.1% represented loans with maturities of between one and five years, 3.0% represented loans with maturities of between five and ten years and 0.2% represented loans with maturities of more than ten years. Of the Group's total micro and SME loans as of 31 December 2015, 42.2% represented loans with maturities of less than one year, 52.4% represented loans with maturities of between one and five years, 5.4% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total residential mortgage loans as of 31 December 2015, 13.4% represented loans with maturities of less than one year, 45.8% represented loans with maturities of between one and five years, 33.9% represented loans with maturities of between five and ten years and 6.9% represented loans with maturities of more than 10 years. Of the Group's total gold pawn loans as of 31 December 2015, 100% represented loans with maturities of less than one year and no loans represented loans with maturities of more than one year.

Geographical Concentration of Loans and Finance Lease receivables

The Group has a significant geographical concentration of loans and finance lease receivables issued to borrowers in one geographical region. The Group's net loans to customers and finance lease receivables in Georgia represented 94.0%, 94.0% and 93.9% of the Group's total net loan and finance lease receivable portfolio as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively. The Group's net loans to customers and finance lease receivables in the Tbilisi region represented 74.4%, 74.2% and 77.2% of the Group's net total loan and finance lease receivable portfolio as of 31 March 2016, 31 December 2015 and 31 December 2014, respectively.

Loans by Amount and Number of Borrowers

As of 31 March 2016, 31 December 2015 and 31 December 2014 the exposure of the Group to its ten largest third-party borrowers amounted to GEL 676.7 million (US$285.8 million), GEL 708.8 million (US$296.0 million) and GEL 711.6 million, representing 12.1%, 12.8% and 16.0% of total loans to customers and finance lease receivables (in each case gross of allowance for impairment losses), respectively.

The following table sets out information on the Group's ten largest borrowers (based on exposure) as of 31 March 2016.

Rank by borrower exposure	Exposure size (net of allowance for impairment losses) (thousands of Lari)	% of total net loans to customers	Industry sector in which borrower operates
1	105,887	2.0%	Manufacturing
2	89,388	1.7%	Manufacturing
3	83,840	1.6%	Mining and quarrying
4	77,778	1.5%	Service
5	62,851	1.2%	Manufacturing
6	62,266	1.2%	Transport & Communication
7	58,856	1.1%	Individuals
8	49,684	0.9%	Manufacturing
9	44,594	0.8%	Manufacturing
10	41,523	0.8%	Individuals
Total	**676,667**	**12.7%**	

Investment Portfolio

The following table (extracted from management accounts) sets out information on the Group's consolidated investment securities as of the dates indicated.

	As of 31 March	As of 31 December	
	2016	2015	2014
	(amounts in thousands of Lari) (unaudited)		
—Corporate bonds	2,982	472	993
—Corporate shares	70	1,505	41
Trading securities, total	**3,052**	**1,977**	**1,034**
—Treasury bills	127,865	165,545	169,796
—Central Banks' CDs	12,354	76,807	92,547
—Government bonds	607,627	575,591	459,400
—Other debt instruments	75,750	84,476	46,557
—Corporate shares	1,449	1,448	1,412
Investment securities—AFS securities, total	**825,045**	**903,867**	**769,712**
Investment securities and trading securities, total	**828,097**	**905,844**	**770,746**

The following table (extracted from management accounts) sets out the maturity profile of the Group's consolidated investment securities as of 31 March 2016.

	Due In				
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	(amounts in thousands of Lari) (unaudited)				
—Treasury bills	127,865	—	—	—	127,865
—Central banks' CDs	12,354	—	—	—	12,354
—Government bonds	217,241	366,595	23,791	—	607,627
—Other debt instruments	10,542	68,190	—	—	78,732
—Corporate shares	1,519	—	—	—	1,519
Investment securities and trading securities, total	**369,521**	**434,785**	**23,791**	**—**	**828,097**

The following table (extracted from management accounts) sets out the securities maturity profile of the Group's consolidated investment securities as of 31 December 2015.

	Due In				
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	(amounts in thousands of Lari) (unaudited)				
—Treasury bills	165,545	—	—	—	165,545
—Central banks' CDs	76,807	—	—	—	76,807
—Government bonds	206,075	345,781	23,735	—	575,591
—Other debt instruments	30,760	54,188	—	—	84,948
—Corporate shares	2,953	—	—	—	2,953
Investment securities and trading securities, total	**482,140**	**399,969**	**23,735**	**—**	**905,844**

The following table sets out the components of the Group's consolidated available-for-sale securities as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(unaudited)		*(audited)*		
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(thousands of US Dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*
Ministry of Finance treasury bills	53,999	127,865	69,124	165,545	169,796
Certificates of deposit of central banks	5,217	12,354	32,071	76,807	92,547
Ministry of Finance treasury bonds	256,610	607,627	240,340	575,591	459,400
Other debt instruments	31,990	75,750	35,273	84,476	46,557
Corporate shares	612	1,449	605	1,448	1,412
Available-for-sale securities	**348,428**	**825,045**	**377,413**	**903,867**	**769,712**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

The following table sets out the weighted average nominal interest rates and maturities of the Group's consolidated available-for-sale investment securities as of the dates indicated.

	As of 31 March		As of 31 December			
	2016		2015		2014	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
	(unaudited)				*(audited)*	
Ministry of Finance treasury bills	10.3%	6 Months	7.4%	3 Months	5.7%	4 Months
Certificates of deposit of central banks	10.1%	2 Months	9.7%	2 Months	4.7%	4 Months
Ministry of Finance treasury bonds	10.0%	2.3 Years	9.0%	2.3 Years	8.4%	2.7 Years
Other debt instruments	8.1%	1.5 years	8.5%	1.4 Years	6.2%	2.2 Years

The following table (extracted from management accounts) sets out information on the profile of the Group's consolidated securities held which exceeded 10% of consolidated shareholders' equity per issuer as of 31 March 2016.

	Balance Sheet Category	Outstanding Balance	Name of Issuer[1]	State / Corporate	Issue Date	Maturity Date	Remaining Maturity (in Days)	Nominal Rate
			(amounts in thousands of Lari)	*(unaudited)*				
Ministry of Finance treasury bonds:								
Contract 1	AFS, T-Bonds	13,567	MoF	State	24-Jan-13	24-Jan-18	664	8.3%
Contract 2	AFS, T-Bonds	24,973	MoF	State	6-Mar-14	6-Mar-19	1,070	10.1%
Contract 3	AFS, T-Bonds	4,881	MoF	State	6-Feb-14	6-Feb-24	2,868	11.6%
Contract 4	AFS, T-Bonds	22,609	MoF	State	13-Nov-14	13-Nov-16	227	6.6%
Contract 5	AFS, T-Bonds	2,343	MoF	State	9-Mar-12	9-Mar-22	2,169	12.3%
Contract 6	AFS, T-Bonds	26,467	MoF	State	14-Aug-14	14-Aug-16	136	7.4%
Contract 7	AFS, T-Bonds	5,097	MoF	State	15-Sep-11	15-Sep-16	168	13.0%
Contract 8	AFS, T-Bonds	20,566	MoF	State	10-Mar-16	10-Mar-18	709	13.4%
Contract 9	AFS, T-Bonds	7,077	MoF	State	30-Jan-14	30-Jan-19	1,035	9.5%
Contract 10	AFS, T-Bonds	20,021	MoF	State	26-Jan-12	26-Jan-17	301	11.3%
Contract 11	AFS, T-Bonds	26,523	MoF	State	18-Jul-13	18-Jul-18	839	7.9%
Contract 12	AFS, T-Bonds	7,944	MoF	State	11-Sep-14	11-Sep-16	164	7.3%
Contract 13	AFS, T-Bonds	1,041	MoF	State	21-Jul-11	21-Jul-16	112	14.1%
Contract 14	AFS, T-Bonds	29,991	MoF	State	16-Jul-15	16-Jul-20	1,568	14.4%
Contract 15	AFS, T-Bonds	14,796	MoF	State	21-Feb-13	21-Feb-23	2,518	10.4%
Contract 16	AFS, T-Bonds	39,090	MoF	State	9-Jul-15	9-Jul-17	465	10.8%
Contract 17	AFS, T-Bonds	17,546	MoF	State	26-Jul-12	26-Jul-17	482	8.5%
Contract 18	AFS, T-Bonds	38,224	MoF	State	8-Apr-15	8-Apr-17	373	7.5%
Contract 19	AFS, T-Bonds	2,628	MoF	State	23-Jun-11	23-Jun-16	84	14.6%
Contract 20	AFS, T-Bonds	8,787	MoF	State	26-Apr-12	26-Apr-17	391	9.8%
Contract 21	AFS, T-Bonds	12,014	MoF	State	15-May-14	15-May-16	45	8.0%
Contract 22	AFS, T-Bonds	9,099	MoF	State	15-Mar-12	15-Jun-16	76	12.0%
Contract 23	AFS, T-Bonds	46,462	MoF	State	12-Feb-15	12-Feb-17	318	7.1%
Contract 24	AFS, T-Bonds	6,563	MoF	State	2-Aug-12	2-Aug-22	2,315	10.8%
Contract 25	AFS, T-Bonds	2,575	MoF	State	18-Aug-11	18-Aug-16	140	13.5%
Contract 26	AFS, T-Bonds	2,672	MoF	State	28-Apr-11	28-Apr-16	28	15.2%
Contract 27	AFS, T-Bonds	14,809	MoF	State	25-Oct-12	25-Oct-17	573	8.0%
Contract 28	AFS, T-Bonds	3,035	MoF	State	10-Jul-14	10-Jul-16	101	7.5%
Contract 29	AFS, T-Bonds	14,479	MoF	State	5-Feb-15	5-Feb-25	3,233	10.5%
Contract 30	AFS, T-Bonds	63,558	MoF	State	14-Jan-16	14-Jan-18	654	13.8%
Contract 31	AFS, T-Bonds	26,952	MoF	State	29-Jan-15	29-Jan-20	1,399	9.1%
Contract 32	AFS, T-Bonds	41,378	MoF	State	17-Jul-14	17-Jul-19	1,203	9.5%
Contract 33	AFS, T-Bonds	17,971	MoF	State	16-Apr-15	16-Apr-20	1,477	10.3%

Aggregate value of certificates of deposit of central banks	**595,738**
Total equity	**2,073,532**
As a % of shareholders' equity	**28.7%**

Notes:

(1) MoF means Ministry of Finance

The following table (extracted from management accounts) sets out information on the profile of the Bank's consolidated securities held which exceeded 10% of consolidated shareholders' equity per issuer as of 31 December 2015.

	Balance Sheet Category	Outstanding Balance	Name of Issuer(1)	State / Corporate	Issue Date	Maturity Date	Remaining Maturity (in Days)	Nominal Rate
			(amounts in thousands of Lari) (unaudited)					
Ministry of Finance treasury bonds:								
Contract 1	AFS, T-Bonds	2,458	MoF	State	9-Mar-12	9-Mar-22	2,260	12.3%
Contract 2	AFS, T-Bonds	5,259	MoF	State	6-Feb-14	6-Feb-24	2,959	11.6%
Contract 3	AFS, T-Bonds	21,858	MoF	State	13-Nov-14	13-Nov-16	318	6.6%
Contract 4	AFS, T-Bonds	5,260	MoF	State	15-Sep-11	15-Sep-16	259	13.0%
Contract 5	AFS, T-Bonds	20,377	MoF	State	26-Jan-12	26-Jan-17	392	11.3%
Contract 6	AFS, T-Bonds	7,094	MoF	State	30-Jan-14	30-Jan-19	1,126	9.5%
Contract 7	AFS, T-Bonds	26,669	MoF	State	14-Aug-14	14-Aug-16	227	7.4%
Contract 8	AFS, T-Bonds	1,082	MoF	State	21-Jul-11	21-Jul-16	203	14.1%
Contract 9	AFS, T-Bonds	17,456	MoF	State	16-Jan-14	16-Jan-16	16	6.1%
Contract 10	AFS, T-Bonds	7,988	MoF	State	11-Sep-14	11-Sep-16	255	7.3%
Contract 11	AFS, T-Bonds	24,252	MoF	State	16-Jul-15	16-Jul-20	1,659	14.4%
Contract 12	AFS, T-Bonds	26,354	MoF	State	18-Jul-13	18-Jul-18	930	7.9%
Contract 13	AFS, T-Bonds	13,470	MoF	State	24-Jan-13	24-Jan-18	755	8.3%
Contract 14	AFS, T-Bonds	39,457	MoF	State	9-Jul-15	9-Jul-17	556	10.8%
Contract 15	AFS, T-Bonds	17,524	MoF	State	26-Jul-12	26-Jul-17	573	8.5%
Contract 16	AFS, T-Bonds	17,297	MoF	State	13-Mar-14	13-Mar-16	73	7.8%
Contract 17	AFS, T-Bonds	2,558	MoF	State	23-Jun-11	23-Jun-16	175	14.6%
Contract 18	AFS, T-Bonds	38,551	MoF	State	13-Feb-14	13-Feb-16	44	6.8%
Contract 19	AFS, T-Bonds	11,719	MoF	State	15-May-14	15-May-16	136	8.0%
Contract 20	AFS, T-Bonds	9,125	MoF	State	15-Mar-12	15-Jun-16	167	12.0%
Contract 21	AFS, T-Bonds	6,901	MoF	State	2-Aug-12	2-Aug-22	2,406	10.8%
Contract 22	AFS, T-Bonds	8,436	MoF	State	26-Apr-12	26-Apr-17	482	9.8%
Contract 23	AFS, T-Bonds	46,379	MoF	State	12-Feb-15	12-Feb-17	409	7.1%
Contract 24	AFS, T-Bonds	36,718	MoF	State	8-Apr-15	8-Apr-17	464	7.5%
Contract 25	AFS, T-Bonds	3,064	MoF	State	10-Jul-14	10-Jul-16	192	7.5%
Contract 26	AFS, T-Bonds	2,666	MoF	State	18-Aug-11	18-Aug-16	231	13.5%
Contract 27	AFS, T-Bonds	14,105	MoF	State	25-Oct-12	25-Oct-17	664	8.0%
Contract 28	AFS, T-Bonds	25,095	MoF	State	6-Mar-14	6-Mar-19	1,161	10.1%
Contract 29	AFS, T-Bonds	15,677	MoF	State	21-Feb-13	21-Feb-23	2,609	10.4%
Contract 30	AFS, T-Bonds	17,269	MoF	State	16-Apr-15	16-Apr-20	1,568	10.3%
Contract 31	AFS, T-Bonds	27,187	MoF	State	29-Jan-15	29-Jan-20	1,490	9.1%
Contract 32	AFS, T-Bonds	41,609	MoF	State	17-Jul-14	17-Jul-19	1,294	9.5%
Contract 33	AFS, T-Bonds	2,609	MoF	State	28-Apr-11	28-Apr-16	119	15.2%
Contract 34	AFS, T-Bonds	12,068	MoF	State	5-Feb-15	5-Feb-25	3,324	10.5%

Aggregate value of Ministry of Finance treasury bills	**575,591**
Total equity	**1,996,952**
As a % of shareholders' equity	**28.8%**

Note:

(1) MoF means Ministry of Finance

Deposits and Other Liabilities by Maturity

The following table (extracted from management accounts) sets forth an analysis of the Group's consolidated client deposits and notes, amounts due to credit institutions, debt securities issued, other liabilities and total liabilities by maturity as of the dates indicated.

	As of 31 March		As of 31 December		As of 31 December
	2016		2015		2014
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(unaudited)* *(thousands of US Dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*
Three months or less, of which	1,273,800	3,016,231	1,250,657	2,995,201	2,137,458
On demand	912,029	2,159,594	912,409	2,185,129	1,533,949
One month or less	144,434	342,005	109,448	262,118	227,141
More than one month, but less than three months	217,337	514,632	228,800	547,954	376,368
More than three months, but less than or equal to one year	489,204	1,158,386	519,174	1,243,371	925,071
More than one year	234,390	555,013	227,571	545,010	410,900
Total client deposits and notes	**1,997,394**	**4,729,630**	**1,997,402**	**4,783,582**	**3,473,429**
Amounts due to credit institutions,	726,349	1,719,921	747,030	1,789,062	1,409,213
Debt securities issued	436,572	1,033,758	434,174	1,039,804	856,695
All other liabilities (maturity undefined)	200,105	473,829	192,718	461,541	336,877
Total liabilities	**3,360,420**	**7,957,138**	**3,371,324**	**8,073,989**	**6,076,214**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

The following tables (extracted from management accounts) set forth an analysis of the Group's consolidated short-term and long-term client deposits and notes, amounts due to credit institutions and debt securities issued (i) in Lari equivalents and (ii) as a percentage of their total as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(unaudited)* *(thousands of US Dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*
Short-term[3]	2,214,086	5,242,734	2,221,567	5,320,430	4,014,132
Long-term[4]	946,229	2,240,575	957,041	2,292,018	1,725,205
Total client deposits and notes, amounts due to credit institutions, debt securities issued and other financial liabilities	**3,160,315**	**7,483,309**	**3,178,608**	**7,612,448**	**5,739,337**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) "Short-term" means due within one year of the relevant date.

(4) "Long-term" means due after more than one year from the relevant date.

	As of 31 March	As of 31 December	
	2016	2015	2014
	(unaudited) *(in percentages)*		
Short-term[1]	70.1%	69.9%	69.9%
Long-term[2]	29.9%	30.1%	30.1%

Notes:

(1) "Short-term" means due within one year of the relevant date.

(2) "Long-term" means due after more than one year from the relevant date.

Deposits and Other Liabilities by Currency

The following table (extracted from management accounts) sets out Lari versus foreign currency denomination of the Group's consolidated client deposits and notes, amounts due to credit institutions, debt securities issued and total liabilities as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)(1)	*(thousands of Lari)*	*(unaudited) (thousands of US Dollars)(2)*	*(thousands of Lari)*	*(thousands of Lari)*
Client deposits and notes:					
Lari	467,989	1,108,151	510,036	1,221,486	1,002,608
Foreign currency	1,529,405	3,621,479	1,487,367	3,562,096	2,470,821
Total client deposits and notes	**1,997,394**	**4,729,630**	**1,997,403**	**4,783,582**	**3,473,429**
Amounts due to credit institutions:					
Lari	191,713	453,958	235,423	563,815	564,291
Foreign currency	534,635	1,265,963	511,607	1,225,247	844,922
Total amounts due to credit institutions	**726,348**	**1,719,921**	**747,030**	**1,789,062**	**1,409,213**
Debt securities issued:					
Lari	—	—	—	—	—
Foreign currency	436,572	1,033,758	434,174	1,039,804	856,695
Total debt securities issued:	**436,572**	**1,033,758**	**434,174**	**1,039,804**	**856,695**
Other liabilities, provisions and income tax liability:					
Lari	130,243	308,403	131,069	313,898	236,249
Foreign currency	69,862	165,426	61,649	147,643	100,628
Total other liabilities, provisions and income tax liability	**200,105**	**473,829**	**192,718**	**461,541**	**336,877**
Total liabilities	**3,360,419**	**7,957,138**	**3,371,325**	**8,073,989**	**6,076,214**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

The following table (extracted from management accounts) sets out the Group's consolidated total liabilities in Lari and foreign currency, each as a percentage of total liabilities.

	As of 31 March	As of 31 December	
	2016	2015	2014
	(in percentages) (unaudited)		
Lari	23.5%	26.0%	26.0%
Foreign currency	76.5%	74.0%	74.0%
Total liabilities	**100.0%**	**100.0%**	**100.0%**

The following table (extracted from management accounts) sets out the Group's gross loans to retail banking and investment management customers by underlying currency as of the dates indicated.

	As of 31 March		As of 31 December			
	2016		2015		2014	
	Amount	% of Total Retail and I.nvestment Management Loans	Amount	% of Total Retail and Investment Management Loans	Amount	% of Total Retail and Investment Management Loans
	(unaudited) *(thousands of Lari, except percentages)*					
GEL	1,312,016	43.2%	1,324,892	45.1%	1,044,733	49.5%
US Dollar	1,635,628	53.8%	1,528,863	52.1%	1,050,474	49.7%
Euros	31,601	1.0%	20,334	0.7%	14,328	0.7%
GBP	60,025	2.0%	61,215	2.1%	2,462	0.1%
Total loans to retail banking and investment management customers, gross	**3,039,270**	**100.0%**	**2,935,304**	**100.0%**	**2,111,997**	**100.0%**

Returns on Equity and Assets

The following table (extracted from management accounts) sets out certain selected financial ratios of the Group for the periods indicated.

	For the three months ended 31 March		For the year ended 31 December	
	2016	2015	2015	2014
	(amounts in thousands of Lari, unless otherwise specified)			
	(unaudited)	*(unaudited, not reviewed)*	*(unaudited)*	
Profit for the period	86,414	43,406	283,612	245,984
Average total assets of the period (based on quarterly averages)	10,050,807	8,263,515	9,159,291	6,836,216
Return on assets	**3.5%**	**2.1%**	**3.1%**	**3.6%**
Profit for the period attributable to shareholders of the Issuer	80,203	43,900	276,886	238,644
Average shareholders' equity attr. to shareholders of the Issuer of the period (based on quarterly averages)	1,816,168	1,430,717	1,546,836	1,262,870
Return on equity	**17.8%**	**12.4%**	**17.9%**	**18.9%**
Per Share Dividends declared in the period	n/a	n/a	n/a	2.0000
Earnings Per Share of the period (previous year)	n/a	n/a	n/a	6.0573
Dividend payout ratio	**n/a**	**n/a**	**n/a**	**33.0%**
Average total equity of the period (based on quarterly averages)	2,035,243	1,483,689	1,641,134	1,317,821
Average total assets of the period (based on quarterly averages)	10,050,807	8,263,515	9,159,291	6,836,216
Equity to Assets ratio	**20.2%**	**18.0%**	**17.9%**	**19.3%**

FUNDING

The Group has a diverse funding base comprising short-term sources of funding (including retail, corporate and wealth management customer deposits, time-deposits and inter-bank loans, borrowings from the NBG and from the central bank of Belarus, (including sale and repurchase operations with the NBG) and longer-term sources of funding (including borrowings from international credit institutions including DFIs, sale of securities and issuing debt securities). The Group has issued promissory notes denominated in US Dollars, Euro, Lari and Azerbaijani Manat, as well as loan pass-through notes denominated in US Dollars. The Group also issues certificates of deposit in Lari and foreign currencies.

As of 31 March 2016, total client deposits and notes amounted to GEL 4,279.6 million (US$1,997.4 million), as compared to GEL 4,783.6 million (US$1,997.4 million) and GEL 3,473.4 million as of 31 December 2015 and 2014, respectively. As of 31 March 2016, amounts due to credit institutions amounted to GEL 1,719.9 million (US$726.3 million), as compared to GEL 1,789.1 million (US$747.0 million) and GEL 1,409.2 million as of 31 December 2015 and 2014, respectively. As of 31 March 2016, debt securities issued amounted to GEL 1,033.8 million (US$436.6 million), as compared to GEL 1,039.8 million (US$434.2 million) and GEL 856.7 million as of 31 December 2015 and 2014, respectively.

The Group's funding strategy is to continue to further diversify its funding sources and reduce its funding costs.

The following table sets forth an analysis of the Group's liabilities as of the dates indicated:

	As of 31 March		As of 31 December		
	2016		2015		2014
	(unaudited)			*(audited)*	
	(thousands of US Dollars)(1)	*(thousands of Lari)*	*(thousands of US Dollars)*(2)	*(thousands of Lari)*	*(thousands of Lari)*
Client deposits and notes					
Time deposits	1,085,060	2,569,313	1,084,490	2,597,244	1,914,366
Current accounts	912,029	2,159,594	912,552	2,185,470	1,534,053
Promissory notes issued	305	723	362	868	25,010
Total client deposits and notes	**1,997,394**	**4,729,630**	**1,997,404**	**4,783,582**	3,473,429
Amounts Due to Credit Institutions					
Borrowings from international credit institutions(3)	287,991	681,934	267,450	640,517	574,240
Short-term loans from the National Bank of Georgia	155,412	368,000	128,273	307,200	400,772
Time deposits and inter-bank loans(4)	85,667	202,850	147,663	353,638	261,550
Correspondent accounts	29,405	69,629	38,673	92,617	32,606
Non-convertible subordinated debt	167,874	397,508	164,971	395,090	140,045
Total amounts due to credit institutions	**726,349**	**1,719,921**	747,030	1,789,062	**1,409,213**
Debt securities issued					
Eurobonds	370,758	877,917	379,215	908,183	779,445
Other debt securities issued	65,814	155,841	54,959	131,621	77,250
Total debt securities issued	**436,572**	**1,033,758**	**434,174**	**1,039,804**	**856,695**
Accruals and deferred income	60,172	142,481	61,237	146,657	108,509
Total income tax liabilities	54,338	128,667	51,942	124,395	97,564
All other liabilities	85,595	202,681	79,539	190,489	130,804
Total liabilities	**3,360,420**	**7,957,138**	**3,371,326**	**8,073,989**	**6,076,214**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) Borrowings from international credit institutions include loans from EBRD, IFC, ADB, OPIC, FMO and EFSE (each as defined below), WorldBusiness Capital Inc., Merrill Lynch & Co. Inc., Citibank International plc, BG Finance B.V., Semper Augustus HBK and others.

(4) Time deposits and inter-bank loans represent advances from credit institutions used by the Group to manage its short-term liquidity needs.

Client Deposits and Notes

Client deposits and notes include current accounts and time deposits from corporate customers, retail customers and BNB customers, as well as issued promissory notes and certificates of deposit. Client deposits and notes increased to GEL 4,729.6 million (US$1,997.4 million) as of 31 March 2016, having increased to GEL 4,783.6 million (US$1,997.4 million) as of 31 December 2015 from GEL 3,473.4 million as of 31 December 2014. As of 31 March 2016, client deposits and notes in the amount of GEL 831.6 million (US$351.2 million), representing 18.0% of total client deposits and notes, were attributable to the Group's ten largest deposit customers.

The Group accepts deposits in Lari and foreign currencies. As of 31 March 2016, 76.6% of the Group's total client deposits and notes were in foreign currencies.

The following table sets out client deposits and notes by currency as of the dates indicated:

	As of 31 March		As of 31 December		As of 31 December
	2016		2015		2014
		(unaudited)		*(audited)*	
	(thousands of US Dollars)[(1)]	*(thousands of Lari)*	*(thousands of US Dollars)*[(2)]	*(thousands of Lari)*	*(thousands of Lari)*
Foreign currency deposits:					
Foreign currencies (freely convertible being primarily USD, EUR and GBP)	1,487,051	3,521,187	1,444,206	3,458,729	2,367,531
Other currencies (non convertible)	42,355	100,292	43,161	103,367	103,290
Total foreign currency deposits	**1,529,406**	**3,621,479**	**1,487,367**	**3,562,096**	**2,470,821**
Lari deposits	467,989	1,108,151	510,036	1,221,486	1,002,608
Total client deposits and notes	**1,997,395**	**4,729,630**	**1,997,403**	**4,783,582**	**3,473,429**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

The following table provides information on client deposits and notes by type of customer as of the dates indicated.

	As of 31 March		As of 31 December		As of 31 December
	2016		2015		2014
		(unaudited)		*(audited)*	
	(thousands of US Dollars)[(1)]	*(thousands of Lari)*	*(thousands of US Dollars)*[(2)]	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	1,117,265	2,645,571	1,092,227	2,615,774	1,868,762
Private enterprises	822,650	1,947,953	825,683	1,977,428	1,419,659
State and budgetary organisations	57,480	136,106	79,494	190,380	185,008
Total client deposits and notes	**1,997,395**	**4,729,630**	**1,997,404**	**4,783,582**	**3,473,429**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Amounts Due to Credit Institutions

Amounts due to credit institutions include current accounts and term deposits and inter-bank loans from the inter-bank market, which the Bank uses to manage short-term liquidity needs, as well as borrowings from international credit institutions (including FDIs) which provide a source of long-term funding. As of 31 March 2016, total amounts due to credit institutions were GEL 1,719.9 million (US$726.3 million), representing 21.6% of total liabilities as of that date. Total amounts due to credit institutions were GEL 1,789.1 million (US$747.0 million) and GEL 1,409.2 million as of 31 December 2015 and 2014, respectively, representing 22.2% and 23.2% of total liabilities as of the same dates, respectively.

As of 31 March 2016, 85.2% of borrowings from international credit institutions (including subordinated debt) were denominated in US Dollars. As of the same date, 27.9% of borrowings from international credit institutions (including subordinated debt) had a maturity of less than one year.

The following table lists the composition of total amounts due to credit institutions as of the dates indicated:

	As of 31 March		As of 31 December		As of 31 December
	2016		2015		2014
		(unaudited)		(audited)	
	(thousands of US Dollars)[1]	(thousands of Lari)	(thousands of US Dollars)[2]	(thousands of Lari)	(thousands of Lari)
Borrowings from international credit institutions[3]	287,991	681,934	267,450	640,517	574,240
Short-term loans from the National Bank of Georgia	155,412	368,000	128,273	307,200	400,772
Time deposits and inter-bank loans[4]	85,667	202,850	147,663	353,638	261,550
Correspondent accounts	29,405	69,629	38,673	92,617	32,606
Non-convertible subordinated debt	167,874	397,508	164,971	395,090	140,045
Total amounts due to credit institutions	**726,349**	**1,719,921**	**747,030**	**1,789,062**	**1,409,213**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) Borrowings from international credit institutions include loans from EBRD, IFC, ADB, OPIC, FMO, DEG, KfW, GGF and EFSE (each as defined below), WorldBusiness Capital Inc., Merrill Lynch & Co. Inc., Citibank International plc, BG Finance B.V., Semper Augustus HBK and others.

(4) Time deposits and inter-bank loans represent advances from credit institutions used by the Group to manage its short-term liquidity needs.

The Group has obtained a number of loans from credit institutions, including commercial banks and international development financial institutions. The following are the most significant of these loans, which were outstanding as of 31 March 2016:

- In December 2008, the Bank obtained a US$10.0 million, 10-year subordinated loan facility from the Overseas Private Investment Corporation (**OPIC**). As of 31 March 2016, the aggregate amount outstanding under these loan facilities was US$10.0 million (GEL 23.6 million).
- On 11 November 2010, the Bank entered into a framework agreement and two seven-and-half-year individual loan agreements with the European Fund for Southeast Europe (amended in 2014). The individual loan agreements related to two loan facilities in the aggregate amount of US$50.0 million for SME and housing financing. As of 31 March 2016, the aggregate amount outstanding under these loan facilities was US$28.0 million (GEL 66.3 million).
- On 10 August 2011, Aldagi obtained a seven-year US$12.2 million export credit facility with ING Bank for the project, guaranteed by the Bank. The facility is due for repayment in 14 equal instalments payable semi-annually, starting not later than 20 months after 24 October 2011 (that is, April 2013) and ending no later than the date 78 months after the first repayment. As of 31 March 2016, the aggregate amount outstanding under the facility was US$5.0 million (GEL 11.8 million).
- On 17 November 2011, the Bank obtained a five-year US$14.5 million debt facility from the EBRD to finance loans to the agricultural sector. As of 31 March 2016, the aggregate amount outstanding under the facility was GEL 9.8 million (US$4.1 million).
- On 23 December 2011, the Bank signed a US$40.0 million six-year joint facility agreement with FMO and DEG to support the growth of the Bank's SME loan portfolio. As of 31 March 2016, the aggregate amount outstanding under the loan facility was US$16.2 million (GEL 38.4 million).
- On 11 July 2012, the Bank signed EUR 25 million with Kreditanstalt für Wiederaufbau (**KfW**), German Development Bank acting on behalf of the German government, within the framework of Renewable Energy Programme. The facility, which matures in 2022, will be used to finance investments in renewable energies, mainly the construction or rehabilitation of small size hydropower plants. In addition, the agreement envisages the provision of technical support from KfW with co-financing from the Austrian Development Bank, for the Bank as well as for potential investors. As of 31 March 2016, the aggregate amount outstanding under the loan facility was EUR 13.5 million (GEL 36.3 million).

- On 26 December 2013, the Bank signed a US$65 million subordinated loan facility with the IFC Capitalisation Fund. The loan facility bears a maturity of ten years and enables the Bank to further optimise its cost of funding. As of 31 March 2016, the aggregate amount outstanding under the loan facility was US$67.2 million (GEL 159.2 million).
- On 25 June 2014, the Bank signed a five-year EUR 18.5 million senior loan agreement with the European Fund for Southeast Europe (**EFSE**) to fund the Bank's micro, small and medium sized entities (**MSME**) loans. As of 31 March 2016, the aggregate amount outstanding under the loan facility was EUR14.4 million (GEL 38.6 million).
- On 11 September 2014, the Bank signed a five-year EUR 15 million senior loan facility with the Green for Growth Fund (**GGF**). The GGF loan is to be used to finance mortgages for energy efficient housing (which housing is designed to yield energy savings of more than 20% compared to conventional buildings). This is the first loan extended in Georgia by GGF Southeast Europe. As of 31 March 2016, the aggregate amount outstanding under the loan facility was EUR 15.0 million (GEL 40.3 million).
- On 24 October 2014, that the Bank signed a five-year US$35 million senior loan agreement with DEG. The loan is intended to support the growth of the SME sector in the country. As of 31 March 2016, the aggregate amount outstanding under the loan facility was US$35.3 million (GEL 83.7 million).
- On 30 April 2015, the Bank signed a seven-year EUR 40 million agreement with the European Investment Bank (**EIB**). The loan is intended to finance investment projects promoted by SME/midcaps in Georgia. As at 31 March 2016, the aggregate amount outstanding under the agreement was US$0.
- On 1 May 2015, the Bank signed a trade finance term loan agreement with the OPIC Fund For International Development (**OFID**). Under the terms of the agreement OFID has agreed to provide the Issuer with a principal amount of US$10.0 million. As of 31 March 2016, there was US$10.1 million (GEL 24.0 million) outstanding under the agreement.
- In June 2015, the Bank signed a US$90 million subordinated loan agreement with the IFC. The IFC is providing long term financing to help increase the Bank's role in diversifying Georgia's economy, expand access to finance and boost sustainable growth. The loan facility, which includes US$20 million from the EFSE, has a maturity of ten years and qualifies as Tier II capital under the Basel II framework. As of 31 March 2016, the aggregate amount outstanding under the loan facility was US$91.2 million (GEL 215.9 million).
- On 3 November 2015, M2 Residential LLC, a wholly-owned subsidiary of m2 Real Estate signed a US$23.0 million four-year loan agreement with the IFC to finance the development of affordable housing projects and low income housing projects in Tbilisi with a gross buildable area of approximately 200,000 square metres. As of 31 March 2016, the aggregate amount outstanding under the loan facility was US$14.5 million (GEL 34.4 million).
- On 3 November 2015, M2 LLC, a wholly-owned subsidiary of m2 Real Estate signed a US$7.0 million eleven-year loan agreement with the IFC to finance the development of the first Ramada Encore hotel in Tbilisi. As of 31 March 2016, no drawdowns under this facility have been made.

As of 31 March 2016, the Group had undrawn long-term loan facilities from credit institutions in the aggregate amount of US$98.0 million (GEL 232.1 million). For further information, see Note 12 (*Amounts due to Credit Institutions*) to the Unaudited Financial Statements.

Most of the above loans that are denominated in US Dollars bear fixed or floating interest rates tied to LIBOR. Interest rates for US Dollar borrowings (including subordinated facilities) in 2015 and 2014 ranged from LIBOR plus 2.2% to LIBOR plus 10.0%. In the first three months of 2016, interest rates for US Dollar borrowings (including subordinated facilities) ranged from LIBOR plus 2.2% to LIBOR plus 7.5%.

In October 2014, the Bank and EBRD signed an amended and restated participation agreement, pursuant to which EBRD has made available US$25.0 million co-financing for the Bank's corporate customers which may be used for term lending for a period of up to eight years from the date of amendment, as well as revolving credit lines for working capital needs. The original participation agreement was signed in June 2005 and provided financing in an aggregate amount of US$5.0 million. The facility enables EBRD to co-finance the Bank's corporate customers together with the Bank, without recourse to the Bank, fully bearing the Georgian corporate risk. As of 31 March 2016, the aggregate amount utilised under this loan facility was US$8.9 million.

In May 2016, the Bank and EBRD signed a US$100 million five year loan agreement, to be disbursed and repaid in Lari at the prevailing exchange rate on the date of disbursement. Proceeds from the loan are expected to be used to enable the Bank to issue longer-term local currency loans to micro-businesses and SMEs, to converge to DCFTA requirements and to support women entrepreneurs. In June 2016, the Bank made a US$50 million (GEL 106.8 million) draw down under the facility.

As of 31 March 2016, the Bank had trade finance lines from IFC (US$65 million), EBRD (€55 million), Ziraat Bank (US$35 million), Commerzbank (€25 million), Citibank N.A. (US$22 million), Asian Development Bank (**ADB**) (US$20 million), BNP Paribas (US$6 million), UBS (CHF10 million), ING Bank (€5 million), Unicredit Bank Austria (€5 million), Sumitomo Mitsui Banking Corporation (€10 million), Amsterdam Trade Bank N.V.C (€10 million), Deutsche Bank AG (€5 million), KBC Bank (€10 million) and BHF-Bank Aktiengesellschaft (€5 million).

Debt Securities Issued

On 5 July 2012, the Bank issued US$250 million 7.75% notes due 2017 and, on 5 November 2013, the Bank issued a further US$150 million 7.75% notes due 2017, which were consolidated to form a single series. On 30 June 2016, the Bank invited holders of the 2017 Notes to tender any or all of the 2017 Notes held by them for purchase by the Bank for cash and to concurrently consent to amend by extraordinary resolution (i) the terms and conditions of the 2017 Notes to provide for mandatory early redemption of the 2017 Notes by the Bank and that all disputes arising out of the 2017 Notes are settled through arbitration only and (ii) the trust deed constituting the 2017 Notes to provide that all disputes arising out such trust deed are settled through arbitration only, in each case, on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum. The tender offer and consent solicitation are subject to the Bank being satisfied that the Group has received an amount by way of proceeds of the issue of Notes, which is sufficient in order to enable the Bank to finance, in whole or in part, the payment by it of the applicable consideration and accrued interest in respect of all 2017 Notes validly tendered and accepted for purchase pursuant to the tender offer and exit consent solicitation.

In September 2014, Georgian Leasing Company LLC issued a US$10 million three year bond. The bond was issued at par and carries a coupon rate of 8.75% payable semi-annually. Galt & Taggart acted as placement agent for the bond offering.

In May 2015, m2 Real Estate issued a US$20 million two-year bond. The bond was issued at par and carries a coupon rate of 9.5% payable semi-annually. Galt & Taggart acted as placement agent.

In May 2015, EVEX issued a US$15 million two-year bond. The bond was issued at par and carries a coupon rate of 9.5% payable semi-annually. Galt & Taggart acted as a placement agent. This was the first bond placement by the Group's healthcare subsidiary. The proceeds from the transaction are intended to be used for organic growth opportunities.

Equity Funding

While customer accounts and loans are the Group's principal sources of funding, the Group has also raised capital through the issuance of new shares in the past, including the initial public offering of shares by GHG in 2015 described below, as well as an equity offering by Teliani Valley and a rights offering by Georgian Renewable Power Company. See "*Description of Business—History and Development*".

On 9 November 2015, GHG raised approximately US$95 million in net proceeds in connection with an initial public offering of shares and the admission of its ordinary share capital to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange's main market for listed securities.

DESCRIPTION OF BUSINESS

Unless otherwise noted, all information relating to the Bank's market ranking and market share is based on information published by the NBG as of 31 March 2016 based on standalone financial information filed with the NBG by Georgian banks.

The terms "loan" and "loans to customers" used in this Description of Business section means the sum of loans to customers and finance lease receivables.

Overview

The Group is a Georgia-based banking group with an investment arm. The Company is the Georgian intermediate holding company for the Group's operating businesses, which comprise the Banking Business and the Investment Business. Its parent company (and therefore the ultimate parent company of the Group) is BGEO Group PLC (formerly known as Bank of Georgia Holdings PLC), a UK incorporated holding company which is listed on the premium segment of the London Stock Exchange. The market capitalisation of BGEO Group PLC as of 20 July 2016 was £1,050.50 million.

The Company is wholly owned directly by BGEO Group PLC and was established in May 2015 in response to the NBG's stated intention to regulate banks in Georgia on a stand-alone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities. The Company holds BGEO Group PLC's former direct shareholding in the Bank and its non-banking subsidiaries, which became the Bank's sister companies under the Company as a result of the Group reorganisation described below. See "*—History and Development*". As the Company is a holding company, the Group performs its principal business activities through the Company's subsidiaries and is dependent on the receipt of dividends from these subsidiaries.

The Group's Banking Business comprises Retail Banking and CIB, with ancillary business lines including P&C insurance, leasing and payment services, as well as banking operations in Belarus (which the Group conducts through BNB). The Group primarily conducts its Banking Business though its subsidiary, the Bank, which is the leading bank in Georgia based on total assets (with a 33.5% market share), total gross loans (with a 32.3% market share) and total customer deposits (with a 33.2% market share), according to statistics published by the NBG. The Bank strives to benefit from the underpenetrated banking sector in Georgia, especially through the provision of retail banking services. The Banking Business comprised 86.8% of the Group's total revenue in 2015 and 84.0% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations.

The Group's Investment Business, which is intended to allow the Group to take advantage of investment opportunities in Georgia's corporate sector, primarily comprises GHG – a hospital and medical insurance business, with a recently acquired pharmaceutical business, which is listed on the premium segment of the London Stock Exchange with a market capitalisation of £423.0 million as of 20 July 2016; m2, an indirectly wholly owned subsidiary of the Company; and other investments including Teliani Valley, a wine and beverage business in which the Group owns a 71% stake as of 31 March 2016. In addition, in 2016, the Investment Business is also expected to acquire all of GGU. See "*—Recent Developments*". The Investment Business comprised 15.3% of the Group's total revenue in 2015 and 17.2% of total revenue in the first three months of 2016, in each case excluding inter-business eliminations.

The Company believes that recent, and potential future, growth in the Georgian economy provides opportunities in a number of underdeveloped markets and that the Group is well positioned to capture growth opportunities in the Georgian corporate sector. The Group aims to deliver on a "4x20%" strategy introduced by the Group's parent company, BGEO Group PLC, in December 2014, targeting a return on average equity (**ROAE**) of at least 20%, annual growth of its retail loan book of at least 20%, an IRR of at least 20% from its Investment Business and up to 20% profit contribution to the Group's profits from its Investment Business.

The following tables set forth selected consolidated figures relating to the Group as of the dates and for the periods specified:

	As of 31 March		As of 31 December		
	2016		2015		2014
	(unaudited)		*(audited)*		*(audited)*
	(thousands of US Dollars)(1)	*(thousands of Lari)*	*(thousands of US Dollars)*(2)	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	4,236,104	10,030,670	4,205,161	10,070,941	7,537,301
Loans to customers and finance lease receivables, net	2,267,279	5,368,689	2,226,169	5,331,451	4,355,460
Client deposits and notes	1,997,394	4,729,630	1,997,404	4,783,582	3,473,429
Total equity	875,684	2,073,532	833,835	1,996,952	1,461,087

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

	For the three months ended 31 March			For the year ended 31 December		
	2016		2015	2015		2014
	(unaudited)		*(unaudited, not reviewed)*	*(audited)*		*(audited)*
	(thousands of US Dollars)(1)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of US Dollars)*(2)	*(thousands of Lari)*	*(thousands of Lari)*
Profit for the period	36,494	86,414	43,406	118,423	283,612	245,984
Of which:						
from Banking Business	29,888	70,772	40,624	105,994	253,845	225,204
from Investment Business	6,606	15,642	2,782	12,429	29,767	20,780

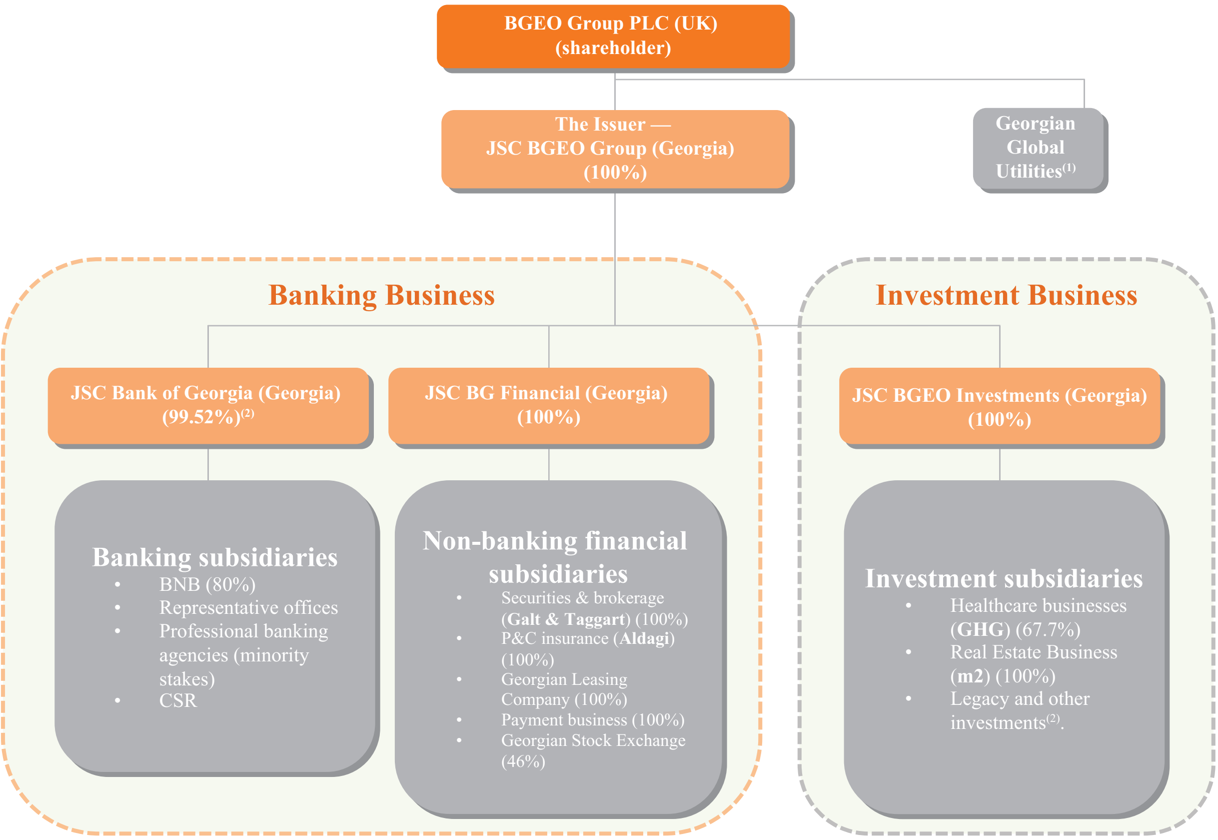
Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

For the three months ended 31 March 2016 and for the year ended 31 December 2015, the Banking Business generated 81.9% and 89.5%, respectively, of the Group's profit while the Investment Business generated 18.1% and 10.5%, respectively, of the Group's profit. As a holding Company, the Company is dependent upon dividends received from its subsidiaries. None of the Group's subsidiaries maintain a fixed dividend policy.

The following simplified diagram illustrates the structure of the Group as of 31 March 2016 indicating the ownership interests of the Company in the principal Group companies and investments. For further details of the shareholdings in the Group's subsidiaries, see "*Principal Subsidiaries*".



Notes:

(1) The Group's parent company BGEO Group PLC also owns a 25% stake in GGU. Pursuant to the GGU Acquisition (as defined below), on 21 June 2016, JSC BGEO Investments entered into the SPA to acquire the remaining 75% stake subject to customary conditions precedent. See "*Description of Business—Recent Developments*".

(2) The Issuer holds 99.52% of the share capital of the Bank as of 31 March 2016. The remaining 0.48% of the share capital of the Bank is held by several hundred shareholders (mainly natural persons who are primarily Georgian citizens).

(3) Legacy and other investments include a 100% ownership stake in Georgia Renewable Power Company, a hydro power business and a 71% direct and indirect interest (as of 31 March 2016) in Teliani Valley, a wine and beverage business.

The Company has its registered office at 29a Gagarini Street Tbilisi, 0160, Georgia, with registered number 405103034 and its telephone number is +995 (322) 444444. The Company was incorporated on 28 May 2015 and the main legislation to which it is subject is the Law of Georgia on Entrepreneurs, dated 28 October 1994.

Recent Developments

On 27 May 2016, the Issuer and IFC entered into a mandate letter with respect to the IFC's proposed investment in the Notes. See "*Subscription and Sale—Anchor Investor*".

On 22 June 2016, the Issuer and EBRD entered into a framework agreement (the **EBRD Framework Agreement**) with respect to the possibility that EBRD may purchase Notes, subject to certain conditions. See "*Subscription and Sale—Other Investors*".

On 23 June 2016, BGEO Group PLC, the parent company of the Issuer, announced that JSC BGEO Investments (a wholly owned subsidiary of the Company) has entered into a sale and purchase agreement (**SPA**) to acquire a 75% equity stake in GGU from Garissa Ltd. for total cash consideration of US$70.0 million (the **GGU Acquisition**). The cash consideration is due to be paid in full within 30 days of the signing of the SPA (i.e., no later than 21 July 2016), subject to GGU distributing dividends in the aggregate amount of GEL 13.0 million to its existing shareholders (including BGEO Group PLC), on a *pro rata* basis, before completion of the GGU Acquisition and the satisfaction of certain additional customary conditions precedent to closing. The Company intends to fund the GGU Acquisition, fully or partially, using a portion of the proceeds of the Offering. See "*Use of Proceeds*".

As of the date of this Prospectus, BGEO Group PLC owns the remaining 25% of GGU, which it acquired from Garissa Ltd. in 2014 for US$26.3 million. Subject to certain regulatory and tax considerations, BGEO Group PLC may, in the future, transfer its existing 25% equity stake in GGU to consolidate ownership of the stake under JSC BGEO Investments, although no specific decision has been made in this respect. The GGU Acquisition is in line with the Group's strategy of targeting new investments that it believes will generate at least a 20% IRR through a partial or full exit within six years. See "*—Strategy—Continue to capture growth in the Georgian non-banking sectors through development of existing businesses and new opportunistic investments—New investments*".

GGU is a privately owned company, which benefits from a natural monopoly that supplies water and provides wastewater services through its wholly owned subsidiaries to 1.4 million people (approximately one third of Georgia's total population) in Tbilisi, Mtskheta and Rustavi. In addition, the GGU group of companies owns and operates three hydropower generation facilities with a total capacity of 143MW. The GGU group of companies were privatised in 2008. The terms of the privatisation included certain commitments by the Government and the investor, which have been partially discharged, and it is expected that the remaining commitments (primarily relating to the refurbishment of assets) will be discharged in 2018. Management believes that GGU operates in a stable regulatory environment.

Following the initial acquisition by BGEO Group PLC of its 25% stake in GGU in 2014, the shareholders of GGU put in place a new senior management team and streamlined the operations of the GGU group of companies.

Management believes that there are opportunities for further improvement in GGU's financial condition and results over the medium term. The Company expects that, following the GGU Acquisition, GGU's existing senior management team will continue to lead the business and that the Group will aim to increase GGU's operating cash flow by further improving collection rates for water usage, increasing energy efficiency and reducing water loss rates and generating additional income streams, in turn, by building on existing infrastructure to develop existing and new hydro power plants to increase electricity sales to third parties and by installing turbines to improve the efficiency of water supply. GGU's planned capital expenditure programme is fully funded and, accordingly, Management does not expect that GGU will require any additional equity financing in the medium term.

For the year ended 31 December 2015, GGU generated revenue of GEL 117.7 million, EBITDA of GEL 61.5 million and net profit of GEL 12.1 million. As of 31 December 2015, GGU's total gross assets were GEL 350.3 million and total equity was GEL 222.5 million. All financial information for GGU is unaudited and is derived from GGU's management accounts.

Banking Business

- ***Overview:*** For the three months ended 31 March 2016 and 31 March 2015, the Group's Banking Business generated profit of GEL 70.8 million (US$29.9 million) and GEL 40.6 million, respectively, corresponding to 81.9% and 93.6%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's Banking Business generated profit of GEL 253.8 million (US$106.0 million) and GEL 225.2 million, respectively, corresponding to 89.5% and 91.6%, respectively, of the Group's profit for the respective years.
- ***Retail Banking***: The Bank is the leader in retail banking in Georgia in terms of its distribution network and market share, with 266 branches and 753 ATMs. As of 31 March 2016, the Bank had a 33.0% market share based on deposits from individuals and a 33.5% market share in retail loans (based on loans to individuals), which was the largest market share by retail loan book as of such date, according to information published by the NBG. The Bank's Retail Banking products and services include retail lending, deposit accounts, ATM services, Internet, telephone and SMS banking, utility bill payments and money transfer services. The Bank's credit card operations serve more than 1.9 million cards, and the Bank is the exclusive issuer of American Express credit cards in Georgia to 2023 (inclusive). The Retail Banking business operates a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers in Georgia through three well-established and recognised brands: Bank of Georgia, Express and Solo.

  As of 31 March 2016, the Bank had over 2 million Retail Banking customers (of which over 1.9 million were individuals and the remainder were legal entities, such as micro entities), a retail loan portfolio of GEL 2,959.7 million (US$1,249.9 million) and retail client deposits and notes of GEL

1,902.0 million (US$803.3 million). Of the Bank's retail client deposits and notes, as of 31 March 2016, GEL 447.6 million (US$189.0 million) were Lari denominated and GEL 1,454.4 million (US$614.2 million) were foreign currency denominated. As of the same date, of the Bank's retail client deposits and notes, GEL 1,205.9 million (US$509.3 million) were time deposits and GEL 696.1 million (US$294.0 million) were current accounts and demand deposits. For the three months ended 31 March 2016 and 31 March 2015, the Group's Retail Banking business generated profit of GEL 37.7 million (US$15.9 million) and GEL 29.7 million, respectively, corresponding to 43.7% and 68.4%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's Retail Banking business generated profit of GEL 135.6 million (US$56.6 million) and GEL 134.9 million, respectively, corresponding to 47.8% and 54.8%, respectively, of the Group's profit for the respective years.

- ***Corporate Investment Banking (CIB)***: The Group's combined corporate banking and investment management unit consists of the Bank's corporate banking unit, the Group's investment management business and its Georgian leasing subsidiary. The Bank is a leader in corporate banking in Georgia, with a market share of 33.5% based on total customer deposits (based on deposits from legal entities) and 31.3% based on total corporate loans (based on loans to legal entities) as of 31 March 2016, according to information published by the NBG. The Bank provides corporate lending and finance leasing (principally in US Dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. As of 31 March 2016, the Bank had 4,712 corporate banking customers, a corporate loan portfolio of GEL 2,197.6 million (US$928.1 million) and corporate client deposits and notes of GEL 1,820.9 million (US$769.0 million). Of the Bank's corporate client deposits and notes, as of 31 March 2016, GEL 779.6 million (US$329.3 million) were Lari denominated and GEL 1,041.2 million (US$439.7 million) were foreign currency denominated. As of the same date, of the Bank's corporate client deposits and notes, GEL 414.2 million (US$174.9 million) were time deposits and GEL 1,406.7 million (US$594.1 million) were current accounts and demand deposits. The Group's investment management business consists of Bank of Georgia Wealth Management and the Group's brokerage firm, Galt & Taggart, which is a Co-Manager. Bank of Georgia Wealth Management provides private banking services to high net worth individuals from more than 70 countries and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Galt & Taggart is a leading provider of investment banking and investment management services in Georgia and offers corporate advisory, private equity and brokerage services under one brand. For the three months ended 31 March 2016 and 31 March 2015, the Group's CIB business generated profit of GEL 25.5 million (US$10.8 million) and GEL 9.1 million, respectively, corresponding to 29.5% and 21.1%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's CIB business generated profit of GEL 96.0 million (US$40.1 million) and GEL 68.4 million, respectively, corresponding to 33.8% and 27.8%, respectively, of the Group's profit for the respective years.

- ***Belarusky Narodny Bank (BNB):*** Through BNB, its majority owned subsidiary, the Group provides SME and retail banking services in Belarus. For the three months ended 31 March 2016 and 31 March 2015, BNB generated profit of GEL 4.3 million (US$1.8 million) and GEL 3.3 million, respectively, corresponding to 4.9% and 7.7%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, BNB generated profit of GEL 17.5 million (US$7.3 million) and GEL 15.7 million, respectively, corresponding to 6.2% and 6.4%, respectively, of the Group's profit for the respective years.

- ***P&C Insurance (Aldagi)***: Through the Group's wholly-owned insurance subsidiary, Aldagi, the Group is the leading provider of P&C insurance products in Georgia, with a market share of 34.1% as of 31 March 2016 (based on gross premium revenue) according to information published by the Insurance State Supervision Service of Georgia. Aldagi covers more than 659,000 insured customers and offers a broad range of product lines designed for corporate and retail clients through its own network of nine branches and benefits from access to the Bank's distribution channels. Aldagi cross-sells insurance products with the Bank's Retail Banking and CIB products. For the three months ended 31 March 2016 and 31 March 2015, the Group's P&C insurance business generated profit of GEL 3.1 million (US$1.3 million) and loss of GEL 1.7 million, respectively, corresponding to 3.6% and (4.0)%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's P&C insurance business generated profit of GEL 3.9 million (US$1.6 million) and GEL 5.9 million, respectively, corresponding to 1.4% and 2.4%, respectively, of the Group's profit for the respective years.

Investment Business

- ***Overview:*** The Investment Business comprises GHG, m2 Real Estate, Teliani Valley and other investments. Management believes that recent growth in the Georgian economy provides opportunities in a number of underdeveloped markets and that the Group is well positioned to capture growth opportunities in the Georgian corporate sector. As part of its parent company's 4x20% strategy, the Group aims to achieve an IRR of at least 20% from its Investment Business and up to 20% contribution to the Group's profits from its Investment Business. The Group aims to target new investments that it believes will generate at least a 20% IRR through a partial or full exit within six years. The Group expects to target companies with potential EBITDA of at least US$ 30 million within three to four years of acquisition. The Group aims to remain primarily a banking group, with an investment arm, and has certain investment thresholds, which are designed to ensure that the Group maintains consistent investment returns. For the three months ended 31 March 2016 and 31 March 2015, the Group's Investment Business generated profit of GEL 15.6 million (US$6.6 million) and GEL 2.8 million, respectively, corresponding to 18.1% and 6.4%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's Investment Business generated profit of GEL 29.8 million (US$12.4 million) and GEL 20.8 million, respectively, corresponding to 10.5% and 8.4%, respectively, of the Group's profit for the respective years.

- ***Healthcare Business***: the Group's Healthcare Business, which is conducted by GHG, a majority owned subsidiary of the Group, is the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. GHG is an integrated healthcare and medical insurance provider in Georgia which primarily focuses on the mass market segment through a network of 45 healthcare facilities (35 hospitals and 10 ambulatory clinics). GHG has the widest geographic coverage network relative to its competitors, with facilities currently located in six regions covering three quarters of the 4.5 million population of Georgia. As of 31 March 2016, GHG had a 26.7% market share by number of beds (with 2,686 beds), which is more than five times that of the GHG's nearest competitor in Georgia (according to information published by the National Centre for Disease Control and Public Health of Georgia). GHG is also the largest provider of medical insurance in Georgia, offering a broad range of product lines designed for corporate and retail clients. It had approximately 206,000 insured customers as of 31 March 2016 and a 34.0% market share based on net insurance premium revenue as of 31 March 2016. For the three months ended 31 March 2016 and 31 March 2015, the Group's Healthcare Business generated profit of GEL 11.9 million (US$5.0 million) and GEL 6.1 million, respectively, corresponding to 13.8% and 14.0%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's Healthcare Business generated profit of GEL 23.3 million (US$9.7 million) and GEL 13.0 million, respectively, corresponding to 8.2% and 5.3%, respectively, of the Group's profit for the respective years.

- ***Real Estate Business:*** the Group's Real Estate Business, conducted by m2 Real Estate, which is an indirect wholly owned subsidiary of the Company, develops residential and commercial property in Georgia. m2 Real Estate outsources design and construction while focusing on project management and sales. The Real Estate Business was established to meet unsatisfied demand for housing in Georgia using the Bank's well-established branch network and sales force, while stimulating its mortgage lending business. As of 31 March 2016, m2 Real Estate had completed sales of 1,695 apartments generating total revenue of US$143.5 million since 2011. As of 31 March 2016, m2 Real Estate had a land bank with a book value of US$34.8 million, as compared to US$33.8 million as of 31 December 2015 and US$36.2 million as of 31 December 2014. Since 2011, the Bank has provided mortgage loans in an aggregate amount of GEL 92.5 million to the buyers of 827 of these properties as of 31 March 2016. As of 31 March 2016, the Bank has mortgage loans outstanding in an aggregate amount of GEL 68.7 million to the buyers of 608 properties. m2 Real Estate has two main business lines: residential developments and commercial property. For the three months ended 31 March 2016 and 31 March 2015, the Group's Real Estate Business generated profit of GEL 5.4 million (US$2.3 million) and loss of GEL 1.2 million, respectively, corresponding to 6.3% and (2.7)%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's Real Estate Business generated profit of GEL 10.8 million (US$4.5 million) and GEL 5.8 million, respectively, corresponding to 3.8% and 2.4%, respectively, of the Group's profit for the respective years.

Strengths

Management believes that the Group benefits from the following competitive strengths, particularly in relation to its Banking Business, which accounted for 81.9% of the Group's profit for the three months ended 31 March 2016:

- *Comprehensive retail banking franchise with opportunities for cross- and up-selling.* As of 31 March 2016, the Bank had one of the widest distribution networks in Georgia with 266 active branches, 753 ATMs and 8,175 Point of Sale (**POS**) terminals. Management believes that the Bank offers the most comprehensive range of financial products in the Georgian retail market. Through its client-centric, multi- brand strategy, the Bank reaches the entire spectrum of retail customers.

- *Bank of Georgia*. The Bank of Georgia flagship brand, with a network of 144 branches as of 31 March 2016, targets the mass retail segment, and had 1.5 million individual clients and 0.1 million SME and micro finance customers as of 31 March 2016. The Bank has exclusive arrangements to issue American Express cards and provide acquiring services in Georgia, as well as a right to issue Bank of Georgia-branded contactless cards to users of the Tbilisi municipal metro and bus transport payment system.

- *Express*. At the end of 2011 the Bank launched the Express brand and as of 31 March 2016 served over 0.4 million emerging retail customers by providing banking services through cost-efficient channels such as ATMs, internet and mobile banking and technology-intensive Express branches. The Bank is now the market leader in Georgia in the payment systems market.

- *Solo*. In 2015, the Bank introduced the Solo brand to target the emerging mass affluent segment (that is, individuals with a monthly income of at least GEL 3,000). As of 31 March 2016, over 13,000 Solo customers are served by personal bankers in 8 Solo lounges and they have the ability to purchase certain luxury goods at cost and have access to exclusive entertainment events, including, for example, concerts exclusively for Solo clients. Solo clients also have access to new financial products, such as bonds with higher yields than other Group entities, which have been developed by Galt & Taggart.

Management believes that the Bank's brands and extensive distribution network give it a strong platform from which it can cross-sell and up-sell its products and services to new and existing customers and across the Group.

- ***Strong liquidity and regulatory capital at the Bank***. The Bank is well capitalised and maintains strong liquidity positions. According to new NBG Basel II/III standards as applied in Georgia (see "*Regulation of the Georgian Banking Sector—Regulatory Capital*"), on a stand-alone basis, the Bank had a Tier I capital ratio of 10.1% and 10.9% and a total capital ratio of 15.8% and 16.7%, as of 31 March 2016 and 31 December 2015, respectively. All these NBG ratios are in excess of the minimum ratio requirements of 8.5% for Tier I capital and 10.5% for total capital. During a transitional period from 2014 to 2017 there are certain ratios set by NBG President Order No. 18/04, which apply in parallel with Basel II/III, being a Tier I ratio of 8% and a regulatory capital ratio of 12%, both calculated pursuant to NBG Presidential Order No. 18/04 (these ratios will be phased out by January 2018). The Bank also maintains a strong liquidity position, with an NBG liquidity ratio (calculated as average liquid assets during the month (as defined by the NBG) compared to liabilities for the same month (with certain exceptions established by the NBG), which includes borrowed funds (with certain exceptions established by the NBG) with an effective maturity of less than six months plus certain off balance sheet commitments maturing within six months) of 47.3% and 46.2% on a stand-alone basis as of 31 March 2016 and 31 December 2015, respectively, in each case, above the NBG requirement of 30%. BNB is also well capitalised, with capital adequacy ratios well above the requirements of the NBRB. As of 31 March 2016, BNB's Tier I ratio (calculated in accordance with NBRB guidelines) was 10.2% and BNB's Total Capital (calculated in accordance with NBRB guidelines) was 15.9%, above the minimum required levels of 6.0% and 10.0%, respectively. For further information on NBRB, see "*—Banking Business—Belarus Banking Operations*".

- ***Prudent risk management and focus on sound asset quality***. The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security. The Bank's cost of risk has not exceeded its NIM at any time since December 2008, while its loans past-due more than 90 days coverage ratio adjusted for discounted value of collateral has remained over 100% since December 2009.

- ***Track record of profitable growth while reducing risk***. From 2008 to 31 March 2016, the Group's gross loans increased from GEL 2,189.4 million to GEL 5,585.3 million, or by 155.1%, and client deposits and notes increased from GEL 1,193.1 million to GEL 4,729.6 million, or by 296.4%. From the year ended 31 December 2008 to the year ended 31 December 2015, the Group's profit grew from GEL 0.2 million to GEL 283.6 million and ROAE increased from 0.6% to 17.4%. From 2008 to 31 March 2016, the Group's cost of risk decreased from 6.5% to 2.4% and the Group's consolidated currency-blended loan yield decreased from 18.4% to 14.7%. Management believes that the Group's platform will allow it to continue to increase the scale of its businesses at relatively low marginal costs while further reducing portfolio risk.

- ***Transparency and robust corporate governance***. The Group has a culture of transparency, and as a group of companies owned by BGEO Group PLC, has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure and Transparency Rules since November 2006, when the Bank became the first Georgian entity to list its global depositary receipts (**GDRs**) on the London Stock Exchange. The Group, as a group of companies owned by BGEO Group PLC, has complied in all material respects with the robust corporate governance standards for a premium listed company since 2012, when the shares of its UK incorporated holding company, BGEO Group PLC (formerly known as Bank of Georgia Holdings PLC), were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. The Group supplements these requirements with a robust internal corporate governance policy. The BGEO Group PLC board of directors is comprised of nine members, eight of whom are considered to be independent non-executive members with backgrounds in banking and financial services, asset management, real estate, corporate law and management consulting. BGEO Group PLC sets the strategy for the Group and its high standards of governance, as well as those ingrained within the Company and the Bank. The Group therefore maintains high standards of governance and transparency.

- ***Experienced management with a deep understanding of the local market***. The senior management teams of the Group entities are comprised of experienced, primarily Western-educated and trained professionals with significant domestic banking, international investment banking, healthcare, insurance, real estate and beverage sector expertise. Since the appointment of the majority of the current management team in the fourth quarter of 2004, the Bank, as the Group's main operating entity, has: grown approximately 28 times in asset size, while maintaining an emphasis on asset quality and conservative risk management policies; increased its total market share, measured by total assets, from 19% to 33.5%; diversified its business; established itself as a borrower in the international markets; attracted new institutional equity investors; and strengthened its transparency and corporate governance policies and procedures. The Group also completed the initial public offering (**IPO**) of its Healthcare Business in November 2015, realising an IRR of 121% on its investment. Management believes that these factors, together with its strong understanding of the Georgian market and the local financial services sector, have allowed it to respond rapidly to market developments.

- ***Strong Group institutional investor support and capital allocation.*** The Group, through its parent company BGEO Group PLC, has strong institutional investor support with shareholdings of 9.63% and 9.19% held by Schroders and Harding Loevner Management LLP, respectively, as of 31 March 2016. This indicates support for the strategy of BGEO Group PLC, which sets the Group's strategy, which is described below. In order to further its growth strategy, the Group allocates 68% and 22% of its capital, see "*Funding*", to the Banking Business and Investment Business, respectively, maintaining 10% as unallocated capital.

- ***Strong performance of the Investment Business.*** The principal members of the Group's Investment Business, GHG and m2 Real Estate, have strong operating performance and potential for future growth. GHG's revenue increased to GEL 28.8 million for the three months ended 31 March 2016, compared to GEL 19.8 million for the three months ended 31 March 2015. The Real Estate Business also has a strong track record, see "*—Investment Business—Real Estate Business (m2 Real Estate)*". The Group also has Teliani Valley and other small investment businesses.

Strategy

The key elements of the Group's business strategy, which underpin the 4x20% strategy described in "**—***Overview*", are set out below.

- ***Maintain its leading position in the growing and still under-penetrated Georgian banking market***. The Group intends to continue to focus on growth, with particular emphasis on Retail Banking. The Bank seeks to increase retail lending, as a proportion of total loans, with a target loan portfolio comprising 65% retail and 35% corporate loans by January 2019. The Bank intends to increase its retail product-per-client ratio from 1.9 as of 31 December 2015 to 3.0 as of 31 December 2018 through an expanded product offering and cross-selling. It plans to continue to invest in the Information Technology (**IT**) and payment business, which will include the launch of new digital channels planned by the end of 2016. The Bank believes that this will help attract new Express customers and that a significant portion of Express customers will become mass (Bank of Georgia) customers over time. The Bank also intends to increase its market share in the mass affluent segment through its Solo offering over the next three to four years.
- The Bank intends to continue to reduce concentration risk in the corporate lending portfolio, with the aim of having its ten largest borrowers, in aggregate, represent less than 10% of the total loan portfolio. This is a critical goal of the Bank's CIB business. The Bank's CIB business will also seek to increase its ROAE and decrease the cost of risk by syndicating its loans and assisting corporate clients to replace bank debt with locally-listed bond issuances. The Bank also aims to focus on further increasing fees from its trade finance franchise, which the Bank believes is the strongest in the region. As Georgia has a pay-as-you-go pension system, the Bank believes that its international wealth management franchise can benefit by focusing on the distribution of local debt. The Bank estimates that approximately 70% of the demand for local debt issuances has come from international wealth management clients. Further enlarging the Bank's international wealth management franchise will be critical to the Bank's strategy of building local capital markets. Reflecting the new emphasis on the CIB unit's activities, the Group began reporting the CIB business results as a separate segment starting in the first three months of 2016.
- ***Increase the Bank's loan portfolio while maintaining asset quality***. Already a leader in Georgia's mass retail and corporate banking segments, the Bank will seek to capture this advantage to expand its loan portfolio and deposit base, by expanding its retail and corporate portfolios, capturing (previously unbanked or underbanked) population and targeting mass affluent customers (that is, customers with a monthly income in excess of GEL 3,000 who are not investment management customers) and SME customers (that is, businesses that have a total annual turnover of less than GEL 5.0 million and/or that are applying to borrow up to US$500,000). The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation. Ongoing monitoring and control allows the Bank to make efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made. The Bank determines acceptable levels of risk and continuously analyses the efficiency of its risk management system.
- ***Improve cost and operating efficiency***. The Group decreased its cost to income ratio from 57.4% in the year ended 31 December 2010 to 37.0% in the year ended 31 December 2015, in part, through operating efficiencies resulting from centralising back office functions. The Bank is continuing to invest in IT. The Bank has also invested in an automated loan collection system to enable it to manage its overdue loans portfolio effectively and to improve debt collection rates. The system is also able to automatically generate notifications of overdue payments in respect of retail banking customers. Management believes that these developments have led to improvements to its loan monitoring and collection capability and assist the Bank to sell additional products to its customers while further reducing the back office function. The Bank is also in the process of implementing a new automated human resource management system, intended to identify talent within the Bank, reduce the cost of external hiring through internal promotions and provide a useful analytical tool to monitor employee performance and development. In addition, in line with Group's aim to further improve its cost efficiency, the Bank launched and is focused on expanding its Express Banking strategy, which entails the roll-out of cost-efficient smaller express branches to further shift towards electronic channels and away from standard and flagship branches. Management considers the acquisition of Privatbank in 2015 was in line with the Express growth strategy.

- ***Continue to capture growth in the Georgian non-banking sectors through development of existing businesses and new opportunistic investments***. Capitalising on Georgia's long-term growth prospects, the Group intends to continue to develop its non-banking businesses:
  - *Healthcare*. GHG is targeting at least doubling its revenues by 2018 through a combination of: (i) the further development of existing and recently acquired hospitals, focusing predominantly on the higher revenue referral hospital segments in Tbilisi; (ii) establishing a network of new ambulatory clinics across Tbilisi and in other major cities in Georgia; (iii) developing new services and investing in medical technology to fill existing medical service gaps in the country and improve efficiencies; and (iv) improving operating efficiency and utilisation to further improve margins. GHG is in the process of integrating its newly acquired hospital facilities, and is targeting a second wave of integration which among other things will include the centralisation of engineering, archiving, and EARP roll-out.
  - *Real estate*. m2 Real Estate intends to focus on unlocking the value of its land bank by developing housing projects, selling existing land plots and beginning development of land owned by third parties. It will also seek to enhance its income-generating asset portfolio by incorporating commercial elements in its residential developments and opportunistically acquiring and/or developing high street retail, commercial and office space. m2 also plans to develop three-star hotels aimed at budget travellers in Georgia in the next seven years in Tbilisi and Kutaisi under its exclusive arrangements with the Ramada Encore hotel chain. These hotels are expected to be mixed-use, and will be part financed through pre-sales of residential units in the developments.
  - *Teliani Valley*. The Group plans to expand its beverage business by launching beer production under a licence agreement with Heineken, leveraging Teliani Valley's strong existing production and distribution franchise. Teliani Valley plans to produce beer in Georgia for sale throughout the Caucasus region (with a total population of over 17 million). The Group expects its EBITDA to grow to US$10.5 million in 2021 from US$1.1 million (GEL 2.7 million) in 2015, primarily driven by expansion into sales of beer.
  - *New investments*. The Group plans to target new investments that it believes will generate at least a 20% IRR through a partial or full exit within six years. For example, the GGU Acquisition is in line with the Group's strategy. See "*—Recent Developments*". The Group expects to target companies with potential EBITDA of at least US$30 million within three to four years of acquisition. The Group aims to remain primarily a banking group, with an investment arm, and has certain investment thresholds which are designed to maintain consistent investment returns. The Group does not expect to expend more than US$ 25 million on any single investment in an industry in which it does not already have an interest, retaining its opportunistic yet conservative approach to new industries.

History and Development

The Group's history starts with the Bank, which traces its roots to 1903 and is the successor to the former state-owned *Binsotsbank*, which was privatised in 1994. In the period of over 15 years since the Bank's privatisation, the Group has undergone several stages of development.

In the mid 1990s, the Bank received financing from a number of international financial institutions to fund its growth. In 2000, the Bank became one of the first companies to list its securities on the Georgian Stock Exchange. In 2004, the Bank's senior management was replaced by a team made up predominantly of western-trained and educated professionals. Between 2004 and 2015, the Bank grew more than 28 times in asset size, diversified its revenue streams, made several acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank revised its credit, loan loss provisioning and human resources policies.

From 2003 to 2006, the Bank made several strategic acquisitions, including its captive broker Galt & Taggart, two insurance companies (which subsequently merged to form Aldagi) and local banks.

In 2006, the Group opened its first ambulatory clinic in Tbilisi to capitalise on growth opportunities in the Georgian healthcare services market and diversify its sources of revenue.

In November 2006, the Bank completed its initial public offering of GDRs becoming the first Georgian company to list GDRs on the London Stock Exchange.

In 2007, the Bank completed its first Eurobond offering (in the form of loan participation notes).

In 2008-2009, the Bank acquired a majority shareholding in BNB; became the exclusive issuer of American Express cards in Georgia; and enhanced its management team by hiring a number of western-educated senior executives with substantial experience operating in the financial services industries in Western Europe and North America.

In 2010, the Bank was the first bank in Georgia to open a direct account with Euroclear, allowing the Bank to conduct settlements of international and local securities in over 90 countries and to start offering global custodian services for the first time in the Georgian market.

In December 2011, Bank of Georgia Holdings PLC (as it was known until 20 November 2015, when it changed its name to BGEO Group PLC), a company newly incorporated in England and Wales, became the Group's ultimate parent company following a tender offer and its shares were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange in February 2012. The Bank's GDR programme was cancelled following the tender offer. Since 15 June 2012, BGEO Group PLC's shares have been included in both the FTSE 250 Index and the FTSE All Share Index.

Between 2011 and 2013, the Healthcare Business grew. During this period, the Group also integrated its rapidly growing medical insurance and healthcare services businesses, completed a number of acquisitions and opened new healthcare facilities. In the same period, the Bank completed two further Eurobond offerings.

In 2014, the Group made further investments in the Healthcare Business, which grew from 34 healthcare facilities and 1,350 hospital beds at the end of 2013 to 45 healthcare facilities and 2,670 hospital beds at the end of 2015. The Group demerged Aldagi into two separate business units: a healthcare business to provide healthcare services and health insurance products in Georgia, and a P&C insurance business to provide life and non-life insurance products in Georgia (the Aldagi surviving entity). JSC Georgia Healthcare Group was established on 29 April 2015 as a holding company to own and operate the Healthcare Business.

In December 2014, the Group's parent company BGEO Group PLC introduced its new 4x20% strategy and revised the Group's corporate structure, reflecting its ambition to operate as a Georgia-focused banking group with an investment arm. As part of this intra-group reorganisation, the Group's operating subsidiaries were organised into new Banking Business and Investment Business segments.

In 2015, the Group completed the acquisition of Privatbank (Georgia). See "*—Banking Business—Retail Banking—Privatbank*". The Group's Real Estate Business issued US$ 20 million (GEL 45 million) in domestic bonds, see "*Funding—Debt Securities Issued*". The Bank launched its new premium banking service, Solo.

Following changes in banking regulation in Georgia as the NBG stated its intention to regulate banks on a stand alone basis, thereby limiting investments in non-banking subsidiaries, and in line with its new business strategy, the Group completed its corporate reorganisation whereby the Company was established as a wholly owned subsidiary of the Group's ultimate parent company, BGEO Group PLC, to serve as the Georgian holding company of the Banking Business and the Investment Business. Its parent company was renamed BGEO Group PLC to reflect the new structure and strategy. The Group transferred its Healthcare Business to a newly established UK holding company, Georgia Healthcare Group PLC, within the Investment Business segment. Following the completion of an initial public offering of GHG shares which were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange in November 2015, the Group owns a 67.7% stake in the Healthcare Business, as of 31 March 2016.

In April 2016, the Healthcare Business acquired one of the top three pharmaceutical retailers and wholesalers in Georgia, GPC. See "*—Investment Business—Healthcare Business*" below.

Banking Business

Retail Banking

Overview

The Bank is the leader in retail banking in Georgia in terms of its distribution network, with 266 branches and 753 ATMs, in each case as of 31 March 2016. As of 31 March 2016, the Bank had a 33.0% market share based on deposits from individuals and a 33.5% market share in retail loans (based on loans to individuals), which was the largest market share by retail loan book as of such date, according to information published by the NBG. Its Retail Banking products and services include retail lending, deposit accounts, ATM services, internet, telephone and SMS banking, utility bill payments and money transfer services. Its credit card operations serve more than 1.9 million cards, and the Bank is the exclusive issuer of American Express credit cards in Georgia to 2023 (inclusive). As of 31 March 2016, the Bank had over 2 million Retail Banking customers (of which over 1.9 million were individuals and the remainder were legal entities), a retail loan portfolio of GEL 2,959.7 million (US$1,249.9 million) and retail client deposits and notes of GEL 1,902.0 million (US$803.3 million). Of the Bank's retail client deposits and notes, as of 31 March 2016, GEL 447.6 million (US$189.0 million) were Lari denominated and GEL 1,454.4 million (US$614.2 million) were foreign currency denominated. As of the same date, of the Bank's retail client deposits and notes, GEL 1,205.9 million (US$509.3 million) were time deposits and GEL 696.1 million (US$294.0 million) were current accounts and demand deposits.

For the three months ended 31 March 2016 and 31 March 2015, the Group's Retail Banking business generated profit of GEL 37.7 million (US$15.9 million) and GEL 29.7 million, respectively, corresponding to 43.7% and 68.4%, respectively, of the Group's total profit for the respective periods. For the years ended 31 December 2015 and 31 December 2014, the Group's Retail Banking business generated profit of GEL 135.6 million (US$56.6 million) and GEL 134.9 million, respectively, corresponding to 47.8% and 54.8%, respectively, of the Group's profit for the respective years.

The Bank's Retail Banking business operates a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers in Georgia through three well-established and recognised brands:

Express banking. Express banking services are designed for emerging retail customers (including customers who have not previously used banks). The Bank delivers these services through cost-efficient channels such as "Express Pay" terminals, Internet and mobile banking, and technology-intensive Express branches at minimal incremental operating costs. The Bank operates a chain of small branches providing self-service transactional and remote banking facilities. The aim is to provide fast, accessible, cost-effective and competitively priced services through a network of dedicated branches at strategic locations, and transition the Bank's Retail Banking customers to use remote banking in order to improve efficiency. Express banking is also intended to free up staff at the Bank's existing flagship branches to better position the Bank to acquire new customers, sell higher value-added services and products, and to improve the cross-selling and up-selling of its banking products and services. As of 31 March 2016, the Bank had 114 Express banking and Metro branches and 2,627 Express Pay (self-service) terminals. These Express Pay Terminals are in effect "mini-banks" which provide a wide array of payment services ranging from current account top-ups and loan repayments to utility bill payments and metro ticket purchases. The Bank had 2,589 Express Pay Terminals as of 31 December 2015 and is now leading in the payment systems market in Georgia. The Express Card is a travel card for the Tbilisi bus and metro system (of which the Bank is the sole provider, with a contract due to expire in 2017) combined with a contactless card with a loyalty programme linked to the customer's current account. The Bank had 1,113,745 and 1,045,433 Express cards outstanding as of 31 March 2016 and 31 December 2015, respectively.

Bank of Georgia. The Bank targets the mass retail segment under the Bank of Georgia brand, serving approximately 1.5 million individual clients and 0.1 million SME and Micro clients. This segment is largely product-driven. The Bank is in the process of changing this business model to become more client-centric and increase its product to client ratio from 1.9 to 3.0 products per client by:

- creating a client-centric physical environment. The Bank's existing branches were built around products, not clients. The Bank has worked with McKinsey, an independent consultant, to redesign its branches around its clients. The Bank expects to launch its first client-centric branch in September 2016 and to complete the redesign of most branches by the end of 2017;
- providing a client-centric service. The Bank is training its front office personnel to sell and service its entire product range. The Bank is also freeing up their time by moving processes that are not client facing to the back office; and
- developing client-centric digital channels. The Bank's clients use digital channels (such as personal computers and mobile applications) extensively and this trend has been growing strongly, so that developing client-centric digital channels is no less important than redesigning its branches. Accordingly, the Bank has established a digital banking division and aims to launch new digital channels by the end of 2016.

The Bank intends to meet the above targets by January 2019.

The Bank offers SME customers tailor-made products and services and a more personalised service through the Bank's retail branches. It cross-sells Solo banking services to the owners and executives of its SME customers, and retail banking services to their employees.

Solo. The Bank's Solo banking service is a premier banking service comprising a specially developed package of products and services (including its flagship American Express Gold cards) to serve "mass affluent" Retail Banking customers (see "—*Customers*"). Solo banking customers are offered the services of a relationship banker working at a dedicated Solo banking branch or in the Solo areas in flagship branches. Its recently introduced "Solo Family" package is targeted at family members of Solo customers. The Bank currently has over 13,000 Solo clients and an estimated market share of less than 13% in this segment. The Bank aims to significantly increase its market share in the mass affluent segment over the next three to four years and generate customer loyalty by improving the Solo offering. Solo clients now have access to exclusive products and a concierge-style service at the Bank's newly designed Solo lounges as well as opportunities to participate in exclusive events and enjoy selected lifestyle products. In its Solo lounges, the Bank offers clients for sale a selection of luxury products and accessories that are currently not available elsewhere in the country. Solo clients can also access financial products such as bonds which generate a significantly higher yield compared to deposits, and other securities developed by Galt & Taggart.

Privatbank

In December 2014, the Bank decided to acquire Privatbank (Georgia), which at the time of acquisition was the ninth largest bank in Georgia by assets according to data published by the NBG, as part of its strategy of increasing its retail loan portfolio. Privatbank was a mono-line bank focused on retail banking, offering a trademark "all-in-one" debit and credit card, and its large network of 93 branches, which the Bank considered to be complementary to its Express (self-service) branch format. In January 2015, the Bank acquired 100% of the share capital of Privatbank for cash consideration of GEL 92 million, paid to the former shareholders of Privatbank. During the five months following the acquisition, the Bank's specialist integration team focused on integrating Privatbank's information systems, reducing costs and optimising the number of branches, as well as product development and training Privatbank staff. The Bank successfully migrated Privatbank's information systems into its banking software with only 24 hours of downtime for Privatbank clients, including data relating to approximately 400,000 active customers, over 1.1 million cards, approximately 150,000 loans and approximately 75,000 deposits. During this period, the Bank rebranded 35 of the Privatbank branches into self-service Express Banking branches and completed the integration of Privatbank's trademark bank card onto its platform. Former Privatbank customers are able to continue to use their Privatbank cards, which are now serviced by the Bank's card processing platform. Given the popularity of the Bank's Express Pay terminals with the former Privatbank clients, the Bank closed 58 Privatbank branches (out of 93), which was more than initially expected, and reduced former Privatbank employee numbers by approximately 50%. This contributed to a significant reduction in Privatbank's operating costs. The integration was completed in May 2015 and the total cost of integration was GEL 2.6 million (which was below budget). As a result of the acquisition, the Bank increased its market share in retail loans by 4.3% and in retail deposits by 2.5%, in each case according to market data as of 31 March 2015. The acquisition increased the Bank's customer base by approximately 400,000, predominantly emerging mass market, customers. The Bank plans to leverage the enhanced capabilities of its Express Banking franchise to capture increased revenue from cross-selling banking products to these newly acquired customers, who currently have low product to client ratios. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Group's Financial Statements—Acquisitions*".

Customers

The Bank divides its Retail Banking customers into five segments: (i) "mass affluent" (with monthly incomes of GEL 3,000-15,000 or liquid assets of GEL 20,000-165,000), which represents a portion of the Bank's Solo brand customers; (ii) "mass market" (with monthly incomes of GEL 500-3,000 or liquid assets of GEL 1,000-20,000), which represents a portion of the Bank's Bank of Georgia brand customers; (iii) "emerging mass market" (with monthly incomes below GEL 500 or liquid assets below GEL 1,000), which represents a portion of the Bank's Express brand customers; (iv) SMEs; and (v) micro businesses. Pursuant to its strategy, the Bank aims to shift the mix of customer lending to 65% retail and 35% CIB loans by January 2019 from the current mix of 57% retail and 43% CIB as of 31 March 2016 (see "—*Strategy*"). The Bank also aims to expand its product offering through continuous innovation to meet the growing funding and investment needs of its extensive retail customer and corporate client base.

Deposit taking

Retail deposits include current accounts and savings accounts (including demand deposits and time deposits) which pay interest. The Bank's current accounts consist of standard accounts (which are basic bank accounts) and universal accounts (which are multi-currency accounts that are also linked to a debit card and permit online account management services). The Bank charges a monthly fee of GEL 1.00 for each universal account and GEL 1.50 for each standard account. Additional fees are charged for SMS banking, standing orders and direct debit services. Fees are typically waived or reduced for customers in payroll programmes.

As of 31 March 2016, the total Retail Banking client deposits and notes was GEL 1,902.0 million (US$803.3 million), or 40.2%, of the Group's total client deposits and notes, as compared to GEL 1,880.0 million (US$785.0 million) and GEL 1,349.6 million as of 31 December 2015 and 2014, respectively, according to the management accounts.

The following table sets out information on the Bank's deposits from Retail Banking customers as of the dates indicated (the table excludes Retail Banking customers of BNB for the periods indicated).

	As of 31 March		**As of 31 December**		**As of 31 December**
	2016		**2015**		**2014**
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(unaudited) (thousands of US Dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*
Retail customer client deposits and notes[3]	803,261	1,902,042	785,009	1,880,018	1,349,556

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) Total retail customer client deposits and notes includes current accounts, term deposits, demand deposits, certificates of deposit and promissory notes of the Group's Retail Banking clients. This item does not include deposits from individuals who are clients of the Group's investment management business. See "—*Investment Management*". This item also includes deposits from the Group's micro-financing loan clients (non-individuals), which are classified as Retail Banking deposits by the Group. Amounts due to SMEs are included in retail.

Retail lending

The Bank has increased the size of its retail loan portfolio to GEL 2,959.7 million (US$1,249.9 million) as of 31 March 2016, as compared to GEL 2,854.2 million (US$1,191.8 million), and GEL 2,093.8 million as of 31 December 2015 and 2014, respectively. As of 31 March 2016, gross retail loans comprised 53.0% of the Group's total gross loans to customers.

The following table sets out the Group's Retail Banking loan portfolio (gross of allowances for impairment losses) by type of loan as of the dates indicated.

	As of 31 March		**As of 31 December**		**As of 31 December**
	2016		**2015**		**2014**
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(unaudited) (thousands of US Dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*
Micro and SME loans[3]	389,106	921,365	377,412	903,864	666,037
Mortgage loans	373,335	884,019	337,796	808,987	600,902
General consumer loans	231,494	548,155	220,702	528,560	448,573
Credit cards and overdrafts	127,841	302,715	127,644	305,695	135,038
POS loans	46,373	109,806	49,870	119,434	93,094
SMS loans	31,019	73,450	29,488	70,621	59,709
Pawn loans	26,504	62,760	25,529	61,140	53,773
Express loans	12,900	30,547	11,535	27,625	17,425
Automobile loans	11,354	26,885	11,790	28,237	19,245
Total retail loans, gross	**1,249,926**	**2,959,702**	**1,191,766**	**2,854,163**	**2,093,796**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) Loans to SMEs are included in retail.

For the three months ended 31 March 2016 and 31 March 2015, the Group had net interest income from Retail Banking customers of GEL 82.8 million (US$35.0 million) and GEL 75.2 million, respectively, as compared to GEL 322.9 million (US$134.8 million) and GEL 215.8 million, respectively, for the years ended 31 December 2015 and 2014. For the three months ended 31 March 2016, 31 December 2015 and 31 March 2015, the Group had a Retail Banking NIM of 9.2%, 9.6% and 9.7%, respectively.

The Group's retail lending products and services primarily comprise:

Micro and SME loans. The Bank offers micro-financing loans to entrepreneurs and micro businesses. Micro-financing loans are loans of up to GEL 353,000 (US$150,000) that are offered to entrepreneurs and micro businesses with a total annual turnover of less than GEL 12.0 million (US$5.1 million). SME loans are loans of more than GEL 353,000 (US$150,000) and less than GEL 4.7 million (US$ 2.0 million) that are offered to entrepreneurs and SMEs who have a total annual turnover of less than GEL 12.0 million. As of 31 March 2016, the Group had GEL 921.4 million (US$389.1 million) in gross micro and SME loans outstanding, accounting for 31.1% of the Group's total gross retail loans.

Mortgage loans. The Bank offers mortgage loans with a typical tenor of ten years for the purchase or renovation of real estate. These loans are secured by a first-ranking mortgage of the real estate purchased and/or a mortgage/pledge of alternative property or other collateral. The Bank also offers Hypo+, a packaged product, which is the first and only flexible offset mortgage available to home buyers in Georgia. In 2013, the NBG launched a programme, pursuant to which it provides financing to Georgian banks secured with their GEL-denominated loan portfolio. This programme, which allows the Bank to issue Lari denominated mortgage loans at rates lower than foreign currency denominated mortgage loan rates, is expected to support the growth of the Bank's total loan portfolio and in particular, its Lari denominated mortgage loan book. To maintain the quality of its mortgage loan book, the Bank from time to time offers restructuring options to certain eligible customers. In addition, the Bank intends to continue to cross-sell its mortgage loans to buyers of residential properties developed by the Real Estate Business. As of 31 March 2016, the Group had GEL 884.0 million (US$373.3 million) in gross Retail Banking mortgage loans outstanding, accounting for 29.9% of total gross retail loans of which the mortgage loans issued to the customers of m2 Real Estate stood at GEL 68.7 million (US$29.0 million), or 7.8% of total gross mortgage loans of the Retail Banking business. The Bank also provides mortgage loans to its CIB customers.

General consumer loans. General consumer loans are fixed-term, fixed-instalment general purpose loans. The maximum principal amount of a consumer loan secured by real estate is capped at GEL 118,395 (US$50,000) with a maximum maturity of ten years. The maximum principal amount of an unsecured consumer loan is capped at GEL 50,000 (US$21,116) with a maximum maturity of four years. The Bank offers consumer loans to members of its payroll services programmes, who can withdraw the loans from ATMs following an SMS notification of approval. This enables the Bank to free up front office time to service payroll customers in the Bank's branches. The Bank also provides general consumer loans to its CIB customers. As of 31 March 2016, the Group had GEL 548.2 million (US$231.5 million) in gross general consumer loans outstanding, accounting for 18.6% of total gross retail loans.

Pawn loans. Pawn loans are secured by precious metals or gems deposited by the customer. Pawn loans are general purpose fixed-term loans of up to three months with a right of extension at the end of the period. As of 31 March 2016, the Group had GEL 62.8 million (US$26.5 million) in gross pawn loans outstanding, accounting for 2.1% of total gross retail loans.

POS loans. POS loans are express loans to purchase consumer goods which are secured by a charge over the goods purchased. As of 31 March 2016, the Group had a total of 288 POS sales desks. As of 31 March 2016, the Group had GEL 109.8 million (US$46.4 million) in gross POS loans outstanding, accounting for 3.7% of total gross retail loans.

Automobile loans. The Bank has agreements with a number of automobile dealers to finance the purchase of fully-insured vehicles. As of 31 March 2016, the Group had 30 agreements in place with automobile dealers and maintained a physical presence at ten dealers. These loans are secured by a charge over the vehicle. The Bank provides automobile loans to CIB customers as part of its investment management business. As of 31 March 2016, the Group had GEL 26.9 million (US$11.4 million) in gross automobile loans outstanding, accounting for 0.9% of total gross retail loans.

Express loans. Express loans are small consumer loans (up to GEL 1,000) which are offered through the Bank's branches and approved by an instant scoring system. Express loan borrowers may withdraw the principal amount of the loan at any of the Bank's ATM machines and are required to pay a bi-monthly fee of GEL 10 until the loan is repaid in full. As of 31 March 2016, the Group had GEL 30.5 million (US$12.9 million) in gross Express loans outstanding, accounting for 1.0% of total gross retail loans.

SMS loans. SMS loans are pre-approved loans which may be withdrawn from any ATM of the Bank. SMS loan borrowers must be existing Bank customers and their salary must be paid to an account maintained with the Bank. The principal amount of SMS loans available to customers ranges from GEL 400 to GEL 10,000. As of 31 March 2016, the Group had GEL 73.5 million (US$31.0 million) in gross SMS loans outstanding, accounting for 2.5% of total gross retail loans.

Banking cards. The Bank issues debit cards, often with overdrafts, to Retail Banking customers with universal current accounts, as well as credit cards. The Bank had over 1.9 million cards outstanding as of 31 March 2016. The Bank offers a range of international debit cards to different Retail Banking customer segments, including: Maestro, VISA Electron, VISA Classic and MasterCard Standard (for all Retail Banking customers), VISA Gold and MasterCard Gold (for mass affluent Retail Banking customers) and OneCard VISA Infinite (for investment management customers). The Bank offers American Express Rewards cards (for the mass affluent segment) and "LoveCards", which allow Retail Banking customers to choose their own personalised card design. The Bank provides overdraft facilities and a variety of additional services to banking card holders, including direct debit, internet banking, telephone banking, SMS banking, utility bills payment and ATM services.

In partnership with the Tbilisi municipality, the Bank operates the metro and bus transport payment system, including its ticket machines. As of 31 March 2016, the Bank had approximately 1.2 million active Bank of Georgia-branded transit contactless cards (known as Metro cards) in issue. The Bank has exclusive agreements with the Tbilisi municipality which are due to expire in 2017. The Bank is gradually phasing out Metro cards and replacing them with Express cards, exclusive contactless cards for metro, minibus and bus transport linked to customers' current accounts, which are covered by a separate exclusive agreement between the Bank and the Tbilisi municipality due to expire in 2017. (See "*—Overview—Express banking*".) The Bank offers loyalty programmes, providing one free ride for every ten rides paid for using an Express card. The Bank's customers can top up their Express cards at any of its Express Pay terminals. As of 31 March 2016, more than 1.3 million Express cards had been issued, replacing the older pre-paid Metro cards. The Bank expects Express cards to fully replace Metro cards over time, further contributing to the growth of current accounts and current account balances.

The Bank's credit card offering includes Orange card (the first Georgian credit card). The Bank is the exclusive partner of American Express for both acquiring and issuing American Express cards in Georgia (until 2023 (inclusive)). It offers American Express Gold, Green and Blue Cards. The Bank is also the exclusive partner of Diners Club International acquiring business in Georgia and an ATM processor for Diners Club International and Discover card transactions. All of the Bank's credit card holders are contractually obliged to make minimum payments in respect of at least 10% of the outstanding balance of their monthly credit card statements, subject to a minimum grace period of up to 55 days. The Bank believes that credit cards will substitute POS lending and other general consumer lending products over time.

The Bank was a co-founder of Georgian Card, the first banking card processing centre in Georgia, which processes and personalises Visa, MasterCard and American Express cards and provides acquiring services to Diners Club International and Discover card. As of 31 March 2016, Georgian Card was majority owned by the Bank. Georgian Card currently provides the Bank's plastic card transaction processing as well as card transaction processing services for four other banks operating in Georgia. Between 2007 and 2009, the Bank invested significantly in the upgrading of Georgian Card's platform.

The Bank also offers its payroll customers short-term unsecured overdraft facilities with repayment required on the maturity date. As of 31 March 2016, the Group had gross credit cards and overdrafts of GEL 302.7 million (US$127.8 million) outstanding, accounting for 10.2% of total gross retail loans.

Internet, telephone, SMS and e-mail banking. The Bank offers retail banking products and services through the Internet, allowing customers to make inter-bank payments to companies or individuals, monitor account balances, transfer funds (within the Bank and to third party accounts), order debit and credit cards and open accounts and savings products. It also offers an SMS-based mobile banking service, allowing automatic delivery of transactional information to customers' mobile phones and selected SMS-based customer queries. Customers can use the mobile banking service to top up mobile phone air time and receive notifications of consumer loan approvals. E-mails can also be used to send instructions to the Bank and receive information on transactions. The Bank was the first bank in Georgia to launch mobile banking applications (on iPhone and Android devices). In April 2016, the Bank launched a new version of Internet Bank, which offers an improved user-interface, higher speed of processing and consolidated client' account information and transaction history in one place.

Call centre. The Bank has a 24-hour modern customer service call centre to provide Retail Banking customers with assistance by telephone and by e-mail. The call centre facilitates customers entering into banking transactions over the telephone, including, among other things, paying bills, transferring money and making balance enquiries.

Terminal banking (Express Pay). As of 31 March 2016, the Bank had 2,627 Express Pay terminals in Georgia to enable Retail Banking customers to pay utility bills, repay loans, top up Express cards and make other payments, open small deposit accounts and receive small cash loans instantly at a wide variety of locations. For the three months ended 31 March 2016 and the year ended 31 December 2015, the terminals handled 28.8 million and 113.1 million, respectively, transactions with a total value of GEL 662.7 million and GEL 2,178.8 million, respectively.

ATM network. As of 31 March 2016, the Bank had the largest ATM network in Georgia, comprising 753 ATMs. These ATMs also enable the Bank's Retail Banking customers to pay utility bills and repay loans, receive remittances and make person-to-person transfers. In addition, customers enrolled in the Bank's payroll programmes can draw down general purpose consumer loans at its ATMs following notification of approval via SMS. In the first three months of 2016 and in 2015, the Bank's ATMs handled 4.7 million and 18.0 million, respectively, of transactions with a total value of GEL 926.4 million and GEL 3,462.7 million, respectively.

Money remittance systems. The Bank operates ten international remittance systems, which allow Retail Banking customers to transfer money in and out of Georgia. In the first three months ended 31 March 2016 and during the years ending 31 December 2015 and 2014, a total of GEL 685 million (US$281 million), GEL 2,874 million (US$1,251 million) and GEL 2,868 million (US$1,619 million), respectively, was remitted in and out of Georgia, according to the NBG, of which GEL 280 million (US$115 million), GEL 1,185 million (US$516 million) and GEL 1,097 million (US$619 million) was remitted through the Bank, according to the Bank, representing a 40.9%, 41.2% and a 38.3% market share, respectively. Customers can receive remittances by contacting an operator in the Bank's call centre who will credit the remittance to the customer's account or through ATMs. These services help the Bank to run the branches more efficiently by freeing up front office employees.

Corporate Investment Banking (CIB)

Overview

Since February 2016, the Group's CIB business has been a combined corporate banking and investment management unit, comprising activities undertaken by the Bank and Galt & Taggart, which is acting as Co-Manager on the issuance of the Notes. The Bank is a leader in corporate banking, with a market share of 33.5% based on total customer deposits of legal entities and 31.3% based on total corporate loans to legal entities as of 31 March 2016, according to information published by the NBG. The Bank provides corporate lending and finance leasing (principally in US Dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. As of 31 March 2016, the Group had 4,712 corporate banking customers, a corporate loan portfolio of GEL 2,197.6 million (US$928.1 million) and corporate client deposits and notes of GEL 1,820.9 million (US$769.0 million). Of the Bank's corporate client deposits and notes, as of 31 March 2016, GEL 779.6 million (US$329.3 million) were Lari denominated and GEL 1,041.2 million (US$439.7 million) were foreign currency denominated. As of the same date, of the Bank's corporate client deposits and notes, GEL 414.2 million (US$174.9 million) were time deposits and GEL 1,406.7 million (US$594.1 million) were current accounts and demand deposits. In February 2016, the Group combined the corporate banking and investment management unit to implement the CIB strategy of deconcentrating the CIB loan portfolio by expanding its project finance offering, developing sector expertise by introducing regular in-depth research across different industries, developing investment banking and commodity finance and financing larger borrowings through participating in syndications and club deals in a more coordinated way.

The Group's investment management business consists of Bank of Georgia Wealth Management and the Bank's brokerage firm, Galt & Taggart, which is acting as Co-Manager on the issuance of the Notes. Bank of

Georgia Wealth Management provides private banking services to high net worth individuals from more than 70 countries and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Galt & Taggart, an established leader in the provision of investment banking and investment management services in Georgia, offers corporate advisory, private equity and brokerage services under one brand. Galt & Taggart Research (a business unit of Galt & Taggart) currently covers the Georgian and Azeri economies and publishes Georgian sectoral research. These businesses leverage the Group's knowledge and capabilities in the Georgian and neighbouring markets in terms of research and expertise.

For the three months ended 31 March 2016 and for the year ended 31 December 2015, the Group's CIB business generated profit of GEL 25.5 million (US$10.8 million) and GEL 96.0 million (US$40.1 million), respectively, corresponding to 29.5% and 33.8%, respectively, of the Group's total profit for the respective periods.

Corporate Banking

The Bank operates an integrated customer coverage model for its corporate banking customers. Each corporate banking customer is assigned a dedicated relationship banker who facilitates and coordinates the customer's interaction with its product specialists, including in the areas of lending, investment banking, trade finance to corporate banking customers, leasing, insurance and retail banking (with respect to payroll services). The Bank offers combined packages of products and services to its corporate banking customers, enabling them to reduce their banking costs and increase efficiency while generating increased sales.

The key elements of the Bank's corporate banking strategy for the short-to medium-term are to: increase its focus on cross-selling, including insurance and other non-banking products and services to increase its integrated customer coverage; decrease its loan portfolio concentration by continuing to focus on mid-sized corporate banking customers; expand its project finance offering; develop sector expertise by introducing regular in-depth research across different industries; develop investment banking and commodity finance; and finance larger borrowings through participating in syndications and club deals. As of the date of this Prospectus, the Bank is focusing on the hospitality, healthcare and hydro-power sectors, which the Bank believes offer the most growth potential as they are underpenetrated.

Corporate banking products and services

Corporate lending. The Bank's corporate lending activities include the provision of working capital loans, fixed asset financing, revolving credit lines and overdrafts, as well as project finance. Corporate banking loans are loans of over GEL 4.7 million (US$ 2.0 million) or the equivalent or loans to borrowers whose annual turnover exceeds GEL 12.0 million (US$5.1 million). The Bank offers a wide range of corporate loans in Lari and foreign currencies, principally US Dollars, including short-term loans for working capital purposes and overdrafts in addition to medium-term loans and long-term loans and project finance. As of 31 March 2016, 16.0% of the Group's corporate loans to customers are working capital revolving credit lines, with a majority of such loans having maturities of one year or less. Subject to general economic conditions, as demand for longer-term financing increases, the Bank intends to increase its maturity limits in respect of existing customers and other high credit quality borrowers commensurate with the availability of longer-term funding. The Bank also provides credit lines to developers to finish construction projects where the sale of the property under development is guaranteed by the Tbilisi municipality.

The following table sets out the Group's corporate loan portfolio (gross of allowance for impairment losses) by economic sector of borrower as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)[(1)]	*(thousands of Lari)*	*(thousands of US Dollars)*[(2)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*
Manufacturing	249,065	589,760	248,723	595,666	633,961
Trade	138,899	328,899	152,832	366,018	355,378
Real estate	91,120	215,763	93,847	224,753	191,599
Service	77,430	183,346	81,438	195,036	199,082
Construction	69,971	165,684	62,341	149,300	91,754
Hospitality	53,360	126,351	48,382	115,869	132,091
Transport & Communication	50,979	120,714	54,214	129,838	123,741
Mining and quarrying	44,779	106,033	48,366	115,832	—
Electricity, gas and water supply	26,840	63,554	31,884	76,360	122,825
Financial intermediation	24,218	57,346	25,931	62,103	98,832
Health and social work	24,006	56,843	23,713	56,790	108,682
Other	77,413	183,307	67,827	162,439	174,482
Total corporate banking loans, gross	**928,080**	**2,197,600**	**939,498**	**2,250,004**	**2,232,427**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

The gross corporate loan portfolio declined to GEL 2,197.6 million (US$928.1 million) as of 31 March 2016, or 39.3% of total gross loans to customers, as compared to GEL 2,250.0 million (US$939.5 million), or 40.7% of total gross loans to customers as of 31 December 2015, and GEL 2,232.4 million, or 50.1%, of total gross loans to customers as of 31 December 2014, respectively.

For the three months ended 31 March 2016 and 31 March 2015, the Group had net interest income from CIB customers of GEL 38.3 million (US$16.2 million) and GEL 39.6 million, respectively, as compared to GEL 156.1 million (US$65.2 million) and GEL 117.8 million, for the years ended 31 December 2015 and 2014, respectively. For the three months ended 31 March 2016, 31 December 2015 and 31 March 2015, the Group had CIB NIM of 3.7%, 3.8% and 4.2%, respectively.

The ten largest corporate banking borrowers accounted for 12.1% of total consolidated loans to customers gross of allowance for impairment losses as of 31 March 2016, as compared to 12.8% and 16.0%, respectively, of its total loans to customers (gross of allowance for impairment losses) as of 31 December 2015 and 31 December 2014.

Deposit taking. The Bank offers a range of corporate deposit products in Lari and in foreign currencies, including multicurrency current accounts, term deposits and demand deposit accounts. As of 31 March 2016, the Group had a total of GEL 1,820.9 million (US$769.0 million) in current accounts, term deposits, promissory notes, certificates of deposits and demand deposits from corporate banking customers, representing 38.5% of total client deposits and notes as of that date, as compared to GEL 1,848.0 million (US$771.7 million), and GEL 1,186.0 million at 31 December 2015 and 31 December 2014, respectively. The ten largest corporate depositors accounted for 17.6% of total consolidated client deposits and notes as of 31 March 2016, as compared to 16.4% and 15.4% of client deposits and notes as of 31 December 2015 and 2014, respectively.

The following table sets out the Group's total corporate banking client deposits and notes as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)[(1)]	*(thousands of Lari)*	*(thousands of US Dollars)*[(2)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*
Corporate customers' client deposits and notes	768,980	1,820,868	771,656	1,848,039	1,186,026

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Payroll services. Payroll services enable employers to reduce the cost of paying salaries to their employees by transferring salaries directly to their employees' bank accounts with the Bank. The employees are able to withdraw multiple currencies using plastic payroll cards, all of which are part of either the MasterCard or VISA International system, at any branch of the Bank and any ATM domestically or internationally that accepts Visa or MasterCard cards. As of 31 March 2016, the Bank offered payroll services to over 4,438 companies. In addition to the fees which the Bank charges its corporate banking customers for providing payroll services, these services and corporate cards generate income for the Bank's Retail Banking segment and enable it to cross-sell retail banking services and products to its customers' employees. As of 31 March 2016, the Bank's Retail Banking customer base included more than 254,974 individuals who are employees of companies that receive payroll services.

Trade finance. Management believes that the Bank is one of the leading trade finance banks in Georgia. It is active in both domestic and international operations and offers trade finance services worldwide through its network of correspondent banks and international commercial banks, as well as the IFC's Global Trade Finance Programme and Trade Facilitation Programmes with EBRD and ADB. It aims to act as adviser to its customers throughout the lifecycle of a trade finance operation.

The Bank's trade finance products currently include pre-export financing, import financing, issuing, advising, confirming and discounting letters of credits, stand-by letters of credit, and guarantees, documentary collections, local and international factoring. It is focusing on growing its market share and developing innovative products. The Bank participates in IFC and ADB trade finance programmes under which it can issue guarantees of its customers' trade transactions. It is a member of Factors Chain International, which provides easy access to cross-border factoring.

As of 31 March 2016, the Bank had relationships with several export credit agencies, including US Export-Import Bank, SACE, US Department of Agriculture, Sinosur (China), Euler Hermes, ECGD (the Export Credits Guarantee Department (UK)) and EGAP (Czech Export Bank) as well as trade finance limits from a number of non-Georgian banks and IFIs including Commerzbank, UBS, Citibank, BNP Paribas, ING Bank, Deutsche Bank, UniCredit, SMBC, KBC Bank, Ziraat Bank, Akbank T.A.Ş, Turk Economi Bankasi AS, Raiffeisen Bank International AG, LBBW (Landesbank Baden-Württemberg), EBRD, IFC and ADB amounting to, in aggregate, GEL 723.4 million (US$305.5 million).

Among its accolades in this area, the Bank was acknowledged as the "Most Active Issuing Bank in Georgia" by EBRD and the "Best Global Trade Finance Program Issuing Bank in Caucasus and Central Asia" by IFC in 2012, won the EBRD's deal of the year in 2012 for the restoration of the Tbilisi Funicular, the Trade and Forfaiting Review Deal of the Year in 2013 for agro technical services to farmers, an excellent partnership award from Commerzbank in 2013 and 2014 and was named the "Best Trade Finance Provider in Georgia" in 2012, 2013, 2014 and 2016 by the Global Finance.

Leasing services. The Group provides finance leasing services through its wholly-owned leasing subsidiary, Joint Stock Company Georgian Leasing Company (**GLC**). A finance lease comprises a commercial arrangement whereby the Bank purchases (as lessor) an asset that the customer (the lessee) requires and leases that asset to the customer for a fixed long-term period in return for rental payments that cover the cost of the asset and provide interest on the principal amount paid for the asset. The risks relating to ownership of the leased asset remain with the customer during the term of the lease. As of 31 March 2016 and 31 December 2015, the total value of GLC's leasing portfolio was GEL 25.8 million and GEL 26.7 million, respectively.

Remote banking. Corporate banking customers can access a range of remote banking products including internet, telephone and SMS banking, utility bill payments, online payments, direct debits, payroll services and standing orders through a dedicated remote banking platform.

Treasury operations. The Bank offers a range of treasury operations, including foreign currency conversion, trading in securities and other products including hedging.

Business card services. The Bank offers corporate Visa and MasterCard banking cards and American Express Corporate cards to corporate banking customers.

Investment Management

Bank of Georgia's wealth management unit provides private banking services to high net worth individuals (being individuals with the deposits held with the Bank in the amount of at least US$100,000, or equivalent) from more than 70 countries and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv.

The following table sets out the total investment management client deposits and notes as of the dates specified:

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)[(2)]	*(thousands of Lari)*	*(thousands of US Dollars)*[(3)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*
Total investment management customers' client deposits and notes[(1)]	442,577	1,047,978	427,276	1,023,284	805,266
Of which:					
Certificates of deposit	249,041	589,705	246,253	589,752	460,598

Notes:

(1) Deposits and notes of the Bank's wealth management and Galt & Taggart customers.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(3) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

The Bank's main investment management product is the multi-currency OneCard Infinite (Visa) debit card, which is designed to satisfy all of the current and savings account needs of the customer with a single packaged product. The OneCard Infinite enables cardholders to link the same card to up to four accounts in different currencies (Lari, US Dollars, Euros and Pounds Sterling), with comprehensive online and SMS banking functionality, an attractive interest rate on daily balances in all currencies, credit limits similar to those of a regular current account and expeditious credit line/overdraft approval.

Investment management products include term and demand deposits and certificates of deposit (the latter launched in January 2013) with maturities of up to 60 months and demand deposits in Lari, US Dollars, Euros, Pounds Sterling and other currencies. Additionally, customers receive health, property and life insurance through Aldagi and Imedi Land brokerage, custody and portfolio management services through Galt & Taggart. The Bank also offers personalised financial planning and lifestyle management services (including concierge services, information services, utility payment services and travel arrangement services) to its investment management customers. In the future there may be a move to offer these services on a fee paying basis.

The following table sets out the Group's investment management loans (gross of allowance for impairment losses) by type of loan offered as of the dates specified:

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*[2] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*
General consumer loans	30,575	72,399	31,211	74,748	13,712
Mortgage loans	2,427	5,747	2,237	5,357	3,241
Automobile loans	201	475	145	347	313
Other (including overdrafts)[3]	400	947	288	689	935
Total investment management loans, gross	**33,603**	**79,568**	**33,881**	**81,141**	**18,201**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) "Other" comprises overdrafts, other plastic banking cards and private banking loans with different terms from the standard terms used by the Group for Investment Management loans.

In addition to Visa, MasterCard and American Express (Blue, Green, Gold and Platinum cards) the Bank exclusively offers its investment management customers American Express Centurion Cards.

Galt & Taggart is an established leader in the provision of investment banking and investment management services in Georgia, offers corporate advisory, private equity and brokerage services under one brand, working in exclusive partnership with SAXO Bank which enable clients of Galt & Taggart to access global capital markets and invest on a multi asset basis. Galt & Taggart Research currently covers the Georgian and Azeri economies and publishes Georgian sectoral research.

Belarus Banking Operations

In addition to its operations in Georgia, the Group, through BNB, provides SME and retail banking services in Belarus. For the three months ended 31 March 2016 and in the year ended 31 December 2015, BNB generated 4.9% and 6.2%, respectively, of the Group's total profit.

The Group's Belarus banking business is operated through the Group's subsidiary BNB, which was one of the first privately owned commercial banks in Belarus, established in 1992. As of 31 March 2016, the Group owned a 79.99% stake, while IFC held a 19.99% stake in BNB. BNB offers individual and business banking services principally to SMEs and middle-income retail banking customers. As of 31 March 2016, BNB had total assets of GEL 467.5 million (US$197.4 million), gross loans of GEL 344.3 million (US$145.4 million), client deposits and notes of GEL 230.8 million (US$97.5 million), total equity of GEL 75.5 million (US$31.9 million) and net interest income of GEL 7.9 million (US$3.3 million). BNB accounted for 5.7% of the Group's revenue for the three months ended 31 March 2016 and 4.7% of its total assets as of 31 March 2016. BNB generated a profit of GEL 4.3 million (US$1.8 million) and GEL 17.5 million (US$7.3 million), respectively, in the three months ended 31 March 2016 and in the year ended 31 December 2015. The Group's operations are affected by the Lari to Belarusian Rouble exchange rates as these affect the value of the Group's equity interests in BNB on a consolidated basis and, although currently in compliance with related contractual covenants, affect the Group's ability to comply with contractual covenants based on the Basel I Total Capital, calculated on a consolidated basis. See "*Risk Factors—Risks Relating to the Group's Banking Business—The Group is subject to certain regulatory ratios in the Banking Business*". Management believes BNB is also well capitalised, with capital adequacy ratios above the requirements of its regulating Central Bank. As of 31 March 2016 and 31 December 2015, respectively, BNB's total capital adequacy ratio was 15.9% and 16.5%, above the 10% minimum requirement by the NBRB, and Tier I Capital Adequacy Ratio was 10.2% and 8.1%, above the 6% and 5% minimum requirements by the NBRB, as of 31 March 2016 and 31 December 2015, respectively. The Group aims to grow BNB's business with a view to an eventual exit from the business in the future.

P&C Insurance (Aldagi)

Through the Group's wholly-owned insurance subsidiary, Aldagi, the Group is the leading provider of P&C insurance products in Georgia, with a market share of 34.1% as of 31 March 2016 (based on gross premium revenue) according to Insurance State Supervision Service of Georgia. Aldagi covers more than 659,000 insured customers and offers a broad range of product lines designed for corporate and retail clients through its own network of nine branches and benefits from access to the Bank's distribution channels. Aldagi cross-sells insurance products with the Bank's Retail Banking and CIB products. For the three months ended 31 March 2016 and for the year ended 31 December 2015, the Group's P&C insurance business generated profit of GEL 3.1 million (US$1.3 million) and GEL 3.9 million (US$1.6 million), respectively, corresponding to 3.6% and 1.4%, respectively, of the Group's total profit for the respective periods. In August 2014 the Group split Aldagi into two separate business units—a healthcare business to provide healthcare services and health insurance products in Georgia, and a property and casualty insurance business to provide life and non-life insurance products in Georgia.

Investment Business

Healthcare Business

Overview

GHG is the UK incorporated holding company of the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. In November 2015, GHG completed an IPO of shares that were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange. The Group holds a 67.7% stake in GHG, as of 31 March 2016.

Healthcare Business

GHG is an integrated healthcare and medical insurance provider in Georgia which primarily focuses on the mass market segment through a network of 45 healthcare facilities (35 hospitals and 10 ambulatory clinics) as of 31 March 2016. GHG's network of healthcare facilities (operating under the EVEX brand) is organised in geographic clusters combining ambulatory clinics, community hospitals and referral hospitals to capture patients along the treatment pathway, offering services ranging from basic outpatient and inpatient care to complex specialist services, which are positioned to complement each other and GHG's medical insurance business (operating under the Imedi L brand). GHG has the widest geographic coverage network relative to its competitors, with facilities currently located in six regions covering three quarters of the 3.7 million population of Georgia. As of 31 March 2016, the healthcare services business had a 26.7% market share by number of beds (with 2,686 beds), which is more than five times that of the GHG's nearest competitor in Georgia, and it is expected to grow by up to 30% as a result of the renovation of recently acquired hospital facilities which is scheduled for completion in 2016/2017 and is expected to add approximately an additional 500 beds (according to information published by the National Centre for Disease Control and Public Health of Georgia). GHG's integrated network of referral hospitals, community hospitals and ambulatory clinics provides substantial benefits derived from economies of scale.

The Georgian hospital market as a whole was valued at GEL 1.2 billion as of 31 December 2015. It grew at a compound annual growth rate (**CAGR**) of 8.1% over the period from 2008 to 2014, and is expected to grow at a CAGR of 11% from 2014 to 2018. The market for ambulatory clinics was valued at GEL 0.9 billion as of 31 December 2015. It grew at a CAGR of 13.4% over the period from 2008 to 2014, and is expected to grow at a CAGR of 16% from 2014 to 2018, in each case according to research performed by Frost & Sullivan.

As a key part of GHG's growth strategy, it plans to more than double its healthcare services revenue by 2018, capture one-third of the Georgian hospital market measured by hospital beds through organic growth and increase its market share in the outpatient market through the launch of 20-30 ambulatory clinics. GHG raised net proceeds of approximately US$95 million from the IPO to finance the renovation and development of recently acquired healthcare facilities, finance its expansion plans and reduce indebtedness, amongst other things.

During 2014, GHG acquired an additional 811 beds across a number of inefficient hospitals, which negatively impacted costs. As these facilities have now been integrated and their functions centralised, the Group expects this acquisition to provide a positive impact on gross profit margins and EBITDA in the future. GHG's total EBITDA increased from GEL 36.9 million in 2014 to GEL 56.1 million in 2015 and from GEL 10.1 for the three months ended 31 March 2015 to GEL 17.1 for the three months ended 31 March 2016. GHG's total EBITDA margin (calculated as EBITDA divided by revenue) and healthcare services margin increased from 18.6% and 24.3%, respectively, in 2014 to 23.1% and 27.4%, respectively, in 2015 and from 18.8% and 22.6%, respectively, for the three months ended 31 March 2015 to 23.9% and 29.5%, respectively, for the three months ended 31 March 2016. Hospital bed occupancy rates have increased over the same period. The hospital bed occupancy rate for all hospitals and for referral hospitals alone increased from 49.1% and 55.4%, respectively, in 2014 to 51.7% and 59.3%, respectively, in 2015 and from 54.2% and 61.4%, respectively, for the three months ended 31 March 2015 to 60.4% and 66.7%, respectively, for the three months ended 31 March 2016. The total number of hospital beds increased from 2,140 at the end of 2014 to 2,670 at the end of 2015 and 2,686 as of 31 March 2016.

Medical Insurance

GHG is also the largest provider of medical insurance in Georgia, offering a broad range of product lines designed for corporate and retail clients. It had approximately 206,000 insured customers as of 31 March 2016 and a 34.0% market share based on net insurance premium revenue as of 31 March 2016 according to statistical data published by the Insurance State Supervision Service of Georgia. See, "*Risk Factors—Risks Relating to the Group's Healthcare Business—GHG cannot predict the effects of Georgia's new system of universal healthcare*".

GPC (Pharmacies)

In April 2016, GHG acquired a 100% stake in GPC, one of the top three pharmaceutical retailers and wholesalers in Georgia with the strategic aim of being the leading integrated player in the Georgian healthcare market. Following this acquisition, the Group is now the largest purchaser of pharmaceutical products in Georgia (based on the combined purchases of GHG's healthcare subsidiaries and the GPC chain of pharmacies) and Management believes that the Group will be able to reduce costs by creating cost efficiencies.

The healthcare and medical insurance sectors are subject to regulation under Georgian law, including regulation relating to the establishment and operation of private healthcare facilities. The Ministry of Labour, Health and Social Affairs of Georgia is the primary healthcare authority responsible for the regulation and supervision of the healthcare sector, operating through a number of agencies. The permit and licencing requirements under Georgian law depend upon the medical services being provided. In order to operate a hospital, a permit must be obtained. No prior approvals are needed to open and operate an ambulatory clinic, apart from those providing high risk healthcare services. Insurance providers must keep insurance reserves (which are offsetting assets to cover future liabilities if they are required to pay out under any insurance policy). They are also subject to minimum regulatory capital and reporting requirements. A new regulation, which became effective in September 2014, requires a prescription from a physician for over 50% of registered drugs. This is expected to drive the utilisation of outpatient services, as well as shifting part of healthcare spending from the pharmaceuticals sector to the healthcare services sector.

Real Estate Business (m2 Real Estate)

Overview

The Group's Real Estate Business, m2 Real Estate, develops residential and commercial property in Georgia. In recent years it has established itself as one of the most recognised and trusted residential housing brands in the country. m2 Real Estate outsources design and construction while focusing on project management and sales. The Real Estate Business was founded to meet unsatisfied demand for housing in Georgia using the Bank's well-established branch network and sales force, while stimulating its mortgage lending business.

As of the date of this Prospectus, m2 Real Estate has two main business lines: residential developments and commercial property (including hotels).

Residential developments

In the residential property market, m2 targets mass market customers by offering affordable, high quality and comfortable housing. m2 primarily focuses on "mixed use" developments with large residential components. m2 has a land bank with a book value of US$34.8 million as of 31 March 2016, with the capacity to build approximately 5,200 apartments (in addition to 2,507 apartments in those development projects that have been completed or are under development) as of 31 March 2016, as compared to US$33.8 million as of 31 December 2015 and US$36.2 million as of 31 December 2014. As of 31 March 2016, m2 Real Estate has completed sales of 1,695 apartments generating total revenue of US$143.5 million in six separate development projects since 2011. m2 Real Estate has two on-going development projects which are currently at the construction phase and has already pre-sold some of the apartments in these new developments. It is targeting completion of 19 units in

January 2017 and 819 units in September 2018. m2 Real Estate's Management estimates the total value of the housing market in Tbilisi to be US$ 1.2 billion (based on the total value of housing transactions in Tbilisi in 2014 according to data from the NPRG, Colliers and Management information).

The following table sets out certain information on these residential projects.

Project	No. of units	IRR	Equity multiple	Apartments sold/total	Pre-sales(1)	Start date	Completion	Sales	Land book values
								(US$ millions)	*(US$ millions)*
Completed									
Chubinshvili St.	123	47%	1.8	123/123	92%	Sep. 2010	Aug. 2012	9.9	0.9
Tamarashvili St.	522	46%	1.6	522/522	94%	May 2012	Jun. 2014	48.0	5.4
Nutsubidze St.	221	58%	1.2	203/221	89%	Dec. 2013	Sep. 2015	16.2	2.2
Kazbegi St.	295	165%	2.2	266/295	90%	Dec. 2013	Dec. 2013	24.4	3.6
Tamarashvili St. II . . .	270	71%	2.5	194/270	71%	Jul. 2014	May 2016	18.0	2.7
Moscow avenue.	238	31%	1.2	147/238	61%	Sep. 2014	May 2016	6.9	1.6
Under construction									
Kartozia St.	819	31%(2)	1.7(2)	231/819	28%	Nov. 2015	Sep. 2018(2)	16.4(2)	5.8(2)
Skyline	19	329%(2)	1.1(2)	9/19	47%	Dec. 2015	Jan. 2017(2)	3.7(2)	3.1(2)

Notes:

(1) Pre-sales are sales before project completion.
Off-plan sales are sales before commencement of construction.

(2) Estimated.

In addition, m2 Real Estate is planning to develop additional residential developments:

- *Kavtaradze St.* This is intended to be a development of 544 affordable apartments which is expected to generate an IRR of 42% and total sales of US$27.6 million. Construction has not yet started. The cost is estimated at US$23.1 million.
- *50 Chavchavadze Ave.* This is intended to be a development of 62 premium apartments which is expected to generate an IRR of 99% and total sales of US$ 16.5 million. Construction has not yet started. The cost is estimated at US$12.1 million.

m2 Real Estate plans to build developments on all of its existing land bank and start developing land owned by third parties.

As of the date of this Prospectus, the Bank, Bank Republic Georgia (Société Générale Group) and TBC Bank offer mortgage loans to buyers of these residential properties. Since 2011, the Bank has provided mortgage loans in an aggregate amount of GEL 92.5 million to the buyers of 827 of these properties as of 31 March 2016. As of 31 March 2016, the Bank has mortgage loans outstanding in an aggregate amount of GEL 68.7 million to the buyers of 608 properties.

Commercial property

In the commercial property market, m2 Real Estate makes opportunistic investments and manages a diversified portfolio of properties that generate rental income. These include mainly high street properties with some industrial and office space. m2 Real Estate generated an annual yield of 7.1% on its portfolio of leased commercial property in 2015 (compared with 8.1% in 2014). It targets an annual yield of 10%. In addition to generating rental income, these assets can also deliver capital appreciation. m2 Real Estate has developed its current portfolio of commercial properties by retaining the ground floor area of its residential developments which it leases out as commercial space and by opportunistically acquiring other commercial sites. It aims to build in prime locations, attract good tenants and negotiate favourable leases. m2 Real Estate's Management estimates the trade volume of real estate property in Georgia at US$2.5 billion (based on transactions in 2015).

Developing three-star hotels is also part of m2 Real Estate's commercial property strategy. Georgia does not currently have an internationally branded chain of three-star hotels and m2 expects demand to increase due to the increase in the number of tourists visiting the country. The number of visitors to Georgia grew from 560,000 in 2007 to nearly six million in 2015 (according to statistics published by National Statistics Office of Georgia and National Tourism Administration of Georgia), while the number of branded hotel rooms had only marginal growth. m2 Real Estate focusses on developing mixed use hotels (which are combined with residential developments).

m2 Real Estate provides equity finance for the construction of the hotels from the proceeds of selling apartments in the same development. m2 Real Estate has entered into an exclusive development agreement with Wyndham – one of the largest international franchisors – to develop Ramada Encore three-star select service hotels aimed at budget travellers in Georgia. The agreement is for a period of seven years and envisages the construction of a minimum of 300 hotel rooms at a budgeted cost of US$70,000 per room. It assumes an occupancy rate of 74% after three years of operation and an ADR of US$110 in Tbilisi and US$105 in Kutaisi.

m2 Real Estate is planning to develop three Ramada hotels, as follows:

- *Ramada Encore Kazbegi*. A mixed use development comprising a 152 room hotel and 353 apartments. Construction began in June 2016 and is scheduled to complete in November 2017. The cost is estimated at US$13.2 million for the hotel and US$37.0 for the apartments.
- *Ramada Encore Meliqishvili*. A mixed use development comprising a 125 room hotel and 34 apartments. Construction is scheduled to start in August 2016 and complete in February 2018. The cost is estimated at US$11.9 million for the hotel and US$4.3 million for the apartments.
- *Ramada Encore Kutaisi*. A 127 room hotel. Construction is scheduled to start in December 2016 and complete in September 2018. The cost is estimated at US$11.3 million.

In addition, within three to five years from the date of this Prospectus, m2 Real Estate plans to develop a 13 hectare plot of land that it owns in close proximity to the centre of Tbilisi (Dighomi) into a residential neighbourhood.

m2 Real Estate relies on pre-sales of its properties (and aims to sell approximately 20-30% of the units off plan) as well as loans from IFIs to fund its developments. In December 2011, m2 Real Estate procured $20 million in funding from FMO to proceed with a development project which was completed in 2014. In May 2013, the Bank announced that IFC, a member of the World Bank Group, with the support of the Government of Canada, would provide m2 Real Estate with a revolving loan of up to US$14.0 million (including up to US$4.0 million from the IFC-Canada Climate Change Programme) to support green housing construction and job creation in Georgia. The facility has helped m2 Real Estate develop energy efficient, affordable and quality housing projects in Georgia addressing housing deficit. See also "*Funding*".

For the three months ended 31 March 2016 and for the year ended 31 December 2015, the Real Estate Business generated profit of GEL 5.4 million (US$2.3 million) and GEL 10.8 million (US$4.5 million), respectively, corresponding to 6.3% and 3.8%, respectively, of the Group's total profit.

Other Investments

The Group's other investments include Teliani Valley, a wine and beverage business in which the Group owned a 71% stake, as of 31 March 2016 and Renewable Power Company, a hydro power business.

Teliani Valley is a leading wine producer in Georgia, selling over three million bottles of wine per annum in 26 countries. Teliani Valley has a strong production and distribution franchise, and the Group aims to leverage this expertise by launching beer production in partnership with Heineken. The Group intends to invest a total of approximately US$12.3 million (of which US$2.8 million in equity remains to be invested) to build the beer brewery in Georgia. The brewery will produce Heineken brands, mainstream beer and local lemonades. Teliani Valley aims to commence beer production by the end of 2016. It intends to distribute beer in Armenia, Azerbaijan and Georgia under a ten year agreement with Heineken.

Distribution Network (Banking Business)

The Bank has a multi-faceted distribution network for its customers, which includes Express Banking branches (including Metro branches), full-service branches, standard branches, Solo lounges, ATMs and remote banking as well as outlets located at various third party businesses, including, for example, supermarkets and auto dealerships.

Branches, Express Pay Terminals and ATMs

The Bank had 266 branches in Georgia as of 31 March 2016, including full-service flagship branches, standard branches, Solo lounges and Express Banking branches (including Metro branches), as compared to 266 and 219 branches as of 31 December 2015 and 2014, respectively. The increase in the number of branches since the end of 2014 primarily reflects the expansion of the Bank's Express Banking service, with 30 Express Banking branches opened in 2015, as compared to 11 conventional branches. The Bank operates Express service points that are small-format service points, providing clients with ATM and Express Pay (self-service) terminals and access to internet banking facilities. As of 31 March 2016, the Bank had 2,627 such Express Pay (self-service) terminals. Express Pay (self-service) terminals also enable clients to open small deposit accounts and receive low value cash loans instantly, which reduces the number of low value transactions taking place in branches and allows employees in branches to focus on selling higher value products and services, thereby enhancing branch efficiency. As of 31 March 2016, the Bank had the largest ATM network in Georgia, comprising 753 ATMs.

Remote Banking

The Bank's universal remote banking platform for multiple communication channels (Internet, telephone, SMS, mobile and e-mail-based banking services) enables customers to perform a wide range of transactions remotely. As of 31 March 2016, 734,486 retail customers and 3,706 corporate banking customers were registered to use the Bank's internet banking services and 930,100 retail banking customers and 1,908 corporate banking customers were registered to use the Bank's SMS-based mobile telephone banking services.

Information Technology

The Group views IT as an integral part of its daily operations, particularly at the Bank level, and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to improve service and efficiency. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. All major IT infrastructure components used by the Bank are clustered. The Bank's primary data centre is an autonomous facility that runs back-up systems designed to ensure that operations are not disrupted during critical or disastrous events. The Bank also has hardware and software to facilitate parallel operations and protect permanent data. The Bank has modernised its core IT system over recent years in order to increase its capacity, improve fault tolerance and reduce downtime. The Bank currently utilises a number of high-grade software systems, including the Va-Bank core banking system based on Oracle technology, upgraded Mobile and Internet banking solutions, CRIF/Strategy One, a credit-scoring and workflow system used by the Bank for consumer lending and a Human Resource Management system. The Bank develops its core systems software (core banking software, Internet, Mobile banking, and human resources software) internally.

Oracle Exadata hardware is used for the database servers of the Bank's core banking system and all other applications are operating on HP Intel hardware. The Bank was the first institution in Georgia to purchase and implement high resiliency Oracle Exadata systems.

The Bank recently implemented a number of new IT projects including:

- a new corporate Internet banking platform which provides customers with access to the full range of corporate banking products and services;
- IT internship programmes which provide talented technical and business students with an opportunity to train at and join the IT department;
- the roll-out of a new human resource management and employee 360° evaluation system, and the Bank is currently building additional modules for hiring and talent management process automation;
- a new, customer and digital-centric IT strategy;
- a new universal internet banking platform for various customer segments, based on customised software developed by the Bank's IT team; and
- a new disaster recovery site, which in addition to a primary data centre provides a full business continuity and disaster recovery process.

The Bank spent GEL 18.8 million (US$8.3 million) and GEL 13.5 million (US$7.6 million) on information technology in the years ended 31 December 2015 and 2014, respectively, which includes capital expenditures on property and equipment, capital expenditures on intangible assets and salary expenses of the information technology department.

Property

As of 31 March 2016, the total net book value of the investment property owned by the Group on a consolidated basis was GEL 254.2 million (US$107.4 million).

The Bank either owns or leases all of the premises it uses for its banking and other businesses. On 15 November 2011, the Bank moved to a new head office at 29a Gagarini Street, Tbilisi, 0160, Georgia, following the completion of renovation works which cost GEL 32.7 million. The Bank owns its new head office, as well as its old head office (which is located at Freedom Square, 3 Pushkin Street, Tbilisi, 0105, Georgia).

Aldagi rents the Bank's old head office and uses it as Aldagi's head office in Tbilisi.

GHG owns most of its properties, and leases some of its ambulatory clinics. The medical insurance and Real Estate Businesses lease their head offices.

m2 has a land bank with a book value of US$34.8 million as of 31 March 2016, with the capacity to build approximately 5,200 apartments (in addition to 2,507 apartments in those development projects that have been completed or are under development). See "*—Investment Business—Real Estate Business (m2 Real Estate)—Overview*".

As of the date of this Prospectus, there are no liens or encumbrances over any material real estate and land owned by the Bank or other subsidiaries.

Intellectual Property

The Bank has registered its principal logos and trademarks in Georgia. In addition, the Bank has registered all principal domain names related to the Group's business. In September 2008, the Bank applied to the World Intellectual Property Organisation (**WIPO**) for registration of its logo (IR 988 561, which is a stylised image of a lion) in all of the WIPO member states, except for the United Kingdom, Belarus, Ukraine and Israel, where the Bank successfully registered its logos separately with each of the relevant authorities in these jurisdictions. As of the date of the Prospectus, 71 WIPO countries have registered the above mentioned logo. In September 2008, the Bank applied to the WIPO for registration of its trademark (IR 987512, logo and name) in Azerbaijan, Belarus, the United Kingdom, Moldova and Ukraine and has also filed an individual application for the registration of its trademark in Israel. All of these countries have registered the trademark (logo and name). None of the Bank's intellectual property assets are considered to be material to the Bank's business.

Litigation and Other Proceedings

Other than as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this prospectus which may have, or have had in the recent past, significant effects on the Issuer's and/or the Group's financial position or profitability.

On 16 April 2015, some of the former shareholders of the Group's subsidiary Insurance Company Imedi L filed a claim in the Tbilisi City Court against JSC Insurance Company Aldagi, JSC Insurance Company Imedi L and JSC Medical Corporation Evex, which are legal successors of Insurance Company Aldagi. Pursuant to a demerger agreement entered into in 2014, the business and assets and liabilities of Insurance Company Aldagi BCI were spun off into three entities: Insurance Company Imedi L, which acquired the medical and travel insurance (limited to cover for the emergency medical treatment) business, Evex Medical Corporation, which acquired the healthcare services business and Insurance Company Aldagi, which continues to operate the property, casualty and pension business. The claim alleges that 66.0% shares owned directly or indirectly by the claimants in the share capital of Insurance Company Imedi L International were sold to Insurance Company Aldagi BCI in 2012 under duress at a price below market value. The claim is valued at US$17.1 million. The action is in a preparatory stage. If the claim is decided in favour of the claimants, the defendants would be required to pay damages in an amount quantified by the court.

Material Contracts

For a description of Material Contracts, see "*Funding*".

THE GEORGIAN BANKING SECTOR

Introduction

The Georgian financial sector consists mainly of Georgian banks, non-bank depository institutions, microfinance organisations, qualified credit institutions, and insurance companies. Non-bank depository institutions and microfinance organisations provide only limited banking services, such as accepting deposits from and issuing loans to their members only (in the case of non-bank deposition institutions), or issuing micro-loans (in the case of microfinance organisations), while banks provide a wide range of banking services. The NBG is the regulator of the financial sector supervising the banking sector and the securities market. The responsibilities of the NBG in relation to the supervision of commercial banks include issuing licences, establishing mandatory financial ratios, regulating accounting and reporting rules and supervising compliance with laws and regulations. Generally, all credit institutions in Georgia are required to be licensed or registered by the NBG. The NBG is Georgia's central bank and it establishes minimum reserve requirements for commercial banks. The NBG also establishes Georgian monetary policy, controls inflation, issues money and ensures effective functioning of payment systems.

As of 31 March 2016, there were 19 commercial banks registered in Georgia with general banking licences enabling them to perform banking transactions. According to information published by the NBG (based on data provided to the NBG by Georgian banks), as of 31 March 2016, the aggregate assets of all banks in Georgia were approximately GEL 24.7 billion, with the five largest banks accounting for approximately 77.4% of total banking sector assets.

History of the Georgian Banking Sector

The Georgian banking sector was transformed immediately upon Georgia's independence from the Soviet Union in 1991, when a two-tier banking system was introduced: the former GosBank (State bank of the Soviet Union), Georgia branch became the NBG and various commercial banks were established in mid-1991. Subsequently, the five state-owned Georgian banks (Eximbank, Savings Bank, Agromretsvbank, Mretsvmshenbank and Binsotsbank) were fully privatised in the period from 1993 to 1995.

The NBG was established as an independent supervisory, regulatory and monetary body and many of the practices in place when it was part of the Soviet Union remained largely unchanged. In particular, the NBG was still directly influenced by the Government at that time and was required to finance the budget deficit and to continue to provide indirect loans to state-owned enterprises in Georgia.

During the period from 1991 to 1994, Georgia experienced intense political and economic turmoil resulting from the break-up of traditional trade relations within the Soviet Union, followed by a military coup, a civil war and two secessionist wars. As a result, Georgia experienced one of the deepest economic recessions among the former Soviet Union states. By 1994, the majority of commercial banks were in financial difficulty and, as a result of hyperinflation, bank deposits had lost almost all of their value.

On 23 June 1995, the Parliament adopted the Organic Law of Georgia on the National Bank of Georgia (the **1995 NBG Law**), and on 23 February 1996, it adopted the Law of Georgia on the Activities of Commercial Banks (the **Banking Law**), which strengthened the independence of the NBG and granted it more authority to suspend the licences of those banks which failed to meet prudential regulations. The NBG's banking supervision policy was based on the "25 Key Principles for Effective Banking Supervision" developed by the Basel Committee on Banking Supervision. Furthermore, new rules and procedures to regulate banking activities were introduced that envisaged the creation of a new system of assets classification in order to: identify credit risks with greater precision, enhance external and internal auditing functions and eliminate conflicts of interests in banking activities.

In 1997, further banking industry regulations came into force. The NBG lowered reserve requirements in an attempt to encourage greater financial intermediation in Georgia. At the same time, the minimum capital adequacy ratio was increased from 8.0% to 10.0% of total assets. In January 1997, the NBG announced its plan to gradually increase the minimum capital requirement for commercial banks to GEL 5.0 million by the end of 2000, in order to promote further consolidation of the banking sector. In 1998, the NBG pursued this objective by revoking the licences of banks that failed to meet minimal capital requirements and other prudential regulations.

The Russian financial crisis, which occurred in 1998, led to a devaluation of the Lari by 40.0%, a consequent reduction in commercial bank deposits, and a significant slowdown in GDP growth. The NBG introduced stricter prudential regulations in order to stabilise the Georgian banking sector and prepared a plan to assist banks to maintain their liquidity by offering short-term liquidity loans.

In 1999, new accounting rules consistent with international accounting standards were introduced and minimum capital adequacy requirements were further strengthened. Furthermore, the NBG recommended that banks appoint international firms to carry out external audits with effect from February 1999.

In 2000, the NBG introduced the CAEL (capital, assets, equity and liquidity) methodology for the assessment of the financial position of operating commercial banks. This system, which has evolved into and is now known as the CAMEL (capital, assets, management, equity and liquidity) system, is routinely used by regulators to assess the performance of banks and develop a set of recommendations as to what measures need to be taken to induce improvements to the financial and operating results of the relevant banking institution.

A number of reforms were undertaken by the NBG in 2001 including the introduction of rules for asset classification and provisioning, and the utilisation of loan loss reserves by Georgian commercial banks that defined criteria for, among other things, a risk-weighted classification of bank loans (including contingent liabilities), inter-bank deposits, foreclosed collateral and the provisioning of loan loss reserves. In order to avoid conflicts of interest and prevent improper use of managerial privileges, a decree dealing with conflicts of interest and related party transactions in commercial banks was approved by the NBG in 2001. Furthermore, during the same year, the NBG introduced internal audit requirements for commercial banks, obliging them to conduct internal audits in order to control their banking operations.

In 2002, the NBG adopted a regulation on "Fit and Proper Criteria" for commercial bank administrators. The "Fit and Proper Criteria" was amended several times during the period from 2002 to 2008 to provide further guidance to Georgian banks, and was further revised in 2014.

To gradually increase the level of capitalisation and move towards European standards, in 2003, the NBG increased the minimum amount of required capital for Georgian commercial banks to GEL 12.0 million. During the same year, the NBG circulated an official letter to commercial banks requesting that they begin to introduce the best corporate governance practices based on the Organisation for Economic Cooperating and Development (**OECD**) Corporate Governance Principles of 1999.

During 2004 and 2005, the NBG continued to amend various regulations to facilitate the development and stability of the Georgian banking sector. The NBG relied principally on the key principles published by the Basel Committee on Banking Supervision.

In 2006, a restriction on the ownership of more than 25% of a Georgian commercial bank was repealed in order to promote investments in the banking sector, although the acquisition of more than 10%, 25% and 50% of a commercial bank in Georgia still requires the NBG consent and is subject to eligibility criteria. In the same year, certain measures were taken to increase the transparency of the banking sector, including obliging commercial banks to publish quarterly financial reports.

In 2008, the NBG approved comprehensive guidelines on risk management in Georgian commercial banks. As a result of such guidelines, each commercial bank is required to analyse its risk management systems, design a plan of action aimed at compliance with the guidelines and designate a person or group of persons responsible for preparing this action plan.

In March 2008, major reforms were carried out in the Georgian financial sector regulatory system. Based on the amendments to the 1995 NBG Law, the Financial Supervisory Authority (**Georgian FSA**) was established to take over all supervisory functions of the NBG related to commercial banks and non-bank deposit institutions, except for the supervision of the minimum reserve requirements. The Georgian FSA also had the authority to supervise the securities market and insurance companies.

On 24 September 2009, the Parliament adopted a new Organic Law of Georgia on the National Bank of Georgia (the **NBG Law**) which came into effect on 12 October 2009 and which led to the liquidation of the then recently established Georgian FSA (as of 1 December 2009) and the transfer of the Georgian FSA's regulatory and supervisory functions back to the NBG. The NBG became the legal successor of the Georgian FSA. However, all of the rules, regulations licences, permits and registrations issued by the Georgian FSA remained valid. As a result, there may be some confusion as to which rules and regulations are in force at any one time. In this Prospectus, Georgian FSA rules and regulations that currently remain in force are referred to as NBG/Georgian FSA rules or regulations. In September 2015, the Government has proposed a banking supervision bill, which would move the Georgian FSA away from NBG to a new agency. The proposed amendments were largely criticised by various interested groups. Despite a presidential veto, the bill was approved by the Parliament in

September 2015. The Constitutional Court, however, suspended the application of this disputed legislation. As a result, until a final adjudication of the Constitutional Court over the compliance of the adopted legislation to the Constitution, the NBG shall continue to carry out its current functions. As of the date of this Prospectus, whether or not this or similar legislation will be implemented now or in the future remains unclear.

In 2010, various bylaws were revoked and replaced as the NBG tried to revise legislation that it, and other former regulators of the financial sector, had passed. In May 2010, a new settlement system was introduced in IBAN (International Bank Account Number) format, which became mandatory for payments from 1 January 2013. In addition, in December 2010, a new payment and securities system (GPSS) was introduced, which comprises a real time settlement (RTGS) and securities settlement (CSD) module. Among other initiatives, the NBG has continued its efforts to harmonise commercial banks' financial reporting with international standards. A new rule on the External Audit of Commercial Banks was adopted in October 2010, which aimed to bring audit standards in line with international audit standards and regulate relations between regulators and external auditors.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. In 2013 the NBG introduced the new combined regulation on capital adequacy requirements based on Basel II and Basel III which become effective for Pillar I on 30 June 2014 and for Pillar II on 30 September 2014. The NBG is currently in the process of full implementation of Basel II and Basel III in Georgia although there is no timeline for its implementation as yet.

In May 2011, the NBG adopted the rule on Supplying the Customers with Necessary Information During the Provision of Banking Services by Commercial Banks, which applies to all kinds of consumer loan contracts, including amongst others, overdrafts and credit cards, (with a total value between GEL 300 and GEL 50,000), and deposit contracts (with an initial paid in amount below GEL 50,000). This regulation, among other things, requires commercial banks to provide in the customers' contracts, true, comprehensible and complete information regarding the bank's products, including all costs related to credits and deposits, rules on the calculation of effective interest rates, information on currency risks and the procedures for amending contracts. NBG has also established a cap of 2% on the prepayment fees that banks can charge their customers, which remains effective until 1 January 2017.

Overview of the Georgian Banking Sector

The Georgian banking sector has experienced rapid growth in recent years. However, in 2008, Georgian commercial banks faced certain difficulties, which negatively affected certain performance indicators of the commercial banks, such as net profit and return on assets and equity. According to the IMF, the deterioration of banking sector conditions in 2008 was attributable to the rapid credit growth in the immediately preceding years, the 2008 Conflict, the impact of the global financial crisis and the devaluation of the Lari in November 2008. The Georgian banking sector stabilised over the course of 2009 and has experienced continued growth since late 2009. The devaluation of the Lari against USD in 2015 had a negative effect on NPL but this was not material when measured against overall sector growth.

According to the NBG, the total assets of the Georgian banking sector were GEL 24.7 billion (US$10.4 billion) as of 31 March 2016 and GEL 25.2 billion (US$10.5 billion) as of 31 December 2015, as compared to GEL 20.6 billion as of 31 December 2014. Aggregate loans granted by Georgian banks were GEL 16.0 billion (US$ 6.8 billion) as of 31 March 2016 and GEL 16.1 billion (US$6.7 billion) as of 31 December 2015 as compared to GEL 13.0 billion as of 31 December 2014, and the ratio of loans to GDP as of 31 December 2015 was 50.5%, as compared to 44.5% as of 31 December 2014. The aggregate statutory shareholders' equity of Georgian banks was approximately GEL 3.5 billion (US$1.5 billion) as of 31 March 2016 and GEL 3.5 billion (US $1.5 billion) as of 31 December 2015, as compared to GEL 3.6 billion as of 31 December 2014. The aggregate profit of Georgian banks was approximately GEL 109.9 million (US $46.4 million) for the first three months of 2016 as compared to GEL 101.3 million (US $42.8 million) for the first three months of 2015 and GEL 537.4 (US $224.4) million for the year ended 31 December 2015, as compared to GEL 474.8 million in 2014. The return on average assets (**ROAA**), (based on monthly average assets) of the banking sector for the year ended 31 December 2015 was 2.3%, as compared to 2.6% for 2014 and the return on average equity (**ROAE**) (based on monthly average equity) for the year ended 31 December 2015 was 15.4%, as compared to 14.8% for 2014. The ROAA (based on monthly average assets) was 1.7% and ROAE, based on monthly average equity, was 12.4% as of 31 March 2016. From 31 December 2014 to 31 December 2015, the Georgian banking sector's assets grew by 22.1%, while aggregate loans granted by Georgian banks also increased by 23.1% during the same period.

The following table sets out certain information regarding the banking sector in Georgia, Russia, Kazakhstan and Ukraine as of 31 December 2015.

Country	Loan penetration	Deposit penetration
	(%) GDP	
Georgia	50.5%	45.30%
Russia	54.7%	38.91%
Kazakhstan	44.9%	39.18%
Ukraine	76.1%	52.23%
Turkey	87.6%	63.80%

Source: IMF, Central Banks, Statistical offices

The following table sets out information regarding the Georgian banking sector and the five largest banks in Georgia as a group.

	As of 31 March			As of 31 December					
	2016			2015			2014		
	Five largest Georgian banks(1)	Total Georgian banking sector(1)	Five largest banks as a % of sector	Five largest Georgian banks(1)	Total Georgian banking sector(1)	Five largest banks as a % of sector	Five largest Georgian banks(1)	Total Georgian banking sector(1)	Five largest banks as a % of sector
Total assets	19,143,954	24,727,167	77.42%	19,562,748	25,165,414	77.74%	15,626,814	20,617,351	75.79%
Gross loans	12,428,398	16,026,752	77.55%	12,487,312	16,085,900	77.63%	9,935,690	13,069,555	76.02%
Total deposits	11,365,146	14,250,992	79.75%	11,507,935	14,326,071	80.33%	9,139,789	11,604,806	78.76%
Shareholders' equity	2,582,070	3,549,004	72.75%	2,576,489	3,512,735	73.35%	2,558,363	3,586,288	71.34%
Net income	84,406	109,889	76.81%	441,787	537,394	82.21%	394,138	474,808	83.01%

Source: NBG
Note: (1) GEL thousands

In recent years, the Georgian banking sector has become increasingly competitive. According to the statistics published by the NBG, as of 31 March 2016, there were 19 commercial banks including one foreign bank branch operating in Georgia, 18 of which (including one branch of foreign banking institution) had foreign capital participation. The Company considers the Bank's principal competitors to be TBC Bank, Liberty Bank, Bank Republic, ProCredit Bank and VTB Georgia. The Bank faces particular competition from ProCredit Bank in relation to ProCredit Bank's large market share in SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. In Belarus, the Group also competes with a wide range of local (including state-owned) and international banks.

Despite significant competition, the Management believes that the Bank is well placed to retain its dominant market position among the top banks in Georgia that offer a wide range of retail and corporate products and services. See "*Risk Factors—Additional Risks Affecting the Group—The Group faces competition in the Banking Business*".

Assets and Liabilities, Credit Quality and Interest Rates

The majority of the assets of Georgian banks comprise loans to private sector borrowers (excluding inter-bank loans). According to information published by the NBG (based on data provided to the NBG by Georgian banks), in 2015 loans to private sector borrowers (excluding inter-bank loans) and investment securities represented 63.6% and 9.0% of total assets of Georgian banks, respectively, as compared to 62.9% and 9.3% in 2014. As of 31 March 2016, loans to private sector borrowers (excluding inter-bank loans) accounted for 64.5% of total assets, while investment securities represented 8.2%. Aggregate loans amounted to GEL 16.0 billion as of 31 December 2015, representing an increase of 23.5% as compared to 2014. According to the NBG, the overall quality of loans granted by Georgian banks in 2011 improved and there was a decrease in the loan loss reserves/gross loans ratio to 7.0% from a loan loss reserves/gross loan ratio of 9.4% as of 31 December 2010. Loan loss reserves as of 31 December 2015 amounted to GEL 1015.8 million, as compared to GEL 802.9 as of 31 December 2014. As of 31 March 2016 and 31 December 2015, loan loss reserves/gross loan ratio stood at 6.9% and 6.3%, respectively. Loan loss reserves as of 31 March 2016 amounted to GEL 1,099.7 million, as compared to GEL 1,015.8 million as of 31 December 2015.

In 2015, the majority of aggregate liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 71.6% and borrowings accounted for 20.9% of total liabilities, while as of 31 December 2014, non-bank and bank deposits accounted for 73.0% and borrowings for 23.4% of total liabilities, respectively. As of 31 March 2016, non-bank and bank deposits accounted for 72.6% and borrowings for 19.6% of banking sector liabilities. In 2015, total deposits grew by 24.8%, while GEL denominated customer deposits decreased by 4.1% and foreign currency denominated customer deposits grew by 42.6%. In 2014, total deposits grew by 20.8%, while GEL denominated customer deposits grew by 19.3% and foreign currency denominated customer deposits increased by 20.6%. In 2013, total deposits grew by 25.4%, while GEL denominated customer deposits increased by 41.2% and foreign currency denominated customer deposits increased by 18.0%.

Based on information published by the NBG (based on data provided to the NBG by Georgian banks), average interest rates on loans granted by commercial banks were 13.3% in the three months ended of 31 March 2016, 13.2% in 2015 and 14.3% in 2014. Average interest rates on loans denominated in Lari were 18.8% in the three months ended of 31 March 2016, 17.6% in 2015, 18.2% in 2014 and the average interest rate on foreign currency loans was 10.4% of the three months ended of 31 March 2016, 10.8% in 2015 and 11.9% in 2014. Average interest rates on foreign currency bank deposits were 4.2% in the first three months of 2016, 4.6% in 2015 and 5.2% in 2014, whereas average interest rates on Lari-denominated bank deposits, were 7.6% in the first three months of 2016, 7.7% in 2015 and 7.6% in 2014.

Based on information published by the NBG, the NBG's gross international exchange reserves were approximately US$2.5 billion as of 31 March 2016, US$2.5 billion as of 31 December 2015 and US$2.7 billion as of 31 December 2014. The official average monthly exchange rate of the Lari against the US Dollar appreciated by approximately 0.4% in March 2016 as compared to December 2015, depreciated by 21.4% in December 2015 as compared to December 2014 and depreciated by 9.1% in December 2014 as compared to December 2013. Inflation as measured by period-end CPI changed to 2.0% in 2014 and 4.9% in 2015. In the three months ended 31 March 2016, period end inflation was 4.1%.

Dollarisation of the Georgian Economy

Following the economic and political uncertainties of the early 1990s and subsequent hyper-inflation, the Georgian economy underwent a process of dollarisation, whereby the US Dollar and other freely convertible currencies became the major means of payment and wealth accumulation in Georgia. This process was encouraged by the financial liberalisation of the mid-1990s, which allowed domestic financial intermediation to be conducted in both national and foreign currencies.

Dollarisation (foreign currency deposits as a percentage of total deposits) subsided with the stabilisation of the economy in 1995, only to increase again after the Russian financial crisis of 1998. Since 2011, deposit dollarisation was on a declining trend, however depreciation at end of 2014 pushed deposit dollarisation upward, followed by early signs of deposit de-dollarisation in March 2016. The dollarisation rate declined between 2004 and 2008, with foreign currency deposits declining from approximately 85.1% of all amounts due to customers as of January 2004 to 64.5% as of January 2008. However, the dollarisation rate then increased as a result of the combined effects of the 2008 Conflict and the global financial crisis on Georgia. The dollarisation rate increased to 72.9% as of January 2009, primarily as a result of the devaluation of the Lari by 16.1% in November 2008, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The dollarisation rate has since decreased to 64.2% as of January 2013 and to 62.3% as of January 2014, but increased to 64.0% as of January 2015 and to 70.8% as of March 2016, primarily as a result of the depreciation of the Lari by 27.3% in 2015.

Based on information published by the NBG, the portion of loans denominated in foreign currency was 65.0% as of 1 April 2016, 64.5% as of 1 January 2016, 60.8% as of 1 January 2015, 62.4% as of 1 January 2014 and was 67.6% as of 1 January 2013.

The portion of short-term loans denominated in foreign currency was 41.2% as of 1 January 2015, 42.3% as of 1 January 2014 and was 45.1% as of 1 January 2013. The portion of long-term foreign currency-denominated loans (with a maturity of one year or more) was 66.9% as of 1 January 2015, 68.9% as of 1 January 2014 and was 75.0% as of 1 January 2013. As of 1 January 2016, the portion of short-term loans denominated in foreign currency amounted to 44.0%, while the portion of long-term foreign currency denominated loans (with a maturity of one year or more) was 69.6% as of 1 April 2016. The NBG has taken steps to stimulate demand for the Lari, including the introduction of differentiated reserve requirements for domestic and foreign currencies.

Various policies of the Government have also led to increased demand for the Lari. For example, contraction of the shadow economy traditionally served by the US Dollar naturally led to its replacement by the national currency. In 2013, the NBG launched a programme, pursuant to which it provides financing to Georgian banks secured with their GEL-denominated loan portfolio. This programme, which allows the Bank to issue Lari denominated mortgage loans at rates lower than foreign currency denominated mortgage loan rates, is expected to support the growth of Bank's overall, and particularly, Lari denominated mortgage loan book. Within this programme, the Bank may, from time to time, need to pledge corresponding portions of its mortgage loans receivables in favour of the NBG.

Foreign Investment

Though direct competition from foreign banks is not currently significant, there are currently no legal or regulatory barriers impeding foreign investment in the Georgian banking sector.

The share of the non-residents beneficiary owners in the banks' assets amounted to 85% as of December 2015. According to information published by the NBG, as of 31 March 2016, there were 19 commercial banks including 1 foreign bank branch operating in Georgia, 18 of which (including branch of foreign banking institution) had foreign capital participation. Furthermore, the shares of the holding company of the Bank and a majority of the shares of TBC Bank (represented by GDRs) are listed on the London Stock Exchange.

Major foreign investors in the Georgian banking sector include the EBRD, FMO, IFC, DEG, EIB, EFSE, ADB, Société Générale (France), Kreditanstalt für Wiederaufbau (the German Reconstruction Credit Institution or KfW), Joint Stock Company Procredit Holding, VTB Bank (Russian Federation), BTA (Kazakhstan), Halyk Bank (Kazakhstan), International Bank of Azerbaijan, Development Bank of the Caucasus (Azerbaijan), Ziraat Bank (Turkey).

Concentration within the Banking Sector

Recent years have been marked by increasing consolidation and concentration within the Georgian banking sector. According to information published by the NBG, as of 31 March 2016, the aggregate assets of all banks in Georgia were approximately GEL 24.7 billion (US$10.4 billion), with the five largest banks accounting for approximately 77.4% of such assets.

Payment Systems

At the end of the 1990s, the Georgian banking sector began to develop real-time settlement systems and implement the centralised system of Society for Worldwide Inter-bank Financial Transactions (SWIFT). Banking card processing companies were established and Georgian banks began to issue international bank cards. The number of ATMs and POS terminals throughout Georgia has significantly expanded over the last few years and a number of initiatives to pay salaries to employees via banking cards (rather than in cash) have been implemented. All major card systems are accepted in Georgia, including VISA, MasterCard, American Express and Diners Club. All bank transfers are now done electronically and a clearing system for VISA card transactions in Lari (known as GNNSS) has been introduced. International and domestic money-transfer systems are widely used in commercial banks. In May 2010, a new settlement system was introduced in IBAN format, which has become mandatory for payments from 1 January 2013. In addition, in December 2010, a new payment and securities settlement system (GPSS) was introduced, which comprises a real time gross settlement (RTGS) and full versus payment (DvP)/free of payment (FoP) securities settlement (CSD) modules. According to the NBG, the total value of bank card transactions carried out using cards issued by resident issuers amounted to GEL 12.5 billion in 2015, GEL 10.8 billion in 2014 and GEL 8.9 billion in 2013. On 1 July 2012, a new Law of Georgia on Payment System and Payment Service (the **Payment Systems Law**) came into force. Pursuant to the provisions of that law, a number of concepts are being introduced to the governing statutory framework for the operation of commercial banks, including, among others, the notion of financial collateral (pledge), which, if and to the extent perfected, will be given preferential treatment during the temporary administration and liquidation of a commercial bank. The Payment Systems Law also introduces new principles to payment system regulation, such as the finality of settlement, which signifies a transfer order that is irrevocable, unconditional and enforceable by an account provider or settlement agent in the execution of a transfer instructed by, or on behalf of, an account holder. The Payment Systems Law also regulates the delivery of payment services, which, among other things, include the issuance and acquisition of payment instruments, including electronic money instruments; the issuance and use of electronic money to conduct payment operations via telephone, internet or other electronic means; and the fulfilment of payment transactions through, among others, telecommunication, digital and information technologies. Based on the Payment Systems Law, relevant amendments have also been made to the Banking Law that authorise commercial banks to engage in additional types of banking activity, namely to provide payment services, operate payment systems and act as settlement agents. The NBG has been granted the authority to supervise these matters through the registration of payment system operators and payment service providers, as well as establish minimum requirements, limitations and sanctions.

Credit Ratings

In May 2016, S&P affirmed its "BB-/B" long- and short-term foreign and local currency sovereign credit ratings on the Government, with stable outlook. In April 2016 Fitch affirmed Georgia's long-term foreign and local currency Issuer Default Ratings at "BB-" with stable outlooks. Fitch also affirmed the issue ratings on Georgia's senior unsecured foreign- and local-currency bonds at "BB-" and the country ceiling was affirmed at "BB" and the short-term foreign-currency IDR was affirmed at 'B'. In March 2016, Moodys affirmed issuer and senior unsecured ratings for Georgia at Ba3. Moodys also affirmed the following country ceilings for Georgia as unchanged: Baa3/NP local-currency country risk ceiling, Baa3/NP local-currency deposit ceiling, Ba1/NP foreign-currency bond ceiling and B1/NP foreign-currency deposit ceiling.

Fitch is established in the EU and, along with Moodys is registered under the CRA Regulation. S&P is not established in the EU and has not applied for registration pursuant to the CRA Regulation

Several Georgian banks, including the Bank, have been rated by international rating agencies. The Bank, however, is the only commercial bank in Georgia to be rated by three international rating agencies. In March 2016, S&P affirmed its 'BB-/B' long- and short-term counterparty credit ratings on the Bank, each with a stable outlook. At the same time, the 'ilA' S&P's Maalot (Israel) national scale rating was affirmed. The outlook on the national scale rating is also stable. In May 2016 Fitch affirmed its foreign and local IDR at 'BB-', short term foreign and local currency IDR at 'B', viability rating at 'bb-' and support rating at 4 for the Bank, with a stable outlook. In March 2016, Moodys published a credit opinion with foreign and local currency deposits rated at 'B1/NP' and 'Ba3/NP' respectively, each with a stable outlook.

Role of the National Bank of Georgia

The NBG is the central bank of Georgia, banking institution and fiscal agent of the Government. The main objective of the NBG is to maintain the stability of prices, which implies the existence of a moderate and predictable rate of inflation. The NBG is responsible, amongst other things, for ensuring the stability and transparency of the financial system and promoting sustainable economic growth in Georgia, implementing monetary and foreign exchange policies, supervising the banking sector (including through the setting of minimum reserve requirements) and other non-banking financial institutions and maintaining and managing Georgia's international reserves. The role and responsibilities of the NBG are set out in the Constitution, the NBG Law and other Georgian legislation. In addition, the NBG is expected to be guided by the rules and customs of international banking practice. The NBG is entitled to enter into agreements, acquire, hold and manage property, act as a claimant or defendant in legal proceedings and independently perform its functions.

The supreme body of the NBG is its Council, which has seven members and is responsible for the management and supervision of the NBG's activities. Amongst other things, the Council is responsible for the approval of the main principles of management of the international reserves of Georgia and of the rules of establishing foreign currency exchange rates. The President of the NBG is also Chairman of the Council. In addition to the Chairman, the Council consists of two Vice-Presidents and other members. Vice-presidents are nominated by the President of the NBG. Members of the Council are elected for a seven-year term by the Parliament based on the nomination of the President of Georgia and are eligible for re-election. A member of the Council can only be removed by a decision of the Parliament by way of impeachment for breaches of the Constitution or the commission of a crime. In the event of impeachment, a new member must be elected to replace the impeached member. The President and Vice-Presidents of the NBG are appointed and dismissed by the President of Georgia.

Under the NBG Law, the NBG has the following major functions:

Issuing Money and Regulating its Circulation

The NBG has the exclusive right to issue bank notes and coins in Georgia. The NBG is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

Monetary Policy

The main direction of the NBG's monetary policy is to attain and maintain the targeted rate of average annual increase of consumer price levels. The NBG implements monetary policy according to the main directions of monetary and foreign exchange policy defined annually by the Parliament.

The NBG is responsible for setting minimum reserve requirements for banks and non-bank depositary institutions and may increase the minimum required amount of reserves as it deems appropriate. These requirements are determined separately in Lari and foreign currencies depending on the average attracted funds, in order to promote the continued development of the domestic interbank market. The NBG has the power to impose fines on banks and non-bank depositary institutions that fail to maintain the minimum reserves.

In the conduct of its monetary policy, the NBG is permitted to issue debt securities and to purchase and sell such debt securities, as well as those issued by the Government, directly or under repurchase agreements in the open market. It is also authorised to issue loans to commercial banks and non-bank depositary institutions with appropriate security, accept deposits and be a lender of last resort to commercial banks for a period not exceeding three months (unless the stability of Georgia's financial system requires issuance of the loans by the NBG on different terms).

Foreign Exchange and International Reserves

The NBG determines the exchange rate for the Lari against the US Dollar according to the average weighted exchange rate calculated on the basis of the inter-bank spot transactions (including those in which the NBG is involved) registered in the Bloomberg Electronic Trading System within a specified period of time. As to the official exchange rate of the Lari against other foreign currencies, it is determined on the basis of cross-currency calculation of the exchange rates existing in international markets or internal currency markets of the issuer states. The NBG holds and manages the official international reserves.

Acting as Banker, Adviser and Fiscal Agent of the Government

The NBG advises the President and the Government, including the Minister of Finance, on all matters that relate to the activities of the NBG, the main parameters of the annual state budget and amendments to it, including the planning of domestic and external public sector borrowings. It is authorised to act as depository for deposits from the Treasury Service of Georgia and, in such capacity, to receive and disburse monies, maintain accounts and provide related services. The NBG is authorised to act as the fiscal agent of the state agencies in the marketing and administration of debt securities issued by such agencies.

Operation of Clearing and Settlement Facility

The NBG is entitled to establish procedures and issue regulations relating to clearing and non-cash settlement, organise implementation of the payment systems and provide service and administration of such systems to ensure their efficient operation. The NBG has the power to assist banks with organising and supervising payment systems.

Reporting

Not later than 1 October each year, the NBG submits a draft document on the main directions of the monetary and foreign exchange policy for the following three years to the Parliament for approval by the end of that year. If the Parliament fails to approve the draft document on the main directions of the monetary and foreign exchange policy by the end of the respective year, the NBG operates in accordance with its draft proposals. The draft document on the main directions of monetary and foreign exchange policy includes the targeted level of inflation, the main instruments of monetary policy used to attain the targeted inflation rate and a discussion of potential risks.

Within four months of the end of each fiscal year, the NBG submits a report on the implementation of its monetary and foreign exchange policies to the Parliament for its approval.

Role of the NBG as the Supervisor of Georgia's Financial Sector

Under the NBG Law, the NBG has the following major supervisory functions:

Supervision and Licensing

The NBG is responsible for the supervision of the financial sector of Georgia, which along with the commercial banks includes: non-bank depositary institutions, brokers, securities' registrars, asset management companies, central depository, specialised depository, stock exchange, microfinance organisations, non-state pension scheme founders, reporting companies, investment funds, payment system operators, payment service providers, qualified credit institutions, currency exchange and money transfer offices.

The NBG has the power to issue and revoke licences (if applicable), carry out inspections, impose restrictions and sanctions and place banks and non-bank depository institutions (as well as certain other financial institutions) into temporary administration and/or liquidation.

Regulation of Reporting Rules and Capital Requirements

The NBG sets accounting and reporting rules and procedures for entities subject to its supervision, including commercial banks and non-bank depositary institutions and is entitled to carry out an audit of all of the relevant documents of such institutions and their subsidiaries. The NBG has the power to determine the minimum capital requirements, among others, for banks and non-bank depositary institutions and to obtain information about sources of capital, as well as owners and beneficial owners of significant interests in commercial banks. The NBG issues various regulations related to its supervisory functions.

Reporting

The NBG Council reviews, approves and submits an annual activities report and financial report of the NBG to Parliament.

LENDING POLICIES AND PROCEDURES

The information in this section relates only to the Bank unless otherwise stated.

The Bank lends to corporate, retail and investment management customers. Loans advanced are typically secured by collateral. The Bank has established procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans. These procedures are set out in the Bank's credit policies and procedures and other internal documents (the **Credit Policies**), which have been approved by the Supervisory Board and/or Bank's management board, and applies to all loans, including those to related parties. The performance of outstanding loans is subject to monitoring by the Bank's Corporate and Retail Banking front offices, Credit Risk Management and Retail Credit Risk Management departments. At the centre of the Bank's lending and approval process are its Credit Committees. The Credit Committees supervise and manage the Bank's credit risks. In particular, the Credit Committees approve individual transactions and establish credit risk categories and provisioning rates.

Loan Approval Procedures

Corporate Loans

The Bank evaluates corporate banking customers on the basis of their credit history, business operations, market position, management, level of shareholder support, financial position, proposed business and financing plan and on the quality of the collateral offered.

Applications for loans by corporate banking customers are initially submitted to the corporate bankers responsible for the particular customer. The corporate bankers obtain from the applicant the documents necessary to review the loan application, including confirmation of the applicant's legal status, its financial reports, evidence of its management's authority, a description of the proposed collateral (if any), which is valued by the Bank's valuator, supporting documents, a description of its business plan data or of the project to be funded and evidence of its credit history. A corporate banker then performs an on-site assessment of the customer's business operations and prepares a credit memorandum.

The loan application and/or credit memorandum, together with the supporting documentation and collateral evaluation report (if any), are then submitted by the corporate banker to the Credit Risk Management Department for independent appraisal. The Credit Risk Manager carries out an overall appraisal of the applicant's business, assesses its suitability as a customer of the Bank and appraises its business operations or the project to be funded as well as the applicant's creditworthiness. The credit risk manager independently carries out a detailed analysis of the credit memorandum, including, in particular, an evaluation of the applicant's financial position, its business operations or the project to be funded, the sufficiency of the proposed collateral, the applicant's sources of repaying or refinancing the loan and the risk of default. The credit risk manager conducts a detailed review focusing in particular on the possible non-legal risks. Once the credit risk manager's review is complete, the credit risk manager produces a report which is required for the third tier sub-committee and which may be requested by either first or second tier sub-committees. The credit memorandum and, where appropriate, the credit risk manager's report are submitted to the appropriate level of the relevant Credit Committee, depending on the overall exposure. The relevant Credit Committee then makes the final decision, which is signed by all members of that Credit Committee in attendance at the relevant meeting.

Retail Loans

The loan approval procedures for retail banking loans depend on the type of retail lending product. Applications for consumer loans, including credit cards, POS loans and express loans are treated under the "scoring" approval procedure. A loan officer conducts an interview with the applicant, completes an application, collects all relevant documentation and submits it to the Retail Credit Risk Management Department, where the application is subject to a scoring system (which includes an assessment of the applicant's credit history, financial position and ability to service the loan). While the loans are automatically approved by using the scoring system, in certain cases the appropriate Credit Committee will become involved to determine the amount, terms and conditions of other loans. Applications for mortgage loans by retail banking customers are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount and terms and conditions of the loan, which must be approved at the appropriate Credit Committee level. In the case of micro-financing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate Credit Committee which makes the final decision. Credit Committee members have equal voting authority and decisions are approved by a simple majority of votes.

In 2004, the Bank, jointly with certain other Georgian banks and with Creditinfo Group, a provider of credit information solutions, established Joint Stock Company Credit Information Georgia (**CIG**) to serve as a centralised credit bureau in Georgia. Most Georgian banks have shared negative customer credit information since July 2006. Since 2009, they also share and contribute positive customer credit information with CIG. There is currently no law on credit reporting in Georgia.

Monitoring

The Bank has procedures requiring regular monitoring of its loans and its loan portfolio pursuant to defined procedures. As well as monitoring the borrower's compliance with its obligations under the relevant loan, the Bank reviews all available information on the borrower's activities, including financial reports. In relation to its loan portfolio, the Bank also monitors the level of past due loans and the concentration and volume of loans to any particular borrower, group of borrowers or industry sector.

In the event that a payment is not made when due, the borrower is contacted by one of the Bank's officers and employees to ascertain the reason for non-payment. The Bank revises the risk associated with the borrower and adjusts its provisioning accordingly. Default interest accrues until payment is made. If payment is not made within a prescribed period, the loan is assigned to the Asset Recovery Department and/or the Credit Debt Management Unit and/or the Legal Department for legal proceedings. Certain unsecured consumer loans are outsourced to third party collection companies.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 March 2016, 83.6% of the Group's loans to customers were collateralised (including guarantees). An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal Department and submitted to the appropriate Credit Committee, together with the loan application and credit risk manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Under Georgian legislation, enforcement of security requires state registration or perfection through registration, through possession or by means of creating a financial collateral as defined in the Payment Systems Law. The Bank's Legal Department is responsible for registering the collateral taken by the Bank, monitored by the credit administration and documentation unit. Although, to the extent practical, the Bank seeks to register all of its security interests in loan collateral as a matter of policy, if the Bank fails to register any of its security interests in loan collateral, or fails to do so properly, this may result in its security being invalid or it facing unexpected or conflicting claims of other secured creditors. However, charges over moveable property may be impracticable to register due to the incapability of the chargee to restrict the subsequent sale of such moveable property. In addition, the statutory priority of claims against an obligor in Georgia will affect the amount the Bank will be able to realise pursuant to any claim it makes as a secured creditor.

The Bank's requirements with regard to liquidity and price volatility of collateral depend on its evaluation of the borrower and the loan transaction. The frequency of a collateral review depends on the type of collateral taken. In practice on average, it takes from two to four months to go through court procedures to take writ of execution. However, in certain cases the court may require a longer period. It takes an additional one to three months for the Enforcement Bureau to hold the public auction. In normal circumstances, collateral is generally realised within a maximum period of six months after the repossession of the collateral. Recently, certain controversial amendments were adopted by the parliament concerning eviction of the borrower. Under current legislation, the involvement of the court to evict someone from the property which requires the Bank to go through additional procedures to evict the borrower from a property which is already owned by the Bank, whereas until December 2015, it was possible to evict the Borrower with the help of police and without the respective court decision.

The following table sets out the Group's total loans to customers and finance lease receivables (gross of allowances for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 31 March		As of 31 December		
	2016		2015		2014
	(thousands of US Dollars)[1]	*(thousands of Lari)*	*(unaudited) (thousands of US Dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*
Secured by pledge of real estate	1,392,811	3,298,038	1,335,105	3,197,442	2,489,079
Secured by corporate guarantees	112,812	267,127	109,319	261,808	264,950
Secured by pledge of deposits & securities	117,262	277,665	105,731	253,216	204,014
Secured by pledge of gold	26,715	63,259	25,863	61,940	54,785
Collateralised by pledge of transport	71,203	168,602	99,006	237,109	184,098
Collateralised by pledge of inventory	220,967	523,228	211,842	507,340	534,802
Collateralised loans and finance lease receivables[3]	31,323	74,169	30,433	72,884	64,746
Unsecured loans and finance lease receivables	385,658	913,200	392,838	940,808	663,495
Total loans to customers and finance lease receivables, gross	**2,358,751**	**5,585,288**	**2,310,137**	**5,532,547**	**4,459,969**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3679 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 March 2016.

(2) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

(3) Other collateralised loans comprise loans to customers collateralised by machinery, equipment and other types of collateral, or by multiple types of (mixed) collateral, excluding real estate.

Assessments of Provisions for Loan Impairment

The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial position and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgment of the Bank's management, is adequate to provide for the losses incurred. Provisions are made as a result of individual or collective appraisal(s) of the financial assets. Provisions are made against gross loan amounts.

The change in impairment of interest-earning assets is reflected in the profit and loss account and the total impairment of interest-earning assets is recognised through the use of an allowance account, which is deducted in arriving at net balances, as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in impairment for similar financial assets, national economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain impairment losses that are substantial relative to the allowances, it is the judgment of the Bank's management that the allowance account for interest-earning assets is adequate to absorb losses incurred on the assets at risk. The Bank monitors its loan portfolio on a monthly basis to determine whether estimates of losses should be increased or decreased.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans exceeding US$ 150,000 and non-significant loans are defined as loans less than US$150,000. All individually significant loans, for which a default event has been identified, should be individually assessed on a case-by-case basis. All defaulted positions, which cease to be considered individually significant, should be transferred to the portfolio subject to automatic individual assessment. Identification of impairment is performed by the Bank on a monthly basis. The provisioning process considers all credit exposures and results in default events recognition. All exposures classified as defaulted are subject to individual assessment. Positions, for which a default event has not been identified, are subject to collective assessment.

The provisioning process can be divided into three stages:

i. Identification of default events;

ii. Selection of impairment assessment method (individual assessment on a case-by case basis/ automatic individual assessment/ collective assessment); and

iii. Assessment of the impairment.

Loan Restructuring Policy

In response to the changed credit risk environment following the 2008 Conflict and the onset of the global financial crisis in 2008, the Bank established a Corporate Recovery Department, Micro & SME Loan Recovery Unit and retail loan restructuring group in respect of the Bank's operations in Georgia. In addition, the Bank developed and implemented a loan restructuring policy for retail banking, an important tool for enhanced credit portfolio management. The Bank makes an assessment as to whether overdue corporate loans should be restructured or court proceedings initiated on a case-by-case basis.

According to the Bank's loan restructuring policy, renegotiated loans are loans that would otherwise be overdue or impaired and whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay. The Group's ratio of renegotiated loans to total gross loans was 5.4% as of 31 March 2016, as compared to 4.0% as of 31 December 2015 and 3.1% as of 31 December 2014. The Bank considers a loan to be "at risk" when payment is overdue for 30 days or following a critical event, such as the declaration of bankruptcy. The Bank also evaluates the underlying reasons for default in order to mitigate the risk of future loans from becoming at risk loans. In certain circumstances, the Bank then contacts the borrower to discuss the options for restructuring the loan, by rescheduling interest payments and extending the term of the loan in order to restore the borrower's ability to service or repay the loan, or by trying to obtain additional collateral. The borrower will be liable to pay a penalty at a daily rate of 0.5% for retail and wealth management loans and double the annual interest rate for corporate loans on the total overdue amount, which includes the principal and interest accrued in respect of each day the relevant loan payment is overdue. According to the Bank's policy, if the loan is restructured, 50% (the minimum afforded in all cases), 70% (in cases where the loan is secured by real estate) or 90% (in cases where the borrower is willing to pay the total outstanding amount of principal and interest due in respect of the loan) of the penalties that the borrower has accrued for late payment may be waived by the Bank. The term of a restructured residential mortgage can be increased to a maximum of 180 months and, depending on the borrower's circumstances, a borrower may be granted a maximum grace period of between three and six months. Once a loan has been restructured, the Bank closely monitors the borrower's compliance with the terms of the renegotiated loan.

Write-offs

Under the Bank's internal loan write off policy, loans of up to a principal amount of US$500,000 secured by real estate, are subject to be written off automatically, if days past due are more than 365 days. Loans of more than a principal amount of US$500,000 secured by real estate, are subject to be written off on a judgment base by the Deputy CEO-(Chief Risk Officer) and the Credit Risk Management Department. Non-Secured loans or loans secured by other types of collateral (excluding real estate and cash/deposit) are subject to be written off automatically, if days past due are more than 150 days. The Bank writes-off the gross amount of the loan irrespective of the value of the collateral.

RISK MANAGEMENT

The information in this section relates only to the Bank unless otherwise stated.

Overview

Management of risk is fundamental to the Banking Business. The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures.

Risk Management Structure

Risk Management Bodies

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

Supervisory Board. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principals and is ultimately responsible for identifying and controlling risks. It approves the Bank's Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the respective authorities of the Credit Committees (including approvals of single borrower lending exposure exceeding US$25.0 million). The Management Board presents a comprehensive credit risk report and market risk report to the Supervisory Board for their review on a quarterly basis.

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

Audit Committee. The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy. It is responsible for fundamental risk issues and manages and monitors compliance of relevant risk management decisions with the Bank's risk management policy. The Audit Committee facilitates the activities of the internal audit and external auditors of the Bank. The Internal Audit Department also reviews AML policies and procedures and presents audit reports on AML to the Audit Committee on a quarterly basis. The Audit Committee is elected by the Supervisory Board.

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

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

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

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

Credit Committee. The Bank has three credit committees (together, the **Credit Committees**), each one supervising and managing the Bank's credit risk in respect of retail and investment management loans, corporate loans and counterparty loans. The three committees are: the Retail Banking Credit Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee (**FGCRMC**). FGCRMC manages, monitors and controls counterparty risk of financial and governmental counterparties of Bank of Georgia. Each Credit Committee approves individual loan transactions and establishes credit risk categories and provisioning rates on such transactions. The Deputy Chief Executive Officer (Chief Risk Officer) and the Credit Risk Management Department review the credit quality of the loan portfolio, set provisioning rates and on a monthly basis, in consultation with the Bank's CEO and Deputy CEO (Finance), make decisions on acceleration and write-off.

Each Credit Committee is comprised of tiers of subcommittees. The FGCRMC comprises two tiers of subcommittees. The Committee consists of five members—Chief Risk Officer, Chief Financial Officer, Head of Quantitative Risk Management, Head of Treasury and Head of Trade Finance, and a majority of votes is sufficient for approval. If the potential exposure exceeds US$10.0 million, then the decision is deferred to the ALCO. The Credit Committee for retail loans comprises four tiers of subcommittees. For risk management purposes, investment management loans are classified as retail loans.

The Credit Committee for corporate loans comprises three tiers of subcommittees. Participation of the CEO is required for exposures exceeding US$ 8.0 million. All exposures to a single group of borrowers over US$ 25.0 million require approval by the Supervisory Board. Lower tier subcommittees meet on a daily basis, whereas higher tier ones typically meet three to four times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its respective members.

The Credit Committee for Micro and SME loans comprises of five tiers of subcommittees, and falls under the Credit Committee for retail loans. The first tier Micro and SME Credit Committee is chaired by the head of the group of the Micro and SME Lending Department, and approves loans resulting in the Bank's overall exposure to a borrower of up to US$55,000. A Loan officer, who submits a loan application/project to the Credit Committee, does not have a right to vote for the approval of the loan. The second tier Micro and SME Credit Committee is chaired by the MSME risk manager and approves loans resulting in the Bank's overall exposure to a borrower up to US$150,000. The third tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower which is in the range of US$150,000 to US$500,000. The committee is chaired by the MSME senior risk manager. The forth tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower in the range of US$500,000 to US$1.0 million. The committee is chaired by the Corporate Banking (**CB**) risk manager. The fifth tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower in the range of US$1.0 million to US$2.0 million. The committee is chaired by the Head of the Credit Risk Analysis Unit or the Head of the Credit Risk Management Department (or his or her deputy).

Recovery Committees. The Problem Loan Recovery Committee is chaired by one of the following: (1) the heads of the Problem Loan Management Department; (2) the heads of the Risk Department; (3) the Deputy CEO (Chief Risk Officer). The Problem Loan Recovery Department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Risk Officer).

The Legal Issues Committee is chaired by one of the following: (1) Chief Lawyer or Group Head or Head of Unit; (2) the head of the Legal department; (3) the heads of the Risk Department; (3) the Deputy CEO (Chief Risk Officer).

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

Asset and Liability Management Committee. The ALCO is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits, and approves treasury deals with non-standard terms. Specifically, the ALCO:

- sets money-market credit exposure/lending limits;
- sets open currency position;

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

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

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

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

Implementation

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

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

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

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

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

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

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Management Board and/or the Supervisory Board (as required).

Risk measurement and reporting

The Bank measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in cases of extreme events.

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board and Supervisory Board receive a comprehensive risk report once every three months which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, as well as any other risk developments.

Risk mitigation and excessive risk concentration

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

The Bank actively uses collateral to reduce its exposure to credit risk.

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities. The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently if necessary. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits with respect to trading terms such as foreign exchange contracts.

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

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

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

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 March 2016, 83.6% of the Group's loans to clients were collateralised. An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal Department and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Measurement

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

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

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

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

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

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/ liabilities management process. The Finance Department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

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

This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank's management board and approved by the Supervisory Board as part of the annual budget. The Funding and Treasury Departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Mitigation: The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 March 2016, in line with the NBG's requirements, 15% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customers' deposits in Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 5% for borrowings with a remaining maturity of one to two years and 10% of its unsubordinated Lari wholesale funding for borrowings with a remaining maturity of less than one year.

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

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

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

As of 31 March 2016, the Group's total consolidated client deposits and notes was GEL 4,729.6 million (US$1,997.4 million) (as compared to GEL 4,783.6 million and GEL 3,473.4 million as of 31 December 2015 and 31 December 2014, respectively) and represented 59.4% (as compared to 59.2% and 57.2% as of 31 December 2014 and 2013, respectively) of the Group's total liabilities. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In the case of early withdrawal, the interest on the deposit is foregone or reduced. As of 31 March 2016, total amounts due to credit institutions were GEL 1,719.9 million (US$726.3 million), as compared to GEL 1,789.1 million (US$747.0 million) and GEL 1,409.2 million as of 31 December 2015 and 31 December 2014, respectively, and represented 21.6%, as compared to 22.2% and 23.2% as of 31 December 2015 and 31 December 2014, respectively, of the Group's total liabilities. As of 31 March 2016, total debt securities issued were GEL 1,033.8 million (US$436.6 million), as compared to GEL 1,039.8 million (US$434.2 million) and GEL 856.7 million as of 31 December 2015 and 31 December 2014, respectively, and represented 13.0%, as compared to 12.9% and 14.1% as of 31 December 2015 and 31 December 2014, respectively, of the Group's total liabilities. Amounts due to credit institutions and debt securities are taken from a wide range of counterparties.

The Management Board believes that both the Group's and the Bank's liquidity is sufficient to meet each of their present requirements. For information on the Group's liquid assets, liabilities and maturity profile of the Group's financial liabilities as well as further information on the liquidity risk of the Group see Note 29 (*Risk Management*) to the Audited Financial Statements.

Market risk

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

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

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

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

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

The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Group reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

Operational risk

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

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

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

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

Anti-Money Laundering (AML) Compliance

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

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

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

PRINCIPAL SUBSIDIARIES

The Company had the following direct and indirect subsidiary undertakings as of 31 March 2016:

Name	Registered office	Activity	Percentage of capital held (directly/indirectly)	Amount of issued capital (GEL)
Consolidated Subsidiaries—Georgia				
JSC Bank of Georgia	Tbilisi, Georgia	Banking	99.52% (direct)	895,864,447
JSC BGEO Investments	Tbilisi, Georgia	Investment	100% (direct)	281,167,957
JSC BG Financial	Tbilisi, Georgia	Non-banking Financial Services	100% (direct)	85,314,311
Privat Guard, LLC	Tbilisi, Georgia	in liquidation	100% (Bank of Georgia)	100
Professional Basketball Club Dynamo Tbilisi, LLC	Tbilisi, Georgia	CSR; Sport	100% (Bank of Georgia)	1,710,000
Bank of Georgia Teaching University, LLC	Tbilisi, Georgia	CSR; Education	100% (Bank of Georgia)	1,958,500
Tree of Life Foundation	Tbilisi, Georgia	CSR; Charity	N/A	N/A
JSG Galt & Taggart	Tbilisi, Georgia	Brokerage and asset management	100% (BG Financial)	38,689,716
JSC Insurance Company Aldagi	Tbilisi, Georgia	Insurance	100% (BG Financial)	10,225,001
JSC Insurance Company Tao	Tbilisi, Georgia	Insurance	100% (Aldagi)	4,150,000
Alliance, LLC	Tbilisi, Georgia	Various	100% (Aldagi)	778,810
Green Way, LLC	Bolnisi, Georgia	Various	100% (Aldagi)	11,205,621
Premium Residense, LLC	Tbilisi, Georgia	Various	100% Green Way, LLC	6,920,330
Georgian Leasing Company, LLC	Tbilisi, Georgia	Leasing	100% (BG Financial)	3,115,377
Prime Leasing, LLC	Tbilisi, Georgia	Leasing	100% (Georgian Leasing Company, LLC)	2,000
Solo, LLC	Tbilisi, Georgia	Lifestyle	100% (BG Financial)	1,000,000
JSC Express Technologies	Tbilisi, Georgia		100% (BG Financial)	29,695,000
JSC Georgian Card	Tbilisi, Georgia	Card processing	99.45% (JSC Express Technologies) 0.03% (JSC Liberty Consumer)	21,924,378
Direct Debit Georgia, LLC	Tbilisi, Georgia	Various	100% (JSC Georgian Card)	16,752,005
Didi Digomi Research Center LLC	Tbilisi, Georgia	Various	100% (JSC Express Technologies)	775,000
Metro Service Plus	Tbilisi, Georgia	Various	100% (JSC Express Technologies)	1,700,000
Express Technologies CEE, LLC	Tbilisi, Georgia	Various	100% (JSC Express Technologies)	1,913,763
JSC United Securities Registrar of Georgia	Tbilisi, Georgia	Securities Registrar	100% (BG Financial)	568,000
JSC m2 Real Estate	Tbilisi, Georgia	Real Estate	100% (BGEO Investments)	89,186,907

Name	Registered office	Activity	Percentage of capital held (directly/indirectly)	Amount of issued capital (GEL)
Caucasus Autohouse, LLC	Tbilisi, Georgia	Investment	100% (m2 Real Estate)	14,423,000
Land, LLC	Tbilisi, Georgia	Various	100% (m2 Real Estate)	271,000
m2 Residential, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Real Estate)	93,800,800
m2 Hospitality, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Real Estate)	13,463,000
m2, LLC	Tbilisi, Georgia	Real Estate	100% (JSC m2 Hospitality, LLC)	13,453,000
Optima ISANI, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	5,379,000
m2 at Hippodrome, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	27,405,200
m2 Skyline, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	5,296,000
Tamarashvili 13, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	6,626,000
m2 at Kazbegi, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	3,474,000
m2 at Tamarashvili, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	2,856,000
m2 at Nutsubidze, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	2,968,000
M square Park, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	34,100,000
Optima Saburtalo, LLC	Tbilisi, Georgia	Real Estate	100% (m2 Residential, LLC)	5,690,000
m2 Commercial Properties, LLC	Tbilisi, Georgia	Real Estate	100% (JSC m2 Real Estate)	3,531,089
JSC Georgia Healthcare Group	Tbilisi, Georgia	Medical Services	100% (GHG)	375,894,057
JSC Insurance Company Imedi L	Tbilisi, Georgia	Insurance	100% (GHG)	13,636,964
JSC Medical Corporation EVEX	Tbilisi, Georgia	Medical Services	100% (GHG)	322,726,042
Biznes Centri Kazbegze, LLC	Tbilisi, Georgia	Real Estate	100% (JSC Insurance Company Imedi L)	187,341
JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	Kutaisi, Georgia	Medical services	71.87% (JSC Medical Corporation EVEX) 25% (Unimedi Kakheti, LLC)	2,603,097
Unimed Achara, LLC	Tbilisi, Georgia	Medical services	100% (JSC Medical Corporation EVEX)	32,882,917
Unimedi Samtskhe, LLC	Tbilisi, Georgia	Medical services	100% (JSC Medical Corporation EVEX)	2,507,457
Unimedi Kakheti, LLC	Tbilisi, Georgia	Medical services	100% (JSC Medical Corporation EVEX)	35,425,012
Referral Centre of Pathology, LLC	Tbilisi, Georgia	Medical services	100% (JSC Medical Corporation EVEX)	—
EVEX-Logistics, LLC	Tbilisi, Georgia	Medical services	100% (JSC Medical Corporation EVEX)	—
Deka, LLC	Tbilisi, Georgia	Medical services	95% (JSC Medical Corporation EVEX)	27,060,000
Catastrophe Medicine Pediatric Center, LLC	Tbilisi, Georgia	Medical services	100% (JSC Medical Corporation EVEX)	1,000,000

Name	Registered office	Activity	Percentage of capital held (directly/indirectly)	Amount of issued capital (GEL)
GN KO, LLC	Tbilisi, Georgia	Medical services	50% (JSC Medical Corporation EVEX)	39,000,000
High Technology Medical Center, University Clinic, LLC	Tbilisi, Georgia	Medical services	100% (GN KO LLC)	13,337,010
Geolab, LLC	Tbilisi, Georgia	Medical services	50% (High Technology Medical Center, University Clinic, LLC)	200
Nephrology Development Clinic Center, LLC	Tbilisi, Georgia	Medical services	80% (High Technology Medical Center, University Clinic, LLC)	2,808,314
Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	Tbilisi, Georgia	Medical services	100% (Unimedi Kakheti, LLC)	114,380
M. Iashvili Children's Central Hospital, LLC	Tbilisi, Georgia	Medical services	100% (Unimedi Kakheti, LLC)	16,315,727
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	Kutaisi, Georgia	Medical services	66.70% (JSC Medical Corporation EVEX)	1,200,000
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	Georgia	Medical services	66.70% (JSC Medical Corporation EVEX)	2,100,000
Tskaltubo Regional Hospital, LLC	Tskhaltubo, Georgia	Medical services	66.70% (JSC Medical Corporation EVEX)	20,000
EVEX Learning Center	Tbilisi, Georgia	Medical services	N/A (JSC Medical Corporation EVEX)	N/A
JSC Poti Central Hospital	Poti, Georgia	Medical services	100.00% (JSC Medical Corporation EVEX)	9,541,000
Evex Collection, LLC	Tbilisi, Georgia	Medical services	100.00% (JSC Medical Corporation EVEX)	200
JSC Georgian Renewable Power Company	Tbilisi, Georgia	Hydro	100% (JSC BGEO Investments)	2,395,300
JSC Geohydro	Tbilisi, Georgia	Hydro	85% (JSC Georgian Renewable Power Company)	289,850
JSC Svaneti Hydro	Tbilisi, Georgia	Hydro	65% (JSC Georgian Renewable Power Company)	1,206,920
JSC Zoti Hydro	Tbilisi, Georgia	Hydro	100% (JSC Georgian Renewable Power Company)	311,113
JSC Liberty Consumer	Tbilisi, Georgia	Investment	17.38% (JSC BGEO Group) 0.06% (Galt & Taggart) 70.20% (BGEO Investments)	18,618,292
JSC Prime Fitness	Tbilisi, Georgia	Fitness Club	100% (JSC Liberty Consumer)	11,507,287
JSC Intertour	Tbilisi, Georgia	Investment	99.94% (JSC Liberty Consumer)	1,275,000
JSC Teliani Valley	Telavi, Georgia	Winery	50.23% (JSC Liberty Consumer) 0.74% (JSC Galt & Taggart) 20.47% (direct)	12,466,468

Name	Registered office	Activity	Percentage of capital held (directly/indirectly)	Amount of issued capital (GEL)
Teliani Trading (Georgia),LLC	Tbilisi, Georgia	Winery	100% (JSC Teliani Valley)	1,095,458
Le Caucase, LLC	Tbilisi, Georgia	Beverages	100% (JSC Teliani Valley)	200
Kupa, LLC	Telavi, Georgia	Beverages	70% (JSC Teliani Valley)	140
Global Beer Georgia, LLC	Tbilisi, Georgia	Beer Production	100% (JSC Teliani Valley)	—

Consolidated Subsidiaries—International

Name	Registered office	Activity	Percentage of capital held (directly/indirectly)	Amount of issued capital (GEL)
Georgia Healthcare Group PLC	London, United Kingdom	Investment	67.70% (BGEO Investments)	188,709,515
JSC Belarusky Narodny Bank	Minsk, Belarus	Banking	36.53% (Bank of Georgia) 43.46% (Benderlock Investments Limited)	78,965,468
BG Capital (Belarus)	Minsk, Belarus	Brokerage	100% (Galt and Taggart Holdings Limited)	106,036
Branch Office of BC Capital in Azerbaijan			N/A (Galt & Taggart)	N/A
BNB Leasing, LLC	Minsk, Belarus	Leasing	99.9% (Belarusky Narodny Bank)	10,436
Benderlock Investments Limited	Nicosia, Cyprus	Investments	100.0% (JSC Bank of Georgia)	57,110,000
Galt and Taggart Holdings Limited	Nicosia, Cyprus	Investment	0.77% (JSC BG Financial 99.23% (JSC Galt & Taggart)	34,161,277
Georgia Financial Investments, LLC	Ramat Gan, Israel	Information Sharing and Market Research	100.0% (Bank of Georgia)	3,576,958
Teliani Trading (Ukraine), LLC	Kiev, Ukraine	Distribution	100.0% (JSC Teliani Valley)	12,103
Bank of Georgia Representative Office Hungary	Budapest, Hungary	Information Sharing and Market Research	100.0% (JSC Bank of Georgia)	3,148,611
Bank of Georgia Representative Office UK Limited	London, United Kingdom	Information Sharing and Market Research	100.0% (JSC Bank of Georgia)	4

Significant Subsidiaries

See "Description of Business" for a description of those subsidiaries which significantly contribute to the Group.

MANAGEMENT AND EMPLOYEES

Overview

The Company's corporate bodies are the General Meeting of Shareholders (**GMS**) and the board (the **Board of Directors**), each having its own responsibilities and authorities in accordance with Georgian law and the Company's charter (the **Charter**) which also governs the rights of the Bank's shareholder in respect of its direction of the Bank. The Group's parent company, BGEO Group PLC, is responsible for determining the strategy for the Group as a whole. See "*Management and Employees—Relationship with BGEO Group PLC*".

The Company's General Meeting of Shareholders

All shareholders registered on the share registrar on the record date of the GMS have the right to attend and vote (if applicable) at the meeting. Georgian law provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter, holders of preferred shares are not entitled to voting rights at the GMS. As of the date of this Prospectus, the Company has not issued any preferred shares. Shareholders may be represented at the GMS by a proxy. A shareholder holding more than 75.0% of the Company's voting shares may pass a resolution without convening a GMS. Such decision will be equivalent to the minutes of the GMS and is considered a resolution of the GMS. In such cases the remaining shareholders (if any) are notified of the resolution.

Under Georgian law and the Charter, shareholders are authorised to pass resolutions, *inter alia*, on the following issues at a GMS:

- approval of amendments to the Charter;
- increase or reduction of the share capital of the Company;
- liquidation of the Company;
- any merger, division or transformation of the Company into another legal entity;
- full or partial cancellation of pre-emptive rights during an increase of share capital;
- distributions of profits;
- appointment and dismissal of the members of the Board of Directors and determination of their term of service and remuneration;
- approval of the reports of the Board of Directors and control of the activities of its members;
- selection of auditors;
- approval of participation in litigation against Board of Directors members, including the appointment of a representative in such litigation;
- acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of the Company's assets, with the value exceeding 25.0% of the total assets of the Company;
- approval of the annual accounts of the Company;
- approval of the related party transactions, with a value exceeding 2% of the Company's assets; and
- other issues provided by law and the Charter.

According to the Charter, decisions on all other issues are made by the Board of Directors within its capacities.

The Board of Directors

In accordance with the Company's Charter, the Board of Directors is responsible for management of the Company (with the exception of certain functions reserved for the GMS). Responsibilities of the Company's Board of Directors include:

- approval of the Company's policies and other regulatory documents;
- determination and approval of internal policies and procedures for lending, investing, foreign exchange, asset and liability management and adequate provisioning and classification;

- inspection of the Company's books, including without limitation, inspection of the conditions of the Company's cash, securities and goods personally, or through members or advisors
- approval of the annual budget, business plan and development strategy of the Company;
- approval of any acquisition or disposal of a stake in other companies if the amount of such stake / share exceeds 50% (fifty percent) of the total equity of such company or the volume of the transaction exceeds GEL 100 million;
- approval of an acquisition, transfer or encumbrance of real estate and property rights, if the value of such transaction exceeds GEL 100 million;
- approval of investments, the partial or total amount of which exceeds GEL 100 million;
- approval of borrowing funds or providing security for loans in excess of GEL 100 million;
- establishment and liquidation of branches and subsidiaries; and
- any other matters which may be assigned to the Board of Directors by the GMS or as provided by law.

The Company's Board of Directors currently consists of the members listed below.

Name	Age	Current Position	Expiration of Term of Office / Reappointment
Irakli Gilauri	40	General Director	1 May 2019
Avto Namicheishvili	42	Deputy General Director	1 May 2019
Ekaterina Shavgulidze	33	Deputy General Director	5 January 2018

Messrs Gilauri and Namicheishvili were appointed to the Board of Directors by the sole shareholder on 28 May 2015 and Ms Shavgulidze was appointed to the Board of Directors by the sole shareholder on 26 April 2016. The business address of all members of the Board of Directors is at the registered address of the Bank.

Irakli Gilauri became a member of the Board of Directors on 28 May 2015. He serves as Chief Executive Officer of the Group. He has been an executive director of the Group's parent company, BGEO Group PLC, since 24 October 2011 having been re-elected by the shareholders at each AGM thereafter. Mr Gilauri has been chairman of the Bank since September 2015, having previously served as CEO of the Bank from May 2006 to September 2015. Mr Gilauri also serves as chairman of the Board of GHG and is chairman of the supervisory boards of GHG, Aldagi and the Tree of Life Foundation. He is also a member of the supervisory board of the following subsidiaries: Galt & Taggart Holdings and m2 Real Estate, and chairman of the management boards in JSC BG Financial and JSC BGEO Investments. Before his employment with the Bank, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies. Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his MSc in Banking and International Finance.

Avto Namicheishvili became a member of the Board of Directors on 28 May 2015. He serves as the Group's general counsel. He previously served as Deputy CEO (Legal) of JSC Bank of Georgia from July 2008, prior to which he served as the Bank's general counsel from March 2007. Before joining the bank, Mr Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as external legal adviser for Bank of Georgia from 2004. He has undergraduate degrees in law and international economic relations from Tbilisi State University and a graduate degree (LLM) in international business law from Central European University, Hungary.

Ekaterina Shavgulidze became a member of the Board of Directors on 26 April 2016. She serves as Group Head of Investor Relations and Funding and Ms Shavgulidze previously served at various executive positions (including as a member of the supervisory board of the Group's insurance and healthcare subsidiaries) from 2011. Before her employment with the Group, Ms Shavgulidze was an Associate Finance Director at AstraZeneca, UK for two years, where she worked on finance projects in Eastern Europe, including her assignment as Chief Financial Officer and co-leading the reorganisation of AstraZeneca's Central Asian business. Ms Shavgulidze received her undergraduate degree in Business Administration from the European School of Management in Georgia and an MBA from Wharton Business School, majoring in Finance and Entrepreneurship.

Senior Managers

The senior members of Group management other than members of the Board of Directors (the **Senior Managers**) are:

Name	Age	Current position	Expiration of Term of Office / Reappointment
Murtaz Kikoria	43	CEO of the Bank	1 May 2019
Levan Kulijanishvili	41	CFO of the Company	1 September 2018
Mikheil Gomarteli	40	Deputy CEO (Retail Banking) of the Bank	1 May 2019
Archil Gachechiladze	37	Deputy CEO (Corporate & Investment Banking) of the Bank	1 May 2019
Giorgi (George) Chiladze	45	Deputy CEO (Chief Risk Officer) of the Bank	1 May 2019
Tornike Gogichaishvili	37	Deputy CEO (Operations) of the Bank	
Alexander Katsman	39	Deputy CEO (Human Resources Management and Branding) of the Bank	1 May 2019
Nikoloz Gamkrelidze	36	CEO of Georgia Healthcare Group	April 2020
Irakli Burdiladze	41	CEO of m2 Real Estate	May 2019
Shota Kobelia	40	CEO of Teliani Valley	N/A

Murtaz Kikoria was appointed as CEO of the Bank in September 2015, having previously served as Deputy CEO (Finance) of the Bank from 4 December 2014. Prior to this, he served as CEO of Georgia Healthcare Group from August 2014 following its split from Aldagi, where Mr Kikoria had served as CEO since October 2012. Prior to this, Mr Kikoria served as Deputy CEO (Finance) of the Bank from June 2011. Before that appointment, he served as acting CEO of BG Bank (currently Bank Pershyi) from June 2009. He also serves as a member of the supervisory board of Bank Pershyi. Mr Kikoria joined the Bank as Deputy CEO (Compliance) in August 2008. From 2005 to 2007, he served as a senior banker at EBRD. Prior to joining EBRD, he served as head of banking supervision and regulation at the NBG from 2001 to 2005, having previously held various senior positions at United Georgian Bank and Silk Road Bank. Murtaz received an undergraduate degree from Tbilisi State University in economics, specialising in finance and credit.

Levan Kulijanishvili was appointed as Deputy CEO (Finance) of the Bank in September 2015. Prior to this appointment, he served as Head of Compliance and Internal Control of the Bank from 2009. He has been with the Bank since 1997. During his 18 years of service, Mr Kulijanishvili has held various senior positions, including Head of the Internal Audit department (2000 to 2009), Manager of the Financial Monitoring department (1999 to 2000) as well as the strategy and planning department, and Head of the Financial Analysis division (1997 to 1999). He has an undergraduate degree from the Faculty of Economic and Commerce at Tbilisi State University and an MBA from Grenoble Graduate School of Business.

Mikheil Gomarteli was appointed as Deputy CEO (Retail Banking) of the Bank in February 2009. He has been with the Bank since December 1997. During his 18 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (from March 2007 to February 2009), Head of Business Development (from March 2005 to July 2005), Head of Strategy and Planning (from 2004 to 2005), Head of Branch Management and Sales coordination (from 2003 to 2004), Head of Branch Management and Marketing (from 2002 to 2003) and Head of Banking Products and Marketing (from 2000 to 2002). He received an undergraduate degree in economics from Tbilisi State University.

Archil Gachechiladze was appointed as Deputy CEO (Corporate & Investment Banking) of the Bank in February 2016, prior to which he served as CFO of the Company since September 2015 and Deputy CEO (Investment Management) of the Bank since May 2013. He joined the Bank in October 2009 as Deputy CEO (Corporate Banking). Prior to joining the Bank, Mr. Gachechiladze served as Deputy Director in charge of Corporate Recovery at TBC Bank, Georgia, a position he held between August 2008 and October 2009. From 2006 to 2008, he was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital Partners) in London. From 1998 to 2004, he served as a Senior Associate at Salford Equity Partners, Senior Analyst at EBRD in Tbilisi and London, Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. He received his undergraduate degrees in economics and law from Tbilisi State University and his MBA with distinction from Cornell University. He is also a Chartered Financial Analyst charterholder.

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

Nikoloz Gamkrelidze was appointed as CEO of GHG in December 2014, having previously served as Deputy CEO (Finance) at the Bank since October 2012. Prior to this appointment, he served as CEO of Aldagi. Before joining Aldagi, Mr Gamkrelidze served as CEO of JSC My Family Clinic from October 2005 to October 2007. Prior to that, he served as a consultant at Primary Healthcare Development Project (a World Bank project) and worked on the development of pharmaceutical policy and regulation in Georgia. Prior to joining Primary Healthcare Development Project, he held the position of Head of the Personal Risk Insurance department at BCI Insurance Company from 2002 to 2003. He graduated from the Faculty of General Medicine of Tbilisi with distinction and holds an MA in international healthcare management from the Tanaka Business School of Imperial College London.

Irakli Burdiladze was appointed as CEO of m2 Real Estate in September 2015, having previously served as Deputy CEO (Affordable Housing) of the Bank since 2010. Prior to this, he served as the Bank's Chief Operating Officer from March 2007 to June 2010 after having spent a year as CFO of the Bank. Prior to joining the Bank, he served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the group's capital-raising efforts and transaction structuring. He has a graduate degree in international economics and international relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in international relations from the Tbilisi State University.

Tornike Gogichaishvili was appointed as Deputy CEO (Operations) of the Bank in January 2016. Prior to this, Mr Gogichaishvili served as Director of the Bank's Operations Department from June 2010. Between 2008 and 2010, he served as Head of International Banking, coordinating the activities of the Group's Ukraine and Belarus subsidiaries. From 2006 to 2008, he served as CEO of Aldagi. Prior to joining the Bank, he served as CFO of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004. Mr Gogichaishvili graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

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

Shota Kobelia was appointed CEO of Teliani Valley in 2010, having been with the Group since 2009. Mr Kobelia holds an MS in Sales and Marketing from Bordeaux Business School, and has helped to build Teliani Valley from a small winery into a brewery with a partnership with Brau Union, meaning potential link-ups with well known beer brands Heineken, Amstel and Krusovice. Mr Kobelia previously worked for Pernod Ricard in the United States and Europe.

Banking regulations in Georgia contain certain limitations as to who may become a member of the Bank's management. See "*Regulation of the Georgian Banking Sector—Regulation of Commercial Bank Employees and Supervisory Board Members*".

Relationship with BGEO Group PLC

As of the date of this Prospectus the Company is a wholly-owned subsidiary of BGEO Group PLC, incorporated in England and Wales. The shares of BGEO Group PLC have been admitted to the premium listing segment of the Official List of the UK Listing Authority and are traded on the London Stock Exchange's main market for listed securities since 28 February 2012. The BGEO Group PLC board of directors consists of nine members, eight of whom its board has determined are independent non-executive directors. Each member of the board of directors of BGEO Group PLC also serves as a member of the Supervisory Board. To assist the Board in carrying out its functions and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration as well as oversight and review of Board and executive succession planning, the board of directors of BGEO Group PLC have delegated certain responsibilities to four principal board committees, being the audit, nomination, remuneration and clinical quality and safety committees.

Remuneration and Benefits

The aggregate remuneration (including benefits) of the members of the Board of Directors was US$ 3.2 for the year ended 31 December 2015. The amount of remuneration paid to members of the Board of Directors is determined by the GMS. Of the current members of the Board of Directors, only Avto Namicheishvili receives compensation from the Company. Irakli Gilauri receives compensation from the Bank (in his capacity as chairman of the Supervisory Board), and from the Company's parent, BGEO Group PLC (in his capacity as the CEO). Ekaterina Shavgulidze receives compensation from the Bank (in her capacity as Head of Investor Relations and Funding). The amount of compensation stated below is given taking into account the total compensation received by members of the Board of Directors from BGEO Group PLC and its subsidiaries.

The approved levels of compensation (cash salary) for members of the Board of Directors as of 31 December 2015 set out in the following table.

Member of the Board of Directors	Approved gross annual compensation (cash salary)
	(US Dollars)
Irakli Gilauri	437,500*
Avto Namicheishvili	150,000
Ekaterina Shavgulidze	90,000

* *including compensation received from BGEO Group PLC.*

In accordance with the Group's remuneration policy, members of the Board of Directors and the other Senior Managers described within this section receive compensation comprised of:

(i) competitive fixed cash salaries;

(ii) fixed deferred share compensation, consisting of annual awards of nil-cost options over such number of shares in BGEO Group PLC as stipulated in the executive's service agreement (or for certain GHG executives, shares in Georgia Healthcare Group PLC as stipulated in the executive's service agreement); awards vest over the five-year period that follows the beginning of the work year in which the share award is granted (that is, 0% of the options vest in the first year following the work year, 20% of the options vest in each of the second, third and fourth years following the work year, and 40% of the options vest in the fifth year following the work year); and

(iii) discretionary deferred share compensation in the form of annual awards of nil-cost options over such number of shares in BGEO Group PLC as is determined annually by the remuneration committee of BGEO Group PLC in its sole discretion, based on the performance of the Group and the executive; awards vest over a two-year period following the end of the work year (that is, 50% of the options vest at the beginning of the second and third years following the work year).

The table below sets out the aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Group in respect of services provided by the key management personnel of the Group for the year ended 31 December 2015.

	For the year ended 31 December 2015	
	(thousands of US Dollars)[1]	*(thousands of Lari)*
Salaries and other benefits	1,864	4,464
Share-based payments compensation	8,115	19,435
Social security costs	23	55
Total	**10,002**	**23,954**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 2.3949 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2015.

Loans to Management

Net loans issued to members of the Board of Directors outstanding as of 31 December 2015 totalled GEL 0.31 million (US$0.13 million, converted using an exchange rate of GEL 2.3949 per US$1.00).

Interests of Board of Directors and Senior Managers

The following table sets out the direct and indirect shareholdings and stock options in the shares of the Group's parent company BGEO Group PLC held by members of the Board of Directors and Senior Managers as of the date of this Prospectus.

Holders	Number of vested BGEO shares	Number of nil-cost options over BGEO shares and shares (gross) (awarded but not yet vested)	Number of granted but un-awarded nil-cost options over BGEO shares (gross)
Irakli Gilauri	250,319	174,500	137,000
Murtaz Kikoria	15,900	55,500	55,833
Levan Kulijanishvili	—	14,641	26,000
Avto Namicheishvili	94,939	62,750	62,000
Mikheil Gomarteli	37,451	55,500	55,166
Archil Gachechiladze	97,500	63,500	61,667
Giorgi (George) Chiladze	130,192	7,710	36,000
Ekaterina Shavgulidze	—	4,200	30,500
Tornike Gogichaishvili	—	17,941	27,000
Alexander Katsman	—	18,950	31,000
Nikoloz Gamkrelidze	7,000	116,500	—
Irakli Burdiladze	—	54,500	58,666

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors or the Senior Managers towards the Company and their private interests and/or other duties.

Litigation Statement

As of the date of this Prospectus, no member of the Board of Directors or executive officer for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Employees

As of 31 March 2016, 31 December 2015 and 2014, the Group had a total of 16,086, 15,955, and 13,396 full-time employees, respectively, of which 15,269, 15,139 and 12,617, respectively, had standard long-term employment agreements.

The following table sets out the Group's employees by subsidiary and by segment as of 31 March 2016.

Subsidiary and segment	Number of all full-time employees
JSC BGEO Group	**3**
Bank of Georgia	**4,580**
Corporate Center	1,381
Retail Banking	3,074
CIB	125
Aldagi	**259**
Corporate Centre	151
Retail Insurance	70
Corporate Insurance	38
BNB	**562**
Corporate Centre	236
Retail Banking	182
Corporate Banking	144
GHG	9,675
Healthcare services	9,251
Physicians	3,842
Nurses	2,705
Administrative personnel	2,704
Medical Insurance	424
M2	59
Other subsidiaries total	**948**
Total Excluding Duplication	**16,086**

The Group places significant emphasis on the professional development of its employees. The Group's employees are offered training opportunities at special training centres and various educational institutions. Middle and high level managers participate in workshops and training sessions outside of Georgia and internal training is conducted by instructors invited from Georgian training centres.

None of the Group companies currently has any agreements with any employee trade unions.

The Group's Georgian entities are required to withhold income tax at the flat rate of 20.0% on the gross compensation of its employees in Georgia as well as on certain type of business income of natural persons. There are no other mandatory contributions.

In line with the recent amendments to Georgian employment law, the Group's Georgian entities have begun to renew employment contracts with its employees to bring these new contracts in line with the new mandatory requirements of the law. The adjustments made to the standard employment contracts are related to the duration of the contracts, maximum working hours (up to 40 hours per week, with any additional hours classified as overtime work), grounds for termination of employment (not allowing the termination of employment by the employer without cause), and the amount of severance payments in certain cases of termination (equal to up to two months' salary).

Pensions

Every employee contributes 1.0% of his or her salary to a pension fund and the Group matches the employee's contribution to the pension fund. The Group matches on a 0.2 to 1 basis additional employee pension fund contributions up to 1.0% of the employee's gross monthly salary. In addition to a pension fund, each full-time employee of the Group receives health insurance, is permitted to use an overdraft of up to 90% of his or her salary, may benefit from certain discounts on banking products and may be eligible to receive an annual bonus, subject to the Group's annual profit and the employee's performance.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets forth information regarding the ownership of the Company's shares as of 31 March 2016.

Owner	Shares Owned Number	%
BGEO Group PLC	37,065,773	100.0
Total shares outstanding as of 31 March 2016 (unaudited)	**37,065,773**	**100.0**

As of 31 March 2016, the shareholders of record of the Company's parent company BGEO Group PLC were:

Name of Shareholder	Amount disclosed	% of total
Schroders Investment Management	3,802,803	9.63
Harding Loevner Management LP	3,629,869	9.19
Westwood International Advisors	1,679,222	4.25
Artemis Investment Management	1,407,639	3.56
Other shareholders(1)	28,980,787	73.37
Total BGEO Group PLC shares	**39,500,320**	**100.0%**

Notes:

(1) Includes 1,279,493 shares held by members of the Company's Board of Directors, Senior Managers and members of the Bank's Supervisory Board.

None of the Group's shareholders have voting rights different from any other holders of shares.

Related Party Transactions

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Related parties include, among others, shareholders, all managers and senior personnel of the Group, companies affiliated with the Group and certain shareholders and managers of such affiliated companies. Furthermore, parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. The Group seeks to conduct all related party transactions on market terms and at market prices.

According to the Company's Charter, any transaction with related parties of the Company is subject to the prior approval of the Board of Directors. If the value of such transaction exceeds 2% of the Company's assets, the transaction must be approved by the GMS.

Pursuant to Georgian securities law, certain approval and transparency requirements apply to transactions in which the members of the governing bodies of a reporting company and direct or indirect owners of 20% or more of its shares are regarded as "interested parties" (as such term is defined in the law). A transaction involving "interested parties" must be approved by the Supervisory Board or its GMS. Transactions exceeding 10% of the value of the assets of the Bank must be approved by the GMS.

According to the Bank's charter, any transaction with related parties of the Bank is subject to the prior approval of the Supervisory Board if the value of such transaction does not exceed 50% of the Bank's assets. If the value of such transaction exceeds 50% of the Bank's assets, the transaction must be approved by the GMS. The Supervisory Board is not permitted to delegate its authority to other bodies without the consent of the shareholders. Pursuant to Georgian law, the Supervisory Board of the Bank must approve transactions with related parties that result in an exposure (i) to individuals exceeding the lesser of GEL 150,000 and 0.5% of regulatory capital, (ii) to legal entities exceeding the lesser of GEL 200,000 and 1% of regulatory capital, and (iii) in case of liability secured with deposit- exceeding GEL 1.0 million. The Bank's Supervisory Board approval is also required for transactions with related parties as a result of which the annual total cash outflow from the Bank in return for delivery of products or rendering of services exceeds GEL 200,000.

The following tables show volumes of related party transactions, outstanding balances at the period end and related party expense and income for the periods indicated. For further details of certain transactions, see Note 32 (*Related Party Disclosures*) to the Audited Financial Statements.

	31 March			Year ended 31 December					
	2016			2015			2014		
	Shareholders	Entities Under Common Control(2)	Key Management Personnel(3)	Shareholders	Associates Entities Under Common Control(2)	Key Management Personnel(3)	Shareholders	Entities Under Common Control(2)	Key Management Personnel(3)
	(unaudited) (thousands of Lari)			*(audited) (thousands of Lari)*					
Loans outstanding as of 1 January gross	**9,334**	**13,541**	**1,258**	**7,609**	**78,592**	**2,048**	**8,098**	**—**	**1,484**
Loans issued during the year	—	—	3,604	—	4,000	4,511	—	85,933	4,853
Loans repayments during the year	—	—	(2,118)	—	(84,033)	(6,188)	(577)	(16,376)	(4,474)
Other movements	(318)	—	487	1,725	14,982	887	88	9,035	185
Loans outstanding as at period end, gross	**9,016**	**13,541**	**3,231**	**9,334**	**13,541**	**1,258**	**7,609**	**78,592**	**2,048**
Less: Allowance for impairment as of end of period	—	(146)	(6)	—	(116)	—	—	(743)	(1)
Loans outstanding as at period end net	**9,016**	**13,395**	**3,225**	**9,334**	**13,425**	**1,258**	**7,609**	**77,849**	**2,047**
Interest income on loans	—	370	55	—	3,986	173	—	1,767	86
Loan impairment charge	—	—	—	—	—	—	—	(743)	—
Deposits as of 1 January	**31,971**	**1,419**	**20,129**	**134,705**	**4,975**	**17,500**	**25**	**50**	**11,455**
Deposits received during the year	—	22,287	13,733	18,210	195,316	40,774	288,680	132,087	33,646
Deposits repaid during the year	(794)	(20,339)	(10,617)	(153,017)	(199,048)	(41,548)	(144,028)	(128,859)	(31,225)
Other movements	(295)	(164)	(679)	32,073	176	3,403	(9,972)	1,697	3,624
Deposits as at period end	**30,882**	**3,203**	**22,566**	**31,971**	**1,419**	**20,129**	**134,705**	**4,975**	**17,500**
Interest expense on deposits	(20)	—	(177)	(844)	(33)	(477)	—	(2)	(513)
Other income	**—**	**—**	19	—	15	77	**—**	**2**	**92**

Notes:

(1) Deposits and loans as of 31 March 2016.

(2) On 23 December 2014 BGEO Group PLC acquired a 25% interest in GGU. On 21 June 2016 JSC BGEO Investments entered into the SPA to acquire the remaining 75% interest in GGU subject to customary conditions precedent. See "*Description of Business—Recent Developments*".

(3) Key management personnel include members of the Company's Board of Directors, Chief Executive Officer and deputies of the Bank

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions in the form in which they will be endorsed on the Notes:

The issue of US$350,000,000 6.00% Notes due 2023 (the "**Notes**", which expression shall include any further Notes issued pursuant to Condition 18 (*Further Issues*) and consolidated and forming a single series therewith) was authorised by a resolution of the Board of Directors of Joint Stock Company BGEO Group (the "**Issuer**") passed on 30 June 2016. The Notes are constituted by a Trust Deed (the "**Trust Deed**", which expression includes any such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 26 July 2016 between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed, and of the Agency Agreement (the "**Agency Agreement**", which expression includes any such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 26 July 2016 relating to the Notes between the Issuer, the Trustee, Citibank N.A., London Branch as the initial principal paying agent, transfer agent (the "**Transfer Agent**"), and registrar (the "**Registrar**"), and any other agents named in it, are available for inspection during usual business hours at the principal office of the Trustee (for the time being, at Citigroup Centre, Canada Square, London E14 5LB, United Kingdom) and at the specified offices of the principal paying agent for the time being (the "**Principal Paying Agent**"), the Transfer Agent and the Registrar. "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Notes. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Trust Deed, the absence of any such meaning indicating that such term is not applicable to the Notes.

1. FORM, SPECIFIED DENOMINATION AND TITLE

The Notes are issued in registered form, without interest coupons attached, and shall be serially numbered. Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or (ii) to QIBs (as defined in the Trust Deed) in reliance on Rule 144A under the U.S. Securities Act, will be issued in the denominations of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same holder.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" and "**holder**" means the person in whose name a Note is registered.

2. TRANSFERS OF NOTES

(a) **Transfer**: One or more Notes may be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current Regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within three business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(b), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfer or Exercise Free of Charge**: Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(b), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The Issuer shall ensure that at all times the claims against it under the Notes and the Trust Deed rank at least *pari passu* in right of payment with the claims of all other unsubordinated creditors of the Issuer (subject to Condition 4(a)), save for those claims that are preferred by mandatory provisions of applicable law (including, without limitation, liabilities in respect of deposits).

4. COVENANTS

(a) **Negative Pledge**: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on or over any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably with such other Indebtedness or Guarantee of Indebtedness or have the benefit of such security or other arrangements, as the case may be, as are satisfactory to the Trustee or are approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) **Continuance of Business, Maintenance of Authorisations and Legal Validity**:

(i) The Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its or their respective corporate existence (except as otherwise permitted by Condition 4(c) (*Mergers and Consolidations*)), and its or their respective business, and the use of all material intellectual property relating to its or their respective business and the Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of all consents, licences, approvals and authorisations necessary in that regard.

(ii) The Issuer shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Georgia to enable it lawfully to perform its obligations under the Notes and the Trust Deed and ensure the legality, validity, enforceability or admissibility in evidence in Georgia of the Notes and the Trust Deed.

(c) **Mergers and Consolidations**:

(i) The Issuer shall not, without the prior written consent of the Trustee, (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or sell, convey, transfer, lease or otherwise dispose of, all or substantially all of the Issuer's properties or assets (determined on a consolidated basis), unless, in any case:

(A) immediately after the transaction referred to in (x) or (y) above:

(x) the resulting or surviving person or the transferee (the "**Successor Entity**") shall be the Issuer or, if not the Issuer, the Successor Entity shall expressly assume by a deed supplemental to the Trust Deed in form and substance satisfactory to the Trustee, executed and delivered to the Trustee, all the rights and obligations of the Issuer under the Notes and the Trust Deed; and

(y) the Successor Entity (if not the Issuer) shall retain or succeed to all of the rights and obligations of the Issuer under all of its material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates;

(B) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom; and

(C) the relevant transaction referred to in (x) or (y) above shall not result in a Material Adverse Effect.

(ii) The Issuer shall procure that no Material Subsidiary shall, without the prior written consent of the Trustee, (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or sell, convey, transfer, lease or otherwise dispose of, all or substantially all of the relevant Material Subsidiaries' properties or assets, unless, in any case:

(A) immediately after the transaction referred to in (x) or (y) above:

(x) such Material Subsidiary shall be the Successor Entity; or

(y) the Successor Entity (if not the Issuer) shall retain or succeed to all of the rights and obligations of the relevant Material Subsidiary under all of its material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates;

(B) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom; and

(C) the relevant transaction referred to in (x) or (y) above shall not result in a Material Adverse Effect.

(iii) Notwithstanding the foregoing, any Material Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all of its assets to the Issuer or another Subsidiary of the Issuer (which after such transaction will be deemed to be a Material Subsidiary for purposes hereof).

(d) **Disposals**:

(i) Except as otherwise permitted by these Conditions and without prejudice to the provisions of Condition 4(c) (*Mergers and Consolidations*) and Condition 4(e) (*Transactions with Affiliates*), the Issuer shall not, and shall ensure that none of its Material Subsidiaries will, sell, convey, transfer, lease or otherwise dispose of, to a Person other than the Issuer or a Subsidiary of the

Issuer, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or assets, unless (A) each such transaction is on arm's-length terms for Fair Market Value; and (B) with respect to any such transaction providing for a disposal of revenues or assets constituting more than 10% of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Issuer shall, prior to the disposal, provide the Trustee with a written opinion from an Independent Appraiser to the effect that the transaction is at Fair Market Value and fair, from a financial point of view, to the Issuer and/or the relevant Subsidiary, as the case may be.

(ii) This Condition 4(d) shall not apply to (A) any transaction between the Issuer and any of its wholly-owned Subsidiaries, (B) any sale, lease, transfer or other disposal of any assets or property (including cash and securities) constituting a Permitted Security Interest or (C) any present or future assets or revenues of any Banking Entity or of Georgian Leasing Company LLC, or any part thereof, which are the subject of any securitisation or any receivables, asset-backed financing or similar financing structure and whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the value of such assets or revenues, which are the subject of the relevant financing structure when aggregated with the value of all assets or revenues subject to a Security Interest permitted under paragraph (g) of the definition of "Permitted Security Interests", does not, at any time, exceed 25% of the Bank's loans and advances to customers determined by reference to the consolidated balance sheet of the Bank prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

(e) **Transactions with Affiliates**:

(i) The Issuer shall not, and shall ensure that none of its Material Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Issuer or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a Person that is not an Affiliate of the Issuer or any of its Material Subsidiaries and such terms are in compliance with all applicable laws and regulations.

(ii) With respect to an Affiliate Transaction or a series of related Affiliate Transactions involving aggregate payments or value in excess of 2% of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Issuer shall, prior to the relevant Affiliate Transaction, deliver to the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction (or series of Affiliate Transactions) is at Fair Market Value and is fair from a financial point of view to the Issuer or the relevant Material Subsidiary, as the case may be.

(iii) The following items, so long as they are in compliance with all applicable laws and regulations, shall not be deemed to be Affiliate Transactions and therefore shall not be subject to the provisions of (i) and (ii) above:

(A) any employment agreement entered into by a member of the Group in the ordinary course of business and consistent with the past practice of such member of the Group;

(B) transactions between or among the Issuer and its wholly-owned Subsidiaries (which shall for purposes of this Condition 4(e)(iii)(B) be deemed to include the Bank);

(C) payment of reasonable directors fees to Persons who are not otherwise Affiliates of the Issuer;

(D) a Restricted Payment permitted to be made pursuant to Condition 4(g) (*Restricted Payments*); and

(E) any non-interest bearing loans from any member of the Group to the Holding Company, provided that the aggregate amount outstanding under all such non-interest bearing loans shall not, at any time, exceed the greater of US$20,000,000 or 0.5% of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

(f) **Payment of Taxes and Other Claims**: The Issuer shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all Tax, assessments and governmental charges levied or imposed upon or upon the income, profits or property of the Issuer and/or its Material Subsidiaries, provided that neither the Issuer nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim (a) the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (b) the amount of which, together with all such other unpaid or undischarged Tax, assessments, charges and claims, does not in the aggregate exceed the greater of US$3,000,000 or 0.1% of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

(g) **Restricted Payments**: The Issuer shall not, (a) declare or pay any dividend in cash or otherwise or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Issuer or any of its Subsidiaries (and, if a Subsidiary is not a wholly-owned Subsidiary of the Issuer, to the other holders of its share capital on a *pro rata* basis); or (b) directly or indirectly voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Issuer or, prior to its scheduled maturity or scheduled repayment, any subordinated debt (except for the repayment of inter-company debt owed by any Subsidiary of the Issuer to the Issuer or to any other Subsidiary of the Issuer from time to time) (any such action in (a) or (b) being, a "**Restricted Payment**"), if:

(i) at the time of such payment an Event of Default or Potential Event of Default has occurred and is continuing or would result therefrom;

(ii) such Restricted Payment, when aggregated with all other Restricted Payments previously made on or after 1 January 2015 (including, for the avoidance of doubt, any payment made on or after 1 January 2015, but prior to the Issue Date, which, if made on or after the Issue Date, would have been a Restricted Payment), exceeds 60% of the consolidated net profit of the Issuer (or, as applicable in the relevant period, the Bank) (calculated in accordance with IFRS) aggregated on a cumulative basis during the period beginning on 1 January 2014 and ending on the last day of the immediately preceding fiscal year or semi-annual financial period, provided, however, that the Issuer may make Restricted Payments, without limitation as to the amount thereof, if it maintains cash and Temporary Investments in an amount at least equal to the sum of US$100,000,000 plus (without duplication) the Interest Coverage Amount; or

(iii) such Restricted Payment would cause or result in a breach of one or more of the covenants contained in Condition 4(n) (*Financial Covenants*) or otherwise result in a Material Adverse Effect.

(h) **No Limitations on Dividends from Material Subsidiaries**:

(i) The Issuer shall procure and ensure that none of its Material Subsidiaries (for the avoidance of doubt, for the purposes of this Condition 4(h) (*No Limitations on Dividends from Material Subsidiaries*) only, as defined in paragraph (b) of the definition thereof) shall create, assume or otherwise permit to subsist or become effective any encumbrance or restriction on the ability of such Subsidiaries to:

(A) pay any dividends or make any other payment or distribution on or in respect of its shares; or

(B) make payments in respect of any Indebtedness owed to the Issuer or any other Subsidiary.

(ii) The provisions of this Condition 4(h) (*No Limitations on Dividends from Material Subsidiaries*) will not prohibit:

(A) solely with respect to Condition 4(h)(i)(A), any such encumbrance or restriction, which is limited to the payment of dividends or other payments or distributions in any period in an amount up to 50% of the relevant Material Subsidiary's net profit (calculated in accordance with IFRS) for such period; or

(B) any such encumbrance or restriction with respect to an entity that becomes a Material Subsidiary after the Issue Date pursuant to an agreement, which was entered into prior to the date on which such Subsidiary becomes a Material Subsidiary (to the extent such encumbrance or restriction was not put in place in anticipation of such entity becoming a Material Subsidiary) and which remains in effect on such date; or

(C) any such encumbrance or restriction that is as a result of applicable law or regulation.

(i) **Limitation on Indebtedness**:

(i) The Issuer shall not create, incur, assume or otherwise become liable in respect of any Indebtedness, unless, after giving effect to the incurrence of such Indebtedness and the application of the proceeds thereof:

(A) Net Debt is no greater than 20% of Adjusted Shareholders' Equity; and

(B) no Event of Default or Potential Event of Default would occur or be continuing).

(ii) Without prejudice to Condition 4(i)(i), the Issuer shall not permit the Bank to create, incur, assume or otherwise become liable in respect of any Indebtedness, other than:

(A) any Indebtedness incurred to finance the business of the Issuer, the Bank or any other Subsidiary, whether a Banking Entity or a Non-Banking Entity, provided that the Bank shall at all times comply with prudential supervision ratios and other requirements of the relevant national banking supervision authority, except to the extent that (a) failure to comply could not be reasonably expected to have a Material Adverse Effect and (b) such relevant national banking supervision authority has agreed to take no action as result of or otherwise waived such non-compliance; and

(B) any Indebtedness of the Bank in existence on the Issue Date.

(j) **Financial Information:**

(i) The Issuer hereby undertakes that it will deliver to the Trustee, within 120 days after the end of each of its financial years, copies of the Issuer's audited consolidated financial statements (including asset and liability information under the caption "corporate center" (or any replacement or substitute section in the segment information of the same scope and import and setting out the same or equivalent line items) included in the notes thereto as required, subject to adjustments to the amounts shown under paragraphs (c) and (f) of the definition of "Net Debt", to calculate the ratio of Net Debt to Adjusted Shareholders' Equity for purposes of Condition 4(i)) and of the Bank's audited consolidated financial statements, in each case, for such financial year, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the audit report of the Auditors thereon.

(ii) The Issuer hereby undertakes that it will deliver to the Trustee within 60 days after the end of the second quarter of each of its financial years, copies of the Issuer's unaudited consolidated financial statements (including asset and liability information under the caption "corporate center" (or any replacement or substitute section in the segment information of the same scope and import and setting out the same or equivalent line items) included in the notes thereto as required, subject to adjustments to the amounts shown under paragraphs (c) and (f) of the definition of "Net Debt", to calculate the ratio of Net Debt to Adjusted Shareholders' Equity for purposes of Condition 4(i)) and of the Bank's unaudited consolidated financial statements, in each case, for the six month period then ended, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the review report of the Auditors thereon (if any).

(iii) The Issuer hereby undertakes that it will deliver to the Trustee, at the same time as it delivers any financial information required under paragraphs (i) and (ii) above, and at such other times upon request by the Trustee, a Net Debt Covenant Compliance Certificate.

(iv) The Issuer hereby undertakes that it will deliver to the Trustee, upon request and without delay, such additional information regarding the financial position or the business of the Issuer, any of its Subsidiaries and/or the Group as the Trustee may request.

(k) **Maintenance of Property**: The Issuer will, and shall procure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Issuer or any such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

(l) **Maintenance of Insurance**: The Issuer shall, and shall procure that its Material Subsidiaries shall, keep those of their properties which are of an insurable nature insured with insurers, believed by the Issuer or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdiction.

(m) **Compliance with Applicable Laws**: The Issuer shall, and shall procure that each of its Material Subsidiaries shall, at all times comply, in all material respects, with all provisions of applicable laws, including directives of governmental authorities and regulations.

(n) **Financial and Regulatory Covenants**:

(i) The Issuer shall procure that the Bank shall (except as otherwise specifically provided or agreed by the Trustee) at all times comply with prudential supervision ratios and other requirements of the relevant national banking supervision authority, except to the extent that (a) failure to comply could not be reasonably expected to have a Material Adverse Effect and (b) the relevant national banking supervision authority agrees to take no action as result of or otherwise waives the specific non-compliance in question.

(ii) For so long as any of the Issuer's Material Subsidiaries (other than the Bank) is a regulated entity, the Issuer shall procure that each such Material Subsidiary shall (except as otherwise specifically provided or agreed by the Trustee) at all times comply with any and all prudential norms or other regulations applicable to it under relevant industry regulations and standards, except to the extent that failure to comply could not be reasonably expected to have a Material Adverse Effect.

(iii) The Issuer shall, at all times, maintain an amount in cash and Temporary Investments at least equal to the Interest Coverage Amount.

(o) **Change of Business**: The Issuer shall not, and shall procure that no Material Subsidiary shall, make any material change to the general nature of the business of the Issuer, the relevant Material Subsidiary or the Group, as the case may be, from that carried on at the Issue Date.

5. INTEREST

Each Note bears interest from and including the Issue Date at the rate of 6.00% *per annum* payable semi-annually in arrear on 26 January and 26 July in each year (each an "**Interest Payment Date**"), commencing on 26 January 2017. Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than one year/a complete Interest Period (as defined below), the relevant day–count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

6. REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Redemption for Taxation and Other Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Georgia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two members of the Issuer's management board stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

(c) **Redemption at the Option of Noteholders upon a Bank Change of Control:** If at any time while any Note remains outstanding a Bank Change of Control occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving a notice to the Issuer as set out below, redeem such Note on the Change of Control Put Date at 101% of its principal amount, together with an amount equal to interest accrued to but excluding the Bank Change of Control Put Date.

Such option (the "**Bank Change of Control Put Option**") shall operate as set out below.

If a Bank Change of Control occurs, then, within 14 days of the occurrence of the Bank Change of Control, the Issuer shall, and, upon the Trustee becoming so aware (the Issuer having failed to do so), the Trustee may, and, if so requested by the holders of at least one-fifth in principal amount of the Notes then outstanding, shall, give notice (a "**Bank Change of Control Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Bank Change of Control and the procedure for exercising the Bank Change of Control Put Option.

To exercise the Bank Change of Control Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any business day (being a day on which commercial banks are open for business in the city where such Paying Agent has its specified office) falling within the period commencing on the date on which the Bank Change of Control Notice is given to Noteholders as required by this Condition 6(c) and ending 90 days after such date (the "**Bank Change of Control Put Period**"), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the certificate for such Notes is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from any specified office of any Paying Agent (a "**Bank Change of Control Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Bank Change of Control Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Bank Change of Control Put Option Notice on the date (the "**Bank Change of Control Put Date**") seven days after the last day of the Bank Change of Control Put Period (or if such day is not a Business Day, the next Business Day after the last day of the Bank Change of Control Put Period) unless previously redeemed or purchased and cancelled. A Bank Change of Control Put Option Notice given by a holder of any Note shall be irrevocable, except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Bank Change of Control Put Option Notice.

For the purposes of this Condition 6(c), a "**Bank Change of Control**" will be deemed to have occurred upon the consummation of any transaction or series of related transactions (including, without limitation, any merger or consolidation) the result of which is that the Issuer ceases to own and control (directly or indirectly) at least 75% of the issued and outstanding Voting Stock of the Bank.

(d) **Purchase**: The Issuer and its Subsidiaries (as defined in the Trust Deed) may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 12(a).

(e) **Cancellation**: All Certificates representing Notes purchased by or on behalf of the Issuer (provided the aggregate principal amount of such Notes is not less than US$1,000,000) may be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. **PAYMENTS**

(a) **Method of Payment**:

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in the relevant currency, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed, on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar, and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Agent, the Registrar, or any Transfer Agent and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(e) **Delay in Payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day, if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) **Non-Business Days**: If any date for payment in respect of any Note is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

8. **TAXATION**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

(a) **Other connection**: by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Georgia other than the mere holding of the Note; or

(b) **Exemption**: by or on behalf of a holder who is able to avoid such taxes, duties, assessments or governmental charges in respect of such Note by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or

(c) **Surrender more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9. **EVENTS OF DEFAULT**

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (provided that the Trustee shall have been indemnified to its satisfaction), give written notice to the Issuer that the Notes are, and they shall immediately become, due and payable at 100% of their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment**: the Issuer fails to pay the principal of, any interest or any other sum due on any of the Notes or due pursuant to the Trust Deed when due and such failure to pay is not remedied within five days of the due date for payment; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations (other than those in Condition 9(a)) in the Notes or the Trust Deed which default is incapable of remedy or, in the opinion of the Trustee, if it is capable of remedy, it is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness of the Issuer or any Material Subsidiary for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any Material Subsidiary fails to pay when due any amount payable by it under any present or future Guarantee for, or in respect of, any Indebtedness; ***provided that*** the aggregate amount of the relevant Indebtedness and Guarantees in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds US$25,000,000 or its equivalent in any other currency (as reasonably determined by the Trustee); or

(d) **Insolvency**:

(i) the occurrence of any of the following events: (A) the Issuer or any Material Subsidiary seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidation commission, temporary administration or a similar officer; (B) the presentation or filing of a petition in respect of the Issuer or any Material Subsidiary in any court or arbitration forum or before any Agency alleging its bankruptcy, insolvency, dissolution or liquidation or adoption of any resolution by any Agency in respect of any of the foregoing, except, in the case of any presentation or filing of a petition, where such presentation or filing is (x) initiated by any Person which is not a member of the Group or a Holding Company of any member of the Group; and (y) discharged or dismissed within 60 days from the date of presentation or filing; (C) the institution of supervision, temporary administration, external management, liquidation, rehabilitation or bankruptcy management to the Issuer or any Material

Subsidiary; (D) the convening of a meeting of creditors of the Issuer or any Material Subsidiary for the purposes of considering an amicable settlement; or (E) any extra-judicial liquidation or analogous act in respect of the Issuer or any Material Subsidiary by any Agency in or of Georgia; or

(ii) the Issuer or any Material Subsidiary: (A) fails or is unable to pay its debts generally as they become due; or (B) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property; or (C) an Agency or court of competent jurisdiction declares the Issuer to be insolvent or bankrupt or enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Issuer or any Material Subsidiary or any part of their respective property; or

(iii) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer; or

(e) **Unsatisfied Judgments, Governmental or Court Actions**: the aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Issuer or any Material Subsidiary exceeds US$25,000,000 or the equivalent thereof in any other currency or currencies, or any such unsatisfied judgment, decree or order results in (a) the management of the Issuer or any Material Subsidiary being wholly or partially displaced or the authority of the Issuer or any Material Subsidiary in the conduct of its business being wholly or partially curtailed, (b) all or a majority of the issued shares of the Issuer or any Material Subsidiary or the whole or any part (the book value of which is 20% or more of the book value of the whole of the Issuer or such Material Subsidiary) of the revenues or assets of the Issuer or such Material Subsidiary, as the case may be, which are being seized, nationalised, expropriated or compulsorily acquired or (c) the Bank's banking licence being revoked; or

(f) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Condition 9(d) (*Insolvency*) or Condition 9(e) (*Unsatisfied Judgments, Governmental or Court Actions*); or

(g) **Execution and Distress**: any execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Issuer or any Material Subsidiary; or

(h) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, decree, approval, authorisation, exemption, filing, licence, order, recording, registration or other authority) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its material rights and perform and comply with its payment obligations under the Notes and the Trust Deed, its obligations under Condition 4 (*Covenants*) and its other material obligations under the Notes, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed and the Agency Agreement admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) **Validity and Illegality**: the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer denies any of its obligations under the Notes, the Trust Deed or the Agency Agreement or it is, or will become, unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed or the Agency Agreement or any of such obligations becomes unenforceable or ceases to be legal, valid and binding.

The Issuer has undertaken in the Trust Deed that it will promptly upon becoming aware of the same inform the Trustee of the occurrence of any Event of Default or event or circumstance that would, with the giving of notice, lapse of time and/or issue of a certificate, become an Event of Default (a "**Potential Event of Default**").

The Issuer has also undertaken in the Trust Deed that it shall, within 14 days of its annual audited financial statements being made available to its members, within 14 days of each Interest Payment Date and also within 14 days of any request by the Trustee, send to the Trustee a certificate of the Issuer signed by any two of its Directors that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "**Certification Date**") not more than five days before the date of the certificate, no Event of Default or Potential Event of Default has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event has occurred, giving details of it.

10. **PRESCRIPTION**

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. **REPLACEMENT OF CERTIFICATES**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. **MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10% in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes, inter alia, consideration of the following proposals: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment; (iv) to change the amount of principal and interest payable in respect of the Notes; (v) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other entity; (vi) to change the currency of payments under the Notes; (vii) to change the quorum requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; (viii) to alter the governing law of the Conditions or the Trust Deed; (ix) to change any date fixed for payment of principal or interest on the Notes; (x) to alter the method of calculating the amount of any payment under these Conditions; or (xi) to change the currency of payment under these Conditions or, without prejudice to the rights under Condition 12(b) (*Modification of the Trust Deed and Waiver*) below, change the definition of "Events of Default" under these Conditions, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of the Trust Deed and Waiver**: The Trustee may agree with the Issuer, without the consent of the Noteholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**: The Trust Deed contains provisions permitting the Trustee to agree with the Issuer, subject to the conditions provided for in the Trust Deed and to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any Subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree with the Issuer, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Under the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as principal debtor under the Trust Deed and the Notes of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Notes, and provided that such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Notes.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or pre-funded and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

15. NOTICES

Notices to the holders of Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. DEFINITIONS

Expressions used in these Conditions shall have the following meanings:

"**Adjusted Shareholders' Equity**" means the shareholders' equity of the Issuer, determined by reference to the consolidated balance sheet of the Issuer prepared in accordance with IFRS, ***less*** the shareholders' equity of each Listed Subsidiary determined by reference to the consolidated or standalone (as the case may be) balance sheet of such Listed Subsidiary prepared in accordance with IFRS to the extent attributable to the Issuer, ***plus*** the higher of (a) the market capitalisation of each Listed Subsidiary as published on the website of the relevant stock exchange on which the shares of such Listed Subsidiary are listed and/or admitted to trading to the extent attributable to the Issuer, or (b) the shareholders' equity of each Listed Subsidiary attributable to the Issuer determined by reference to the consolidated or standalone (as the case may be) balance sheet of such Listed Subsidiary prepared in accordance with IFRS, in each case (for all relevant purposes of this definition of Adjusted Shareholders' Equity) as at the end of the most recent IFRS Fiscal Period.

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a);

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Bank**" means Joint Stock Company Bank of Georgia;

"**Banking Entity**" means any of the Issuer's Subsidiaries, which is a bank (including, without limitation, the Bank);

"**Business Day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including in foreign exchange and foreign currency deposits) in New York City, London and Tbilisi and, in the case of presentation or surrender of a Certificate, in the place of the specified office of the Registrar or relevant Agent, to whom the relevant Certificate is presented or surrendered;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

"**Fair Market Value**" of a transaction means the value that would be obtained in an arm's-length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A report of the Auditors of the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on the Noteholders;

"**Group**" means the Issuer and its Subsidiaries, from time to time, taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Holding Company**" means any Person who (a) directly or indirectly controls the affairs and policies of the Issuer or (b) owns directly or indirectly more than 50% of the capital, Voting Stock or other right of ownership of the Issuer and "**control**", as used in this definition, means the power to direct the management and the policies of the Issuer, whether through the ownership of share capital, by contract or otherwise;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards), issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Issuer or a Material Subsidiary, as the case may be, has produced consolidated financial statements in accordance with IFRS, which have either been audited or reviewed by the Auditors;

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(e) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(f) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto), excluding any letters of credit, guarantees, or other similar instruments issued in the ordinary course of its insurance business;

(g) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services;

(h) all capitalised lease obligations of such Person;

(i) all indebtedness of other Persons secured by Security Interests granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest annual financial statements (calculated in accordance with IFRS) of the Person granting the Security Interest) of such Person, whether or not such indebtedness is assumed by such Person;

(j) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person;

(k) any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable;

(l) any amount raised by acceptance under any acceptance credit facility;

(m) to the extent not otherwise included in the foregoing, net obligations under any currency or interest rate hedging agreements; and

(n) any amount raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing,

and the amount of indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation;

"**Independent Appraiser**" means an investment banking firm or third party expert in the matter to be determined of international standing selected by the Issuer and approved by the Trustee, provided that such firm or third party appraiser is not an Affiliate of the Issuer;

"**Interest Coverage Amount**" means, as at any date, the amount of interest accrued and due and payable on the Notes on the next Interest Payment Date;

"**Issue Date**" means 26 July 2016;

"**Liquid Assets**" means the aggregate (as at the relevant date for calculation) of a Banking Entity's cash, demand and overnight deposits and other deposits with a maturity of not more than 30 calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by Georgia or any OECD government, or any province, subdivision or Agency thereof, and claims against the central bank or other authority to whose requirements the Banking Entity may be subject with a final maturity of less than one year;

"**Listed Subsidiary**" means a Subsidiary the shares of which are, as at the end of the most recent IFRS Fiscal Period, listed and/or admitted to trading on a recognised international stock exchange or (except for purposes of Condition 4(i)(i)) the Georgian Stock Exchange;

"**Material Adverse Effect**" means a material adverse change in, or material adverse effect on, (a) the business, properties, condition (financial or otherwise), results of operations or prospects of the Issuer or the Group, (b) the Issuer's ability to perform its obligations under the Notes or the Trust Deed or (c) the validity or enforceability of Notes or the Trust Deed;

"**Material Subsidiary**" means any Subsidiary of the Issuer:

(a) for all purposes of these Conditions, other than Condition 4(h) (*No Limitations on Dividends from Material Subsidiaries*), which, for the most recent IFRS Fiscal Period, accounted for more than 5% of the consolidated revenues of the Group or which, as at the end of the most recent IFRS Fiscal Period, was the owner of more than 5% of the total consolidated assets of the Group, in either case, determined by reference to the consolidated financial statements of the Issuer prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period; or

(b) for purposes of Condition 4(h) (*No Limitations on Dividends from Material Subsidiaries*), but not otherwise, which, for the most recent IFRS Fiscal Period, accounted for more than 10% of the consolidated revenues of the Group or which, as at the end of the most recent IFRS Fiscal Period, was the owner of more than 10% of the total consolidated assets of the Group, in either case, determined by reference to the consolidated financial statements of the Issuer prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period; or

(c) for all purposes of these Conditions, to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction);

other than, for purposes of Condition 4 only (irrespective of the revenues or assets of such Subsidiary, respectively, as a percentage of consolidated revenues or total consolidated assets of the Group), but not otherwise, any Listed Subsidiary (other than, for the purposes of Condition 4(i)(i), a Subsidiary listed or admitted to trading on the Georgian Stock Exchange), ***provided, however,*** that the Bank will at all times be considered as a Material Subsidiary whether or not any of its shares are at any time so listed;

"**Maturity Date**" means 26 July 2023;

"**NBG**" means the National Bank of Georgia;

"**Net Debt**" means the resulting amount calculated (without duplication) as follows:

(a) amounts owed to credit institutions, ***plus***

(b) debt securities issued, ***less***

(c) intersegment loans to the extent comprising senior loans made by the Issuer to any Subsidiary (including principal and interest thereon), ***provided that*** any such loan has a final maturity of no later than two Business Days prior to the Maturity Date, ***less***

(d) cash and cash equivalents, ***less***

(e) amounts due from credit institutions, ***less***

(f) debt investment securities to the extent comprising (i) Temporary Investments or (ii) senior debt instruments issued by any Subsidiary and held by the Issuer, ***provided that*** any such instrument has a final maturity of no later than two Business Days prior to the Maturity Date,

in each case, of the Issuer on a stand-alone basis determined by reference to the corresponding asset and liability information under the caption "corporate center" (or any replacement or substitute section in the segment information of the same scope and import and setting out the same or equivalent line items) note to the Issuer's consolidated financial statements prepared in accordance with IFRS;

"**Net Debt Covenant Compliance Certificate**" means (i) a certificate of the Issuer, signed by two directors or officers of the Issuer, in form and substance satisfactory to the Trustee, setting out the Issuer's calculation of the amounts of Adjusted Shareholders' Equity and Net Debt and the required ratio, and showing, in each case, the component parts thereof, which shall include (among other things), in the case of the calculation of Net Debt, the corresponding asset and liability information under the caption "corporate center" (or any replacement or substitute section in the segment information of the same scope and import and setting out the same or equivalent line items) included in the notes to the Issuer's consolidated financial statements prepared in accordance with IFRS as at the end of the relevant Fiscal Period together with (as applicable) the adjustments to the amounts shown under paragraphs (c) and (f) of the definition of "Net Debt", accompanied by an independent assurance report (in the event the certificate is prepared with reference to audited financial information) or an agreed upon procedures report (in the event the certificate is prepared with reference to unaudited financial information) signed by the Issuer's auditors confirming the Issuer's calculations and its compliance with paragraph (i) of Condition 4(i) (*Limitation on Indebtedness*));

"**Permitted Security Interests**" means:

(a) Security Interests in existence on the Closing Date;

(b) Security Interests granted by any Subsidiary in favour of the Issuer or any wholly-owned Subsidiary of the Issuer;

(c) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Subsidiary of the Issuer or becomes a Subsidiary of the Issuer, provided that such Security Interests (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Issuer or any Subsidiary of the Issuer (other than those of the Person acquired and its Subsidiaries (if any));

(d) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Subsidiary of the Issuer, provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(e) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(f) any netting or set-off arrangement entered into by any Banking Entity in the Group in the ordinary course of its banking business for the purpose of netting debit and credit balances;

(g) any Security Interest upon, or with respect to, any present or future assets or revenues of the Bank or Georgian Leasing Company LLC or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest, are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues subject to such Security Interest when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Condition 4(d) (*Disposals*), does not, at any such time, exceed 25% of the Bank's loans and advances to customers, determined by reference to the consolidated balance sheet of the Bank prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

(h) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(i) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;

(j) any Security Interests arising by operation of law and in the ordinary course of business including tax and other non-consensual Security Interests; and

(k) any Security Interests not otherwise permitted by the preceding paragraphs (a) to (j), inclusive, provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed the greater of US$100,000,000 or 2% of the total consolidated assets of the Group, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event or circumstance which could, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9, become an Event of Default;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any Capital Stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Restricted Payment**" has the meaning given to it in Condition 4(g);

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (a) whose affairs and policies the first Person directly or indirectly controls or (b) as to whom the first Person owns directly or indirectly more than 50 per cent. of the capital, Voting Stock or other right of ownership and "**Control**", as used in this definition, means the power to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise, "**Controlled**" being construed accordingly;

"**Temporary Investments**" means any of the following:

(a) any investment in direct obligations of a member of the European Union, the United States or any agency thereof or obligations guaranteed by a member of the European Union or the United States or any agency thereof;

(b) any investment in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of a member of the European Union or the United States or any state thereof and outstanding debt rated "A" (or such similar equivalent rating) or higher by at least one internationally recognised rating agency;

(c) any investment in repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (a) above entered into with a bank meeting the qualifications described in paragraph (b) above;

(d) any investment in commercial paper issued by a corporation (other than an Affiliate of the Issuer) organised and in existence under the laws of a member of the European Union or the United States with a rating at the time as at which any investment therein is made of "P1" / "A1" (or such similar equivalent rating or higher) by at least one internationally recognised rating agency;

(e) any investment in securities issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union or the United States, or by any political subdivision or taxing authority thereof, and rated at least "A" (or such similar equivalent rating) or higher by at least one internationally recognised rating agency;

(f) any investment in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by the Bank or any Georgian bank having a rating from at least two internationally recognised rating agencies that is at least equivalent to that of the Bank;

(g) any investment in securities (A) issued by or guaranteed by the government of Georgia or the NBG or (B) issued by an entity incorporated under the laws of Georgia that are listed on a recognised international stock exchange and having a rating from at least two internationally recognised rating agencies that is at least equivalent to that of the government of Georgia; and

(h) any investment in money market funds that invest substantially all their assets in securities of the types described in paragraphs (a) through (g) above;

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

18. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions of the Notes in all respects (or in all respects except the issue price, issue date and/or first payment of interest on such securities) and so that such further issue is consolidated and forms a single series with the Notes or upon such other terms as the Issuer may determine at the time of their issue. References in these conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the Notes constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

19. GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**: Any dispute which may arise out of or in connection with the Trust Deed or the Notes (including any claim, dispute or difference as to (i) the existence of the Notes, (ii) termination or validity of the Trust Deed or the Notes, (iii) any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes, (iv) the consequences of the nullity of the Trust Deed or the Notes, or (v) this Condition 19(b)) (each, a "**Dispute**") shall be finally settled by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**") as at present in force and as modified by this Condition 19(b), which Rules shall be deemed incorporated into this Condition 19(b). The number of arbitrators shall be three. Each party shall appoint one arbitrator in the Request for Arbitration or the Response, as the case may be. The third arbitrator, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators. If such nomination is not made within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated or either party fails to nominate an arbitrator in the Request for Arbitration or Response, as applicable, then such nomination shall be chosen by the LCIA court. The seat of arbitration shall be London, England and the language of arbitration shall be English. The arbitrators shall have power to award on a provisional basis any relief that they would have power to grant on a final award. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) **Waiver of immunity**: To the extent that the Issuer or any of its assets has (on the date of issue of the Notes), or thereafter may acquire, any right to immunity from set-off, legal proceedings, attachment prior to judgement, other attachment or execution of judgement on the grounds of sovereignty or otherwise, the Issuer hereby irrevocably waives any such right to immunity and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any proceedings.

(d) **Agent for Service of Process**:

The Issuer irrevocably appoints Bank of Georgia Representative Office UK Limited, at 84 Brook Street, London W1K 5EH, United Kingdom as its agent in England to receive service of process in any proceedings in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall appoint a new agent for service of process in England and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. INITIAL ISSUE OF CERTIFICATES

The Regulation S Notes shall be represented by a permanent Regulation S Global Certificate, in fully registered form without interest coupons, deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes shall be represented by a permanent Rule 144A Global Certificate, in fully registered form without interest coupons, deposited with Citibank N.A. as custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company (**DTC**).

Upon the registration of the Regulation S Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Regulation S Global Certificate to the common depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Regulation S Global Certificate.

Upon the registration of the Rule 144A Global Certificate in the name of Cede & Co. as nominee of DTC and delivery of the Rule 144A Global Certificate to the custodian for DTC, DTC will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Rule 144A Global Certificate.

2. RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note represented by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3. EXCHANGE FOR DEFINITIVE CERTIFICATES

The following will apply in respect of transfers of Notes held in DTC, Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2(b) may only be made in part:

(i) if the Global Certificate is held by or on behalf of DTC, Euroclear or Clearstream, Luxembourg and such clearing system notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or

(ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a note to such effect signed by two Members of the Issuer Management Board is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date specified in the notice.

"Exchange Date" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Transfer Agent is located.

4. AMENDMENT TO CONDITIONS

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is an overview of certain of those provisions:

4.1 Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificates shall (unless the Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

4.3 Trustee's Powers

In considering the interests of Noteholders while the Global Certificates are held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

TAXATION

The following is a general description of certain material United States Federal, United Kingdom, EU, and Georgian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in the United States, the United Kingdom, the EU and Georgia or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This overview is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Certain Material United States Federal Income Tax Considerations

The following is a general overview of certain U.S. federal income tax consequences arising from the acquisition, ownership and disposition of the Notes by a U.S. Holder (as defined below). This overview deals only with initial purchasers of the Notes at the "issue price" (the first price at which a substantial amount of the Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of the Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This overview also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the US Dollar).

As used herein, the term **U.S. Holder** means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This overview is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the **Code**), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE OVERVIEW OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale, Retirement and Other Taxable Disposition of the Notes

A U.S. Holder will generally recognise gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realised on the disposition and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note will generally be its US Dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations.

If a Georgian tax is withheld on the sale, retirement or other taxable disposition of a Note, the amount realised by a U.S. Holder will include the gross amount of the proceeds of that sale or other disposition before deduction of the Georgian tax withheld. Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for any Georgian income taxes withheld by the Issuer. Gain or loss realised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be U.S. source income for U.S. foreign tax credit purposes. Therefore, in the case of a gain from the disposition of a Note that is subject to Georgian tax, a U.S. Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any Georgian tax imposed on the sale or disposition. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex. Prospective purchasers should consult their tax advisers as to the foreign tax credit or foreign tax deduction implications of the sale, retirement or other taxable disposition of Notes.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders (including corporations) are not subject to backup withholding.

Backup withholding is not an additional tax. Any backup withholding from a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of the Notes, including requirements related to the holding of certain foreign financial assets.

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Bank) to whom special rules may apply. The United Kingdom tax treatment of prospective noteholders depends on their individual circumstances and may be subject to change in the future. Prospective noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payment of Interest on the Notes

If interest on the Notes constitutes United Kingdom source income for tax purposes an amount may be required to be withheld on account of United Kingdom income tax at the basic rate (currently 20%) unless an exemption or other relief applies as discussed below. Based on the current law and the terms of the Notes, it is expected that interest on the Notes should not constitute United Kingdom source income.

If interest on the Notes, does constitute United Kingdom source income payments of interest may be made without deduction or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 (the **Income Tax Act 2007**). The Irish Stock Exchange is a recognised stock exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time when the payment is made, the Company reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the interest, provided that H.M. Revenue & Customs (**HMRC**) has not given a direction that the interest must be paid under deduction of tax. If no withholding or deduction on account of United Kingdom tax has been made on this basis and the beneficial owner is not within the charge to United Kingdom corporation tax as regards the payment of interest, the right to pay without withholding or deduction is treated as having never applied to such payment.

If interest on the Notes constitutes United Kingdom source income and no exemption is available, an amount may generally be required to be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a noteholder, HMRC can issue a notice to the Bank to pay interest to the noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

Further United Kingdom Income Tax Issues

If interest on the Notes constitutes United Kingdom source income for tax purposes it may be subject to income tax by direct assessment even where paid without deduction or withholding on account of United Kingdom tax. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident in the United Kingdom for tax purposes unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom permanent establishment, branch or agency in connection with which the interest is received or to which the Notes are attributable.

Taxation of Chargeable Gains

A disposal of Notes by an individual Noteholder who is resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

Accrued Income Scheme

On a disposal of Notes by an individual Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007, if that noteholder is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax on income in respect of any returns, profits or gains arising on the Notes broadly in accordance with their statutory accounting treatment.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty reserve tax will be payable on the issue or transfer of the Notes. No United Kingdom stamp duty will be payable on the issue of the Notes and no United Kingdom stamp duty should be required to be paid on any transfer of the Notes. Notwithstanding the above, any stamp duty which is required to be paid on any transfer of the Notes will generally be borne by the transferee of the Notes.

Georgian Taxation

The analysis below is a general overview of certain Georgian tax implications related to the Notes prepared in accordance with Georgian tax legislation as of the date of this Prospectus. As with other areas at Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the Noteholders could become subject to taxation in Georgia, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of this Prospectus. Each prospective purchaser of Notes should also consider any further tax implications that may be relevant to it under the laws and regulations of other countries in connection with its purchase, holding and sale of Notes.

Withholding Tax on Interest

Payments of interest on Notes will be exempt from withholding tax and such payments of interest shall not be included in the gross taxable income of Noteholders (whether they are individuals (physical persons) or legal entities), so long as the Notes are issued by the Georgian resident and listed and admitted to trading on a "recognised foreign stock exchange". For these purposes, the Irish Stock Exchange is a "recognised foreign stock exchange" under Georgia law.

Enforceability of Tax Gross-up under the Terms and Conditions of the Notes

Pursuant to Condition 8 (Taxation), in the case of withholding or deduction of any taxes (subject to certain customary exceptions) in respect of any payment on the Notes, the Issuer is required to increase the amount of the relevant payment by such amount as would result in the receipt by the relevant Noteholder of the amount which would have been received by it had no such withholding or deduction been required. The Tax Code neither prohibits nor permits the inclusion of tax gross-up clauses (such as that set out in Condition 8 (Taxation)) in agreements or instruments made by Georgian companies. In practice, however, such gross-up provisions are widely respected by the tax authorities in Georgia.

Taxation of sale of Notes—General

Pursuant to the Tax Code, there will be no profit and income tax payable on the gain in case of the sale of Notes provided that such Notes are public securities admitted to trading on stock exchange listing with free float exceeding 25% as of the end of the reporting year or the year before (Free Float Exemption) or another exemption is available. There are no clear guidelines on how the free float shall be determined; it is not clear whether a confirmation of the free float can be obtained; and there are no clear guidelines on whether Notes (which are expected to be listed on the Irish Stock Exchange rather than a Georgian stock exchange) will be counted towards the free float for Georgian tax purposes. Furthermore, some procedural requirements of the Tax Code and lack of practice in that respect may preclude applicability of such exemption (or any other available exemption) in practice. If the sale of Notes is taxable in Georgia, the below described tax liabilities may arise:

Taxation of sale of Notes by Non-Resident Legal Entity Noteholders

Absent an exemption, non-resident legal entities will be assessed profit tax on the difference between the initial purchase and subsequent sale price and the relevant non-resident entity will be under an obligation to properly report and pay such profit tax to the Georgian tax authorities. If the sale is carried out through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a 10% rate or at a 15% rate if the seller is registered in an offshore jurisdiction. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian profit tax may be affected by a double tax treaty between Georgia and the country of residency of the selling entity.

Taxation of sale of Notes by Non-Resident Individual Noteholders

Individuals in Georgia are subject to income tax at a current rate of 20%, with the tax base being calculated after permitted deductions. For the non-resident individuals the income tax will be assessed on the difference between the initial purchase and subsequent sale price. A relevant non-resident individual will be under an obligation to properly report and pay such income tax to the Georgian tax authorities. If the sale is done through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a 10% rate or at a 15% rate if the seller is registered in an offshore jurisdiction. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian income tax may be affected by a double tax treaty between Georgia and the country of residency of the seller individual.

Certain exemptions may also be available to individual Noteholders if such individuals maintain ownership of Notes for more than two calendar years.

Taxation of sale of Notes by Resident Individual Noteholders

Georgian resident individual Noteholders will become liable to pay income tax at 20% upon the disposal of the Notes. The income tax will be assessed on the difference between the initial purchase and subsequent sale price. If the sale is done through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax. Certain exemptions may be available to Georgian resident individual Noteholders if such individuals maintain ownership of Notes for more than two calendar years.

Taxation of sale of Notes by Resident Legal Entity Noteholders

Georgian resident legal entities will be liable to pay 15% corporate profit tax upon the disposal of the Notes. The corporate profit tax will be assessed on the difference between initial purchase and subsequent sale price.

Due to the recent amendments to the Tax Code, the changes to the corporate profit tax will come into effect (subject to certain exceptions) from 1 January 2017. See *"Risk Factors—Macroeconomic and Political Risks Related to Georgia—Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Group and there may be changes in current tax laws and policies"*.

Value Added Tax

Sales (supply) of the Notes are exempt from Value Added Tax in Georgia.

Other Considerations

The Tax Code expressly provides for ability of the tax inspection to re-examine the transaction price indicated by the respective parties, subject to certain procedural requirements.

"*See "Risk Factors—Risks Relating to the Notes—The uncertainties of the Georgian tax system could have a material adverse effect on the taxation of the Notes, in particular, the sale of the Notes*".

TRANSFER RESTRICTIONS

Rule 144A Securities

Each purchaser of Rule 144A Notes, by purchasing such Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It is (i) a QIB; (ii) acquiring the Notes for its own account or for the account of one or more QIBs; (iii) not acquiring the Notes with a view to further distribute such Notes; and (iv) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(b) It understands that such Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (ii) in reliance on Rule 144A to a person that the holder and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB; (iii) in an offshore transaction in accordance with Regulation S; (iv) pursuant to Rule 144 under the U.S. Securities Act (if available); or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, in each case, in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Notes offered and sold hereby in the manner set forth in paragraph (a) are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act and are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Notes.

(d) It understands that any offer, sale, pledge or other transfer of such Notes made other than in compliance with the above-stated restrictions may not be recognised by the Issuer.

(e) It understands that such Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **U.S. SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT (**RULE 144A**) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A **QIB**) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT (**REGULATIONS S**) OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RESALES OF THIS NOTE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED.

If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

It understands that the Notes offered in reliance on Rule l44A will be represented by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Regulation S Securities

Each purchaser of Regulation S Notes, by purchasing such Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It understands that such Notes have not been and will not be registered under the U.S. Securities Act, and such Notes are being offered and sold in accordance with Regulation S.

(b) It or any person on whose behalf it is acting is, or at the time such Notes are purchased will be, the beneficial owner of such Notes and (i) it is purchasing such Notes in an offshore transaction (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(c) It will not offer, sell, pledge or otherwise transfer Notes, except in accordance with the U.S. Securities Act and any applicable securities laws of any state of the United States.

(d) The Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

SUBSCRIPTION AND SALE

Each Manager has, pursuant to a Subscription Agreement dated 22 July 2016, severally (and not jointly) agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the aggregate principal amount of the Notes listed next to its name in the table below at the issue price of 99.297%. The Issuer has agreed to pay to the Joint Lead Managers a total combined management and underwriting and selling concession in respect of the Notes. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes and to indemnify them in respect of certain losses. The Issuer has made separate arrangements as to fees and expenses with the Co-Manager. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Managers	Principal Amount of the Notes
J.P. Morgan Securities plc	US$174,900,000
Merrill Lynch International	US$174,900,000
JSC Galt & Taggart	US$ 200,000
Total	US$350,000,000

Tender offer and priority allocation

On 5 July 2012, the Bank issued US$250 million 7.75% notes due 2017 and on 5 November 2013 the Bank issued a further US$150 million 7.75% notes due 2017 which were consolidated to form a single series. On 30 June 2016, the Bank invited holders of the 2017 Notes to tender any or all of the 2017 Notes held by them for purchase by the Bank for cash and to concurrently consent to amend by extraordinary resolution (i) the terms and conditions of the 2017 Notes to provide for mandatory early redemption of the 2017 Notes by the Bank and that all disputes arising out of the 2017 Notes are settled through arbitration only and (ii) the trust deed constituting the 2017 Notes to provide that all disputes arising out such trust deed are settled through arbitration only, in each case, on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum. The tender offer and exit consent solicitation are subject to the Bank being satisfied that the Group has received an amount by way of proceeds of the issue of Notes which is sufficient in order to enable the Bank to finance, in whole or in part, the payment by it of the applicable consideration and accrued interest in respect of all 2017 Notes validly tendered and accepted for purchase pursuant to the tender offer and exit consent solicitation. Holders of the 2017 Notes that wish to subscribe for Notes, in addition to participating in the tender offer and exit consent solicitation, may request to receive priority in the allocation of the Notes, subject to the completion of the offer and the other terms and conditions set out in the Tender Offer and Consent Solicitation Memorandum. The Bank holds US$37,506,000 in aggregate principal amount of 2017 Notes and, although no final decision has been made as of the date of this Prospectus, the Bank may tender all or some of the 2017 Notes it currently holds as set out in the Tender Offer and Consent Solicitation Memorandum.

Anchor Investor

International Finance Corporation

IFC, an existing lender to the Group, including the Bank (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Funding—Amounts Due to Credit Institutions*"), has committed to purchase from the Issuer up to US$70 million in aggregate principal amount of the Notes, subject to a minimum allocation to IFC of US$20 million, and subject further to certain conditions being met. IFC has executed a mandate letter with regards to this investment under which IFC will be paid a fee, have its expenses reimbursed and be indemnified by the Issuer. The terms of IFC's investment will not restrict the ability of IFC to buy or sell Notes in the future and, as a result, IFC may buy or sell Notes in open market transactions at any time following the consummation of the offering. As a condition to IFC's commitment to purchase, the Issuer and the Bank have also agreed that the Bank shall comply with IFC's environmental and social policies whilst IFC is a Noteholder.

Other Investors

EBRD

On 22 June 2016, the Issuer, the Bank and EBRD, an existing lender to the Group, including the Bank (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Funding—Amounts Due to Credit Institutions*"), entered into the EBRD Framework Agreement with respect to the possibility that EBRD may purchase Notes, subject to certain conditions. Among other things, the EBRD Framework Agreement includes certain undertakings by the Bank to comply with EBRD's environmental and social requirements if EBRD acquires any Notes and for as long as EBRD holds any such Notes. EBRD is under no obligation to acquire any Notes notwithstanding the Issuer and EBRD having entered into the EBRD Framework Agreement.

The Bank

Although no final decision has been made as of the date of this Prospectus, the Bank or its subsidiaries may from time to time purchase and hold Notes, either as part of the initial issuance or in subsequent trades. See "*Risk Factors—Risks Relating to the Notes—There may not be an active trading market for the Notes*".

General

No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Notes, or possession or distribution of any other offering relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief with all applicable laws and regulations in each jurisdiction in which it offers or sells any Notes or distributes or publishes this Prospectus or any such other material.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold or delivered within the United States except in certain transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act. Each Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States, except as permitted by the Subscription Agreement. The Notes are being offered and sold by the Managers outside the United States in accordance with Regulation S.

The Subscription Agreement provides that the Managers may offer and sell the Notes within the United States to QIBs in reliance on Rule 144A. Any offers and sales by the Managers in the United States will be conducted by broker-dealers registered with the SEC.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in reliance on Rule 144A or another available exemption from registration under the U.S. Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

In the United Kingdom, this Prospectus may be distributed only to and may be directed only at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the **Order**); (b) high net worth entities falling within Article 49(2) (a) to (d) of the Oder; or (c) other persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as **relevant persons**). Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Notes may not be offered or sold to persons in the United Kingdom except to "qualified investors" as defined in section 86(7) of the Financial Services and Markets Act 2000, as amended (the **FSMA**).

Each Manager has represented and agreed that:

i. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

ii. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA relating to the offering of the Notes or distribution or publication of this Prospectus or any other offering material or advertisement; persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer of the Notes applicable in such EEA Member State.

Georgia

Each Manager has agreed that the Notes shall not be offered or sold in the territory of Georgia in a public offering without a prior or simultaneous delivery/publication of a final prospectus approved by the NBG in accordance with the Law of Georgia on Securities Market. A "public offering" is defined as an offer to sell securities directly or indirectly on behalf of an issuer or other person to at least 100 persons or to an unspecified number of persons. In the event, however, that the securities of the Issuer are placed/listed on the Irish Stock Exchange, which is a "recognised stock exchange of the foreign country", the Notes may be issued and offered in Georgia in a public offering without approval of the Prospectus by the NBG, provided that the NBG is notified about the public offering of the Notes in accordance with Georgian law.

Each Manager has represented and agreed that it has complied and will comply with all applicable provisions of Georgian law with respect to anything done by it in relation to the Notes in, from or otherwise involving Georgia.

Switzerland

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither the Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither the Prospectus nor any other offering or marketing material relating to the offering, the Issuer or the Notes has been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority (FINMA), and investors in the Notes will not benefit from protection or supervision by such authority.

Russian Federation

Each of the Managers has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Managers may distribute this Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement or offering of the Notes in Russia (each as defined in Russian securities laws) and may sell the Notes to Russian persons in a manner that does not constitute "offering," "placement" or "circulation" of the Notes in the Russian Federation (as defined in Russian securities laws) and otherwise not in breach of Russian law.

Azerbaijan

Each Manager has represented, warranted and agreed that it has not offered or sold and will not offer or sell the Notes to any person in Azerbaijan, other than as permitted under the laws of Azerbaijan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority (the **DFSA**); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold and that it will not offer or sell any Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act Chapter 289, of Singapore (the **Securities and Futures Act**); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or (iii) pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

Where Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than: (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **CO**) or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Turkey

The issuance of the Notes has not been approved by the Turkish Capital Markets Board and the Notes are not being publicly offered or sold in Turkey. This Prospectus is not intended to be a public offering, advertisement, promotion or solicitation of the Notes or any interests therein. No transaction that may be deemed to be a public offering or otherwise a sale of the Notes (or beneficial interests therein) in Turkey by may be engaged in. Pursuant to Article 15(d)(ii) of Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time), there is no restriction on the purchase or sale of the Notes (or beneficial interests therein) by residents of Turkey, provided that they purchase or sell such Notes (or beneficial interests therein) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to Capital Markets Board regulations and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions when purchasing the Notes (or beneficial interests therein) and transfer the purchase price through banks.

Other Relationships

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers or their respective affiliates from time to time have provided in the past, and may provide in the future investment banking financial advisory and/or commercial banking services to, the Issuer and its affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Joint Lead Managers and their affiliates may receive allocations of the Notes. Each of the Joint Lead Managers (or their respective affiliates) may be a lender and/or agent bank and/or security agent under existing lending arrangements with the Issuer and/or the bank, in connection with which the Joint Lead Managers may each receive customary fees and commissions for these roles. The Joint Managers and their respective affiliates may, in the future, act as hedge counterparties to the Issuer or the Bank consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GENERAL INFORMATION

1. Application has been made to the Irish Stock Exchange for the Notes to be admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (**MiFID**). It is expected that the listing of the Notes on the Official List and admission of the Notes to trading on the Main Securities Market will be granted on or around 26 July 2016. Prior to official listing and admission to trading, however, dealings will be permitted by the Irish Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. This Prospectus has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive. Such approval relates only to Notes, which are to be admitted to trading on the Main Securities Market. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

3. Arthur Cox Listing Services is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

4. The expenses in relation to the admission of the Notes to trading on the Main Securities Market will be approximately €6,500.

5. The Issuer has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer passed on 30 June 2016.

6. There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 March 2016 and no material adverse change in the prospects of the Issuer or of the Group since 31 December 2015.

7. In the previous 12 months, there have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, a significant effect on the Issuer and/or the Group's financial position or profitability.

8. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg for the Regulation S Notes and DTC for the Rule 144A Notes. The Common Code, ISIN and CUSIP number, as applicable, for the Regulation S Notes and the Rule 144A Notes are as follows:

   Regulation S Notes:

   ISIN: XS1405775880

   Common Code: 140577588

   Rule 144A Notes:

   ISIN: US47973XAA90

   Common Code: 098266704

   CUSIP: 47973XAA9

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041, United States.

9. Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the contractual period of the Notes from the date of publication of this Prospectus at the offices of BGEO Group plc at 84 Brook Street, London, W1K 5EH, United Kingdom.

   (a) The Trust Deed (which includes the form of the Global Certificates and the Definitive Certificates);

   (b) the Issuer's Charter;

   (c) the review report of EY Georgia LLC on the Interim Financial Statements beginning on page F-4 of this Prospectus, and a copy of the Interim Financial Statements;

(d) the audit report of EY Georgia LLC on the Audited Financial Statements beginning on page F-35 of this Prospectus and a copy of the Audited Financial Statements; and

(e) a copy of this Prospectus together with any Supplement to this Prospectus or any further Prospectus.

This Prospectus will also be published on the website of the Irish Stock Exchange at: http://www.ise.ie/.

REGULATION OF THE GEORGIAN BANKING SECTOR

The main laws regulating the Georgian banking sector are the NBG Law, and the Banking Law. In addition, the NBG has the power to issue decrees or resolutions on various issues within its competence, including, but not limited to, monetary regulation instruments, banking supervision regulations and payment system regulations. The principal legislative act regulating the activities of banks is the Banking Law, which (among other things) sets out the list of permitted and prohibited activities for banks and establishes the framework for the licensing of banks and the regulation of banking activity by the NBG.

Licensing

A licence must be obtained from the NBG for banks to be permitted to engage in, "banking activities" as defined in the Banking Law, which include: (i) receiving interest-earning and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse, trade finance including the granting of guaranties, letters of credit, acceptance finance, and forfeiting; (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) interest-free banking services; (vii) intermediary services on the financial markets; (viii) trust operations on behalf of customers and funds management; (ix) safekeeping and accounting for valuables including securities; (x) credit-information services; (xi) activities of the central depositary as determined by the Law of Georgia on Securities Market; (xii) leasing property; (xiii) providing payment services, operating payment systems and acting as settlement agent; and (xiv) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Law of Georgia on Securities Market and that, prior to tendering interest-free banking services, a commercial bank must present to the NBG a description of the relevant service for the NBG's approval.

Mandatory Financial Ratios

The NBG is authorised to set mandatory capital adequacy ratios, lending limits and other economic ratios. The ratios listed in the table below are set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (NBG President Order No. 69/04 of 28 June 2013) and Capital Adequacy Requirement (NBG President Orders No. 100/04 of 28 October 2013 and No. 18/04 of 12 February 2015).

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
***Capital adequacy ratios* NBG (Only)**		
Tier I capital adequacy ratio	Tier I Capital to Risk-weighted Assets must not be less than 8.0%	This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.
Total capital (Tier I and Tier II) adequacy ratio	Regulatory Capital to Risk-weighted Assets must not be less than 12.0%	This ratio is formulated as a ratio of a sum of a bank's Tier I and Tier II capital (less certain deductions) to its risk-weighted assets. The risk-weighted assets are calculated under a formula that takes into account, among other things, the bank's capital, selected categories of assets, their respective reserves and risks relating to off-balance sheet commitments and contingencies.

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Capital Adequacy Ratio Basel II-III		
Basic Tier I Capital Adequacy Ratio	Basic Tier I Capital to Risk-weighted Assets must not be less than 7%	During the transitional period (2014-2017) NBG (Only) and Basel II -and Basel III capital adequacy ratios apply in parallel as described in section (see "*Regulation of the Georgian Banking Sector—Regulatory Capital"*)
Tier I Capital Adequacy Ratio	Tier I Capital to Risk-weighted Assets must not be less than 8.5%	
Total capital (Tier I and Tier II) . . .	Regulatory Capital to Risk-weighted Assets must not be less than 10.5%	
Related party lending ratios		
Related party lending single insider ratio	No credit to an insider (or his or her other liabilities to a bank) to exceed 5.0% of Regulatory Capital.	These ratios are intended to limit a bank's exposure to an insider (*that is,* a person or entity controlling the bank, a senior officer of the bank, an affiliated company or anyone related to any of the above). They are formulated as the maximum ratio of the aggregate amount of the bank's claims against its insiders to its capital base.
Related party lending all insiders ratio	The aggregate of all credits to insiders and their other liabilities to a bank not to exceed 25.0% of Regulatory Capital.	Exposure encompasses the amount of credit risk arising from both actual claims (including loans, deposits, equities, bonds, etc.) and potential claims of all kinds (e.g. future claims which the bank is committed to provide), as well as contingent liabilities.
Lending ratios		
Lending ratio individual borrower	No credit to an outsider (or his or her other liabilities to a bank) to exceed 15.0% of Regulatory Capital.	These ratios are intended to limit the exposure of a bank to one borrower or a group of related borrowers. They are formulated as the maximum ratio of the aggregate amount of the bank's various claims to a borrower (or a group of related borrowers) to its capital base.
Lending ratio group of related borrowers	The aggregate of all credits to a group of related outsiders and their other liabilities to the bank not to exceed 25.0% of Regulatory Capital.	

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Large loans to customers	Total large loans to customers and other liabilities not to exceed 200.0% of the Regulatory Capital. The NBG defines "Large Loans and Other Liabilities" as loans to a single borrower or a group of related borrowers and other liabilities in excess of 5.0% of Regulatory Capital.	This ratio intends to limit the concentration of large borrowings in a bank's loan portfolio and a bank's exposure to single or related large borrowers.
Unsecured loans		
Uncollateralised loans	Total unsecured loan portfolio not to exceed 25.0% of the total loan portfolio of a bank.	This maximum is intended to limit the bank's credit exposure to unsecured loans.
Average Liquidity ratios		
Average liquid assets: liabilities	Average liquid assets during the month shall not be less than 30.0% of average liabilities over the course of the month.	This ratio is intended to limit a bank's liquidity risk by ensuring that a bank maintains sufficient reserves of highly liquid assets.

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Investments ratios		
Investments: equity	Total investments in the capital of legal persons not to exceed 50.0% of the difference between total assets and liabilities of the bank.	These ratios are intended to limit the aggregate risk of a bank's investments in legal persons by limiting such investments to a proportion of the share capital.
Investments plus fixed assets: equity	Remaining value of a bank's fixed assets together with the total investments in the capital of legal persons not to exceed 70.0% of the difference between total assets and liabilities of the bank.	
Open currency position		
Cumulative open currency position	Not to exceed 20.0% of Regulatory Capital. This ratio applies to both on-balance sheet open currency position and off-balance sheet open currency position.	The cumulative open currency position is the value of foreign currency account balances, meaning on-balance sheet non-GEL assets and liabilities and off balance sheet non-GEL commitments.

The following table sets forth information regarding the Bank's compliance on a stand-alone basis with the foregoing mandatory financial ratio requirements as of 31 March 2016, 31 December 2015 and 31 December 2014.

Mandatory Financial Ratio	Financial Ratio Requirement		As of 31 March 2016	As of 31 December 2015	As of 31 December 2014
NBG (Only)					
Tier 1 capital ratio(1)	>=	8.0%	10.7%	9.3%	13.3%
Total capital adequacy ratio(2)	>=	12.0%	16.3%	16.9%	13.8%
New NBG Basel II/III					
Tier 1 capital ratio	>=	8.50%	10.1%	10.9%	11.1%
Total capital ratio	>=	10.50%	15.8%	16.7%	14.1%
Single insider ratio	<=	5.0%	2.8%	2.6%	3.9%
All insiders ratio	<=	25.0%	10.8%	10.0%	16.2%
One outsider ratio	<=	15.0%	9.6%	9.2%	12.9%
Group of related borrowers ratio(3)	<=	25.0%	18.6%	18.4%	25.7%
Large loans ratio	<=	200.0%	75.8%	77.8%	136.7%
Unsecured loans ratio	≤	25.0%	16.6%	17.0%	16.5%
Average liquidity ratio	≥	30.0%	47.3%	46.2%	35.0%
Investments/ equity capital	≤	50.0%	7.5%	6.2%	30.3%
F.A. net value + investments/ equity capital	≤	70.0%	39.2%	36.4%	54.6%
Total open currency position -20% ≤ X ≤ 20%			-2.7%	-9.3%	-3.2%

Notes:

(1) 8.0% requirement applicable as of 31 December 2014, 7.6% applicable as of 31 December 2015 and 7.2% applicable as of 31 March 2016

(2) 12.0% requirement applicable as of 31 December 2014, 11.4% applicable as of 31 December 2015 and 10.8% applicable as of 31 March 2016;

(3) The Group obtained a waiver from the NBG for exceeding this limit as of 31 December 2014.

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. In the past, based on various economic and financial considerations, the NBG has imposed at times identical and at times differentiated reserve requirements for domestic and foreign currencies.

From 1994 until 2003, identical minimal reserve requirements were established for domestic and foreign currencies, with rates ranging from a maximum of 20% to a minimum of 12%. Beginning in September 2003, the NBG established different rate requirements for funds in domestic and foreign currencies. In 2007, the minimal reserve requirements were re-established at identical rates for domestic and foreign currencies (13%). However, in April 2010, the NBG imposed different rates for minimal reserves for funds in domestic and foreign currencies, which were applicable until January 2011, when identical rates were introduced once again (10%).

Based on NBG Order No. 10/04, dated 11 February 2011 (as amended by the NBG Order No. 52/04 dated 16 May 2016), effective minimal reserve requirements are currently set at 7% for Lari funds with a remaining term of up to 365 days and 20% for foreign currency funds (except borrowed funds in foreign currency with a remaining term of between 365 and 730 days, for which the minimal reserve requirement is 10%). The following liabilities are not subject to minimum reserve requirements: liabilities from swap and repo transactions, subordinated loans, borrowed funds from the NBG and Georgian commercial banks (inter-bank loans), borrowed Lari funds with a remaining term of over 365 days, borrowed foreign currency funds with the remaining term of more than 730 days and standard certificates of deposits (CDs) (i.e. Lari denominated CDs with a contractual maturity of three, six, nine, twelve, eighteen or twenty-four months) issued by a bank.

If a bank's licence is revoked, its mandatory reserves are included in the pool of assets available for distribution to the bank's creditors in the order of priority established by law. If the revocation of a banking licence was caused by reorganisation of the bank, the mandatory reserves are transferred to the legal successor of the bank.

Provisioning

Banks are required to set aside adequate provisions to cover potential losses on loans and other risk assets. Pursuant to the Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks, approved by order of the NBG President No. 51/04 of 17 June 2014, loans are classified into five risk categories and banks are required to create loan loss reserves at the levels indicated below:

- *Standard Loans*. Where principal and interest are being paid in a timely manner: 2.0% of outstanding principal amount
- *Watch Loans.* Where some deficiencies or trends are apparent that represent a minor credit risk, past due interest is unpaid and has been added to principal, or a payment is overdue by less than 30 days: 10.0% of outstanding principal amount
- *Substandard Loans.* Where the financial capability of the borrower or the value of the collateral has declined to such an extent that it jeopardises repayment, an unsecured or partially secured loan is at least 30 days past due, or a secured loan is at least 60 days overdue: 30.0% of outstanding principal amount
- *Doubtful Loans*. Where repayment under existing conditions is considered doubtful, an unsecured or partially secured loan is at least 90 days overdue, or a fully secured loan is at least 120 days overdue: 50.0% of outstanding principal amount
- *Loss Loans.* Where the borrower is insolvent, payments are overdue by at least 150 days, or anticipated recoverable amounts are so small that collection efforts will be more expensive than the anticipated recoverable amounts: 100.0% of outstanding principal amount

Where a single borrower has received several loans from a bank, each loan may be categorised individually based on the underlying collateral.

Losses should be recognised in the reporting period in which they are identified as being non-collectable and they should be written off the balance sheet for that period. After loans are written off the books, they should remain on an off-balance-sheet account for five years while the bank makes diligent efforts to collect past due interest and principal.

Reporting Requirements

All banks are subject to inspection by the NBG. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions. Banks are required to submit annual external audit reports together with the audited annual IFRS financial statements to the NBG and to publish them. Banks are also required to submit different mandatory, NBG rules-based financial reports to the NBG, in a specially designed template on a regular basis (daily, weekly, monthly, quarterly, annual, decade).

Corporate Governance

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. International principles of sound corporate governance are included in a number of Georgian banking regulations. The Banking Law imposes certain governance rules in respect of shareholdings in, and management of, commercial banks. Executive officers may not form a majority on the supervisory board of banks. The holders of a significant stake in Georgian banks must comply with certain criteria. The NBG has also established "fit and proper" criteria for the regulation of banks' management and supervisory board (see *"—Regulation of Commercial Bank Employees and Supervisory Board Members"*.)

The board of BGEO Group PLC is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be consistent with the UK Corporate Governance Code and appropriate for BGEO Group PLC. This framework is reviewed on an annual basis as part of the performance evaluation process and will be reviewed in light of any changes to BGEO Group PLC's strategy and the UK Corporate Governance Code. The Group applies the UK Corporate Governance Code standards where possible throughout the entire Group, subject to the mandatory requirements set by the laws applicable to the relevant entities.

Regulation of Commercial Bank Employees and Supervisory Board Members

Pursuant to the NBG President Order No. 50/04 dated 17 June 2014 on Regulation on Compatibility Criteria of Administrators of Commercial Banks (the **Regulation on Compatibility Criteria**), persons discharging managerial or supervisory functions of commercial banks must fulfil the "fit and proper" compatibility criteria in order to ensure they are fit for their position.

The "fit and proper" compatibility criteria apply to the following persons discharging managerial or supervisory functions: members of the supervisory board, audit committee and the management board of commercial banks; heads and deputy heads of branches of commercial banks and similar subdivisions (as well as persons acting in such capacity), chief and deputy accountants of commercial banks, and other persons discharging managerial or supervisory functions of commercial banks who are authorised to undertake responsibilities independently or jointly with one or more persons on behalf of such banks (each referred to as **Administrator**).

According to the Regulation on Compatibility Criteria, any person to be appointed as an Administrator of a commercial bank must comply with the following compatibility criteria:

- each member of the bank's supervisory board, audit committee, management board, head and deputy head of a branch or similar structural unit must have a university degree in economics, finance, banking, business administration, auditing, accounting or law;
- a member of a commercial bank's supervisory board must have relevant qualifications and professional experience and the supervisory board as a whole should combine different experience and skills corresponding to the scope and complexity of the activities of the bank;
- the chief accountant and deputy chief accountant of the bank must have a university degree in economics, finance, banking, business administration, auditing or accounting;
- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the finance sector, including two years as a senior manager (head or deputy head of a structural unit);
- the director and deputy director of a branch and the head and deputy head of a department (service centre) of a bank must have relevant qualifications and professional experience, and, at least three years' experience in the finance sector, including one year as a senior manager (as head or deputy head of a structural unit);
- the chief accountant and deputy chief accountant of the bank must have at least three years' experience working in the finance sector;
- the chief accountant and deputy chief accountant of a branch must have at least two years' experience working in the finance sector;
- a person to be appointed as a director, head or deputy head of the branch and other similar structural unit (and persons acting in their capacity) or the bank's chief accountant and deputy chief accountant may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depositary institution—credit union and/or an Administrator of any other enterprise;
- a person to be appointed to the supervisory board of a bank may not be an Administrator of another commercial bank registered in Georgia, except when this other commercial bank is controlling or controlled by the bank;
- a person to be appointed to the supervisory board of a bank may not be a member of a supervisory board or a management board of more than seven enterprises registered in Georgia;
- a member of the supervisory board, management board or audit committee of a bank may not be first or second degree relation (i.e. spouse, child, close relative) of a member of management or supervisory board of the same bank; and
- the chief accountant and deputy chief accountant of a bank may not be first or second degree relation (i.e. spouse, child, close relative) of a director or deputy director of the same bank.

As an additional requirement a person may not be an Administrator if he/she:

(a) has taken part in any operation or transaction that has:

(1) resulted in substantial damages for a commercial bank or a non-bank depositary institution/credit union and violated the rights of their depositaries or other creditors; and/or

(2) caused insolvency or bankruptcy of a commercial bank or a non-bank depositary institution/credit union;

(b) has abused his/her authority as an Administrator of a commercial bank or a non-bank depositary institution/credit union;

(c) has previously served as an Administrator of a commercial bank or a non-bank depositary institution/credit union and as a result of his/her activities, the commercial bank or the non-bank depositary institution/credit union subsequently became insolvent;

(d) has failed to fulfil one or more financial obligations towards a commercial bank or a non-bank depositary institution/credit union;

(e) has been declared insolvent;

(f) has been convicted of a grave or especially grave offence, terrorism financing, money laundering and/or other economic crime;

(g) has been declared legally incapable by a court; and/or

(h) has no relevant skills and qualification required for the position held.

Banking Law further specifies that a person may not be appointed to the management or supervisory board of a bank if he/she is not authorised to hold such a seat pursuant to law.

The NBG is authorised to establish additional compliance criteria for members of the management board and supervisory board of a bank with a normative act.

Regulation of Holders of Commercial Bank Shares

Pursuant to the Banking Law, a person who has been convicted of a grave or especially grave offence, terrorism financing and/or legalisation of illicit income or other economic crime, may not hold a significant shareholding (defined as more than 10% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of a significant shareholding with a normative act.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to and obtain prior approval from, the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the NBG, it may extend this term by up to three months.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to the NBG or despite the NBG's refusal, is deemed to be null and void.

If there are grounds for suspicion, the NBG may request a bank to submit a declaration relating to direct/indirect or beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his or her shareholding to 10%. The NBG is entitled to deny approval if the transaction may endanger stability of Georgia's financial sector, result in breach of requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide all necessary information about the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, commercial banks are required to submit to the NBG, together with the annual report, information on the direct and beneficial holders of more than 10% of their share capital (NBG Order No. 145 of 23 May 2006 sets lower threshold of 5%). Such information must be prepared in reliance on the information available to the commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10% of shares of a commercial bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as of 31 December of the preceding calendar year.

Regulatory Capital

On 28 October 2013, the NBG published Decree No. 100/04, introducing a new capital regulation to replace the NBG capital regulation in place since 2002 (and updated from time to time). The new capital regulation is based on a combination of the Basel II and III, with material regulatory discretions applied by the NBG. According to the Decree No. 100/04, Pillar 1 requirements under the new regulation came into force on 30 June 2014, by which commercial banks had to start complying with the following minimum capital adequacy requirements:

- primary tier 1 capital ratio must be at least 7%;
- tier 1 capital ratio must be at least 8.5%; and
- regulatory capital ratio must be at least 10.5%.

The period starting from 30 June 2014 through 31 December 2017 was declared as a transition period. During the transitional period, the following capital adequacy ratios set by NBG President Order No. 18/04 of 12 February 2015 apply in parallel with the above-mentioned requirements. e.g. the banks are required to comply with both the old and new capital regulations of the NBG:

- tier 1 capital ratio (i.e., in respect of a bank, the ratio of its tier 1 capital to risk-weighted assets) of minimum 8%; and
- regulatory capital ratio (i.e. the ratio of bank's regulatory capital to risk-weighted assets) of minimum 12%.

Order No. 18/04 is phasing out gradually and the minimum capital requirements for a particular year are defined by multiplying the above-mentioned ratios by adjustment factors applicable to the relevant year, which is 95% for 2015, 90% for 2016 and 80% for 2017. The capital requirements under Order No. 18/04 will completely phase out by 1 January 2018.

The NBG is authorised to impose capital buffers on commercial banks in addition to minimum capital requirements.

The NBG has not yet enacted the regulations as to the countercyclical buffer in line with Basel III. To some extent, such buffer is addressed under the current ratio of 75% risk weighing for foreign currency denominated loan exposures. Under Decree 125/04 of 30 December 2015, NBG introduced the capital buffer rules in relation to certain concentration risk (borrower group and economic sector related risks) by setting out a specific formula for the calculation of the additional capital buffer.

According to the Decree No. 100/04 by the NBG, Pillar 2 requirements (the ICAAP) should have been submitted by the commercial banks to the NBG by October 2014. In October of 2014, the Bank submitted its first Pillar 2 ICAAP Report to the regulator. The Bank has also submitted to NBG a full draft of its internal capital regulation and policies. The entire package has gone a through review process by the regulator and the Bank has received the feedback from NBG regarding the results of the review in May 2015. Based on the feedback from the NBG, the Bank is updating its Pillar 2 draft package, which is planned to be re-submitted for the regulator's review in August 2016. Once the regulatory review process is finalised, a final package of the Pillar 2 internal regulation will be approved by the Supervisory Board.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation (the **AML/CFT Law**) was adopted in June 2003 and came into force on 1 January 2004. The law established a new public law body, the

FMS. The FMS receives, collects, analyses and transmits information in accordance with the AML/CFT Law. The FMS is an independent legal entity separate from state governance bodies. The head of the FMS is appointed for a four year term by the Prime Minister of Georgia. The law introduced requirements for monitoring entities (which include commercial banks) to carry out AML/CFT measures to identify persons involved in such transactions, collect information on such transactions and report this information to the FMS. Georgia is a member of MONEYVAL (Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism), and the latest assessment of Georgia's anti-money laundering regime and system for combating the financing of terrorism was conducted in 2012.

In accordance with the AML Law, reporting entities (including commercial banks) are obliged to monitor and report to the FMS suspicious transactions and cash transaction reports (as defined in the law) which exceed GEL 30,000 (or the foreign currency equivalent). In accordance with the AML/CFT Law, the FMS is authorised, after analysing any information which it receives, to disseminate the information and available materials to the Prosecutor's Office and the Ministry of Internal Affairs for investigation or action when there are grounds to suspect money laundering or the financing of terrorism. Georgia has a comprehensive legal framework in place which makes money laundering and the financing of terrorism criminal offenses.

Customer due diligence and record-keeping provisions required under international standards are enshrined in the AML/CFT law. Georgia had no statutory KYC regulations until June 2008. Prior to that, the NBG formally requested banks to conduct their relationships with customers according to the "Core Principles for Effective Banking Supervision" (**CPEBS**) published by the Basel Committee on Banking Supervision. Even before statutory KYC regulations were introduced, most banks in Georgia employed compliance officers who adhered to CPEBS in practice. Currently, KYC requirements are defined in the AML/CFT law, the Law on Activities of Commercial Banks, and in regulations of the FMS and NBG.

The NBG is a supervisory authority for financial institutions including with respect to AML/CFT issues. The NBG conducts AML/CFT supervision of commercial banks through off-site surveillance and on-site inspections. The NBG has a dedicated AML division and personnel to carry out offsite and on-site monitoring.

In March 2014, the Government approved the Action Plan (as amended in December 2015) for the implementation strategy for the Fight Against Money Laundering and Terrorist Financing (2014-2017). The document has been developed based on 40 recommendations of the Financial Action Task Force to strengthen the current systems to fight against money laundering and terrorist financing. The body responsible for supervising the implementation of the Action Plan is the Interagency Coordinating Council, comprised of the relevant government bodies.

Insolvency Regime

The NBG is entitled to revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law. If the liquidated commercial bank was a payment system operator or a settlement agent, upon appointment, the liquidator must settle transfer orders received by the system prior to his appointment, establish settlement positions of the system participants and execute settlement in accordance with Payment Systems Law, as applicable. In the process of liquidation of a commercial bank, creditors holding financial collateral are entitled to the preferential satisfaction of their claim secured by such financial collateral. During the liquidation period, any secured claims will be repaid to the bank's creditors in accordance with the terms of the relevant security agreement (up to the value of the security). All other legitimate claims will be settled in the following order:

- *first*: all claims of the NBG and other lenders which arose after revocation of the bank's licence;
- *second*: amounts on the accounts of natural persons not exceeding GEL 1,500;
- *third*: amounts on the accounts of natural persons not paid under the second item above;
- *fourth*: amounts on the accounts of legal entities;
- *fifth*: indebtedness to the State Budget, including claims secured by tax liens; and
- *sixth*: all other claims against the bank.

If the available funds are insufficient to fully cover all claims listed in the second, third, fourth and fifth categories above, all of the claims of each creditor within the relevant category shall be paid on a pro rata basis and the claims of the subsequent category shall be paid only after the claims of the previous category have been fully paid.

Deposit Insurance

There is currently no mandatory deposit insurance scheme in Georgia. As of the date of this Prospectus, a mandatory deposit insurance scheme has not been implemented. According to the EU Association Agreement, the provisions of the Directive 94/19/EC on deposit-guarantee schemes must be implemented within six years of the entry into force of the EU Association Agreement. At the same time, Georgia may consider different levels of thresholds than the ones outlined in the Directive 94/19/EC and may submit a proposal to the Association Council established on the basis of the EU Association Agreement taking into account the developments of local market in Georgia, no later than five years after the entry into force of the EU Association Agreement.

DEFINITIONS

1995 NBG Law	Old organic law of Georgia on the National Bank of Georgia adopted on 23 June 1995
2008 Conflict	The armed conflict between Georgia and Russia that broke out in August 2008
ADB	Asian Development Bank
ALCO	Asset and Liability Management Committee of the Bank
Aldagi	Joint Stock Company Aldagi and its consolidated subsidiaries
AML	Anti-money laundering
Anti-Money Laundering Law or AML Law	The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income adopted on 6 June 2003
Audited Financial Statements	The Group's audited consolidated financial statements as of and for the for the years ended 31 December 2015 and 2014
Bank, Bank of Georgia	Joint Stock Company Bank of Georgia
Banking Business	The Group's banking business segment incorporating Retail Banking, CIB, P&C Insurance, BNB and ancillary businesses
Banking Law	Law of Georgia on the Activities of Commercial Banks, adopted on 23 February 1996
Basel Committee	Basel Committee on Banking Supervision is an institution created by the central bank governors of the group of ten nations (G10), which has developed a set of recommended market practices of financial risk management in the banking sector, security and minimal capital requirements for banks. The Basel Committee's most important documents are the Capital Accord of 1988 and its expanded and updated version known as Basel II, The New Capital Accord
Basel I	The Basel Committee's Capital Accord of 1988
Basel II	New Capital Accord published by the Basel Committee
Basel III	A sequence of major reforms to Basel II
BCI	Joint Stock Company Insurance Company BCI
Belarus roubles, BYR	The lawful currency of the Republic of Belarus
BG Capital	Joint Stock Company BG Capital
BGEO, Company, Issuer	Joint Stock Company BGEO Group
BNB	Joint Stock Company Belarusky Narodny Bank
CAGR	Compound annual growth rate
Certificates	Registered certificates representing the Notes
CIB	The Group's corporate investment banking and leasing services business
CIG	Joint Stock Company Credit Information Georgia
Clearstream, Luxembourg	Clearstream Banking, société anonyme
Closing Date	On or about 26 July 2016
Co-Manager	Galt & Taggart
Company	Joint Stock Company BGEO Group
Council	Council of the European Union
CPEBS	"Core Principles for Effective Banking Supervision" published by the Basel Committee on Banking Supervision
CPI	Consumer price index
Credit Committees	the credit committees of the Bank
Credit Policies	The Bank's credit policies and procedures and other internal documents setting out the Bank's established procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans.
Definitive Certificates	Regulation S Definitive Certificates and Rule 144A Definitive Certificates
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DTC	The Depositary Trust Company
EBRD	European Bank for Reconstruction and Development
EU	European Union
Euroclear	Euroclear Bank S.A./N.V.
Euros, Euro, €	The lawful currency of the European Economic and Monetary Union

EY	EY Georgia LLC
FDI	Foreign direct investment
Financial Statements	The Audited Financial Statements and the Interim Financial Statements
Fitch	Fitch Ratings Ltd.
FMO	Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V.
FMS	Financial Monitoring Service
FTT	The European Commission's proposed financial transaction tax
GBP, pounds sterling, £	The lawful currency of the United Kingdom
GDP	Gross domestic product
GDRs	Global depository receipts
Georgian Card	Joint Stock Company Georgian Card
Georgian FSA	The Georgian Financial Supervisory Authority
Geostat	Legal Entity of Public Law National Statistics Office of Georgia
GHG	Georgia Healthcare Group PLC and its consolidated subsidiaries
GLC	Joint Stock Company Georgian Leasing Company
Global Certificates, Global Notes	Regulation S Global Certificate and Rule 144A Global Certificate
GMS	General Meeting of Shareholders of the Company
Group	The Issuer and its subsidiaries and affiliates taken as a whole
Healthcare Business	GHG, the Group's Healthcare Business
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFIs	Financial institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, EBRD and IFC
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Interim Financial Statements	The Group's reviewed interim consolidated financial statements as of and for the for the three months ended 31 March 2016
Investment Business	The Group's investment business including the Healthcare Business, the Real Estate Business and other investments
ISA	International Standards on Auditing
Issuer	Joint Stock Company BGEO Group
Joint Lead Managers	J.P. Morgan Securities Ltd. and Merrill Lynch International
KYC	Know your customer
Lari, GEL	The lawful currency of Georgia
LGD	Loss given default
Liberty Consumer	Joint Stock Company Liberty Consumer
LIBOR	London interbank offered rate
m2	Joint Stock Company m2 Real Estate
M2, M2 Real Estate	Joint Stock Company M2 Real Estate and its consolidated subsidiaries
Main Securities Market	The Irish Stock Exchange's regulated market
Management	The Company's Board of Directors and the Senior Managers
Managers	The Joint Lead Managers and the Co-Manager
Moodys	Moody's Investors Service Limited
MSME	Micro, small and medium sized entities
NBG	National Bank of Georgia
NBG Law	The Organic Law of Georgia on the National Bank of Georgia, adopted on 24 September 2009
NBRB	National Bank of the Republic of Belarus
NBU	National Bank of Ukraine
New York Convention	United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards
NIS	The lawful currency of Israel
Noteholders	Holders of Notes
Notes	The US$350,000,000 6.00% Notes due 2023

NPL	Non performing loan
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control of the US Department of the Treasury
Official List	The Official List of the Irish Stock Exchange
OPIC	Overseas Private Investment Corporation
P&C	Property and casualty
POS	Point-of-sale
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003, as amended
Qualified Institutional Buyers, QIBs	Qualified Institutional Buyers as defined in Rule 144A
Real Estate Business	M2 Real Estate, the Group's real estate business
Regulation S	Regulation S under the US Securities Act
Regulation S Notes	Notes that are being offered and sold in accordance with Regulation S
Regulation S Definitive Certificates	Definitive notes in respect of beneficial interests in the Regulation S Global Certificate
Regulation S Global Certificate, Regulation S Global Note	Global certificate representing the Regulation S Notes
ROAE	Return on average equity, an adjusted version of the ROE measure of profitability, in which the denomination is average shareholders' equity rather than shareholders' equity
ROE	Return on equity
Rule 144A	Rule 144A under the U.S. Securities Act
Rule 144A Notes	Notes that are offered and sold in reliance on Rule 144A
Rule 144A Definitive Certificates	Definitive notes in respect of beneficial interests in the Rule 144A Global Certificate
Rule 144A Global Certificate, Rule 144A Global Note	Restricted global certificate representing beneficial interests in Rule 144A Notes
SME	Small and medium enterprise
Stabilising Manager	J.P. Morgan Securities Ltd.
Standard & Poor's, S&P	Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.
Supervisory Board	the supervisory board of the Bank
Teliani Valley	Joint Stock Company Teliani Valley
Trustee	Citicorp Trustee Company Limited
UHC.	Georgia's Universal Healthcare Programme
U.S.	United States of America
US Dollars, dollars, US$	The US dollar, the lawful currency of the United States of America
U.S. Exchange Act	U.S. Securities Exchange Act 1934, as amended
U.S. Securities Act, Securities Act	U.S. Securities Act 1933, as amended
VAR	Value at risk
WIPO	World Intellectual Property Organisation

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JSC BGEO Group and Subsidiaries
Unaudited Interim Condensed Consolidated Financial Statements

31 March 2016

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SELECTED EXPLANATORY NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Report on review of Interim Condensed Consolidated Financial Statements

To the shareholders and Board of the Directors of JSC BGEO Group -

We have reviewed the accompanying interim condensed consolidated financial statements of JSC BGEO Group as at 31 March 2016 which comprise the interim condensed consolidated statement of financial position as at 31 March 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, 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 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 accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other matter

The comparative financial information for the three month period ended 31 March 2015 is not reviewed.

EY Georgia LLC

26 May 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

	Notes	31 March 2016 (unaudited)					31 December 2015				
		Banking Business	Investment Business	Corporate Center	Elimi-nation	Total	Banking Business	Investment Business	Corporate Center	Elimi-nation	Total
Assets											
Cash and cash equivalents	6	1,329,870	115,841	141,511	(228,335)	1,358,887	1,378,233	205,746	52,395	(203,906)	1,432,468
Amounts due from credit institutions	7	720,442	47,936	-	(3,943)	764,435	721,802	15,730	-	(6,167)	731,365
Investment securities	8	825,821	1,154	-	(1,930)	825,045	906,730	1,153	-	(4,016)	903,867
Loans to customers and finance lease receivables	9	5,394,565	-	-	(25,876)	5,368,689	5,366,764	-	-	(35,313)	5,331,451
Accounts receivable and other loans		5,144	80,290	1,665	(2,384)	84,715	10,376	82,354	-	(4,758)	87,972
Insurance premiums receivable		16,567	39,347	-	(1,035)	54,879	19,829	20,929	-	(1,532)	39,226
Prepayments		24,649	42,923	-	-	67,572	21,033	37,137	-	-	58,170
Inventories		9,686	115,780	-	-	125,466	9,439	117,588	-	-	127,027
Investment properties	10	134,310	119,914	-	-	254,224	135,453	110,945	-	-	246,398
Property and equipment		333,243	502,408	-	-	835,651	337,064	457,618	-	-	794,682
Goodwill		49,592	23,600	-	-	73,192	49,592	23,392	-	-	72,984
Intangible assets		37,609	5,465	-	-	43,074	35,162	5,354	-	-	40,516
Income tax assets		27,321	9,391	-	-	36,712	16,003	5,547	-	-	21,550
Other assets		121,013	19,997	-	(2,881)	138,129	163,730	25,873	-	(6,338)	183,265
Total assets		**9,029,832**	**1,124,046**	**143,176**	**(266,384)**	**10,030,670**	**9,171,210**	**1,109,366**	**52,395**	**(262,030)**	**10,070,941**
Liabilities											
Client deposits and notes	11	4,962,432	-	-	(232,802)	4,729,630	4,993,681	-	-	(210,099)	4,783,582
Amounts owed to credit institutions	12	1,630,299	115,498	-	(25,876)	1,719,921	1,692,557	135,200	-	(38,695)	1,789,062
Debt securities issued	13	957,474	81,116	-	(4,832)	1,033,758	961,944	84,474	-	(6,614)	1,039,804
Accruals and deferred income		25,685	116,796	-	-	142,481	20,364	126,293	-	-	146,657
Insurance contracts liabilities		34,630	36,935	-	-	71,565	34,547	21,298	-	-	55,845
Income tax liabilities		93,765	34,902	-	-	128,667	89,980	34,415	-	-	124,395
Other liabilities		47,520	86,470	-	(2,874)	131,116	63,073	78,193	-	(6,622)	134,644
Total liabilities		**7,751,805**	**471,717**	**-**	**(266,384)**	**7,957,138**	**7,856,146**	**479,873**	**-**	**(262,030)**	**8,073,989**
Equity	14										
Share capital		37,066	-	-	-	37,066	37,066	-	-	-	37,066
Additional paid-in capital		564,008	33,263	45,115	-	642,386	564,281	32,568	45,115	-	641,964
Treasury shares		(977)	-	-	-	(977)	(1,522)	-	-	-	(1,522)
Other reserves		10,899	94,938	-	-	105,837	2,691	94,473	-	-	97,164
Retained earnings		649,159	325,893	98,061	-	1,073,113	693,618	299,341	7,280	-	1,000,239
Total equity attributable to shareholders of BGEO		**1,260,155**	**454,094**	**143,176**	**-**	**1,857,425**	**1,296,134**	**426,382**	**52,395**	**-**	**1,774,911**
Non-controlling interests		17,872	198,235	-	-	216,107	18,930	203,111	-	-	222,041
Total equity		**1,278,027**	**652,329**	**143,176**	**-**	**2,073,532**	**1,315,064**	**629,493**	**52,395**	**-**	**1,996,952**
Total liabilities and equity		**9,029,832**	**1,124,046**	**143,176**	**(266,384)**	**10,030,670**	**9,171,210**	**1,109,366**	**52,395**	**(262,030)**	**10,070,941**

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

Irakli Gilauri — Chief Executive Officer

26 May 2016

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the three months ended 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

	Notes	2016 Unaudited Banking Business	2016 Unaudited Investment Business	2016 Unaudited Elimi-nation	2016 Unaudited Total	2015 Unaudited, not reviewed Banking Business	2015 Unaudited, not reviewed Investment Business	2015 Unaudited, not reviewed Elimi-nation	2015 Unaudited, not reviewed Total
		For the three months ended 31 march							
Banking interest income		226,217	-	(1,407)	224,810	202,353	-	(2,655)	199,698
Banking interest expense		(96,015)	-	40	(95,975)	(79,680)	-	586	(79,094)
Net banking interest income	16	**130,202**	**-**	**(1,367)**	**128,835**	**122,673**	**-**	**(2,069)**	**120,604**
Fee and commission income		38,484	-	(335)	38,149	37,343	-	(1,352)	35,991
Fee and commission expense		(10,402)	-	134	(10,268)	(9,135)	-	116	(9,019)
Net fee and commission income	17	**28,082**	**-**	**(201)**	**27,881**	**28,208**	**-**	**(1,236)**	**26,972**
Net banking foreign currency gain/(loss)		17,329	-	-	17,329	(387)	-	-	(387)
Net other banking income		3,168	-	(301)	2,867	2,403	-	(305)	2,098
Net insurance premiums earned		9,550	12,924	(650)	21,824	9,242	12,890	(423)	21,709
Net insurance claims incurred		(4,206)	(11,202)	-	(15,408)	(3,936)	(10,199)	-	(14,135)
Gross insurance profit		**5,344**	**1,722**	**(650)**	**6,416**	**5,306**	**2,691**	**(423)**	**7,574**
Healthcare revenue		-	58,348	-	58,348	-	40,017	-	40,017
Cost of healthcare services		-	(32,057)	-	(32,057)	-	(23,140)	-	(23,140)
Gross healthcare profit		**-**	**26,291**	**-**	**26,291**	**-**	**16,877**	**-**	**16,877**
Real estate revenue		-	28,764	-	28,764	-	4,074	-	4,074
Cost of real estate		-	(22,740)	-	(22,740)	-	(2,865)	-	(2,865)
Gross real estate profit		**-**	**6,024**	**-**	**6,024**	**-**	**1,209**	**-**	**1,209**
Gross other investment profit		-	3,683	(69)	3,614	-	1,556	(145)	1,411
Revenue		**184,125**	**37,720**	**(2,588)**	**219,257**	**158,203**	**22,333**	**(4,178)**	**176,358**
Salaries and other employee benefits		(39,291)	(8,193)	643	(46,841)	(38,184)	(7,484)	395	(45,273)
Administrative expenses		(19,451)	(5,326)	388	(24,389)	(16,808)	(3,953)	478	(20,283)
Banking depreciation and amortisation		(9,138)	-	-	(9,138)	(8,373)	-	-	(8,373)
Other operating expenses		(863)	(812)	-	(1,675)	(792)	(95)	-	(887)
Operating expenses		**(68,743)**	**(14,331)**	**1,031**	**(82,043)**	**(64,157)**	**(11,532)**	**873**	**(74,816)**
Operating income before cost of credit risk / EBITDA		**115,382**	**23,389**	**(1,557)**	**137,214**	**94,046**	**10,801**	**(3,305)**	**101,542**

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)
For the three months ended 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

		For the three months ended 31 march							
	Notes	*2016*				*2015*			
		Unaudited				*Unaudited, Not Reviewed*			
		Banking Business	Investment Business	Elimi-nation	Total	Banking Business	Investment Business	Elimi-nation	Total
Operating income before cost of credit risk / EBITDA		**115,382**	**23,389**	**(1,557)**	**137,214**	**94,046**	**10,801**	**(3,305)**	**101,542**
Depreciation and amortization of investment business		-	(4,910)	-	(4,910)	-	(2,688)	-	(2,688)
Net foreign currency gain (loss) from investment business		-	(773)	-	(773)	-	1,541	-	1,541
Interest income from investment business	16	-	964	(8)	956	-	818	(201)	617
Interest expense from investment business	16	-	(2,948)	1,565	(1,383)	-	(6,012)	3,506	(2,506)
Operating income before cost of credit risk		**115,382**	**15,722**	**-**	**131,104**	**94,046**	**4,460**	**-**	**98,506**
Impairment charge on loans to customers	9	(32,218)	-	-	(32,218)	(38,928)	-	-	(38,928)
Impairment charge on finance lease receivables	9	(513)	-	-	(513)	(119)	-	-	(119)
Impairment charge on other assets and provisions		(2,282)	(1,131)	-	(3,413)	(1,725)	(1,070)	-	(2,795)
Cost of credit risk		**(35,013)**	**(1,131)**	**-**	**(36,144)**	**(40,772)**	**(1,070)**	**-**	**(41,842)**
Net operating income before non-recurring items		**80,369**	**14,591**	**-**	**94,960**	**53,274**	**3,390**	**-**	**56,664**
Net non-recurring items		(1,419)	2,784	-	1,365	(2,167)	(280)	-	(2,447)
Profit before income tax expense		**78,950**	**17,375**	**-**	**96,325**	**51,107**	**3,110**	**-**	**54,217**
Income tax expense		(8,178)	(1,733)	-	(9,911)	(10,483)	(328)	-	(10,811)
Profit for the period		**70,772**	**15,642**	**-**	**86,414**	**40,624**	**2,782**	**-**	**43,406**
Attributable to:									
– shareholders of JSC BGEO		69,729	10,474	-	80,203	40,060	3,840	-	43,900
– non-controlling interests		1,043	5,168	-	6,211	564	(1,058)	-	(494)
		70,772	**15,642**	**-**	**86,414**	**40,624**	**2,782**	**-**	**43,406**
Earnings per share:	14								
– basic and diluted earnings per share					2.2291				1.2397

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three months ended 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

	For the three months ended 31 March	
	2016	2015
	Unaudited	Unaudited, not reviewed
Profit for the period	**86,414**	**43,406**
Other comprehensive income (loss)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
– Unrealized revaluation of available-for-sale securities	9,917	(6,815)
– Realised gain (loss) on available-for-sale securities reclassified to the consolidated income statement	-	(40)
– (Loss) gain from currency translation differences	(6,912)	5,555
Income tax effect	-	(833)
Net other comprehensive income(loss) to be reclassified to profit or loss in subsequent periods	**3,005**	**(2,133)**
Other comprehensive income (loss) for the period, net of tax	**3,005**	**(2,133)**
Total comprehensive income for the period	**89,419**	**41,273**
Attributable to:		
– shareholders of JSC BGEO	83,541	42,131
– non-controlling interests	5,878	(858)
	89,419	**41,273**

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

	Attributable to shareholders of JSC BGEO							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2014	**36,513**	**611,238**	**(1,522)**	**31,211**	**728,839**	**1,406,279**	**54,808**	**1,461,087**
Profit for the period (unaudited, not reviewed)	-	-	-	-	43,900	43,900	(494)	43,406
Other comprehensive loss for the period (unaudited, not reviewed)	-	-	-	(2,598)	829	(1,769)	(364)	(2,133)
Total comprehensive income for the period (unaudited, not reviewed)	**-**	**-**	**-**	**(2,598)**	**44,729**	**42,131**	**(858)**	**41,273**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(112)	112	-	-	-
Increase in equity arising from share-based payments	-	5,016	501	-	-	5,517	-	5,517
Dilution of interests in existing subsidiaries	-	-	-	-	-	-	434	434
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	1,233	-	1,233	(3,246)	(2,013)
31 March 2015 (unaudited, not reviewed)	**36,513**	**616,254**	**(1,021)**	**29,734**	**773,680**	**1,455,160**	**51,138**	**1,506,298**
31 December 2015	**37,066**	**641,964**	**(1,522)**	**97,164**	**1,000,239**	**1,774,911**	**222,041**	**1,996,952**
Profit for the period (unaudited)	-	-	-	-	80,203	80,203	6,211	86,414
Other comprehensive loss for the period (unaudited)	-	-	-	7,692	(4,354)	3,338	(333)	3,005
Total comprehensive income for the period (Unaudited)	**-**	**-**	**-**	**7,692**	**75,849**	**83,541**	**5,878**	**89,419**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(111)	111	-	-	-
Increase in equity arising from share-based payments	-	6,658	645	-	-	7,303	-	7,303
Dilution of interests in subsidiaries	-	-	-	-	-	-	228	228
Acquisition and sale of non-controlling interests in existing subsidiaries (Note 14)	-	-	-	1,092	-	1,092	(11,579)	(10,487)
Dividends to shareholders of the Group (Note 14)	-	-	-	-	(3,086)	(3,086)	-	(3,086)
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	(461)	(461)
Purchase of treasury shares	-	(6,236)	(100)	-	-	(6,336)	-	(6,336)
31 March 2016 (unaudited)	**37,066**	**642,386**	**(977)**	**105,837**	**1,073,113**	**1,857,425**	**216,107**	**2,073,532**

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the three months ended 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

	Notes	For the three months ended 31 March 2016	For the three months ended 31 March 2015
		Unaudited	*Unaudited, not reviewed*
Cash flows from (used in) operating activities			
Interest received		225,274	191,577
Interest paid		(102,695)	(83,465)
Fees and commissions received		37,485	35,231
Fees and commissions paid		(10,369)	(9,121)
Insurance premiums received		21,166	16,906
Insurance claims paid		(17,320)	(9,188)
Healthcare revenue received		48,251	35,809
Cost of healthcare services paid		(34,334)	(20,249)
Net cash inflow from real estate		1,060	4,618
Net realised (loss) gain from trading securities		(970)	1,001
Net realised gain from investment securities available-for-sale		-	40
Net realised gain from foreign currencies		14,798	15,996
Recoveries of loans to customers previously written off	9	7,450	5,132
Other (expenses paid) income received		(6,675)	248
Salaries and other employee benefits paid		(31,579)	(30,728)
General and administrative and operating expenses paid		(20,544)	(26,403)
Cash flows from operating activities before changes in operating assets and liabilities		**130,998**	**127,404**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		(32,973)	(33,045)
Loans to customers		(72,312)	142,121
Finance lease receivables		581	163
Prepayments and other assets		40,219	(18,734)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(80,480)	179,269
Debt securities issued		12,446	31,756
Amounts due to customers		(55,825)	(17,996)
Other liabilities		14,523	28,289
Net cash flows (used in) from operating activities before income tax		**(42,823)**	**439,227**
Income tax paid		(13,916)	(13,375)
Net cash flows (used in) from operating activities		**(56,739)**	**425,852**
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	4	11	22,645
Repayment of remaining holdback amounts from previous year acquisitions		(38,005)	-
Proceeds from sale (purchase) of investment securities		81,931	(122,403)
Proceeds from sale of investment properties	10	1,461	6,787
Purchase of investment properties	10	(7,827)	(6,931)
Proceeds from sale of property and equipment and intangible assets		1,082	5,971
Purchase of property and equipment and intangible assets		(43,626)	(23,520)
Net cash flows used in investing activities		**(4,973)**	**(117,451)**

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
For the three months ended 31 March 2016 (Unaudited)
(Thousands of Georgian Lari)

	Notes	For the three months ended 31 March 2016	For the three months ended 31 March 2015
		Unaudited	*Unaudited, Not reviewed*
Cash flows used in financing activities			
Dividends paid		(3,005)	(1,308)
Purchase of treasury shares		(6,336)	-
Purchase of interests in existing subsidiaries, net of cash acquired		(4,287)	(2,013)
Net cash used in financing activities		**(13,628)**	**(3,321)**
Effect of exchange rates changes on cash and cash equivalents		1,759	(14,841)
Net (decrease) increase in cash and cash equivalents		**(73,581)**	**290,239**
Cash and cash equivalents, beginning of the period	6	**1,432,468**	**709,861**
Cash and cash equivalents, ending of the period	6	**1,358,887**	**1,000,100**

The accompanying selected explanatory notes on pages 8 to 28 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 March 2016 the Bank has 266 operating outlets in all major cities of Georgia (31 December 2015: 266). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) is a public limited liability company incorporated in England and Wales and represents the ultimate parent company of the Bank. The shares of BGEO PLC 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.

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities, BGEO PLC completed legal restructuring in August 2015 ("Reorganization"). As a result, a new 100% owned subsidiary was established under the laws of Georgia by BGEO PLC – JSC BGEO Group ("JSC BGEO") that holds BGEO PLC's former shares in the Bank and the Bank's non-banking subsidiaries that were moved directly under JSC BGEO as the Bank's sister companies during the reorganization. Together with the Bank and other subsidiaries, JSC BGEO makes up a group of companies (the "Group") and provides banking, healthcare, insurance, real estate, leasing, brokerage and investment management services to corporate and individual customers. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Irakli Gilauri is the Chairman of the Board of Directors and the Chief Executive Officer of JSC BGEO.

As at 31 March 2016 and 31 December 2015 BGEO PLC was the sole shareholder of JSC BGEO.

2. Basis of Preparation

General

The interim condensed consolidated financial statements for the three months ended 31 March 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

The Group was formed during the course of reorganization under common control of BGEO PLC in 2015. As a result of the reorganization, a new holding was set up at the top of the Bank. Accordingly, 2015 consolidated financial statements and these interim condensed consolidated financial statements of the Group are presented as continuation of consolidated financial statements of the Bank under pooling of interest method.

The Bank and Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, Group's subsidiaries established outside of Georgia are in their respective local currencies. These financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, investment properties, and revalued property and equipment;
- the measurement of inventories and repossessed assets at lower of cost and net realizable value.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

Going concern

The Board of Directors of JSC 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 financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies

Accounting policies

The accounting policies and methods of computation applied in the preparation of these condensed 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 2015.

Functional and reporting currencies and foreign currency translation

The interim condensed consolidated financial statements are presented in GEL, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the interim condensed financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 March 2016 and 31 December 2015 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYR (10,000)*
31 March 2016	3.4110	2.3679	2.6795	1.1775
31 December 2015	3.5492	2.3949	2.6169	1.2904

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into GEL at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the reporting period. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

(Thousands of Georgian Lari)

4. Business Combination

Acquisition of *JSC Poti Central Clinical Hospital*

On 1 January 2016 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of the shares of JSC Poti Central Clinical Hospital ("Acquiree"), a healthcare company operating in Georgia from individual investors.

The provisional fair value of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Cash and cash equivalents	11
Receivables from healthcare services	595
Property and equipment	14,539
Other assets	164
	15,309
Amounts due to credit Institution	57
Accounts payable	4,345
Accruals for employee compensation	188
Deferred income tax liabilities	1,383
Other liabilities	3
	5,976
Total identifiable net assets	**9,333**
Goodwill arising on business combination	208
Consideration given [1]	**9,541**

The net cash inflow on acquisition was as follows:

Cash paid	-
Cash acquired with the subsidiary	11
Net cash inflow	**11**

The Group decided to increase its presence in Georgia healthcare market by acquiring JSC Poti Central Clinical Hospital. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, JSC Poti Central Clinical Hospital has recorded GEL 766 and GEL 262 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 208 was added to the Healthcare cash generating unit.

The net assets as well as the amount of goodwill presented above are estimated provisionally as at 31 March 2016. The Group continues thorough full examination and if identified, adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by IFRS 3 "Business Combinations".

[1] Consideration comprised GEL 12,327 pre-existing loan less GEL 2,786 pre-existing payable to Block Georgia.

(Thousands of Georgian Lari)

5. Segment Information

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 - principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses;

CIB - Corporate Investment Banking - principally providing loans and other credit facilities to large legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers; as well as providing private banking services to resident and non-resident wealthy individuals and their direct family members by ensuring individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory, private equity and brokerage services;

P&C - Property and Casualty Insurance - principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals;

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

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

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

m2 - Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

Corporate Center - the operations at the holding company level managed directly by the CEO.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in the three months ended 31 March 2016 and 31 March 2015.

(Thousands of Georgian Lari)

5. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the three months ended 31 March 2016 (unaudited):

	Banking Business							*Investment Business*					*Corporate Center*	*Inter-Business Eliminations*	*Group Total*
	Retail banking	*CIB*	*BNB*	*P&C*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*	*GHG*	*M2*	*Other Investment Business*	*Investment Busines Eliminations*	*Investment Business*			
Net banking interest income	82,833	38,250	7,903	725	491	-	130,202	-	-	-	-	-	-	(1,367)	128,835
Net fee and commission income	19,239	7,020	1,862	100	(43)	(96)	28,082	-	-	-	-	-	-	(201)	27,881
Net banking foreign currency gain (loss)	3,537	11,351	2,481	(47)	7	-	17,329	-	-	-	-	-	-	-	17,329
Net other banking income	711	2,587	167	132	-	(429)	3,168	-	-	-	-	-	-	(301)	2,867
Gross insurance profit	-	-	-	5,665	-	(321)	5,344	1,722	-	-	-	1,722	-	(650)	6,416
Gross healthcare profit	-	-	-	-	-	-	-	26,291	-	-	-	26,291	-	-	26,291
Gross real estate profit	-	-	-	-	-	-	-	172	5,852	-	-	6,024	-	-	6,024
Gross other investment profit	-	-	-	-	-	-	-	657	1,816	1,210	-	3,683	-	(69)	3,614
Revenue	**106,320**	**59,208**	**12,413**	**6,575**	**455**	**(846)**	**184,125**	**28,842**	**7,668**	**1,210**	**-**	**37,720**	**-**	**(2,588)**	**219,257**
Operating expenses	(46,008)	(16,012)	(4,490)	(2,768)	(311)	846	(68,743)	(10,810)	(1,455)	(2,066)	-	(14,331)	-	1,031	(82,043)
Operating income (expense) before cost of credit risk/EBITDA	**60,312**	**43,196**	**7,923**	**3,807**	**144**	**-**	**115,382**	**18,032**	**6,213**	**(856)**	**-**	**23,389**	**-**	**(1,557)**	**137,214**
Investment Business related income statement items	-	-	-	-	-	-	-	(6,379)	208	(1,496)	-	(7,667)	-	1,557	(6,110)
Operating income before cost of credit risk	**60,312**	**43,196**	**7,923**	**3,807**	**144**	**-**	**115,382**	**11,653**	**6,421**	**(2,352)**	**-**	**15,722**	**-**	**-**	**131,104**
Cost of credit risk	(18,185)	(14,139)	(2,516)	(173)	-	-	(35,013)	(980)	-	(151)	-	(1,131)	-	-	(36,144)
Net operating income (loss) before non-recurring items	**42,127**	**29,057**	**5,407**	**3,634**	**144**	**-**	**80,369**	**10,673**	**6,421**	**(2,503)**	**-**	**14,591**	**-**	**-**	**94,960**
Net non-recurring (expense/loss) income/gain	(561)	(855)	(3)	-	-	-	(1,419)	1,967	(23)	840	-	2,784	-	-	1,365
Profit before income tax	**41,566**	**28,202**	**5,404**	**3,634**	**144**	**-**	**78,950**	**12,640**	**6,398**	**(1,663)**	**-**	**17,375**	**-**	**-**	**96,325**
Income tax (expense) benefit	(3,843)	(2,688)	(1,144)	(545)	42	-	(8,178)	(694)	(960)	(79)	-	(1,733)	-	-	(9,911)
Profit for the period	**37,723**	**25,514**	**4,260**	**3,089**	**186**	**-**	**70,772**	**11,946**	**5,438**	**(1,742)**	**-**	**15,642**	**-**	**-**	**86,414**
Assets and liabilities															
Cash and cash equivalents	401,777	857,493	93,904	4,003	591	(27,898)	1,329,870	19,083	49,059	47,699	-	115,841	141,511	(228,335)	1,358,887
Amounts due from credit institutions	206,083	505,789	3,986	22,457	-	(17,873)	720,442	46,321	-	1,615	-	47,936	-	(3,943)	764,435
Debt investment securities	628,069	182,641	11,889	2,927	-	-	825,526	-	-	-	-	-	-	(1,930)	823,596
Intersegment loans	-	24,211	-	-	-	-	24,211	-	-	-	-	-	1,665	(25,876)	-
Other assets	3,310,061	2,409,326	357,676	73,063	1,114	(21,457)	6,129,783	670,293	252,811	39,714	(2,549)	960,269	-	(6,300)	7,083,752
Total assets	**4,545,990**	**3,979,460**	**467,455**	**102,450**	**1,705**	**(67,228)**	**9,029,832**	**735,697**	**301,870**	**89,028**	**(2,549)**	**1,124,046**	**143,176**	**(266,384)**	**10,030,670**
Amounts owed to credit institutions	825,178	685,436	139,801	-	-	(20,116)	1,630,299	65,523	37,118	14,515	(1,658)	115,498	-	(25,876)	1,719,921
Debt securities issued	317,052	624,516	15,906	-	-	-	957,474	34,335	47,380	-	(599)	81,116	-	(4,832)	1,033,758
Other liabilities	2,804,497	2,107,202	236,257	63,092	96	(47,112)	5,164,032	161,962	105,994	7,439	(292)	275,103	-	(235,676)	5,203,459
Total liabilities	**3,946,727**	**3,417,154**	**391,964**	**63,092**	**96**	**(67,228)**	**7,751,805**	**261,820**	**190,492**	**21,954**	**(2,549)**	**471,717**	**-**	**(266,384)**	**7,957,138**
Other segment information															
Property and equipment	5,194	902	290	103	23	-	6,512	32,022	377	146	-	32,545	-	-	39,057
Intangible assets	3,728	517	24	6	31	-	4,306	204	-	20	-	224	-	-	4,530
Capital expenditure	**8,922**	**1,419**	**314**	**109**	**54**	**-**	**10,818**	**32,226**	**377**	**166**	**-**	**32,769**	**-**	**-**	**43,587**
Depreciation & amortization	(7,383)	(1,272)	(275)	(208)	-	-	(9,138)	(4,463)	(53)	(394)	-	(4,910)	-	-	(14,048)

(Thousands of Georgian Lari)

5. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the three months ended 31 March 2015 (unaudited, not reviewed) and as at 31 December 2015:

	Banking Business							Investment Business					Corporate Center	Inter-Business Eliminations	Group Total
	Retail banking	*CIB*	*BNB*	*P&C*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*	*GHG*	*M2*	*Other Investment Business*	*Investment Busines Eliminations*	*Investment Business*			
Net banking interest income	75,150	39,592	7,429	546	(44)	-	122,673	-	-	-	-	-	-	(2,069)	120,604
Net fee and commission income	18,565	7,342	2,217	71	-	13	28,208	-	-	-	-	-	-	(1,236)	26,972
Net banking foreign currency gain (loss)	989	(813)	5,017	(5,580)	-	-	(387)	-	-	-	-	-	-	-	(387)
Net other banking income	963	1,509	97	297	14	(477)	2,403	-	-	-	-	-	-	(305)	2,098
Gross insurance profit	-	-	-	5,607	-	(301)	5,306	2,701	-	-	(10)	2,691	-	(423)	7,574
Gross healthcare profit	-	-	-	-	-	-	-	16,877	-	-	-	16,877	-	-	16,877
Gross real estate profit	-	-	-	-	-	-	-	136	1,073	-	-	1,209	-	-	1,209
Gross other investment profit	-	-	-	-	-	-	-	59	219	1,278	-	1,556	-	(145)	1,411
Revenue	**95,667**	**47,630**	**14,760**	**941**	**(30)**	**(765)**	**158,203**	**19,773**	**1,292**	**1,278**	**(10)**	**22,333**	**-**	**(4,178)**	**176,358**
Operating expenses	(43,128)	(14,301)	(4,254)	(2,970)	(269)	765	(64,157)	(8,941)	(1,362)	(1,239)	10	(11,532)	-	873	(74,816)
Operating income (expense) before cost of credit risk/EBITDA	**52,539**	**33,329**	**10,506**	**(2,029)**	**(299)**	**-**	**94,046**	**10,832**	**(70)**	**39**	**-**	**10,801**	**-**	**(3,305)**	**101,542**
Investment Business related income statement items	-	-	-	-	-	-	-	(3,019)	(1,253)	(2,069)	-	(6,341)	-	3,305	(3,036)
Operating income before cost of credit risk	**52,539**	**33,329**	**10,506**	**(2,029)**	**(299)**	**-**	**94,046**	**7,813**	**(1,323)**	**(2,030)**	**-**	**4,460**	**-**	**-**	**98,506**
Cost of credit risk	(16,661)	(19,371)	(4,645)	(95)	-	-	(40,772)	(934)	-	(136)	-	(1,070)	-	-	(41,842)
Net operating income (loss) before non-recurring items	**35,878**	**13,958**	**5,861**	**(2,124)**	**(299)**	**-**	**53,274**	**6,879**	**(1,323)**	**(2,166)**	**-**	**3,390**	**-**	**-**	**56,664**
Net non-recurring (expense/loss) income/gain	(448)	(621)	(1,098)	-	-	-	(2,167)	(209)	(73)	2	-	(280)	-	-	(2,447)
Profit before income tax	**35,430**	**13,337**	**4,763**	**(2,124)**	**(299)**	**-**	**51,107**	**6,670**	**(1,396)**	**(2,164)**	**-**	**3,110**	**-**	**-**	**54,217**
Income tax (expense) benefit	(5,736)	(4,194)	(1,427)	388	486	-	(10,483)	(607)	209	70	-	(328)	-	-	(10,811)
Profit for the period	**29,694**	**9,143**	**3,336**	**(1,736)**	**187**	**-**	**40,624**	**6,063**	**(1,187)**	**(2,094)**	**-**	**2,782**	**-**	**-**	**43,406**
Assets and liabilities															
Cash and cash equivalents	613,626	685,689	109,758	2,379	685	(33,904)	1,378,233	145,153	28,015	32,578	-	205,746	52,395	(203,906)	1,432,468
Amounts due from credit institutions	334,861	384,750	3,906	18,339	-	(20,054)	721,802	12,245	-	3,485	-	15,730	-	(6,167)	731,365
Debt investment securities	418,938	484,914	-	2,583	-	-	906,435	-	-	-	-	-	-	(4,016)	902,419
Intersegment loans	-	35,313	-	-	-	-	35,313	-	-	-	-	-	-	(35,313)	-
Other assets	3,245,349	2,454,065	361,819	79,585	1,100	(12,491)	6,129,427	601,568	247,661	38,981	(320)	887,890	-	(12,628)	7,004,689
Total assets	**4,612,774**	**4,044,731**	**475,483**	**102,886**	**1,785**	**(66,449)**	**9,171,210**	**758,966**	**275,676**	**75,044**	**(320)**	**1,109,366**	**52,395**	**(262,030)**	**10,070,941**
Amounts owed to credit institutions	731,677	858,545	115,643	-	-	(13,308)	1,692,557	117,225	3,282	14,693	-	135,200	-	(38,695)	1,789,062
Debt securities issued	421,834	540,110	-	-	-	-	961,944	35,537	48,937	-	-	84,474	-	(6,614)	1,039,804
Other liabilities	1,964,297	2,941,386	282,327	66,630	146	(53,141)	5,201,645	134,179	115,670	10,670	(320)	260,199	-	(216,721)	5,245,123
Total liabilities	**3,117,808**	**4,340,041**	**397,970**	**66,630**	**146**	**(66,449)**	**7,856,146**	**286,941**	**167,889**	**25,363**	**(320)**	**479,873**	**-**	**(262,030)**	**8,073,989**
Other segment information															
Property and equipment	8,136	1,540	465	82	70	-	10,293	13,367	187	1,016	-	14,570	-	-	24,863
Intangible assets	1,434	235	71	17	5	-	1,762	22	-	6	-	28	-	-	1,790
Capital expenditure	**9,570**	**1,775**	**536**	**99**	**75**	**-**	**12,055**	**13,389**	**187**	**1,022**	**-**	**14,598**	**-**	**-**	**26,653**
Depreciation & amortization	(6,831)	(1,107)	(254)	(180)	(1)	-	(8,373)	(2,322)	(42)	(324)	-	(2,688)	-	-	(11,061)

(Thousands of Georgian Lari)

6. Cash and Cash Equivalents

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Cash on hand	473,707	442,293
Current accounts with central banks, excluding obligatory reserves	110,315	152,455
Current accounts with other credit institutions	270,978	475,779
Time deposits with credit institutions with maturity of up to 90 days	503,887	361,941
Cash and cash equivalents	**1,358,887**	**1,432,468**

As at 31 March 2016 GEL 716,898 (31 December 2015: GEL 661,830) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.60% interest per annum on these deposits (31 December 2015:0.59%).

7. Amounts Due from Credit Institutions

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Obligatory reserves with central banks	637,931	620,287
Time deposits with maturity of more than 90 days	104,106	12,717
Deposits pledged as security for open commitments	20,459	96,405
Inter-bank loan receivables	1,939	1,956
Amounts due from credit institutions	**764,435**	**731,365**

Obligatory reserves with central banks represent amounts deposited with the NBG and the NBRB (National Bank of the Republic of Belarus). 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 did not earn any interest on obligatory reserves with NBG or NBRB during the three months ended 31 March 2016 and 31 March 2015 .

As at 31 March 2016 inter-bank loans and receivables include GEL 1,939 (31 December 2015: GEL 1,956) placed with non-OECD banks.

8. Investment Securities

Available-for-sale investment securities comprise:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Georgian ministry of Finance treasury bonds*	607,627	575,591
Georgian ministry of Finance treasury bills**	127,865	165,545
Certificates of deposit of central banks***	12,354	76,807
Other debt instruments****	75,750	84,476
Corporate shares	1,449	1,448
Investment securities	**825,045**	**903,867**

** GEL 320,699 was pledged for short-term loans from the National Bank of Georgia (31 December 2015: GEL 229,800).*
*** GEL Nil was pledged for short-term loans from the National Bank of Georgia (31 December 2015: GEL3,805).*
**** GEL Nil was pledged for short-term loans from the National Bank of Georgia (31 December 2015:2,966).*
***** GEL 53,447 was pledged for short-term loans from the National Bank of Georgia (31 December 2015: GEL 79,187).*

Other debt instruments as at 31 March 2016 comprise GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 25,483 (31 December 2015: GEL 50,666), GEL denominated bonds issued by International Finance Corporation of GEL 27,965 (31 December 2015: GEL 28,460), and USD denominated corporate bonds of GEL 22,302 (31 December 2015: GEL 5,208).

(Thousands of Georgian Lari)

9. Loans to Customers and Finance Lease Receivables

Allowance for loan impairment

	As at	
	31 March 2016 (unaudited)	31 December 2015
Commercial loans	2,360,347	2,407,115
Consumer loans	1,173,611	1,165,107
Micro and SME loans	1,055,286	1,041,929
Residential mortgage loans	889,765	814,344
Gold – pawn loans	62,760	61,140
Loans to customers, gross	**5,541,769**	**5,489,635**
Less – Allowance for loan impairment	(214,043)	(198,894)
Loans to customers, net	**5,327,726**	**5,290,741**
Finance Lease Receivables, gross	**43,519**	**42,912**
Less – Allowance for finance lease receivables impairment	(2,556)	(2,202)
Finance Lease Receivables , net	**40,963**	**40,710**
Loans to customers and finance lease receivables, net	**5,368,689**	**5,331,451**

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2016	Consumer loans 2016	Residential mortgage loans 2016	Micro and SME loans 2016	Total 2016
At 1 January	**125,312**	**51,017**	**6,061**	**16,504**	**198,894**
Charge	12,897	14,808	887	3,626	32,218
Recoveries	477	5,150	668	1,155	7,450
Write-offs	(121)	(17,807)	(370)	(2,798)	(21,096)
Accrued interest on written-off loans	-	(2,816)	(28)	(213)	(3,057)
Currency translation differences	(70)	(133)	-	(163)	(366)
At 31 March (Unaudited)	**138,495**	**50,219**	**7,218**	**18,111**	**214,043**

	Commercial loans 2015	Consumer loans 2015	Residential mortgage loans 2015	Micro and SME loans 2015	Total 2015
At 1 January	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Charge	20,698	12,708	1,346	4,176	38,928
Recoveries	635	3,192	466	839	5,132
Write-offs	(2,587)	(5,167)	(452)	(493)	(8,699)
Accrued interest on written-off loans	(401)	(811)	(44)	(31)	(1,287)
Currency translation differences	77	2	-	157	236
At 31 March (Unaudited, not reviewed)	**91,307**	**33,572**	**4,309**	**8,902**	**138,090**

(Thousands of Georgian Lari)

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

Concentration of loans to customers

As at 31 March 2016 concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 676,667 accounting for 12% of the gross loan portfolio of the Group (31 December 2015: GEL 708,839 and 13% respectively). An allowance of GEL 3,958 (31 December 2015: GEL2,484) was established against these loans.

As at 31 March 2016, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,128,261 accounting for 20% of the gross loan portfolio of the Group (31 December 2015: GEL 1,094,979 and 20% respectively). An allowance of GEL 42,327 (31 December 2015: GEL41,413) was established against these loans.

As at 31 March 2016 and 31 December 2015 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Individuals	2,603,212	2,482,389
Manufacturing	692,938	711,677
Trade	692,807	727,214
Real estate	337,918	354,331
Service	215,119	232,422
Construction	201,291	178,642
Hospitality	177,604	168,011
Transport & communication	157,343	165,330
Mining and quarrying	129,333	127,706
Financial intermediation	79,997	77,662
Electricity, gas and water supply	73,388	77,633
Other	180,819	186,618
Loans to customers, gross	**5,541,769**	**5,489,635**
Less – allowance for loan impairment	(214,043)	(198,894)
Loans to customers, net	**5,327,726**	**5,290,741**

Loans have been extended to the following types of customers:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Private companies	2,904,497	2,967,479
Individuals	2,603,212	2,482,389
State-owned entities	34,060	39,767
Loans to customers, gross	**5,541,769**	**5,489,635**
Less – allowance for loan impairment	(214,043)	(198,894)
Loans to customers, net	**5,327,726**	**5,290,741**

(Thousands of Georgian Lari)

10. Investment Properties

	2016	*2015*
At 1 January	**246,398**	**190,860**
Additions	9,951	10,537
Disposals	(1,461)	(6,787)
Net gains from revaluation of investment property	1,726	-
Hyperinflation effect	-	189
Acuisition through business combination	-	705
Transfers to property and equipment and other assets	(1,898)	(966)
Currency translation differences	(492)	85
At 31 March 2016 (unaudited), 31 March 2015 (unaudited, not reviewed)	**254,224**	**194,623**

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 2015.

The Group has no restrictions on the realisability of its investment properties and has a commitment to invest GEL 25,200 until the end of 2018, for the development of an investment property.

11. Client Deposits and Notes

Client deposits and notes include the following:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Time deposits	2,569,313	2,597,244
Current accounts	2,159,594	2,185,470
Promissory notes issued	723	868
Amounts due to customers	**4,729,630**	**4,783,582**
Held as security against letters of credit and guarantees (Note 15)	**191,263**	**64,534**

As at 31 March 2016 and 31 December 2015, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average remaining maturity of the notes is 7 months (31 December 2015: 9 months).

At 31 March 2016, GEL 831,603 (18% of amounts due to customers) was due to the 10 largest customers (31 December 2015: GEL 782,146 (16% of amounts due to customers)).

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

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Individuals	2,645,571	2,615,774
Private enterprises	1,947,953	1,977,428
State and state-owned entities	136,106	190,380
Amounts due to customers	**4,729,630**	**4,783,582**

(Thousands of Georgian Lari)

11. Client Deposits and Notes (continued)

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

	As at	
	31 March 2016 (unaudited)	31 December 2015
Individuals	2,645,571	2,615,774
Transport & communication	320,858	317,161
Service	319,648	321,680
Trade	296,741	374,291
Construction	231,806	224,477
Manufacturing	201,951	236,238
Financial intermediation	165,948	292,771
Government services	119,406	141,007
Electricity, gas and water supply	107,203	74,125
Real estate	63,838	64,990
Hospitality	20,097	18,818
Other	236,563	102,250
Amounts due to customers	**4,729,630**	**4,783,582**

12. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	As at	
	31 March 2016 (unaudited)	31 December 2015
Borrowings from international credit institutions	681,934	640,517
Short-term loans from the National Bank of Georgia	368,000	307,200
Time deposits and inter-bank loans	202,850	353,638
Correspondent accounts	69,629	92,617
Subtotal	**1,322,413**	**1,393,972**
Non-convertible subordinated debt	397,508	395,090
Amounts due to credit institutions	**1,719,921**	**1,789,062**

During the three months ended 31 March 2016 the Group paid up to 4.97% on USD borrowings from international credit institutions (31 March 2015: up to 4.83%). During the three months ended 31 March 2016 the Group paid up to 7.75% on USD non-convertible subordinated debt (31 March 2015: up to 7.75%).

Some long-term borrowings from international credit institutions are subject to certain conditions (the "Lender Covenants"). These covenants require the Group to maintain different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 March 2016 and 31 December 2015 the Group complied with all the Lender Covenants of the borrowings from international credit institutions, in all material respects.

(Thousands of Georgian Lari)

13. Debt Securities Issued

Debt securities issued comprise:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Eurobonds	877,917	908,183
Georgian local bonds	96,595	98,859
Certificates of deposit	43,340	32,762
Belarusian local bonds	15,906	-
Debt securities issued	**1,033,758**	**1,039,804**

In January 2016, BNB completed the issuance of 2-year local bonds of USD 1 million (GEL 2.3 million) and 2-year local bonds of EUR 5 million (GEL 13.5 million). The bonds were issued at par with the annual coupon rate of 6.5% payable quarterly with 18% withholding tax applying to legal entities.

14. Equity

Share capital

As at 31 March 2016 and 31 December 2015, issued share capital of JSC BGEO comprised 37,065,775 common shares, all of which were fully paid. Each share has a nominal value of one (1) Georgian Lari (31 December 2015: one (1) Georgian Lari). Shares issued and outstanding as at 31 March 2016 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2014	**36,512,553**	**36,513**
31 March 2015 (Unaudited, not reviewed)	**36,512,553**	**36,513**
31 December 2015	**37,065,773**	**37,066**
31 March 2016 (Unaudited)	**37,065,773**	**37,066**

Treasury shares

Treasury shares of GEL 977 as at 31 March 2016 comprise 976,911 of the Group's shares owned by the Group (31 December 2015: GEL 1,522, or 1,521,752 shares).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

Dividends recognized in three months ended 31 March 2016 represents dividends on shares kept in Sanne Fiduciary Services Limited acting as the trustee of the Group's executives' equity compensation plan.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and service centers and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on investment securities available-for-sale.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries

This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

The most significant item from the acquisition of interests in existing subsidiaries was an acquisition of the remaining 33.3% non-controlling interest in the Group's largest pediatric hospital, Iashvili Referral Hospital for a total consideration of GEL 8.4 mln, which comprised GEL 6.2 mln real estate property and GEL 2.2 mln cash, in March 2016.

(Thousands of Georgian Lari)

14. Equity (continued)

Nature and purpose of other reserves (continued)

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the interim condensed financial statements of foreign subsidiaries.

Movements in other reserves during three months ended 31 March 2016 and 31 March 2015 are presented in the statements of other comprehensive income.

Earnings per share

	For the three months ended	
	31 March 2016 (unaudited)	*31 March 2015 (unaudited, not reviewed)*
Basic and diluted earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	80,203	43,900
Weighted average number of ordinary shares outstanding during the period	35,980,619	35,412,130
Basic and diluted earnings per share	2.2291	1.2397

15. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

As at 31 March 2016 and 31 December 2015 the Group's financial commitments and contingencies comprised the following:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Credit-related commitments		
Guarantees issued	396,202	473,839
Undrawn loan facilities	259,782	273,851
Letters of credit	147,191	43,126
	803,175	**790,816**
Operating lease commitments		
Not later than 1 year	18,445	17,056
Later than 1 year but not later than 5 years	32,889	31,216
Later than 5 years	7,496	5,553
	58,830	**53,825**
Capital expenditure commitments	**27,571**	**27,624**
Less – Cash held as security against letters of credit and guarantees (Note 11)	(191,263)	(64,534)
Less – Provisions	(2,428)	(2,240)
Financial commitments and contingencies, net	**695,885**	**805,491**

As at 31 March 2016 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 25,506 and software and other intangible assets of GEL 2,065. As at 31 December 2015 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 25,915 and software and other intangible assets of GEL1,709.

(Thousands of Georgian Lari)

16. Interest Income and Interest Expense

	For the three months ended 31 March							
	2016 (Unaudited)				2015 (Unaudited, not reviewed)			
	Banking Business	Investment Business	Elimi-nation	Total	Banking Business	Investment Business	Elimi-nation	Total
From loans to customers	201,025	609	(1,310)	200,324	183,896	(86)	(2,270)	181,540
From investment securities: available-for-sale	20,149	-	(64)	20,085	14,508	-	-	14,508
From finance lease receivable	2,234	-	-	2,234	1,922	-	-	1,922
From amounts due from credit institutions	2,809	355	(41)	3,123	2,027	904	(586)	2,345
Interest Income	**226,217**	**964**	**(1,415)**	**225,766**	**202,353**	**818**	**(2,856)**	**200,315**
On client deposits and notes	(53,410)	(2)	544	(52,868)	(44,509)	(43)	586	(43,966)
On amounts owed to credit institutions	(25,280)	(2,047)	960	(26,367)	(19,414)	(5,080)	2,587	(21,907)
On debt securities issued	(17,325)	(899)	101	(18,123)	(15,757)	(889)	919	(15,727)
Interest Expense	**(96,015)**	**(2,948)**	**1,605**	**(97,358)**	**(79,680)**	**(6,012)**	**4,092**	**(81,600)**
Net Interest Income	**130,202**	**(1,984)**	**190**	**128,408**	**122,673**	**(5,194)**	**1,236**	**118,715**

17. Net Fee and Commission Income

	For the three months ended	
	31 March 2016 (unaudited)	31 March 2015 (unaudited, not reviewed)
Settlements operations	28,193	25,701
Guarantees and letters of credit	5,660	5,228
Cash operations	2,741	3,245
Currency conversion operations	137	734
Brokerage service fees	287	347
Advisory	181	-
Other	950	736
Fee and commission income	**38,149**	**35,991**
		-
Settlements operations	(7,307)	(6,438)
Cash operations	(1,260)	(1,094)
Guarantees and letters of credit	(788)	(1,092)
Insurance brokerage service fees	(497)	(106)
Currency conversion operations	(8)	(21)
Other	(408)	(268)
Fee and commission expense	**(10,268)**	**(9,019)**
Net fee and commission income	**27,881**	**26,972**

18. Fair Value Measurements

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(Thousands of Georgian Lari)

18. Fair Value Measurements (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 March 2016 (unaudited)	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	254,224	254,224
Investment securities	-	822,599	2,446	825,045
Other assets – derivative financial assets	-	1,433	-	1,433
Other assets – trading securities owned	3,052	-	-	3,052
Total revalued property	-	-	229,176	229,176
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,358,887	-	1,358,887
Amounts due from credit institutions	-	764,435	-	764,435
Loans to customers and finance lease receivables	-	-	5,324,729	5,324,729
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	1,322	-	1,322
Liabilities for which fair values are disclosed				
Client deposits and notes	-	-	4,740,609	4,740,609
Amounts owed to credit institutions	-	-	1,719,921	1,719,921
Debt securities issued	-	901,427	155,840	1,057,267

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*246,398*	246,398
Investment securities	-	902,419	1,448	903,867
Other assets – derivative financial assets	-	42,212	-	42,212
Other assets – trading securities owned	1,977	-	-	1,977
Total revalued property	-	-	228,365	228,365
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,432,468	-	1,432,468
Amounts due from credit institutions	-	731,365	-	731,365
Loans to customers and finance lease receivables	-	-	5,293,633	5,293,633
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	3,243	-	3,243
Liabilities for which fair values are disclosed				
Client deposits and notes	-	-	4,809,288	4,809,288
Amounts owed to credit institutions	-	-	1,789,062	1,789,062
Debt securities issued	-	938,894	131,621	1,070,515

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(Thousands of Georgian Lari)

18. Fair Value Measurements (continued)

Derivative financial instruments

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

Trading securities and investment securities available-for-sale

Trading securities and a portion of investment securities available-for-sale are quoted equity and debt securities. Investment securities available-for-sale valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	At 31 December 2014	Reversal of Impairment	At 31 December 2015	Purchase of AFS securities (Unaudited)	At 31 March 2016 (Unaudited)
Level 3 financial assets					
Equity investment securities available-for-sale	1,412	36	1,448	998	2,446

Movements in level 3 non-financial assets measured at fair value

All investment properties and revalued properties included in property and equipment are of level 3.

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

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

	Carrying value 2016	Fair value 2016	Unrecognised gain (loss) 2016	Carrying value 2015	Fair value 2015	Unrecognised loss 2015
		Unaudited				
Financial assets						
Cash and cash equivalents	1,358,887	1,358,887	-	1,432,468	1,432,468	-
Amounts due from credit institutions	764,435	764,435	-	731,365	731,365	-
Loans to customers and finance lease receivables	5,368,689	5,324,729	(43,960)	5,331,451	5,293,633	(37,818)
Financial liabilities						
Client deposits and notes	4,729,630	4,740,609	(10,979)	4,783,582	4,809,288	(25,706)
Amounts owed to credit institutions	1,719,921	1,719,921	-	1,789,062	1,789,062	-
Debt securities issued	1,033,758	1,057,267	(23,509)	1,039,804	1,070,515	(30,711)
Total unrecognised change in unrealised fair value			**(78,448)**			**(94,235)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

(Thousands of Georgian Lari)

18. Fair Value Measurements (continued)

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

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.

19. 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.

	31 March 2016 (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	864,321	494,566	-	-	-	-	-	1,358,887
Amounts due from credit institutions	636,070	67,638	5,829	15,603	37,245	-	2,050	764,435
Investment securities	399,944	322,122	4,463	21,388	75,549	389	1,190	825,045
Loans to customers and finance lease	-	837,073	447,325	1,042,757	1,614,150	705,985	721,399	5,368,689
Total	**1,900,335**	**1,721,399**	**457,617**	**1,079,748**	**1,726,944**	**706,374**	**724,639**	**8,317,056**
Financial liabilities								
Client deposits and notes	809,517	856,031	423,675	2,085,394	468,118	65,732	21,163	4,729,630
Amounts owed to credit institutions	69,631	551,331	115,993	176,052	431,516	120,532	254,866	1,719,921
Debt securities issued	-	746	50,828	103,536	878,648	-	-	1,033,758
Total	**879,148**	**1,408,108**	**590,496**	**2,364,982**	**1,778,282**	**186,264**	**276,029**	**7,483,309**
Net	**1,021,187**	**313,291**	**(132,879)**	**(1,285,234)**	**(51,338)**	**520,110**	**448,610**	**833,747**
Accumulated gap	**1,021,187**	**1,334,478**	**1,201,599**	**(83,635)**	**(134,973)**	**385,137**	**833,747**	

	2015							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,071,895	360,573	-	-	-	-	-	1,432,468
Amounts due from credit institutions	617,673	702	28,338	82,393	309	-	1,950	731,365
Investment securities	560,120	241,481	31,247	6,531	60,244	3,057	1,187	903,867
Loans to customers and finance lease	-	796,765	537,690	1,024,619	1,596,062	705,152	671,163	5,331,451
Total	**2,249,688**	**1,399,521**	**597,275**	**1,113,543**	**1,656,615**	**708,209**	**674,300**	**8,399,151**
Financial liabilities								
Client deposits and notes	879,198	810,072	541,142	2,008,160	444,591	80,012	20,407	4,783,582
Amounts owed to credit institutions	92,617	528,644	108,023	247,414	403,528	139,573	269,263	1,789,062
Debt securities issued	-	51,457	-	53,703	934,644	-	-	1,039,804
Total	**971,815**	**1,390,173**	**649,165**	**2,309,277**	**1,782,763**	**219,585**	**289,670**	**7,612,448**
Net	**1,277,873**	**9,348**	**(51,890)**	**(1,195,734)**	**(126,148)**	**488,624**	**384,630**	**786,703**
Accumulated gap	**1,277,873**	**1,287,221**	**1,235,331**	**39,597**	**(86,551)**	**402,073**	**786,703**	

(Thousands of Georgian Lari)

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

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.

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

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

As at 31 March 2016 client deposits and notes amounted to GEL 4,729,630 (31 December 2015: GEL 4,783,582) and represented 59% (31 December 2015: 59%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 March 2016 amounts owed to credit institutions amounted to GEL 1,719,921 (31 December 2015: GEL1,789,062) and represented 22% (31 December 2015:22%) of total liabilities. As at 31 March 2016 debt securities issued amounted to GEL 1,033,758 (31 December 2014: GEL1,039,804) and represented 13% (31 December 2015:13%) of total liabilities.

The Bank was in compliance with regulatory liquidity requirements as at 31 March 2016 and 31 December 2015. In management's opinion, liquidity is sufficient to meet the Group's present requirements.

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

	31 March 2016 (unaudited)			*31 December 2015*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,358,887	-	1,358,887	1,432,468	-	1,432,468
Amounts due from credit institutions	725,140	39,295	764,435	729,106	2,259	731,365
Investment securities	747,917	77,128	825,045	839,379	64,488	903,867
Loans to customers and finance lease	2,327,155	3,041,534	5,368,689	2,359,074	2,972,377	5,331,451
Accounts receivable and other loans	84,715	-	84,715	87,955	17	87,972
Insurance premiums receivable	54,521	358	54,879	39,177	49	39,226
Prepayments	41,324	26,248	67,572	25,213	32,957	58,170
Inventories	97,128	28,338	125,466	98,387	28,640	127,027
Investment properties	-	254,224	254,224	-	246,398	246,398
Property and equipment	-	835,651	835,651	-	794,682	794,682
Goodwill	-	73,192	73,192	-	72,984	72,984
Intangible assets	-	43,074	43,074	-	40,516	40,516
Income tax assets	15,266	21,446	36,712	3,654	17,896	21,550
Other assets	40,341	97,788	138,129	106,127	77,138	183,265
Total assets	**5,492,394**	**4,538,276**	**10,030,670**	**5,720,540**	**4,350,401**	**10,070,941**
Client deposits and notes	4,174,617	555,013	4,729,630	4,238,572	545,010	4,783,582
Amounts owed to credit institutions	913,007	806,914	1,719,921	976,698	812,364	1,789,062
Debt securities issued	155,110	878,648	1,033,758	105,160	934,644	1,039,804
Accruals and deffered income	89,506	52,975	142,481	112,939	33,718	146,657
Insurance contracts liabilities	68,128	3,437	71,565	51,273	4,572	55,845
Income tax liabilities	1,053	127,614	128,667	20,083	104,312	124,395
Other liabilities	112,086	19,030	131,116	119,970	14,674	134,644
Total liabilities	**5,513,507**	**2,443,631**	**7,957,138**	**5,624,695**	**2,449,294**	**8,073,989**
Net	**(21,113)**	**2,094,645**	**2,073,532**	**95,845**	**1,901,107**	**1,996,952**

(Thousands of Georgian Lari)

20. Related Party Disclosures

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

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

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

	2016 (Unaudited)			*2015 (Unaudited, not reviewed)*		
	Share-holders	*Entities Under Common Control**	*Key management personnel***	*Share-holders*	*Entities Under Common Control**	*Key management personnel***
Loans outstanding at 1 January, gross	**9,334**	**13,541**	**1,258**	**7,609**	**78,592**	**2,048**
Loans issued during the year	-	-	3,604	-	4,000	1,406
Loan repayments during the year	-	-	(2,118)	-	(27,433)	(2,094)
Other movements	(318)	-	487	1,067	12,274	389
Loans outstanding at 31 March, gross	**9,016**	**13,541**	**3,231**	**8,676**	**67,433**	**1,749**
Less: allowance for impairment at 31 March	-	(146)	(6)	-	(374)	-
Loans outstanding at 31 March, net	**9,016**	**13,395**	**3,225**	**8,676**	**67,059**	**1,749**
Interest income on loans	-	370	55	-	1,538	40
Loan impairment charge	-	-	-	-	-	-
Deposits at 1 January	**31,971**	**1,419**	**20,129**	**134,705**	**4,975**	**17,500**
Deposits received during the year	-	22,287	13,733	-	48,181	6,738
Deposits repaid during the year	(794)	(20,339)	(10,617)	(1,605)	(48,344)	(7,618)
Other movements	(295)	(164)	(679)	24,834	(111)	2,358
Deposits at 31 March	**30,882**	**3,203**	**22,566**	**157,934**	**4,701**	**18,978**
Interest expense on deposits	(20)	-	(177)	(447)	-	(117)
Other income	-	-	19	-	-	21

**** On 23 December 2014 the BGEO PLC acquired 25% interest in GGU, a holding company with wholly owned subsidiaries that supply water and provide wastewater services, which also owns and operates hydropower generation facilities in Georgia.***
***** Key management personnel include members of BGEO PLC's Board of Directors and Chief Executive Officer and Deputies of the Bank.***

Compensation of key management personnel comprised the following:

	For the three months ended	
	31 March 2016 (unaudited)	*31 March 2015 (unaudited, not reviewed)*
Salaries and other benefits	1,232	903
Share-based payments compensation	5,763	4,859
Social security costs	14	11
Total key management compensation	**7,009**	**5,773**

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 31 March 2016 was 18 (31 December 2015:16).

(Thousands of Georgian Lari)

21. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

Approved and published on 28 October 2013 by NBG, a new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014. A transition period is to continue through 1 January 2017, during which the Bank will be required to comply with both, the new, as well as the current, capital regulations of the NBG.

During three months ended 31 March 2016, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

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

NBG (Basel II/III) capital adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total capital adequacy ratio of 10.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II/III requirements. As at 31 March 2016 and 31 December 2015 the Bank's capital adequacy ratio on this basis was as follows:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Tier 1 capital	845,812	914,784
Tier 2 capital	474,473	479,176
Total capital	**1,320,285**	**1,393,960**
Risk-weighted assets	**8,353,759**	**8,363,369**
Total capital ratio	**15.8%**	**16.7%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

(Thousands of Georgian Lari)

21. Capital Adequacy (continued)

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 10.8% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 March 2016 and 31 December 2015, the Bank's capital adequacy ratio on this basis was as follows:

	As at	
	31 March 2016 (unaudited)	*31 December 2015*
Core capital	818,496	728,139
Supplementary capital	501,226	649,607
Less: Deductions from capital	(68,896)	(60,311)
Total regulatory capital	**1,250,826**	**1,317,435**
Risk-weighted assets	**7,656,069**	**7,811,398**
Total capital adequacy ratio	**16.3%**	**16.9%**

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

22. Event after the Reporting Period

In April 2016, the Group's subsidiary Georgia Healthcare Group PLC completed the acquisition of 100% equity stake in JSC GPC, one of the largest retail and wholesale pharmacy chains in Georgia.

Initial purchase accounting is currently in progress and not all of the asset valuations and accounting estimates are formally finalized. Therefore, management considers a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2016 half yearly financial statements.

JSC BGEO Group and Subsidiaries
Consolidated Financial Statements

31 December 2015

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INDEPENDENT AUDITORS' REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor's report

To the shareholders and Board of the Directors of JSC BGEO Group -

We have audited the accompanying consolidated financial statements of JSC BGEO Group and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2015 and 2014, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC BGEO Group and its subsidiaries as at 31 December 2015 and 2014, and their financial performance and cash flows for the years ended 31 December 2015 and 2014 in accordance with International Financial Reporting Standards.

EY Georgia LLC

26 May 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015					2014			
		Banking Business	Investment Business	Corporate Center	Elimi-nation	Total	Banking Business	Investment Business	Elimi-nation	Total
Assets										
Cash and cash equivalents	7	1,378,233	205,746	52,395	(203,906)	1,432,468	650,479	60,625	(1,243)	709,861
Amounts due from credit institutions	8	721,802	15,730	-	(6,167)	731,365	399,430	25,812	(6,740)	418,502
Investment securities	9	906,730	1,153	-	(4,016)	903,867	768,559	1,153	-	769,712
Loans to customers and finance lease receivables	10	5,366,764	-	-	(35,313)	5,331,451	4,438,032	-	(82,572)	4,355,460
Accounts receivable and other loans		10,376	82,354	-	(4,758)	87,972	12,653	61,836	(4,282)	70,207
Insurance premiums receivable		19,829	20,929	-	(1,532)	39,226	14,573	18,020	(753)	31,840
Prepayments		21,033	37,137	-	-	58,170	15,502	18,001	-	33,503
Inventories		9,439	117,588	-	-	127,027	6,857	94,585	-	101,442
Investment properties	11	135,453	110,945	-	-	246,398	128,552	62,308	-	190,860
Property and equipment	12	337,064	457,618	-	-	794,682	314,369	274,144	-	588,513
Goodwill	13	49,592	23,392	-	-	72,984	38,537	11,096	-	49,633
Intangible assets		35,162	5,354	-	-	40,516	31,768	2,664	-	34,432
Income tax assets	14	16,003	5,547	-	-	21,550	14,484	8,261	-	22,745
Other assets	15	163,730	25,873	-	(6,338)	183,265	153,763	9,288	(2,460)	160,591
Total assets		9,171,210	1,109,366	52,395	(262,030)	10,070,941	6,987,558	647,793	(98,050)	7,537,301
Liabilities										
Client deposits and notes	16	4,993,681	-	-	(210,099)	4,783,582	3,482,000	-	(8,571)	3,473,429
Amounts owed to credit institutions	17	1,692,557	135,200	-	(38,695)	1,789,062	1,324,608	169,704	(85,099)	1,409,213
Debt securities issued	18	961,944	84,474	-	(6,614)	1,039,804	827,721	29,374	(400)	856,695
Accruals and deferred income		20,364	126,293	-	-	146,657	19,897	88,612	-	108,509
Insurance contracts liabilities		34,547	21,298	-	-	55,845	27,979	18,607	-	46,586
Income tax liabilities	14	89,980	34,415	-	-	124,395	79,987	17,577	-	97,564
Other liabilities	15	63,073	78,193	-	(6,622)	134,644	51,031	37,167	(3,980)	84,218
Total liabilities		**7,856,146**	**479,873**	**-**	**(262,030)**	**8,073,989**	**5,813,223**	**361,041**	**(98,050)**	**6,076,214**
Equity	20									
Share capital		37,066	-	-	-	37,066	36,513	-	-	36,513
Additional paid-in capital		564,281	32,568	45,115	-	641,964	552,411	58,827	-	611,238
Treasury shares		(1,522)	-	-	-	(1,522)	(1,522)	-	-	(1,522)
Other reserves		2,691	94,473	-	-	97,164	44,382	(13,171)	-	31,211
Retained earnings		693,618	299,341	7,280	-	1,000,239	523,907	204,932	-	728,839
Total equity attributable to shareholders of BGEO		**1,296,134**	**426,382**	**52,395**	**-**	**1,774,911**	**1,155,691**	**250,588**	**-**	**1,406,279**
Non-controlling interests		18,930	203,111	-	-	222,041	18,644	36,164	-	54,808
Total equity		**1,315,064**	**629,493**	**52,395**	**-**	**1,996,952**	**1,174,335**	**286,752**	**-**	**1,461,087**
Total liabilities and equity		9,171,210	1,109,366	52,395	(262,030)	10,070,941	6,987,558	647,793	(98,050)	7,537,301

Signed and authorised for release on behalf of the Board of Directors by:

Irakli Gilauri — Chief Executive Officer

26 May 2016

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015				2014			
		Banking Business	Investment Business	Elimi-nation	Total	Banking Business	Investment Business	Elimi-nation	Total
Banking interest income		872,299	-	(12,521)	859,778	600,925	-	(7,313)	593,612
Banking interest expense		(360,393)	-	984	(359,409)	(243,655)	-	-	(243,655)
Net banking interest income	21	**511,906**	**-**	**(11,537)**	**500,369**	**357,270**	**-**	**(7,313)**	**349,957**
Fee and commission income		161,891	-	(3,733)	158,158	134,488	-	(2,053)	132,435
Fee and commission expense		(39,889)	-	550	(39,339)	(32,194)	-	-	(32,194)
Net fee and commission income	22	**122,002**	**-**	**(3,183)**	**118,819**	**102,294**	**-**	**(2,053)**	**100,241**
Net banking foreign currency gain		52,564	-	-	52,564	53,527	-	-	53,527
Net other banking income		20,145	-	(1,309)	18,836	9,890	-	(620)	9,270
Net insurance premiums earned		40,160	54,997	(2,256)	92,901	28,129	69,700	(1,979)	95,850
Net insurance claims incurred		(20,113)	(42,881)	-	(62,994)	(11,705)	(54,715)	-	(66,420)
Gross insurance profit	23	**20,047**	**12,116**	**(2,256)**	**29,907**	**16,424**	**14,985**	**(1,979)**	**29,430**
Healthcare revenue		-	183,993	-	183,993	-	125,720	-	125,720
Cost of healthcare services		-	(103,055)	-	(103,055)	-	(72,237)	-	(72,237)
Gross healthcare profit	24	**-**	**80,938**	**-**	**80,938**	**-**	**53,483**	**-**	**53,483**
Real estate revenue		-	54,409	-	54,409	-	60,456	(80)	60,376
Cost of real estate		-	(39,721)	-	(39,721)	-	(46,810)	-	(46,810)
Gross real estate profit	25	**-**	**14,688**	**-**	**14,688**	**-**	**13,646**	**(80)**	**13,566**
Gross other investment profit	25	-	20,685	138	20,823	-	12,856	187	13,043
Revenue		**726,664**	**128,427**	**(18,147)**	**836,944**	**539,405**	**94,970**	**(11,858)**	**622,517**
Salaries and other employee benefits	26	(153,944)	(31,420)	2,036	(183,328)	(128,706)	(25,501)	1,530	(152,677)
Administrative expenses	26	(71,932)	(18,221)	1,953	(88,200)	(56,708)	(15,744)	1,348	(71,104)
Banking depreciation and amortisation		(34,199)	-	-	(34,199)	(25,641)	-	-	(25,641)
Other operating expenses		(3,534)	(751)	-	(4,285)	(3,232)	(520)	-	(3,752)
Operating expenses		**(263,609)**	**(50,392)**	**3,989**	**(310,012)**	**(214,287)**	**(41,765)**	**2,878**	**(253,174)**
Operating income before cost of credit risk / EBITDA		**463,055**	**78,035**	**(14,158)**	**526,932**	**325,118**	**53,205**	**(8,980)**	**369,343**

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015				2014			
		Banking Business	Investment Business	Elimi-nation	Total	Banking Business	Investment Business	Elimi-nation	Total
Operating income before cost of credit risk / EBITDA		**463,055**	**78,035**	**(14,158)**	**526,932**	**325,118**	**53,205**	**(8,980)**	**369,343**
Depreciation and amortization of investment business		-	(14,225)	-	(14,225)	-	(9,164)	-	(9,164)
Net foreign currency gain (loss) from investment business		-	(2,053)	-	(2,053)	-	(3,082)	-	(3,082)
Interest income from investment business	21	-	3,338	(998)	2,340	-	1,859	(551)	1,308
Interest expense from investment business	21	-	(25,608)	15,156	(10,452)	-	(16,088)	9,531	(6,557)
Operating income before cost of credit risk		**463,055**	**39,487**	**-**	**502,542**	**325,118**	**26,730**	**-**	**351,848**
Impairment charge on loans to customers	10	(142,819)	-	-	(142,819)	(45,088)	-	-	(45,088)
Impairment charge on finance lease receivables	10	(1,958)	-	-	(1,958)	(476)	-	-	(476)
Impairment charge on other assets and provisions		(6,739)	(3,860)	-	(10,599)	(10,169)	(3,288)	-	(13,457)
Cost of credit risk		**(151,516)**	**(3,860)**	**-**	**(155,376)**	**(55,733)**	**(3,288)**	**-**	**(59,021)**
Net operating income before non-recurring items		**311,539**	**35,627**	**-**	**347,166**	**269,385**	**23,442**	**-**	**292,827**
Net non-recurring items	27	(13,046)	(2,100)	-	(15,146)	(11,838)	821	-	(11,017)
Profit before income tax expense		**298,493**	**33,527**	**-**	**332,020**	**257,547**	**24,263**	**-**	**281,810**
Income tax expense	14	(44,648)	(3,760)	-	(48,408)	(32,343)	(3,483)	-	(35,826)
Profit for the year		**253,845**	**29,767**	**-**	**283,612**	**225,204**	**20,780**	**-**	**245,984**
Attributable to:									
– shareholders of JSC BGEO		250,537	26,349	-	276,886	221,584	17,060	-	238,644
– non-controlling interests		3,308	3,418	-	6,726	3,620	3,720	-	7,340
		253,845	**29,767**	**-**	**283,612**	**225,204**	**20,780**	**-**	**245,984**
Earnings per share:	20								
– basic and diluted earnings per share					7.7911				6.8414

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2015*	*2014*
Profit for the year		**283,612**	**245,984**
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		(30,928)	(4,079)
– Realised gain (loss) on available-for-sale securities reclassified to the consolidated income statement		84	(83)
– (Loss) gain from currency translation differences		(14,374)	29,965
Income tax effect	14	1,276	(123)
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**(43,942)**	**25,680**
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:			
– Revaluation of property and equipment	12	(7,223)	-
Income tax effect	14	361	-
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		**(6,862)**	**-**
Other comprehensive (loss) income for the year, net of tax		**(50,804)**	**25,680**
Total comprehensive income for the year		**232,808**	**271,664**
Attributable to:			
– shareholders of JSC BGEO		229,308	266,187
– non-controlling interests		3,500	5,477
		232,808	**271,664**

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Attributable to shareholders of JSC BGEO							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2013	**36,513**	**570,185**	**(2,428)**	**22,733**	**563,407**	**1,190,410**	**53,905**	**1,244,315**
Profit for the year	-	-	-	-	238,644	238,644	7,340	245,984
Other comprehensive gain/(loss) for the year	-	-	-	26,563	980	27,543	(1,863)	25,680
Total comprehensive income for the year	**-**	**-**	**-**	**26,563**	**239,624**	**266,187**	**5,477**	**271,664**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(446)	446	-	-	-
Increase in equity arising from share-based payments	-	18,573	534	-	-	19,107	-	19,107
Dividends to shareholders of BGEO PLC (Note 20)	-	-	-	-	(74,638)	(74,638)	-	(74,638)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(17,639)	-	(17,639)	(15,516)	(33,155)
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	10,942	10,942
Sale of treasury shares	-	27,525	469			27,994	-	27,994
Purchase of treasury shares	-	(5,045)	(97)	-	-	(5,142)	-	(5,142)
31 December 2014	**36,513**	**611,238**	**(1,522)**	**31,211**	**728,839**	**1,406,279**	**54,808**	**1,461,087**
Profit for the year	-	-	-	-	276,886	276,886	6,726	283,612
Other comprehensive loss for the year	-	-	-	(41,467)	(6,111)	(47,578)	(3,226)	(50,804)
Total comprehensive income for the year	**-**	**-**	**-**	**(41,467)**	**270,775**	**229,308**	**3,500**	**232,808**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(625)	625	-	-	-
Increase in equity arising from share-based payments	-	22,076	422	-	-	22,498	897	23,395
Dilution of interests in subsidiaries (Note 2)	-	-	-	109,435	-	109,435	125,163	234,598
Transactions costs recognised directly in equity (Note 2)	-	-	-	(13,379)	-	(13,379)	-	(13,379)
Acquisition and sale of non-controlling interests in existing subsidiaries (Note 2)	-	-	-	11,989	-	11,989	2,369	14,358
Issue of share capital (Note 20)	688	42,556	-	-	-	43,244	-	43,244
Reorganization (Note 1)	(135)	(5,386)	3	-	-	(5,518)	5,518	-
Non-controlling interests arising on acquisition of subsidiary (Note 5)	-	-	-	-	-	-	29,786	29,786
Purchase of treasury shares	-	(28,520)	(425)	-	-	(28,945)	-	(28,945)
31 December 2015	**37,066**	**641,964**	**(1,522)**	**97,164**	**1,000,239**	**1,774,911**	**222,041**	**1,996,952**

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014
Cash flows from (used in) operating activities			
Interest received		862,819	588,977
Interest paid		(361,834)	(270,942)
Fees and commissions received		153,049	133,948
Fees and commissions paid		(39,447)	(32,508)
Insurance premiums received		92,838	95,859
Insurance claims paid		(60,818)	(66,385)
Healthcare revenue received		171,927	95,865
Cost of healthcare services paid		(92,358)	(70,308)
Net cash inflow from real estate		25,611	24,396
Net realised (loss) gain from trading securities		(655)	407
Net realised (loss) gain from investment securities available-for-sale		(84)	83
Net realised gain from foreign currencies		64,256	44,169
Recoveries of loans to customers previously written off	10	33,685	28,706
Other (expenses paid) income received		(126)	3,586
Salaries and other employee benefits paid		(149,580)	(128,289)
General and administrative and operating expenses paid		(103,543)	(61,112)
Cash flows from operating activities before changes in operating assets and liabilities		**595,740**	**386,452**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		(180,446)	(71,320)
Loans to customers		184,963	(934,824)
Finance lease receivables		(4,022)	6,115
Prepayments and other assets		(21,062)	10,049
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		96,462	243,020
Debt securities issued		(60,478)	128,364
Amounts due to customers		237,192	371,474
Other liabilities		(44,525)	7,387
Net cash flows from operating activities before income tax		**803,824**	**146,717**
Income tax paid		(29,408)	(15,990)
Net cash flows from operating activities		**774,416**	**130,727**
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(24,467)	(22,177)
Purchase of investment securities available-for-sale		(157,509)	(255,710)
Proceeds from sale of investments in associates		-	300
Proceeds from sale of investment properties	11	19,815	7,383
Purchase of investment properties	11	(18,947)	(49,348)
Proceeds from sale of property and equipment and intangible assets	12	24,616	2,648
Purchase of property and equipment and intangible assets		(157,488)	(80,459)
Net cash flows used in investing activities		**(313,980)**	**(397,363)**

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014
Cash flows (used in) from financing activities			
Proceeds from issue of share capital		43,244	-
Dividends paid		(1,604)	(72,729)
Purchase of treasury shares		(28,945)	(5,142)
Sale of treasury shares		-	27,994
Net proceeds from sale of non-controlling interest in existing subsidiary	2	221,219	-
Proceeds from sale (purchase) of interests in existing subsidiaries, net of cash acquired		14,358	(28,972)
Net cash from (used in) financing activities		**248,272**	**(78,849)**
Effect of exchange rates changes on cash and cash equivalents		13,899	6,277
Net increase (decrease) in cash and cash equivalents		**722,607**	**(339,208)**
Cash and cash equivalents, beginning of the year	7	**709,861**	**1,049,069**
Cash and cash equivalents, ending of the year	7	**1,432,468**	**709,861**

The accompanying notes on pages 8 to 75 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2015, the Bank has 266 operating outlets in all major cities of Georgia (31 December 2014: 219). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) is a public limited liability company incorporated in England and Wales and represents the ultimate parent company of the Bank. The shares of BGEO PLC 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.

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities, BGEO PLC completed legal restructuring in August 2015 ("Reorganization"). As a result, a new 100% owned subsidiary was established under the laws of Georgia by BGEO PLC – JSC BGEO Group ("JSC BGEO") that holds BGEO PLC's former shares in the Bank and the Bank's non-banking subsidiaries that were moved directly under JSC BGEO as the Bank's sister companies during the reorganization. Together with the Bank and other subsidiaries, JSC BGEO makes up a group of companies (the "Group") and provides banking, healthcare, insurance, real estate, leasing, brokerage and investment management services to corporate and individual customers. The list of the companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Irakli Gilauri is the Chairman of the Board of Directors and the Chief Executive Officer of JSC BGEO.

As at 31 December 2015 and 31 December 2014, the following shareholders owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	*31 December 2015*	*31 December 2014*
BGEO Group PLC	100.00%	99.63%
Others *	-	0.37%
Total	**100.00%**	**100.00%**

** 2014 shareholding is presented from the point of JSC Bank of Georgia.*

2. Basis of Preparation

General

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2015 reporting.

The Group was formed during the course of reorganization under common control of BGEO PLC. As a result of the reorganization, a new holding was set up at the top of the Bank. Accordingly, 2015 consolidated financial statements of the Group are presented as continuation of consolidated financial statements of the Bank under pooling of interest method.

The Bank and Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, Group's subsidiaries established outside of Georgia are in their respective local currencies. These financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, investment properties, and revalued property and equipment;
- the measurement of inventories and repossessed assets at lower of cost and net realizable value.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

Going concern

The Board of Directors of JSC 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 financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates

The consolidated financial statements as at 31 December 2015 and 31 December 2014 include the following subsidiaries and associates:

Subsidiaries	Proportion of voting rights and ordinary 31 December 2015	31 December 2014	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Bank of Georgia	99.52%	99.63%	Georgia	Banking	21/10/1994	–
⇒ Bank of Georgia Representative Office UK Limited	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
⇒ Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	Georgia	Charitable activities	25/8/2008	–
⇒ Bank of Georgia Representative Office Hungary	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
⇒ Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	Turkey	Representative Office	25/12/2013	–
⇒ Georgia Financial Investments, LLC	100.00%	100.00%	Israel	Information Sharing and Market Research	9/2/2009	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	Georgia	Sport	10/1/2011	–
⇒ Teaching University of Georgian Bank, LLC	100.00%	100.00%	Georgia	Education	15/10/2013	–
⇒ Privat Guard, LLC	100.00%	-	Georgia	Security	–	21/1/2015
⇒ Benderlock Investments Limited	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
⇒ JSC Belarusky Narodny Bank	79.99%	79.99%	Belarus	Banking	16/4/1992	3/6/2008
⇒ BNB Leasing, LLC	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
JSC Galt and Taggart Holdings (Georgia)	(c)	100.00%	Georgia	Investments	4/11/2008	–
JSC BGEO Investment	100.00%	-	Georgia	Investment	7/8/2015	–
⇒ JSC m2 Real Estate	100.00%	100.00%	Georgia	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	100.00%	-	Georgia	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	100.00%	100.00%	Georgia	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	100.00%	100.00%	Georgia	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	100.00%	-	Georgia	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	100.00%	100.00%	Georgia	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
⇒ M Square Park, LLC	100.00%	-	Georgia	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	100.00%	-	Georgia	Real estate	15/9/2015	–
⇒ m2 Hospitality, LLC	100.00%	-	Georgia	Real estate	17/8/2015	–
⇒ m2, LLC (formerly JSC m2)	100.00%	100.00%	Georgia	Real estate	12/2/2014	–
⇒ Caucasus Autohause, LLC	100.00%	100.00%	Georgia	Real estate	29/3/2011	–
⇒ Land, LLC	100.00%	100.00%	Georgia	Real estate	3/10/2014	–
⇒ JSC Georgian Renewable Power Company	100.00%	-	Georgia	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	85.00%	85.00%	Georgia	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	65.00%	100.00%	Georgia	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	100.00%	-	Georgia	Renewable Energy	20/8/2015	–
⇒ Georgia Healthcare Group PLC	67.70%	-	United Kingdom	Healthcare	27/8/2015	28/8/2015
⇒ JSC Georgia Healthcare Group	100.00%	-	Georgia	Healthcare	29/4/2015	–
⇒ JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI) (a)	100.00%	100.00%	Georgia	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	100.00%	100.00%	Georgia	Various	22/6/2010	10/1/2011
⇒ JSC Medical Corporation EVEX	100.00%	100.00%	Georgia	Healthcare	31/7/2014	–
⇒ JSC My Family Clinic	(c)	100.00%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	**66.70%**	Georgia	Medical services	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	**66.70%**	Georgia	Medical services	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	66.70%	**66.70%**	Georgia	Medical services	29/9/1999	12/9/2011
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	96.87%	92.90%	Georgia	Medical services	3/11/2000	20/5/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	(c)	**100.00%**	Georgia	Medical services	19/7/2010	10/1/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	(c)	**100.00%**	Georgia	Medical services	11/6/1998	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	(c)	**100.00%**	Georgia	Medical services	30/11/1999	29/11/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	(c)	**100.00%**	Georgia	Medical services	1/9/1999	12/9/2011
⇒ Martvili Multi profile Hospital, LLC	(c)	**100.00%**	Georgia	Medical services	17/3/2000	12/9/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	(c)	**100.00%**	Georgia	Medical services	16/3/2000	12/9/2011
⇒ Khobi Central Regional Hospital, LLC	(c)	**100.00%**	Georgia	Medical services	13/7/2000	12/9/2011
⇒ Traumatologist, LLC	(c)	100.00%	Georgia	Medical Service	20/7/2011	30/9/2014

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting 31 December 2015	31 December 2014	Country of incorporation	Industry	Date of incorporation	Date of acquisition
⇒ GN KO, LLC	50.00%	-	Georgia	Medical services	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	100.00%	-	Georgia	Healthcare Service	16/4/1999	5/8/2015
⇒ Geolab, LLC	50.00%	-	Georgia	Healthcare Service	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	80.00%	-	Georgia	Healthcare Service	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	100.00%	-	Georgia	Medical services	18/6/2013	5/8/2015
⇒ Deka, LLC	95.00%	-	Georgia	Medical services	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	100.00%	-	Georgia	Medical services	2/2/2015	–
⇒ Unimed Achara, LLC	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Kakheti, LLC	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ LLC Caraps Medline	(d)	100.00%	Georgia	Medical Service	26/8/1998	26/12/2013
⇒ LLC Medline +	-	(b)	Georgia	Medical Service	13/12/2007	30/12/2013
⇒ Avante Hospital Management Group, LLC	(d)	100.00%	Georgia	Medical Service	5/8/2011	19/2/2014
⇒ Children's New Hospital, LLC	(d)	75.00%	Georgia	Medical Service	18/7/2011	19/2/2014
⇒ New Life, LLC	(d)	100.00%	Georgia	Medical Service	21/9/1999	19/2/2014
⇒ Batumi Regional Healthcare Center for Mothers and Children, LLC	(d)	100.00%	Georgia	Medical Service	19/11/2004	19/2/2014
⇒ Sunstone Medical, LLC	(d)	100.00%	Georgia	Medical Service	9/11/2012	21/5/2014
⇒ M. Iashvili Children's Central Hospital, LLC	66.70%	66.70%	Georgia	Medical Service	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	100.00%	100.00%	Georgia	Medical Service	6/3/2000	19/2/2014
⇒ Referral Centre of Pathology, LLC	100.00%	100.00%	Georgia	Medical services	29/12/2014	–
⇒ EVEX Learning Center	100.00%	100.00%	Georgia	Education	20/12/2013	–
⇒ JSC Liberty Consumer	87.64%	70.12%	Georgia	Investments	24/5/2006	–
⇒ JSC Teliani Valley	71.44%	50.92%	Georgia	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	100.00%	100.00%	Georgia	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	100.00%	100.00%	Ukraine	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.00%	100.00%	Georgia	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	70.00%	70.00%	Georgia	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	100.00%	100.00%	Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ JSC Intertour	99.94%	99.94%	Georgia	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	100.00%	100.00%	Georgia	Fitness centre	7/3/2006	–
JSC BG Financial	100.00%	-	Georgia	Investment	7/8/2015	–
⇒ JSC Galt & Taggart	100.00%	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	Azerbaijan	Representative Office	28/12/2013	–
⇒ Galt and Taggart Holdings Limited	100.00%	100.00%	Cyprus	Investments	3/7/2006	–
⇒ BG Capital (Belarus), LLC	100.00%	100.00%	Belarus	Brokerage	19/2/2008	–
⇒ Georgian Leasing Company, LLC	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing	100.00%	-	Georgia	Leasing	27/1/2012	21/1/2015
⇒ Solo, LLC	100.00%	-	Georgia	Trade	22/4/2015	–
⇒ JSC United Securities Registrar of Georgia	100.00%	100.00%	Georgia	Registrar	29/5/2006	–
⇒ JSC Express Technologies	100.00%	100.00%	Georgia	Investments	29/10/2007	–
⇒ JSC Georgian Card	99.47%	98.23%	Georgia	Card processing	17/1/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.00%	100.00%	Georgia	Electronic payment services	7/3/2006	–
⇒ LLC Didi Digomi Research Center	100.00%	100.00%	Georgia	Communication services	23/4/2007	–
⇒ Metro Service +, LLC	100.00%	100.00%	Georgia	Business servicing	10/5/2006	–
⇒ Express Technologies CEE, LLC	100.00%	100.00%	Hungary	Other Financial Service Activities	5/3/2014	N/A
⇒ JSC Insurance Company Aldagi	100.00%	100.00%	Georgia	Insurance	31/7/2014	–
⇒ JSC Insurance Company Tao	100.00%	-	Georgia	Insurance	22/8/2007	21/1/2015
⇒ Aliance, LLC	100.00%	100.00%	Georgia	Various	3/1/2000	5/1/2012
⇒ Green Way, LLC	100.00%	100.00%	Georgia	Various	9/8/2008	5/1/2012
⇒ Premium Residence, LLC	100.00%	100.00%	Georgia	Hotel	9/7/2010	1/5/2012

(a) On 31 July 2014 a new holding company - JSC Medical Corporation EVEX was created to hold the Group's healthcare subsidiaries. Also, the Group's insurance operations were split between two legal entities - the newly incorporated JSC Insurance Company Aldagi to operate the Group's property & casualty insurance business and the former JSC Insurance Company Aldagi BCI that was renamed to JSC Insurance Company Imedi L to operate the Group's health insurance business
(b) Merged to LLC Caraps Medline in 2014
(c) Merged to JSC Medical Corporation Evex in 2015
(d) Merged to Unimed Kakheti, LLC in 2015
(e) Merged to JSC Bank of Georgia in 2015

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Following the Reorganization JSC BGEO holds:
- JSC Bank of Georgia and its subsidiaries serving banking operations;
- Newly created JSC BG Financial and its subsidiaries providing non-banking financial services;
- Newly created JSC BGEO Investment and its subsidiaries providing non-financial products and services.

The most significant item from the dilution of interests in subsidiaries and sale of non-controlling interests in existing subsidiaries in 2015 was on Georgia Healthcare Group PLC ("GHG"), healthcare and health insurance holding company of the Group, was 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 in November 2015.

GHG issued 38,681,820 new ordinary shares for the price of 170 pence per share, diluting the Group's stake in GHG by 29.4%. Further 2.9% or 3,868,180 shares of GHG were sold as a result of an exercised over-allotment option granted by the Group to the stabilizing manager.

As a result of issuing GHG's new shares, the Group raised GEL 220,529 net proceeds (GEL 233,908 gross proceeds less GEL 13,379 transaction costs), recognizing GEL 124,503 non-controlling interests and GEL 96,026 unrealized gain on dilution of interests in subsidiaries. As a result of selling the existing shares in GHG through an over-allotment option, the Group received GEL 20,670, recognizing GEL 12,450 non-controlling interests and GEL 8,220 unrealized gain on sale of non-controlling interests in existing subsidiaries.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

No new or revised IFRS during the year had an impact on the Group's financial position or performance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. Summary of Significant Accounting Policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. Summary of Significant Accounting Policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from foreign currencies translation differences.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

3. Summary of Significant Accounting Policies (continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance – Group as lessor

The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions, loans to customers and finance lease receivables

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement in the respective impairment line with a negative sign as a reversal of impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 150 days. Retail mortgage loans are written off when overdue by more than 365 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for the modification of financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In cases where the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Inventories

Inventories are valued at the lower of cost and net realisable value.
Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:
- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3. Summary of Significant Accounting Policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which JSC BGEO and its subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualifications and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within net other banking income for Banking Business companies and within real estate revenue for Investment Business companies. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement within net other banking income for Banking Business companies and within real estate revenue or gross other investment profit for Investment Business companies, depending on weather the gains derive from active property development or passive appreciation respectively.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

Property and equipment, except for office buildings and service centers, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Office buildings and service centers are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

Following initial recognition at cost, office buildings and service centers are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed once in every three years, unless there is a sign of material change in fair values on the market.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centers	Up to 100
Hospitals and clinics	Up to 100
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill Impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

3. Summary of Significant Accounting Policies (continued)

Intangible assets

The Group's intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

3. Summary of Significant Accounting Policies (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% - additionally paid by the Group. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. Respective pension benefit obligations are recorded within other liabilities, Note 15.

Share-based payment transactions

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

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGEO PLC's shares) which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

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

3. Summary of Significant Accounting Policies (continued)

Share capital (continued)

Treasury shares

Where JSC BGEO or its subsidiaries purchase BGEO PLC's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Dividend income

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

Insurance premium income

For property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Healthcare revenue

The Group recognizes healthcare revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Healthcare revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state).

Healthcare revenue comprises the fair value of the consideration received or receivable for providing impatient and outpatient services and includes following components:

- Healthcare revenue from insurance companies – The Group recognizes 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 recognizes the revenue from the individuals who are insured under the state programs 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 recognizes the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognized in the accounting period in which the services are rendered calculated according to contractual tariffs.

Gross real estate profit and Gross other investment profit

Gross real estate profit comprises revenue from sale of developed real estate property and revaluation gains on such developed properties.

Revenue from sale of developed real estate property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

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

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

EBITDA

The Group separately presents EBITDA on the face of income statement for Investment Business. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation, as well as cost of credit risk and net non-recurring items for the Investment Business.

Non-recurring income and expenses

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors. Typical non-recurring income or expenses are but not limited to the following:

- Bankruptcy of a subsidiary or an associate or any other extraordinary and irregular event that causes material impairment of an investment in that subsidiary or associate or impairment of associated goodwill;
- Expenses incurred for the purposes of initial public offering ("IPO") that are not directly attributable to issuance of new shares but are rather associated with the listing of existing shares;
- Gains from bargain purchases (negative goodwill) associated with business combinations;
- Impairment of property and equipment, which is an additional loss in excess of a regular depreciation charge caused by unexpected external factors;
- Gains or losses from hyperinflation;
- Gains or losses from breaches of borrowings before maturity;
- Redundancy expenses and costs of lay off of management and executives;
- Failure of a software or license provider to complete implementation of a software or license through a breach of agreement with the Group, resulting in legal disputes and/or litigations;

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. JSC BGEO's and the Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at31 December 2015 and 31 December 2014 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYR (10,000)*
31 December 2015	3.5492	2.3949	2.6169	1.2904
31 December 2014	2.8932	1.8636	2.2656	1.5727

3. Summary of Significant Accounting Policies (continued)

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Change in Functional Currency

Prior to 1 January 2007, the Bank determined that GEL was its functional currency, as it was the currency of the primary economic environment in which the Bank operated. However, in 2007 the Bank determined that US Dollar ("USD") was its functional currency, due to the following:

- The USD share of the Bank's assets and liabilities was constantly increasing;
- Pricing of the loans was primarily based on the cost of funds which were sourced primarily from USD denominated offshore banking borrowings and deposits, at the same time Global Depositary Receipts ("GDR") of the Bank floated on the London Stock Exchange, and were priced and traded in USD;
- After the Bank had listed its shares in the form of GDRs on the London Stock Exchange in November 2006, communication, planning and execution of business activities of the Bank with shareholders were generally in USD.

Functional, reporting currencies and foreign currency translation (continued)

In 2015 the Bank performed a re-assessment of its functional currency in accordance with International Accounting Standard 21 - "Effects of Changes in Foreign Exchange Rates" (IAS 21) and determined that GEL was its functional currency, due to the following:

- USD share of the Bank's assets is stable and no longer increasing, while USD share of liabilities is constantly decreasing;
- Due to their decreasing share in debt financing, pricing of the loans is constantly becoming less dependent on USD denominated offshore banking borrowings and deposits, while following the listing of BGEO PLC on the premium listing segment of the London Stock Exchange in February 2012, the Bank's equity financing source also changed from USD to British Pound Sterling ("GBP");
- Communication, planning and execution of business activities of the Bank with shareholders has become less relevant, concentrating more on GEL and GBP;
- Following listing on the premium segment of the London Stock Exchange, share-based compensation of the management has changed from being USD denominated to being GBP denominated;

As the result, the Bank changed their functional currencies, from USD to GEL starting 1 January 2015 and this has been accounted for prospectively from that date.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and is currently assessing its impact of IFRS 9.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is currently assessing the impact of IFRS 16 on its financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have material impact on the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
• The materiality requirements in IAS 1
• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
• That entities have flexibility as to the order in which they present the notes to financial statements
• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the board of directors and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 30).

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties, and office buildings and service centers included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties, and office buildings and service centers once in every three years, unless there is a sign of material change in fair values on the market. Last valuation was performed as at 31 December 2015 by Colliers International Georgia. Results of this valuation are presented in notes 11 and 12, while valuation inputs and techniques are presented in note 30.

The estimates described above are subject to change as new transaction data and market evidence become available.

Allowance for impairment of loans and finance lease receivables

The Group regularly reviews its loans and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and finance lease receivables. The Group uses its judgment to adjust observable data for a group of loans and finance lease receivables to reflect current circumstances.

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralized loans and finance lease receivables. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Information about allowance for impairment of loans and finance lease receivables is presented in Note 10.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisition of JSC PrivatBank

On 9 January 2015, the Bank acquired 100% of shares in JSC PrivatBank ("Acquiree"), a commercial Bank operating in Georgia, from PJSC CB PrivatBank (Ukraine) and its subsidiary for a total consideration of GEL 94,181.

The fair values of identifiable assets and liabilities of the acquiree as at the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	107,553
Amounts due from credit institutions	26,226
Loans to customers and finance lease receivables [1]	297,387
Insurance premiums receivable	2,069
Investment properties (note 13)	705
Property and equipment	20,301
Intangible assets	148
Income tax assets	1,785
Other assets	14,515
	470,689
Client deposits and notes	340,284
Amounts due to credit institutions	38,620
Accruals and deffered income	1,991
Other liabilities	6,668
	387,563
Total identifiable net assets	**83,126**
Goodwill arising on business combination	11,055
Consideration given [2]	**94,181**

The net cash inflow on acquisition was as follows:

	2015
Cash paid	(84,933)
Cash acquired with the subsidiary	107,553
Net cash inflow	**22,620**

The Group decided to increase its presence in retail segment of Georgia's banking sector, by acquiring JSC PrivatBank, thus consolidating a leading position in the growing retail segment of the Georgian commercial banking sector. Management considers that the deal will have a positive impact on the value of the Group.

GEL 32,130 and GEL 3,546 of revenue and profit, respectively, comes from the Acquiree during five months ended 31 May 2015. Had the acquisition occurred as of the beginning of the reporting period, revenue and profit of the combined entity for the current reporting period would not have been materially different. Fair value of any identified intangible assets was assessed as immaterial and thus no such assets were recognized by the Group. In May 2015, the Bank completed the integration of the Acquiree. The goodwill of GEL 11,055 was added to the Retail Banking cash generating unit, as JSC PrivatBank operations became an indistinguishable part of our Retail Banking business.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy which is expected to be brought into the Group's operations. The whole amount of goodwill recognized is expected to be tax deductible.

[1] Gross amount of loans to customers and finance lease receivables was GEL 335,008 of which GEL 37,621 is not expected to be collected;
[2] Consideration comprised of GEL 94,181, which consists of GEL 84,933 cash payment and GEL 9,248 fair value of a holdback amount.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2015 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, made following acquisitions:

- On 5 August 2015, 50% of the shares of LLC GNCo, a healthcare company operating in Georgia, was acquired from individual shareholders with effective management and operational control over the company;
- On 30 June 2015, 95% of the shares of LLC Deka, a healthcare company operating in Georgia, was acquired from individual shareholders;
- On 1 March 2015, 100% share in LLC Tbilisi Emergency Center, a healthcare company operating in Georgia, was acquired from individual shareholders.

The provisional fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Cash and cash equivalents	541
Receivables from healthcare services [1]	8,320
Property and equipment	125,313
Other assets	4,419
	138,593
Amounts due to credit Institution	15,142
Accounts payable	11,123
Accruals for employee compensation	5,558
Deferred income tax liabilities	12,461
Other liabilities	2,631
	46,915
Total identifiable net assets	**91,678**
Non-controlling interests	29,786
Gain on bargain purchase (note 27) [2]	5,361
Goodwill arising on business combination	12,296
Consideration given [3]	**68,827**

The net cash inflow on acquisition was as follows:

	2015
Cash paid	(47,628)
Cash acquired with the subsidiary	541
Net cash outflow	**(47,087)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC GNCo, LLC Deka, LLC Tbilisi Emergency Center and. Management considers that the deal will have a positive impact on the value of the Group.

GEL 19,010 and GEL 2,634 of revenue and profit, respectively come from the acquirees after their respective acquisition dates. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 863,799 and GEL 287,096 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 12,296 was added to the Healthcare cash generating unit. The whole amount of goodwill recognized is expected to be tax deductible. The Group has elected to measure the non-controlling interests in LLC GNCo and LLC Deka at the non-controlling interests' proportionate share of their respective identifiable net assets.

[1] Gross amount of receivables from healthcare services was GEL 18,271 of which GEL 9,951 is not expected to be collected;
[2] Prior to acquisition, owners of LLC Deka encountered certain financial difficulties which resulted in a lower acquisition cost and a gain from a bargain purchase in the amount of GEL 5,361, recorded in net non-recurring items;
[3] Consideration comprised GEL 68,827 which consists of cash payment of GEL 47,628 and a holdback amount with a fair vaue of GEL 21,199.

6. Segment Information

Following the updated strategy of the Group to operate as a Georgia-focused banking group with an investment arm, the management also reorganised its segment information accordingly. The previously presented Corporate Banking, Retail Banking, Investment Management and Corporate Centre of the Strategic group, P&C of the Synergistic group and BNB of the Non-core group was reorganised into the Banking Business, while GHG and Affordable Housing of the Synergistic group and Liberty Consumer and Other of the Non-core group were reorganised into the Investment Business. Following the introduction of JSC BGEO as a Georgian holding company for the reorganized Group in 2015, the Management introduced a new segment – Corporate Center to monitor key operating assets and liabilities of the holding company.

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 - principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses;

CIB - Corporate Investment Banking - principally providing loans and other credit facilities to large legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers; as well as providing private banking services to resident and non-resident wealthy individuals and their direct family members by ensuring individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory, private equity and brokerage services;

P&C - Property and Casualty Insurance - principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals;

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

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

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

m2 - Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

Corporate Center - the operations at the holding company level managed directly by the CEO.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2015 or 2014.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2015:

	Banking Business							*Investment Business*					*Corporate*	*Inter-*	*Group*
	Retail banking	*CIB*	*BNB*	*P&C*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*	*GHG*	*M2*	*Other Investment Business*	*Investment Busines Eliminations*	*Investment Business*	*Center*	*Business Eliminations*	*Total*
Net banking interest income	322,879	156,068	29,307	2,330	1,322	-	511,906	-	-	-	-	-	-	(11,537)	500,369
Net fee and commission income	78,218	34,335	9,198	310	(27)	(32)	122,002	-	-	-	-	-	-	(3,183)	118,819
Net banking foreign currency gain (loss)	6,013	37,134	17,036	(7,618)	(1)	-	52,564	-	-	-	-	-	-	-	52,564
Net other banking income	9,159	10,112	2,198	993	5	(2,322)	20,145	-	-	-	-	-	-	(1,309)	18,836
Gross insurance profit	-	-	-	21,180	-	(1,133)	20,047	12,149	-	-	(33)	12,116	-	(2,256)	29,907
Gross healthcare profit	-	-	-	-	-	-	-	80,938	-	-	-	80,938	-	-	80,938
Gross real estate profit	-	-	-	-	-	-	-	557	14,131	-	-	14,688	-	-	14,688
Gross other investment profit	-	-	-	-	-	-	-	3,186	7,503	9,996	-	20,685	-	138	20,823
Revenue	**416,269**	**237,649**	**57,739**	**17,195**	**1,299**	**(3,487)**	**726,664**	**96,830**	**21,634**	**9,996**	**(33)**	**128,427**	**-**	**(18,147)**	**836,944**
Operating expenses	(172,298)	(63,357)	(19,731)	(11,199)	(511)	3,487	(263,609)	(37,633)	(5,860)	(6,932)	33	(50,392)	-	3,989	(310,012)
Operating income (expense) before cost of credit risk/EBITDA	**243,971**	**174,292**	**38,008**	**5,996**	**788**	**-**	**463,055**	**59,197**	**15,774**	**3,064**	**-**	**78,035**	**-**	**(14,158)**	**526,932**
Investment Business related income statement items	-	-	-	-	-	-	-	(30,791)	(2,906)	(4,851)	-	(38,548)	-	14,158	(24,390)
Operating income before cost of credit risk	**243,971**	**174,292**	**38,008**	**5,996**	**788**	**-**	**463,055**	**28,406**	**12,868**	**(1,787)**	**-**	**39,487**	**-**	**-**	**502,542**
Cost of credit risk	(75,405)	(56,158)	(19,270)	(710)	27	-	(151,516)	(3,448)	-	(412)	-	(3,860)	-	-	(155,376)
Net operating income (loss) before non-recurring items	**168,566**	**118,134**	**18,738**	**5,286**	**815**	**-**	**311,539**	**24,958**	**12,868**	**(2,199)**	**-**	**35,627**	**-**	**-**	**347,166**
Net non-recurring expense/loss	(8,946)	(4,877)	1,478	(701)	-	-	(13,046)	(1,676)	(137)	(287)	-	(2,100)	-	-	(15,146)
Profit before income tax	**159,620**	**113,257**	**20,216**	**4,585**	**815**	**-**	**298,493**	**23,282**	**12,731**	**(2,486)**	**-**	**33,527**	**-**	**-**	**332,020**
Income tax (expense) benefit	(23,995)	(17,256)	(2,753)	(731)	87	-	(44,648)	9	(1,974)	(1,795)	-	(3,760)	-	-	(48,408)
Profit for the year	**135,625**	**96,001**	**17,463**	**3,854**	**902**	**-**	**253,845**	**23,291**	**10,757**	**(4,281)**	**-**	**29,767**	**-**	**-**	**283,612**
Assets and liabilities															
Cash and cash equivalents	613,626	685,689	109,758	2,379	685	(33,904)	1,378,233	145,153	28,015	32,578	-	205,746	52,395	(203,906)	1,432,468
Amounts due from credit institutions	334,861	384,750	3,906	18,339	-	(20,054)	721,802	12,245	-	3,485	-	15,730	-	(6,167)	731,365
Debt investment securities	418,938	484,914	-	2,583	-	-	906,435	-	-	-	-	-	-	(4,016)	902,419
Intersegment loans	-	35,313	-	-	-	-	35,313	-	-	-	-	-	-	(35,313)	-
Total assets	**4,612,774**	**4,044,731**	**475,483**	**102,886**	**1,785**	**(66,449)**	**9,171,210**	**758,966**	**275,676**	**75,044**	**(320)**	**1,109,366**	**52,395**	**(262,030)**	**10,070,941**
Amounts owed to credit institutions	731,677	858,545	115,643	-	-	(13,308)	1,692,557	117,225	3,282	14,693	-	135,200	-	(38,695)	1,789,062
Debt securities issued	421,834	540,110	-	-	-	-	961,944	35,537	48,937	-	-	84,474	-	(6,614)	1,039,804
Total liabilities	**3,117,808**	**4,340,041**	**397,970**	**66,630**	**146**	**(66,449)**	**7,856,146**	**286,941**	**167,889**	**25,363**	**(320)**	**479,873**	**-**	**(262,030)**	**8,073,989**
Other segment information															
Property and equipment	43,990	6,870	1,193	442	186	-	52,681	89,653	701	1,532	-	91,886	-	-	144,567
Intangible assets	6,568	1,163	598	958	71	-	9,358	3,532	21	12	-	3,565	-	-	12,923
Capital expenditure	**50,558**	**8,033**	**1,791**	**1,400**	**257**	**-**	**62,039**	**93,185**	**722**	**1,544**	**-**	**95,451**	**-**	**-**	**157,490**
Depreciation & amortization	(27,714)	(4,612)	(1,038)	(834)	(1)	-	(34,199)	(12,666)	(191)	(1,368)	-	(14,225)	-	-	(48,424)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2014:

	Banking Business							Investment Business						
	Retail banking	*CIB*	*BNB*	*P&C*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*	*GHG*	*M2*	*Other Investment Business*	*Investment Busines Eliminations*	*Investment Business*	*Inter-Business Eliminations*	*Group Total*
Net banking interest income	215,795	117,771	22,410	506	317	471	357,270	-	-	-	-	-	(7,313)	349,957
Net fee and commission income	58,858	33,571	9,443	312	-	110	102,294	-	-	-	-	-	(2,053)	100,241
Net banking foreign currency gain (loss)	18,622	26,279	9,932	(2,085)	779	-	53,527	-	-	-	-	-	-	53,527
Net other banking income	3,565	7,786	504	514	35	(2,514)	9,890	-	-	-	-	-	(620)	9,270
Gross insurance profit	-	-	-	17,754	-	(1,330)	16,424	14,985	-	-	-	14,985	(1,979)	29,430
Gross healthcare profit	-	-	-	-	-	-	-	53,483	-	-	-	53,483	-	53,483
Gross real estate profit	-	-	-	-	-	-	-	-	13,646	-	-	13,646	(80)	13,566
Gross other investment profit	-	-	-	-	-	-	-	378	106	12,372	-	12,856	187	13,043
Revenue	**296,840**	**185,407**	**42,289**	**17,001**	**1,131**	**(3,263)**	**539,405**	**68,846**	**13,752**	**12,372**	**-**	**94,970**	**(11,858)**	**622,517**
Operating expenses	(127,628)	(60,795)	(18,390)	(9,403)	(1,334)	3,263	(214,287)	(30,078)	(5,136)	(6,551)	-	(41,765)	2,878	(253,174)
Operating income (expense) before cost of credit risk/EBITDA	**169,212**	**124,612**	**23,899**	**7,598**	**(203)**	**-**	**325,118**	**38,768**	**8,616**	**5,821**	**-**	**53,205**	**(8,980)**	**369,343**
Investment Business related income statement items	-	-	-	-	-	-	-	(22,040)	(1,752)	(2,683)	-	(26,475)	8,980	(17,495)
Operating income before cost of credit risk	**169,212**	**124,612**	**23,899**	**7,598**	**(203)**	**-**	**325,118**	**16,728**	**6,864**	**3,138**	**-**	**26,730**	**-**	**351,848**
Cost of credit risk	(9,243)	(41,703)	(4,187)	(600)	-	-	(55,733)	(2,872)	(66)	(350)	-	(3,288)	-	(59,021)
Net operating income (loss) before non-recurring items	**159,969**	**82,909**	**19,712**	**6,998**	**(203)**	**-**	**269,385**	**13,856**	**6,798**	**2,788**	**-**	**23,442**	**-**	**292,827**
Net non-recurring (expense/loss) income/gain	(5,797)	(2,968)	(3,073)	-	-	-	(11,838)	506	18	297	-	821	-	(11,017)
Profit before income tax	**154,172**	**79,941**	**16,639**	**6,998**	**(203)**	**-**	**257,547**	**14,362**	**6,816**	**3,085**	**-**	**24,263**	**-**	**281,810**
Income tax (expense) benefit	(19,294)	(11,523)	(962)	(1,084)	520	-	(32,343)	(1,346)	(1,022)	(1,115)	-	(3,483)	-	(35,826)
Profit for the year	**134,878**	**68,418**	**15,677**	**5,914**	**317**	**-**	**225,204**	**13,016**	**5,794**	**1,970**	**-**	**20,780**	**-**	**245,984**
Assets and liabilities														
Total assets	3,269,068	3,350,846	403,764	86,750	16,678	(139,548)	6,987,558	409,834	193,119	45,071	(231)	647,793	(98,050)	7,537,301
Total liabilities	2,316,686	3,250,128	326,515	58,695	747	(139,548)	5,813,223	237,565	112,407	11,299	(230)	361,041	(98,050)	6,076,214
Other segment information														
Property and equipment	19,540	6,523	2,101	1,477	313	-	29,954	38,503	368	1,761	-	40,632	-	70,586
Intangible assets	6,503	1,251	304	232	7	-	8,297	1,519	27	30	-	1,576	-	9,873
Capital expenditure	**26,043**	**7,774**	**2,405**	**1,709**	**320**	**-**	**38,251**	**40,022**	**395**	**1,791**	**-**	**42,208**	**-**	**80,459**
Depreciation & amortization	(19,525)	(4,225)	(1,318)	(570)	(3)	-	(25,641)	(7,714)	(332)	(1,118)	-	(9,164)	-	(34,805)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2015	2014
Cash on hand	442,293	393,315
Current accounts with central banks, excluding obligatory reserves	152,455	152,647
Current accounts with other credit institutions	475,312	137,960
Time deposits with credit institutions with maturity of up to 90 days	362,408	25,939
Cash and cash equivalents	**1,432,468**	**709,861**

As at 31 December 2015, GEL 661,830 (2014: GEL 136,387) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.59% interest per annum on these deposits (2014: up to 1.30%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

8. Amounts Due from Credit Institutions

	2015	2014
Obligatory reserves with central banks	620,287	382,963
Time deposits with maturity of more than 90 days	12,717	34,053
Deposits pledged as security for open commitments	96,405	-
Inter-bank loan receivables	1,956	1,486
Amounts due from credit institutions	**731,365**	**418,502**

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 nil interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2015 and 31 December 2014.

As at 31 December 2015, inter-bank loan receivables include GEL 1,956 (2014: GEL 1,486) placed with non-OECD banks.

9. Investment Securities

	2015	2014
Georgian ministry of Finance treasury bonds*	575,591	459,400
Georgian ministry of Finance treasury bills**	165,545	169,796
Certificates of deposit of central banks***	76,807	92,547
Other debt instruments****	84,476	46,557
Corporate shares	1,448	1,412
Investment securities	**903,867**	**769,712**

** GEL 229,800 was pledged for short-term loans from the NBG (2014: GEL 341,681).*
*** GEL 3,805 was pledged for short-term loans from the NBG (2014: GEL 60,889).*
**** GEL 2,966 was pledged for short-term loans from the NBG (2014: Nil).*
***** GEL 79,187 was pledged for short-term loans from the NBG (2014: GEL 25,069).*

Other debt instruments as at 31 December 2015 mainly comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 50,666 (2014: GEL 25,069), and GEL denominated bonds issued by the International Finance Corporation of GEL 28,460 (2014: Nil).

(Thousands of Georgian Lari)

10. Loans to Customers and Finance Lease Receivables

	2015	2014
Commercial loans	2,407,115	2,189,036
Consumer loans	1,165,107	801,474
Micro and SME loans	1,041,929	772,283
Residential mortgage loans	814,344	604,143
Gold – pawn loans	61,140	53,785
Loans to customers, gross	**5,489,635**	**4,420,721**
Less – Allowance for loan impairment	(198,894)	(103,780)
Loans to customers, net	**5,290,741**	**4,316,941**
Finance Lease Receivables, gross	**42,912**	**39,248**
Less – Allowance for finance lease receivables impairment	(2,202)	(729)
Finance Lease Receivables , net	**40,710**	**38,519**
Loans to customers and finance lease receivables, net	**5,331,451**	**4,355,460**

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2015	Consumer loans 2015	Residential mortgage loans 2015	Micro and SME loans 2015	Total 2015
At 1 January	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Charge	59,090	62,638	3,410	17,681	142,819
Recoveries	4,331	21,079	3,066	5,209	33,685
Write-offs	(10,324)	(47,075)	(2,847)	(10,694)	(70,940)
Accrued interest on written-off loans	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation differences	416	(238)	-	1,046	1,224
At 31 December	**125,312**	**51,017**	**6,061**	**16,504**	**198,894**
Individual impairment	118,960	1,850	4,380	13,745	138,935
Collective impairment	6,352	49,167	1,681	2,759	59,959
	125,312	**51,017**	**6,061**	**16,504**	**198,894**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**330,084**	**3,136**	**15,902**	**27,421**	**376,543**

	Commercial loans 2014	Consumer loans 2014	Residential mortgage loans 2014	Micro and SME loans 2014	Total 2014
At 1 January	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Charge (reversal)	34,617	14,147	(2,280)	(1,396)	45,088
Recoveries	3,104	14,730	5,661	5,211	28,706
Write-offs	(41,894)	(22,556)	(2,777)	(4,748)	(71,975)
Accrued interest on written-off loans	(13,581)	(3,341)	(704)	(348)	(17,974)
Currency translation differences	(310)	(104)	-	(436)	(850)
At 31 December	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Individual impairment	63,816	1,403	2,525	3,637	71,381
Collective impairment	9,069	22,245	468	617	32,399
	72,885	**23,648**	**2,993**	**4,254**	**103,780**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**243,825**	**1,924**	**7,944**	**10,594**	**264,287**

(Thousands of Georgian Lari)

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

Allowance for loan impairment (continued)

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2015 comprised GEL 22,234 (2014: GEL 17,021).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account discounted value of collateral, allowance for loan impairment would be GEL 176,759 higher as at 31 December 2015 (2014: GEL 145,838 higher).

Concentration of loans to customers

As at 31 December 2015, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 708,839 accounting for 13% of the gross loan portfolio of the Group (2014: GEL 711,647 and 16% respectively). An allowance of GEL 2,484 (2014: GEL 4,034) was established against these loans.

As at 31 December 2015, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,094,979 accounting for 20% of the gross loan portfolio of the Group (2014: GEL 1,094,084 and 25% respectively). An allowance of GEL 41,413 (2014: GEL 18,324) was established against these loans.

(Thousands of Georgian Lari)

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

Concentration of loans to customers (continued)

As at 31 December 2015 and 31 December 2014, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2015	*2014*
Individuals	2,482,389	1,831,479
Trade	727,214	647,858
Manufacturing	711,677	719,003
Real estate	354,331	244,134
Service	232,422	164,008
Construction	178,642	114,891
Hospitality	168,011	166,214
Transport & communication	165,330	151,715
Mining and quarrying	127,706	15,310
Financial intermediation	77,662	109,201
Electricity, gas and water supply	77,633	124,772
Other	186,618	132,136
Loans to customers, gross	**5,489,635**	**4,420,721**
Less – allowance for loan impairment	(198,894)	(103,780)
Loans to customers, net	**5,290,741**	**4,316,941**

Loans have been extended to the following types of customers:

	2015	*2014*
Private companies	2,967,479	2,539,298
Individuals	2,482,389	1,831,479
State-owned entities	39,767	49,944
Loans to customers, gross	**5,489,635**	**4,420,721**
Less – allowance for loan impairment	(198,894)	(103,780)
Loans to customers, net	**5,290,741**	**4,316,941**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2015 and 31 December 2014:

	2015			*2014*		
	Individual impairment 2015	*Collective impairment 2015*	*Total 2015*	*Individual impairment 2014*	*Collective impairment 2014*	*Total 2014*
At 1 January	**71,381**	**32,399**	**103,780**	**91,799**	**28,986**	**120,785**
Charge for the year	94,883	47,936	142,819	34,088	11,000	45,088
Recoveries	9,994	23,691	33,685	12,897	15,809	28,706
Write-offs	(34,722)	(36,218)	(70,940)	(51,774)	(20,201)	(71,975)
Interest accrued on impaired loans to customers	(3,617)	(8,057)	(11,674)	(14,846)	(3,128)	(17,974)
Currency translation differences	1,016	208	1,224	(783)	(67)	(850)
At 31 December	**138,935**	**59,959**	**198,894**	**71,381**	**32,399**	**103,780**

(Thousands of Georgian Lari)

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

Finance Lease Receivables

	2015	*2014*
Minimum lease payments receivable	51,649	47,047
Less – Unearned finance lease income	(8,737)	(7,799)
	42,912	**39,248**
Less – Allowance for impairment	(2,202)	(729)
Finance lease receivables, net	**40,710**	**38,519**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2015, the concentration of investment in the five largest lease receivables comprised GEL 15,234 or 36% of total finance lease receivables (2014: GEL 10,160 or 26%) and finance income received from it for the year ended 31 December 2015 comprised GEL 1,931 or 20% of total finance income from lease (2014: GEL 909 or 11%).

Future minimum lease payments to be received after 31 December 2015 and 31 December 2014 are as follows:

	2015	*2014*
Within 1 year	28,807	29,901
From 1 to 5 years	22,842	17,146
Minimum lease payment receivables	**51,649**	**47,047**

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2015	*Finance lease receivables 2014*
At 1 January	**729**	**643**
Charge	1,958	476
Amounts written-off	(305)	(435)
Currency translation differences	(180)	45
At 31 December	**2,202**	**729**
Individual impairment	1,507	243
Collective impairment	695	486
	2,202	**729**
Gross amount of finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,725**	**1,487**

(Thousands of Georgian Lari)

11. Investment Properties

	2015	*2014*
At 1 January	**190,860**	**157,707**
Additions*	56,823	58,449
Disposals	(19,815)	(7,383)
Net gains from revaluation of investment property	20,737	1,909
Hyperinflation effect	-	394
Acuisition through business combination (Note 5)	705	-
Transfers from (to) property and equipment and other assets**	2,381	(31,025)
Currency translation differences	(5,293)	10,809
At 31 December	**246,398**	**190,860**

**** GEL 18,947 paid in 2015 for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2015 and full additions of 2014 comprise foreclosed properties, no cash transactions were involved.***
***** Comprised of GEL 669 transfer to property and equipment (2014: transfers to property and equipment GEL 6,389), GEL 2,357 transfer from other assets - inventories (2014: transfer to other assets – inventories GEL 25,132) and GEL 693 transfer from finance lease receivables (2014: transfer from finance lease receivable GEL 496).***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2015 and was carried out by professional valuators. Refer to Note 30 for details on fair value measurements of investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

12. Property and Equipment

The movements in property and equipment during the year ended 31 December 2015 were as follows:

	Office buildings & service centers	*Hospitals & clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2014	**230,375**	**207,038**	**140,130**	**130,810**	**7,566**	**12,751**	**9,599**	**738,269**
Additions	5,348	24,528	23,764	67,631	2,834	5,555	14,907	144,567
Business combination, Note 5	10,388	94,096	8,317	22,806	870	1,790	7,347	145,614
Disposals	(2,554)	(1,425)	(389)	(21,096)	(581)	(1,872)	(140)	(28,057)
Transfers	3,090	8,538	3,124	(1,616)	(1,024)	4,000	(16,112)	-
Transfers to investment properties	(425)	-	-	-	-	-	-	(425)
Transfers (to) from other assets	-	-	(343)	(736)	4	-	(6,231)	(7,306)
Revaluation	(9,168)	-	-	-	-	-	-	(9,168)
Currency translation differences	(3,619)	-	(269)	(525)	(83)	(77)	(337)	(4,910)
31 December 2015	**233,435**	**332,775**	**174,334**	**197,274**	**9,586**	**22,147**	**9,033**	**978,584**
Accumulated impairment								
31 December 2014	**3,621**	**-**	**51**	**120**	**13**	**9**	**9**	**3,823**
Reversal of impairment	(1,097)	-	-	-	-	-	-	(1,097)
Transfers to investment properties	(1,040)	-	-	-	-	-	-	(1,040)
Currency translation differences	(263)	-	(13)	(38)	(6)	(9)	-	(329)
31 December 2015	**1,221**	**-**	**38**	**82**	**7**	**-**	**9**	**1,357**
Accumulated depreciation								
31 December 2014	**3,207**	**2,646**	**75,530**	**55,402**	**4,023**	**5,125**	**-**	**145,933**
Depreciation charge	3,059	4,264	15,787	15,920	1,770	2,676	-	43,476
Currency translation differences	(195)	-	(91)	(235)	(31)	(36)	-	(588)
Transfers	(199)	58	589	(315)	(60)	(73)	-	-
Transfers to investment properties	(54)	-	-	-	-	-	-	(54)
Transfers (to) from other assets	-	-	(233)	(606)	3	-	-	(836)
Revaluation	(1,945)	-	-	-	-	-	-	(1,945)
Disposals	(24)	(124)	(161)	(1,575)	(360)	(1,197)	-	(3,441)
31 December 2015	**3,849**	**6,844**	**91,421**	**68,591**	**5,345**	**6,495**	**-**	**182,545**
Net book value:								
31 December 2014	**223,547**	**204,392**	**64,549**	**75,288**	**3,530**	**7,617**	**9,590**	**588,513**
31 December 2015	**228,365**	**325,931**	**82,875**	**128,601**	**4,234**	**15,652**	**9,024**	**794,682**

(Thousands of Georgian Lari)

12. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2014 were as follows:

	Office buildings & service centers	Hospitals & Clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Additions	1,417	26,478	8,492	21,020	2,665	3,258	7,256	70,586
Business combination	2	51,839	588	6,076	306	-	141	58,952
Disposals	(45)	(38)	(623)	(1,084)	(1,089)	(2,675)	(93)	(5,647)
Transfers	5,040	268	(1,856)	3,005	(1,150)	1,139	(6,446)	-
Transfers from investment properties	6,389	-	-	-	-	-	-	6,389
Transfers from (to) other assets	478	-	(216)	(511)	-	-	(61)	(310)
Effect of hyperinflation	3,225	-	228	438	52	67	58	4,068
Currency translation differences	4,230	-	3,748	303	54	191	(198)	8,328
31 December 2014	**230,375**	**207,038**	**140,130**	**130,810**	**7,566**	**12,751**	**9,599**	**738,269**
Accumulated impairment								
31 December 2013	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Effect of hyperinflation	187	-	7	19	3	-	-	216
Currency translation differences	(177)	-	4	(8)	4	9	9	(159)
31 December 2014	**3,621**	**-**	**51**	**120**	**13**	**9**	**9**	**3,823**
Accumulated depreciation								
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**-**	**121,468**
Depreciation charge	3,009	1,141	12,471	11,828	1,187	1,849	-	31,485
Effect of hyperinflation	134	-	102	238	38	66	-	578
Currency translation differences	(261)	-	(1,333)	(1,129)	(233)	(298)	-	(3,254)
Transfers to other assets	(352)	-	(499)	(494)	-	-	-	(1,345)
Disposals	124	(21)	(653)	545	(1,286)	(1,708)	-	(2,999)
31 December 2014	**3,207**	**2,646**	**75,530**	**55,402**	**4,023**	**5,125**	**-**	**145,933**
Net book value:								
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**
31 December 2014	**223,547**	**204,392**	**64,549**	**75,288**	**3,530**	**7,617**	**9,590**	**588,513**

Office buildings and service centres of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2015 and was carried out by professional valuators. Refer to Note 30 for details on fair value measurements of the Group's premises.

If the office buildings and service centers had been measured using the cost model, the carrying amounts of the office buildings and service centers as at 31 December 2015 and 31 December 2014 would have been as follows:

	2015	*2014*
Cost	179,067	166,839
Accumulated depreciation and impairment	(19,736)	(16,896)
Net carrying amount	**159,331**	**149,943**

13. Goodwill

Movements in goodwill during the years ended 31 December 2015 and 31 December 2014 were as follows:

	2015	*2014*
Cost		
1 January	**78,083**	**77,170**
Business combinations, Note 5	23,351	913
At 31 December	**101,434**	**78,083**
Accumulated impairment		
1 January	**28,450**	**28,450**
At 31 December	**28,450**	**28,450**
Net book value:		
1 January	**49,633**	**48,720**
At 31 December	**72,984**	**49,633**

(Thousands of Georgian Lari)

13. Goodwill (continued)

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to six individual cash-generating units, for impairment testing: Corporate Banking, Retail Banking, Property & Casualty Insurance, Health Insurance, Healthcare and Liberty Consumer.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	2015	*2014*
P&C Insurance	16,139	16,139
Retail banking *	23,488	12,433
Corporate banking	9,965	9,965
Healthcare **	16,491	4,195
Health Insurance	3,462	3,462
Liberty Consumer	3,439	3,439
Total	**72,984**	**49,633**

** GEL 11,055 increase in goodwill for 2015 is from acquisition of JSC PrivatBank (note 5), which was added to Retail Banking CGU. Impairment test revealed no need for impairment as at 31 December 2015.*
*** GEL 12,296 increase in goodwill for 2015 is from acquisition of healthcare subsidiaries (note 5), which was added to Healthcare CGU. Impairment test revealed no need for impairment as at 31 December 2015.*

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

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

	Corporate Banking		*Retail Banking*	
	2015, %	*2014, %*	*2015, %*	*2014, %*
Discount rate	5.8%	6.2%	6.7%	6.5%

The following rates were used by the Group for P&C Insurance and Health Insurance:

	P&C Insurance		*Health Insurance*	
	2015, %	*2014, %*	*2015, %*	*2014, %*
Discount rate	10.4%	10.9%	11.2%	11.3%

The following rates were used by the Group for Healthcare and Liberty Consumer:

	Healthcare		*Liberty Consumer*	
	2015, %	*2014, %*	*2015, %*	*2014, %*
Discount rate	11.6%	10.5%	9.4%	9.0%

(Thousands of Georgian Lari)

13. Goodwill (continued)

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using weighted average cost of capital ("WACC").

For the Healthcare CGU, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

For the Retail and Corporate banking CGUs the following additional assumptions were made:

- Stable, business as usual growth of loans and deposits;
- No material changes in cost / income structure or ratio;
- Stable, business as usual growth of trade finance and other documentary businesses;
- Further expansion of the express banking businesses bringing more stable margins to retail banking.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2015 and 31 December 2014 respectively. Possible change was taken as +/-1% in discount rate and growth rate.

14. Taxation

The corporate income tax (expense) benefit comprises:

	2015	*2014*
Current income expense	(38,959)	(24,493)
Deferred income tax expense	(9,449)	(11,333)
Income tax expense	**(48,408)**	**(35,826)**
Deferred income tax (expense) benefit in other comprehensive income (loss)	**1,637**	**(123)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2015 and 2014 was as follows:

	2015	*2014*
Currency translation differences	1,276	(123)
Net losses on investment securities available-for-sale	-	-
Revaluation of buildings	361	-
Income tax (expense) benefit in other comprehensive income	**1,637**	**(123)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 25% (2014: from 15% to 27%).

(Thousands of Georgian Lari)

14. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2015 and 31 December 2014 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2015	*2014*
Profit before income tax expense	**332,020**	**281,810**
Average tax rate	15%	15%
Theoretical income tax expense at average tax rate	**(49,803)**	**(42,272)**
Correction of prior year declarations	1,472	5,802
Non-taxable income	3,744	-
Non-deductible expenses	(4,023)	-
Tax at the domestic rates applicable to profits in each country	(262)	186
Effect of changes in tax rate	-	(502)
Other	464	960
Income tax expense	**(48,408)**	**(35,826)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2015 and 31 December 2014 income tax assets and liabilities consist of the following:

	2015	*2014*
Current income tax assets	3,654	4,215
Deferred income tax assets	17,896	18,530
Income tax assets	**21,550**	**22,745**
Current income tax liabilities	20,083	11,093
Deferred income tax liabilities	104,312	86,471
Income tax liabilities	**124,395**	**97,564**

Deferred tax assets and liabilities as at 31 December 2015 and 31 December 2014 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*			
	2013	*In the income statement*	*Business combi-nation*	*In other compre-hensive income*	*2014*	*In the income statement*	*Business combi-nation*	*In other compre-hensive income*	*2015*
Tax effect of deductible temporary differences:									
Amounts due to credit institutions	1,180	(175)	-	-	1,005	(523)	-	-	482
Investment securities: available-for-sale	1,196	(1)	-	-	1,195	(1,194)	-	(1)	-
Investment properties	2,479	-	-	(1,499)	980	-	-	-	980
Insurance premiums receivables	886	624	-	-	1,510	650	-	-	2,160
Allowances for impairment and provisions for other losses	455	(257)	-	-	198	5,035	-	(367)	4,866
Tax losses carried forward	8,791	2,650	-	855	12,296	6,606	(1,992)	250	17,160
Property and equipment	942	(6)	-	-	936	50	-	(49)	937
Other assets and liabilities	3,169	751	-	(51)	3,869	(406)	982	2	4,447
Deferred tax assets	**19,098**	**3,586**	**-**	**(695)**	**21,989**	**10,218**	**(1,010)**	**(165)**	**31,032**
Tax effect of taxable temporary differences:									
Amounts due to credit institutions	52	(5)	-	(3)	44	26	-	(2)	68
Amounts due to customers	1,325	-	-	-	1,325	(1,325)	-	-	-
Loans to customers	21,839	8,562	-	(165)	30,236	(763)	-	(517)	28,956
Other insurance liabilities & pension fund obligations	956	426	-	-	1,382	(1,160)	-	-	222
Property and equipment	32,611	4,473	4,929	(330)	41,683	18,653	9,666	(1,184)	68,818
Investment properties	2	69	-	(7)	64	6,500	-	(53)	6,511
Intangible assets	5,575	965	-	(8)	6,532	(1,122)	-	(7)	5,403
Other assets and liabilities	8,294	429	-	(59)	8,664	(1,142)	(13)	(39)	7,470
Deferred tax liabilities	**70,654**	**14,919**	**4,929**	**(572)**	**89,930**	**19,667**	**9,653**	**(1,802)**	**117,448**
Net deferred tax liabilities	**(51,556)**	**(11,333)**	**(4,929)**	**(123)**	**(67,941)**	**(9,449)**	**(10,663)**	**1,637**	**(86,416)**

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities

Other assets comprise:

	2015	*2014*
Foreclosed assets *	49,602	49,090
Derivative financial assets	42,212	45,733
Other receivables	19,380	4,811
Operating tax assets	18,177	10,473
Defined contribution pension assets	13,706	11,201
Assets purchased for finance lease purposes	10,689	6,841
Reinsurance assets	10,381	11,289
Settlements on operations	5,060	2,869
Trading securities owned	1,977	1,034
Other	22,081	20,014
	193,265	**163,355**
Less – Allowance for impairment of other assets	(10,000)	(2,764)
Other assets	**183,265**	**160,591**

Foreclosed assets represent movable repossessed assets.

Other liabilities comprise:

	2015	*2014*
Accounts payable	44,654	15,658
Amounts payable for share acquisitions *	38,005	13,694
Defined contribution pension obligations	13,706	11,201
Other insurance liabilities	9,572	7,395
Creditors	7,729	10,436
Other taxes payable	5,171	4,258
Derivative financial liabilities	3,243	7,505
Provisions	2,240	4,732
Dividends payable	815	2,419
Other	9,509	6,920
Other liabilities	**134,644**	**84,218**

2015 amounts payable for share acquisitions comprise GEL 28,757 payable for the healthcare subsidiaries acquired in 2015 and GEL 9,248 payable for the acquisition of JSC PrivatBank. 2014 amounts payable for share acquisitions comprise GEL 13,694 payable for healthcare business acquisitions.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2015			*2014*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and Swaps – domestic	12,510	183	10	49,648	247	1,242
Forwards and Swaps – foreign	145,055	41,994	510	494,206	45,486	6,263
Options Foreign	56,768	35	2,723	-	-	-
Total derivative assets / liabilities	**214,333**	**42,212**	**3,243**	**543,854**	**45,733**	**7,505**

Foreign exchange forwards and swaps primarily consist of currency swaps with the National Bank of the Republic of Belarus of GEL 40,102 (2014: GEL 45,482), with the effective maturities of 3 months (2014: 13 months).

(Thousands of Georgian Lari)

16. Client Deposits and Notes

The amounts due to customers include the following:

	2015	2014
Time deposits	2,597,244	1,914,366
Current accounts	2,185,470	1,534,053
Promissory notes issued	868	25,010
Amounts due to customers	**4,783,582**	**3,473,429**
Held as security against letters of credit and guarantees (Note19)	**64,534**	**53,393**

As at 31 December 2015 and 31 December 2014, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 9 months (2014: 1 month).

At 31 December 2015, amounts due to customers of GEL 782,146 (16%) were due to the 10 largest customers (2014: GEL 533,673 (15%)).

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

	2015	2014
Individuals	2,615,774	1,868,762
Private enterprises	1,977,428	1,419,659
State and state-owned entities	190,380	185,008
Amounts due to customers	**4,783,582**	**3,473,429**

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

	2015	2014
Individuals	2,615,774	1,868,762
Trade	374,291	277,792
Transport & communication	317,161	173,591
Financial intermediation	292,771	110,759
Service	321,680	410,208
Manufacturing	236,238	107,813
Construction	224,477	220,234
Government services	141,007	128,046
Electricity, gas and water supply	74,125	21,275
Real estate	64,990	53,742
Hospitality	18,818	33,503
Other	102,250	67,704
Amounts due to customers	**4,783,582**	**3,473,429**

17. Amounts Owed to Credit Institutions

Amounts due to credit institutions comprise:

	2015	2014
Borrowings from international credit institutions	640,517	574,240
Short-term loans from the National Bank of Georgia	307,200	400,772
Time deposits and inter-bank loans	353,638	261,550
Correspondent accounts	92,617	32,606
Subtotal	**1,393,972**	**1,269,168**
Non-convertible subordinated debt	395,090	140,045
Amounts due to credit institutions	**1,789,062**	**1,409,213**

(Thousands of Georgian Lari)

17. Amounts Owed to Credit Institutions (continued)

During the year ended 31 December 2015, the Group paid up to 5.29% on USD borrowings from international credit institutions (2014: up to 6.77%). During the year ended 31 December 2015, the Group paid up to 7.95% on USD subordinated debt (2014: up to 10.40%).

In June 2015, the Group signed a USD 90 million subordinated loan agreement with the International Finance Corporation. The loan facility, which includes USD 20 million from the European Fund for Southeast Europe, bears a maturity of ten years and qualifies as Tier II capital under the Basel 2 framework.

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2015 and 31 December 2014 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions, in all material respects.

18. Debt Securities Issued

Debt securities issued comprise:

	2015	*2014*
Eurobonds	908,183	779,445
Georgian local bonds	98,859	46,217
Certificates of deposit	32,762	31,033
Debt securities issued	**1,039,804**	**856,695**

In May 2015, the Group's healthcare subsidiary JSC Medical Corporation EVEX completed the issuance of 2-year local bonds of USD 15 million (GEL 34 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with 5% withholding tax applying to individuals.

In May 2015, the Group's real estate subsidiary JSC m2 Real Estate completed the issuance of 2-year local bonds of USD 20 million (GEL 45 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with a 5% withholding tax applying to individuals.

(Thousands of Georgian Lari)

19. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and JSC 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 JSC BGEO.

Financial commitments and contingencies

As at 31 December 2015 and 31 December 2014 the Group's financial commitments and contingencies comprised the following:

	2015	*2014*
Credit-related commitments		
Guarantees issued	473,839	465,527
Undrawn loan facilities	273,851	144,634
Letters of credit	43,126	95,669
	790,816	**705,830**
Operating lease commitments		
Not later than 1 year	17,056	12,382
Later than 1 year but not later than 5 years	31,216	21,943
Later than 5 years	5,553	3,178
	53,825	**37,503**
Capital expenditure commitments	**27,624**	**10,035**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(64,534)	(53,393)
Less – Provisions	(2,240)	(4,732)
Financial commitments and contingencies, net	**805,491**	**695,243**

As at 31 December 2015, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 25,915 and software and other intangible assets of GEL 1,709. As at 31 December 2014, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 9,810 and software and other intangible assets of GEL 225.

20. Equity

Share capital

As at 31 December 2015, issued share capital comprised 37,065,773 common shares, all of which were fully paid (31 December 2014: 36,512,553 issued and fully paid share capital). Each share has a nominal value of one (1) Georgian Lari (31 December 2014: one 1 Georgian Lari). Shares issued and outstanding as at 31 December 2015 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2013	**36,512,553**	**36,513**
31 December 2014	**36,512,553**	**36,513**
Issue of share capital	688,272	688
Reorganization (Note 1)	(135,052)	(135)
31 December 2015	**37,065,773**	**37,066**

(Thousands of Georgian Lari)

20. Equity (continued)

Treasury shares

Treasury shares are held by the Group solely for the employee's future share-based compensation purposes.

The number of treasury shares held by the Group as at 31 December 2015 comprised 1,521,752 (31 December 2014: 1,522,254).

Nominal amount of treasury shares of GEL 1,522 as at 31 December 2015 comprise the Group's shares owned by the Group (31 December 2014: GEL 1,522).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 10 April 2014, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2014 dividends comprising Georgian Lari 2.0 per share. Payment of the total GEL 74,638 interim dividends was received by shareholders on 6 May 2014.

Nature and purpose of Other Reserves

Revaluation reserve for property and equipment
The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and service centers and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains (losses) on investment securities
This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements in other reserves during the years ended 31 December 2015 and 31 December 2014 are presented in the statements of other comprehensive income.

Earnings per share

The weighted average number of shares outstanding for the period before the incorporation of JSC BGEO is calculated as the number of shares issued by JSC BGEO at the incorporation date, less number of treasury shares.

	2015	*2014*
Basic and diluted earnings per share		
Profit for the year attributable to ordinary shareholders of the Group	276,886	238,644
Weighted average number of ordinary shares outstanding during the year	35,538,514	34,882,647
Basic and diluted earnings per share	7.7911	6.8414

(Thousands of Georgian Lari)

21. Net Interest Income

	2015				2014			
	Banking Business	Investment Business	Elimi-nation	Total	Banking Business	Investment Business	Elimi-nation	Total
From loans to customers	782,526	1,480	(12,290)	771,716	546,668	628	(7,313)	539,983
From investment securities: available-for-sale	69,670	11	(245)	69,436	39,988	-	-	39,988
From finance lease receivable	9,728	-	-	9,728	8,370	-	-	8,370
From amounts due from credit institutions	10,375	1,847	(984)	11,238	5,899	1,231	(551)	6,579
Interest Income	**872,299**	**3,338**	**(13,519)**	**862,118**	**600,925**	**1,859**	**(7,864)**	**594,920**
On client deposits and notes	(190,535)	(57)	2,767	(187,825)	(133,835)	-	-	(133,835)
On amounts owed to credit institutions	(101,223)	(22,452)	11,453	(112,222)	(55,384)	(15,619)	9,063	(61,940)
On debt securities issued	(68,635)	(3,099)	1,920	(69,814)	(54,436)	(469)	468	(54,437)
Interest Expense	**(360,393)**	**(25,608)**	**16,140**	**(369,861)**	**(243,655)**	**(16,088)**	**9,531**	**(250,212)**
Net Interest Income	**511,906**	**(22,270)**	**2,621**	**492,257**	**357,270**	**(14,229)**	**1,667**	**344,708**

22. Net Fee and Commission Income

	2015	2014
Settlements operations	112,540	87,076
Guarantees and letters of credit	25,930	21,503
Cash operations	13,822	9,665
Currency conversion operations	1,550	3,204
Brokerage service fees	805	7,214
Advisory	465	-
Other	3,046	3,773
Fee and commission income	**158,158**	**132,435**
Settlements operations	(29,371)	(21,354)
Cash operations	(4,670)	(3,726)
Guarantees and letters of credit	(3,836)	(3,991)
Insurance brokerage service fees	(295)	(688)
Currency conversion operations	(62)	(108)
Other	(1,105)	(2,327)
Fee and commission expense	**(39,339)**	**(32,194)**
Net fee and commission income	**118,819**	**100,241**

(Thousands of Georgian Lari)

23. Gross Insurance Profit

Net insurance premiums earned, net insurance claims incurred and respective gross insurance profit for the years ended 31 December 2015 and 31 December 2014 comprised:

	2015	*2014*
Life insurance contracts premium written	9,830	5,381
General insurance contracts premium written	110,962	81,691
Total premiums written	**120,792**	**87,072**
Gross change in life provision	283	70
Gross change in general insurance contracts unearned premium provision	(7,006)	26,621
Total gross premiums earned on insurance contracts	**114,069**	**113,763**
Reinsurers' share of life insurance contracts premium written	(530)	(53)
Reinsurers' share of general insurance contracts premium written	(20,402)	(18,328)
Reinsurers' share of change in life provision	1	(32)
Reinsurers' share of change in general insurance contracts unearned premium provision	(237)	500
Total reinsurers' share of gross earned premiums on insurance contracts	**(21,168)**	**(17,913)**
Net insurance premiums earned	**92,901**	**95,850**
Life insurance claims paid	(2,046)	(1,364)
General insurance claims paid	(67,561)	(68,827)
Total insurance claims paid	**(69,607)**	**(70,191)**
Reinsurers' share of life insurance claims paid	54	120
Reinsurers' share of general insurance claims paid	4,186	1,858
Gross change in total reserves for claims	3,045	443
Reinsurers' share of change in total reserves for claims	(672)	1,350
Net insurance claims incurred	**(62,994)**	**(66,420)**
Gross insurance profit	**29,907**	**29,430**

24. Gross Healthcare Profit

	2015	*2014*
Revenue from government programmes	144,013	78,967
Revenue from free flow (non-insured retail individuals)	36,102	33,854
Revenue from insurance companies	3,878	11,562
Other revenue from medical services	-	1,337
Healthcare revenue	**183,993**	**125,720**
Direct salary expenses	(65,344)	(39,022)
Direct materials	(35,474)	(20,830)
Expenses on medical service providers	(2,017)	(12,042)
Other direct expenses	(220)	(343)
Cost of healthcare services	**(103,055)**	**(72,237)**
Gross healthcare profit	**80,938**	**53,483**

(Thousands of Georgian Lari)

25. Gross Real Estate Profit and Gross Other Investment Profit

	2015	2014
Revenue from affordable housing	44,917	56,993
Revaluation of investment property developed by the Group *	7,083	1,910
Income from operating lease	2,409	1,473
Real estate revenue	**54,409**	**60,376**
Cost of real estate	(39,721)	(46,810)
Gross real estate profit	**14,688**	**13,566**

	2015	2014
Revenue from wine production and distribution	10,079	12,449
Net gains from revaluation of other investment properties **	7,267	-
Net gain from sale of PPE and IP	154	89
Other investment Profit	3,323	505
Gross other investment profit	**20,823**	**13,043**

** Revaluation of investment property developed by the Group derives from the initial fair valuation of real estate inventories after completion and transfer to investment properties and is included in real estate revenue.*
*** Net gains from revaluation of other investment properties derives from the results of general property appraisal of existing investment properties under the management of the investment business of the Group and is included in gross other investment profit.*

26. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2015	2014
Salaries and bonuses	(179,315)	(148,663)
Social security costs	(3,216)	(3,292)
Pension costs	(797)	(722)
Salaries and other employee benefits	**(183,328)**	**(152,677)**

Salaries and bonuses include GEL 31,219 and GEL 27,193 of the Equity Compensation Plan costs for the years ended 31 December 2015 and 31 December 2014, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 28 and 32).

	2015	2014
Occupancy and rent	(17,656)	(11,007)
Legal and other professional services	(10,002)	(7,860)
Marketing and advertising	(11,264)	(10,887)
Repairs and maintenance	(10,785)	(9,065)
Office supplies	(7,534)	(6,192)
Communication	(6,630)	(5,106)
Operating taxes	(5,735)	(5,069)
Corporate hospitality and entertainment	(4,807)	(4,139)
Travel expenses	(2,383)	(1,596)
Security	(2,074)	(2,577)
Personnel training and recruitment	(1,703)	(1,697)
Insurance	(1,136)	(414)
Other	(6,491)	(5,495)
General and administrative expenses	**(88,200)**	**(71,104)**

(Thousands of Georgian Lari)

27. Net Non-recurring Expenses

	2015	*2014*
Gain on bargain purchase (note 5)	5,361	1,003
Reversal of impairment on property and equipment	1,524	-
Gain from building transferred to healthcare segment from the Government	-	524
Other non-recurring income/gain	641	277
Total non-recurring income/gain	**7,526**	**1,804**
Loss from early repayments of borrowings from international credit institutions and debt securities issued	(4,519)	(2,503)
JSC PrivatBank integration costs	(3,731)	-
Impairment of prepayments	(2,503)	-
Write-off of miscellaneous healthcare related assets	(2,277)	-
Impairment of finance lease receivables	(1,969)	-
Management leave compensation expense	(1,598)	-
Foreign exchange loss on revaluation of holdback	(1,580)	-
Tax penalties from inspection of Revenue Services of Georgia	(1,340)	-
Impairment of property and equipment, and intangible assets	(426)	-
Impairment of investment securities available-for-sale	-	(3,837)
Loss from Belarus hyperinflation	-	(3,073)
Charity expenses	-	(210)
Other	(2,729)	(3,198)
Total non-recurring expense/loss	**(22,672)**	**(12,821)**
Net non-recurring expense/loss	**(15,146)**	**(11,017)**

28. Share-based Payments

Executives' Equity Compensation Plan

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

In March 2015, BGEO PLC's remuneration committee resolved to award 153,500 ordinary shares of BGEO PLC to the members of the Management Board and 107,215 ordinary shares of BGEO PLC to the Group's 24 executives. Shares awarded to the Management Board and the other 20 executives are subject to two-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 19 March 2015 as the grant date. The Group estimates that the fair value of the shares awarded on 19 March 2015 was Georgian Lari 57.41 per share.

In February 2014, the Bank's Supervisory Board resolved to award 135,500 ordinary shares of BGEO PLC to the members of the Management Board and 88,775 ordinary shares of BGEO PLC to the Group's 27 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 27 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was Georgian Lari 67.90 per share.

In August 2015, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 934,000 ordinary shares of BGEO PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 24 August 2015 as the grant date for the awards. The Group estimates that the fair value of the shares on 24 August 2015 was Georgian Lari 59.17.

The Bank grants share compensation to its non-executive employees too. In March 2015 and February 2014, the Supervisory Board of the Bank resolved to award 111,298 and 42,745 ordinary shares to its non-executive employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 19 March 2015 and 24 February 2014 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 19 March 2015 and 24 February 2014 were Georgian Lari 57.41 and 67.90 per share, respectively.

(Thousands of Georgian Lari)

28. Share-based Payments (continued)

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 58.74 per share in year ended 31 December 2015 (31 December 2014: Georgian Lari 67.90 per share).

The Group's total share-based payment expenses for the year ended 31 December 2015 comprised GEL 31,219 (31 December 2014: GEL 27,193) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2015	*2014*
Total number of equity instruments awarded*	1,536,013	267,020
– Among them, to top management and board of directors	*1,106,000*	*135,500*
Weighted average value at grant date, per share (GEL in full amount)	58.74	67.90
Value at grant date, total (GEL)	**90,228**	**18,132**
Total expense recognised during the year (GEL)	**(31,219)**	**(27,193)**

**** 2015 award includes fixed contingent share-based compensation of 1,164,000 ordinary shares per new employment agreements signed 24 August 2015 for subsequent consecutive 3 year period, including 934,000 of the Management Board members.***

29. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Risk Committee
The Risk Committee is responsible for ensuring that the Group's risk appetite and exposure are addressed as part of strategy and appropriateness of risk strategy and appetite; oversee and advise the Board on the current and emerging risk exposures of the Group; oversee and monitor the implementation of the risk strategy by senior management to address the risk exposures of the Group; review the effectiveness of the Group's risk management framework and internal control systems (other than internal financial control systems which is the responsibility of the BGEO PLC Audit Committee); assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group; ensure that risk is properly considered in setting the Group's remuneration policy; oversee the communication of the tone from top related to risk management to every level of the business through senior management; review and approve the Group's risk management policy.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Introduction (continued)

Management Board
The Management Board has the responsibility to monitor and manage the entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling the implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as the overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk measurement and reporting systems

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Introduction (continued)

Risk mitigation

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

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

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

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

31 December 2015	Notes	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard grade	Neither past due nor impaired – Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	731,365	-	-	-	731,365
Debt investment securities available-for-sale	9	902,419	-	-	-	902,419
Loans to customers:	10					
Commercial loans		1,798,762	196,607	57,085	354,661	2,407,115
Consumer loans		1,047,775	22,810	22,642	71,880	1,165,107
Micro and SME loans		892,014	80,064	27,828	42,023	1,041,929
Residential mortgage loans		750,455	22,033	11,223	30,633	814,344
Gold – pawn loans		61,140	-	-	-	61,140
		4,550,146	**321,514**	**118,778**	**499,197**	**5,489,635**
Finance lease receivables	10	16,442	12,270	3,531	10,669	42,912
Total		**6,200,372**	**333,784**	**122,309**	**509,866**	**7,166,331**

31 December 2014	Notes	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard grade	Neither past due nor impaired – Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	418,502	-	-	-	418,502
Debt investment securities available-for-sale	9	768,300	-	-	-	768,300
Loans to customers:	10					
Commercial loans		1,643,316	138,115	159,074	248,531	2,189,036
Consumer loans		739,767	22,293	1,541	37,873	801,474
Micro and SME loans		663,388	83,413	7,799	17,683	772,283
Residential mortgage loans		570,879	16,565	2,009	14,690	604,143
Gold – pawn loans		53,785	-	-	-	53,785
		3,671,135	**260,386**	**170,423**	**318,777**	**4,420,721**
Finance lease receivables	10	19,437	4,684	2,150	12,977	39,248
Total		**4,877,374**	**265,070**	**172,573**	**331,754**	**5,646,771**

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

Past due loans to customers, analyzed by age below, include those that are past due by at least one day and are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2015	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer loans	29,592	8,498	6,930	23,724	68,744
Micro and SME loans	5,196	4,148	1,000	4,259	14,603
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,727	1,227	25	1,596	24,575
Finance lease receivables	1,520	342	535	4,547	6,944
Total	**65,629**	**15,422**	**9,398**	**39,149**	**129,598**

31 December 2014	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Commercial loans	2,673	528	342	1,162	4,705
Consumer loans	19,266	4,758	2,703	9,222	35,949
Residential mortgage loans	3,822	788	304	1,832	6,746
Micro and SME loans	2,926	3,307	259	598	7,090
Finance lease receivables	1,977	9,154	156	203	11,490
Total	**30,664**	**18,535**	**3,764**	**13,017**	**65,980**

See Note 10 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 166,224 and GEL 118,131 as at 31 December 2015 and 31 December 2014, respectively.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

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

The table below shows the carrying amount for renegotiated financial assets by class.

	2015	*2014*
Loans to customers:		
Commercial loans	141,294	115,155
Micro and SME loans	20,890	8,734
Residential mortgage loans	28,594	3,446
Consumer loans	18,243	617
Finance lease receivables	2,684	4,957
Total	**211,705**	**132,909**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by certain number of days as prescribed per the Group methodology, or history of the debt service is deteriorated by a certain percentage, as defined per the Group methodology, or any other defined event of default is identified. Impairment for all such loans is assessed individually, rather than through a collective impairment assessment model of the Group.

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on the product. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

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

	2015				*2014*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	623,904	661,830	146,734	1,432,468	475,747	136,387	97,727	709,861
Amounts due from credit institutions	630,217	97,242	3,906	731,365	394,196	1,686	22,620	418,502
Investment securities	824,820	79,047	-	903,867	726,880	25,069	17,763	769,712
Loans to customers and finance lease re	5,002,004	9,334	320,113	5,331,451	4,081,898	7,609	265,953	4,355,460
All other assets	1,621,492	13,552	36,746	1,671,790	1,217,513	10,069	56,184	1,283,766
	8,702,437	**861,005**	**507,499**	**10,070,941**	**6,896,234**	**180,820**	**460,247**	**7,537,301**
Liabilities:								
Client deposits and notes	3,522,316	454,844	806,422	4,783,582	2,163,558	650,584	659,287	3,473,429
Amounts owed to credit institutions	508,287	1,063,404	217,371	1,789,062	582,905	770,838	55,470	1,409,213
Debt securities issued	98,859	940,945	-	1,039,804	46,216	810,479	-	856,695
All other liabilities	446,513	8,296	6,732	461,541	321,641	3,373	11,863	336,877
	4,575,975	**2,467,489**	**1,030,525**	**8,073,989**	**3,114,320**	**2,235,274**	**726,620**	**6,076,214**
Net balance sheet position	**4,126,462**	**(1,606,484)**	**(523,026)**	**1,996,952**	**3,781,914**	**(2,054,454)**	**(266,373)**	**1,461,087**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December 2015 and 31 December 2014 these ratios were as follows:

	2015, %	*2014, %*
Average liquidity ratio	38.1%	39.3%
Maximum liquidity ratio	48.0%	46.8%
Minimum liquidity ratio	28.9%	31.7%

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Liquidity risk and funding management (continued)

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	3,001,077	1,258,421	613,914	60,094	4,933,506
Amounts owed to credit institutions	318,902	376,323	628,932	524,874	1,849,031
Debt securities issued	51,564	24,695	1,070,369	-	1,146,628
Other liabilities	53,099	36,939	19,266	4	109,308
Total undiscounted financial liabilities	**3,424,642**	**1,696,378**	**2,332,481**	**584,972**	**8,038,473**

Financial liabilities As at 31 December 2014	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	2,152,827	903,041	461,975	22,098	3,539,941
Amounts owed to credit institutions	616,480	225,911	535,643	189,493	1,567,527
Debt securities issued	45,941	73,767	879,653	-	999,361
Other liabilities	36,846	37,004	17,422	-	91,272
Total undiscounted financial liabilities	**2,852,094**	**1,239,723**	**1,894,693**	**211,591**	**6,198,101**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2015	411,175	300,894	142,915	17,281	872,265
31 December 2014	320,945	257,065	162,858	12,500	753,368

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 16).

(Thousands of Georgian Lari)

29. Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the year ended 31 December 2015, year ended 31 December 2014 and year ended 31 December 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	0.63%	1,887	(5,080)
EUR	0.20%	81	-
USD	0.05%	187	-

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	0.63%	(1,887)	5,080
EUR	0.20%	(81)	-
USD	0.05%	(187)	-

Currency	*Increase in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of other comprehensive income 2014*
GEL	0.07%	198	-
EUR	0.01%	(6)	-
USD	0.01%	84	-

Currency	*Decrease in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of other comprehensive income 2014*
GEL	0.07%	(198)	-
EUR	0.01%	6	-
USD	0.01%	(84)	-

(Thousands of Georgian Lari)

29. Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2015 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the last month. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2015, year ended 31 December 2014 and year ended 31 December 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2015		*2014*	
EUR	2.9%	1	14.3%	11
GBP	2.5%	-	22.9%	(6)
USD	1.1%	(1,329)	23.4%	(4,745)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2015 and 31 December 2014 is as follows:

	Effect on net interest income
2015	(19,341)
2014	(16,744)

Operational risk

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

(Thousands of Georgian Lari)

29. Risk Management (continued)

Operating environment

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

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

30. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	246,398	246,398
Land	-	-	*94,476*	*94,476*
Residential properties	-	-	*40,873*	*40,873*
Non-residential properties	-	-	*111,049*	*111,049*
Investment securities	-	902,419	1,448	903,867
Other assets – derivative financial assets	-	42,212	-	42,212
Other assets – trading securities owned	1,977	-	-	1,977
Total revalued property	-	-	228,365	228,365
Office buildings	-	-	*96,455*	*96,455*
Service centers	-	-	*131,910*	*131,910*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,432,468	-	1,432,468
Amounts due from credit institutions	-	731,365	-	731,365
Loans to customers and finance lease receivables	-	-	5,293,633	5,293,633
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	3,243	-	3,243
Liabilities for which fair values are disclosed				
Client deposits and notes	-	-	4,809,288	4,809,288
Amounts owed to credit institutions	-	-	1,789,062	1,789,062
Debt securities issued	-	938,894	131,621	1,070,515

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*190,860*	190,860
Land	-	-	*92,285*	*92,285*
Residential properties	-	-	*31,632*	*31,632*
Non-residential properties	-	-	*66,943*	*66,943*
Investment securities	-	768,300	1,412	769,712
Other assets – derivative financial assets	-	45,733	-	45,733
Other assets – trading securities owned	1,034	-	-	1,034
Total revalued property	-	-	223,547	223,547
Office buildings	-	-	*112,082*	*112,082*
Service centers	-	-	*111,465*	*111,465*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	709,861	-	709,861
Amounts due from credit institutions	-	418,502	-	418,502
Loans to customers and finance lease receivables	-	-	4,455,587	4,455,587
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	7,505	-	7,505
Liabilities for which fair values are disclosed				
Client deposits and notes	-	-	3,500,813	3,500,813
Amounts owed to credit institutions	-	-	1,409,213	1,409,213
Debt securities issued	-	779,445	77,250	856,695

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

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

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	At 31 December 2013	Impairment of Investmen	Purchase of AFS securities	At 31 December 2014	Purchase of AFS securities	At 31 December 2015
Level 3 financial assets						
Equity investment securities available-for-sale	5,222	(3,837)	27	1,412	36	1,448

Movements in level 3 non-financial assets measured at fair value

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 11 and 12 respectively.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
	2015		2014	
Level 3 financial assets				
Equity investment securities available-for-sale	1,448	+/- 217	1,412	+/- 212

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**246,398**						
Land	94,476	Market approach	Price per square metre	51 - 1,332 (457)	Square metres, land	8,165 - 230,398 (116,236)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	40,873	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	111,049						
	19,550	Market approach	Price	2.8 - 5.5 mln (4.1 mln)	Square metres, land	8,383 - 18,635 (11,826)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	2,293 - 6,702 (3,774)	
	78,898	Income approach	Rent per square metere	29.2 - 45.5 (38.1)	Square metres, building	418 - 4,868 (2,798)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	35% - 90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12 - 218 (26)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	12,601	Cost approach	Land price pet square metre	34 - 67 (57)	Square metres, land	7,939 - 13,946 (9,672)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	366 - 1,054 (778)	Square metres, building	836 - 1,639 (1,851)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value
Property and equipment	**228,365**						
Office buildings	96,455	Income approach	Rent per square metere	53 - 108 (83)	Square metres, building	243 - 17,647 (12,670)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
			Occupancy Rate	60% - 95% (84%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
Service centers	131,910						
	30,783	Market approach	Price per square metre	1926 - 3,996 (3,170)	Square metres, building	66 - 1,589 (1,076)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	89,645	Income approach	Rent per square metere	26.3 - 115.0 (52.4)	Square metres, building	196 - 2,283 (952)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
			Occupancy Rate	40% - 95% (83%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	16 - 256 (29)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	11,482	Cost approach	Depretiated Replacement cost per square metre	501 - 501 (501)			Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2015 and 31 December 2014:

	31 December 2015			31 December 2014		
	Loans and receivables	Available-for sale	Fair value through profit or loss	Loans and receivables	Available-for sale	Fair value through profit or loss
Financial assets						
Amounts due from credit institutions	731,365	-	-	418,502	-	-
Loans to customers and finance lease receivables	5,331,451	-	-	4,355,460	-	-
Accounts receivable and other loans	87,972	-	-	70,207	-	-
Equity instruments	-	1,448	1,505	-	1,412	41
Debt instruments	-	902,419	472	-	768,300	993
Foreign currency derivative financial instruments	-	-	42,212	-	-	45,733
Total:	**6,150,788**	**903,867**	**44,189**	**4,844,169**	**769,712**	**46,767**
Financial liabilities						
Client deposits and notes	4,783,582	-	-	3,473,429	-	-
Amounts owed to credit institutions	1,789,062	-	-	1,409,213	-	-
Debt securities issued	1,039,804	-	-	856,695	-	-
Trade and other payables (in other liabilities)	106,128	-	-	53,866	-	-
Foreign currency derivative financial instruments	-	-	3,243	-	-	7,505
Total:	**7,718,576**	**-**	**3,243**	**5,793,203**	**-**	**7,505**

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

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

	Carrying value 2015	Fair value 2015	Unrecognised gain (loss) 2015	Carrying value 2014	Fair value 2014	Unrecognised loss 2014
Financial assets						
Cash and cash equivalents	1,432,468	1,432,468	-	709,861	709,861	-
Amounts due from credit institutions	731,365	731,365	-	418,502	418,502	-
Loans to customers and finance lease receivables	5,331,451	5,293,633	(37,818)	4,355,460	4,455,587	100,127
Financial liabilities						
Client deposits and notes	4,783,582	4,809,288	(25,706)	3,473,429	3,500,813	(27,384)
Amounts owed to credit institutions	1,789,062	1,789,062	-	1,409,213	1,409,213	-
Debt securities issued	1,039,804	1,070,515	(30,711)	856,695	856,695	-
Total unrecognised change in unrealised fair value			**(94,235)**			**72,743**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

31. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2015							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,071,895	360,573	-	-	-	-	-	1,432,468
Amounts due from credit institutions	617,673	702	28,338	82,393	309	-	1,950	731,365
Investment securities	560,120	241,481	31,247	6,531	60,244	3,057	1,187	903,867
Loans to customers and finance lease	-	796,765	537,690	1,024,619	1,596,062	705,152	671,163	5,331,451
Total	**2,249,688**	**1,399,521**	**597,275**	**1,113,543**	**1,656,615**	**708,209**	**674,300**	**8,399,151**
Financial liabilities								
Client deposits and notes	879,198	810,072	541,142	2,008,160	444,591	80,012	20,407	4,783,582
Amounts owed to credit institutions	92,617	528,644	108,023	247,414	403,528	139,573	269,263	1,789,062
Debt securities issued	-	51,457	-	53,703	934,644	-	-	1,039,804
Total	**971,815**	**1,390,173**	**649,165**	**2,309,277**	**1,782,763**	**219,585**	**289,670**	**7,612,448**
Net	**1,277,873**	**9,348**	**(51,890)**	**(1,195,734)**	**(126,148)**	**488,624**	**384,630**	**786,703**
Accumulated gap	**1,277,873**	**1,287,221**	**1,235,331**	**39,597**	**(86,551)**	**402,073**	**786,703**	

	2014							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	691,290	18,571	-	-	-	-	-	709,861
Amounts due from credit institutions	382,935	808	3,974	26,324	2,486	-	1,975	418,502
Investment securities	327,846	383,657	7,361	9,698	34,008	1,966	5,176	769,712
Loans to customers and finance lease	-	695,719	510,881	741,758	1,282,395	624,387	500,320	4,355,460
Total	**1,402,071**	**1,098,755**	**522,216**	**777,780**	**1,318,889**	**626,353**	**507,471**	**6,253,535**
Financial liabilities								
Client deposits and notes	360,498	603,510	412,441	1,686,080	355,892	39,995	15,013	3,473,429
Amounts owed to credit institutions	32,948	582,885	63,704	153,847	314,313	152,742	108,774	1,409,213
Debt securities issued	-	45,864	28,930	43,425	738,476	-	-	856,695
Total	**393,446**	**1,232,259**	**505,075**	**1,883,352**	**1,408,681**	**192,737**	**123,787**	**5,739,337**
Net	**1,008,625**	**(133,504)**	**17,141**	**(1,105,572)**	**(89,792)**	**433,616**	**383,684**	**514,198**
Accumulated gap	**1,008,625**	**875,121**	**892,262**	**(213,310)**	**(303,102)**	**130,514**	**514,198**	

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.

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

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

As at 31 December 2015 amounts due to customers amounted to GEL 4,783,582 (2014: GEL 3,473,429) and represented 59% (2014: 57%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2015 amounts owed to credit institutions amounted to GEL 1,789,062 (2014: GEL 1,409,213) and represented 22% (2014: 23%) of total liabilities. As at 31 December 2015 debt securities issued amounted to GEL 1,039,804 (2014: GEL 856,695) and represented 13% (2014: 14%) of total liabilities.

(Thousands of Georgian Lari)

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

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

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

	31 December 2015			31 December 2014		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	1,432,468	-	1,432,468	709,861	-	709,861
Amounts due from credit institutions	729,106	2,259	731,365	414,041	4,461	418,502
Investment securities	839,379	64,488	903,867	728,562	41,150	769,712
Loans to customers and finance lease	2,359,074	2,972,377	5,331,451	1,948,358	2,407,102	4,355,460
Accounts receivable and other loans	87,955	17	87,972	70,207	-	70,207
Insurance premiums receivable	39,177	49	39,226	31,764	76	31,840
Prepayments	25,213	32,957	58,170	17,577	15,926	33,503
Inventories	98,387	28,640	127,027	30,184	71,258	101,442
Investment properties	-	246,398	246,398	-	190,860	190,860
Property and equipment	-	794,682	794,682	-	588,513	588,513
Goodwill	-	72,984	72,984	-	49,633	49,633
Intangible assets	-	40,516	40,516	-	34,432	34,432
Income tax assets	3,654	17,896	21,550	-	22,745	22,745
Other assets	106,127	77,138	183,265	88,273	72,318	160,591
Total assets	**5,720,540**	**4,350,401**	**10,070,941**	**4,038,827**	**3,498,474**	**7,537,301**
Client deposits and notes	4,238,572	545,010	4,783,582	3,062,529	410,900	3,473,429
Amounts owed to credit institutions	976,698	812,364	1,789,062	833,384	575,829	1,409,213
Debt securities issued	105,160	934,644	1,039,804	118,219	738,476	856,695
Accruals and deffered income	112,939	33,718	146,657	36,127	72,382	108,509
Insurance contracts liabilities	51,273	4,572	55,845	43,166	3,420	46,586
Income tax liabilities	20,083	104,312	124,395	11,093	86,471	97,564
Other liabilities	119,970	14,674	134,644	45,995	38,223	84,218
Total liabilities	**5,624,695**	**2,449,294**	**8,073,989**	**4,150,513**	**1,925,701**	**6,076,214**
Net	**95,845**	**1,901,107**	**1,996,952**	**(111,686)**	**1,572,773**	**1,461,087**

(Thousands of Georgian Lari)

32. Related Party Disclosures

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

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

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

	2015			2014		
	Share-holders	*Entities Under Common Control**	*Key management personnel***	*Share-holders*	*Entities Under Common Control**	*Key management personnel***
Loans outstanding at 1 January, gross	**7,609**	**78,592**	**2,048**	**8,098**	**-**	**1,484**
Loans issued during the year	-	4,000	4,511	-	85,933	4,853
Loan repayments during the year	-	(84,033)	(6,188)	(577)	(16,376)	(4,474)
Other movements	1,725	14,982	887	88	9,035	185
Loans outstanding at 31 December, gross	**9,334**	**13,541**	**1,258**	**7,609**	**78,592**	**2,048**
Less: allowance for impairment at 31 December	-	(116)	-	-	(743)	(1)
Loans outstanding at 31 December, net	**9,334**	**13,425**	**1,258**	**7,609**	**77,849**	**2,047**
Interest income on loans	-	3,986	173	-	1,767	86
Loan impairment charge	-	-	-	-	(743)	-
Deposits at 1 January	**134,705**	**4,975**	**17,500**	**25**	**50**	**11,455**
Deposits received during the year	18,210	195,316	40,774	288,680	132,087	33,646
Deposits repaid during the year	(153,017)	(199,048)	(41,548)	(144,028)	(128,859)	(31,225)
Other movements	32,073	176	3,403	(9,972)	1,697	3,624
Deposits at 31 December	**31,971**	**1,419**	**20,129**	**134,705**	**4,975**	**17,500**
Interest expense on deposits	(844)	(33)	(477)	-	(2)	(513)
Other income	-	15	77	-	2	92

**** On 23 December 2014 the BGEO PLC acquired 25% interest in GGU, a holding company with wholly owned subsidiaries that supply water and provide wastewater services, which also owns and operates hydropower generation facilities in Georgia.***
***** Key management personnel include members of BGEO PLC's Board of Directors and Chief Executive Officer and Deputies of the Bank.***

Compensation of key management personnel comprised the following:

	2015	2014
Salaries and other benefits	4,464	3,279
Share-based payments compensation	19,435	14,763
Social security costs	55	43
Total key management compensation	**23,954**	**18,085**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 28). The number of key management personnel at 31 December 2015 was 16 (31 December 2014: 16).

(Thousands of Georgian Lari)

33. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

Approved and published on 28 October 2013 by NBG, new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar II (ICAAP) requirements becoming effective 30 June 2015. A transition period is to continue through 1 January 2017, during which the Bank will be required to comply with both the new, and the current, capital regulations of the NBG.

During year ended 31 December 2015, 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 11.4% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2015 and 31 December 2014, the Bank's capital adequacy ratio on this basis was as follows:

	2015	*2014*
Core capital	728,139	895,318
Supplementary capital	649,607	398,598
Less: Deductions from capital	(60,311)	(365,487)
Total regulatory capital	**1,317,435**	**928,429**
Risk-weighted assets	**7,811,398**	**6,719,169**
Total capital adequacy ratio	**16.9%**	**13.8%**

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

(Thousands of Georgian Lari)

33. 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 31 December 2015 the Bank's capital adequacy ratio on this basis was as follows:

	2015	*2014*
Tier 1 capital	914,784	800,465
Tier 2 capital	479,176	217,100
Total capital	**1,393,960**	**1,017,565**
Risk-weighted assets	**8,363,369**	**7,204,080**
Total capital ratio	**16.7%**	**14.1%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

34. Event after the Reporting Period

In April 2016, the Group's subsidiary Georgia Healthcare Group PLC completed the acquisition of 100% equity stake in JSC GPC, one of the largest retail and wholesale pharmacy chains in Georgia.

Initial purchase accounting is currently in progress and not all of the asset valuations and accounting estimates are formally finalized. Therefore, management considers a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2016 half yearly financial statements.

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