JSC Bank of Georgia
Separate Financial Statements

31 December 2017
Together with Independent Auditor's Report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Separate statement of financial position 1
Separate income statement 2
Separate statement of comprehensive income 3
Separate statement of changes in equity 4
Separate statement of cash flows 5

NOTES TO SEPARATE FINANCIAL STATEMENTS

1. Principal Activities 6
2. Basis of Preparation 7
3. Summary of Significant Accounting Policies 7
4. Significant Accounting Judgements and Estimates 22
5. Segment Information 23
6. Cash and Cash Equivalents 26
7. Amounts Due from Credit Institutions 26
8. Investment Securities Available-for-Sale 26
9. Loans to Customers 27
10. Investment Properties 30
11. Property and Equipment 30
12. Investments in subsidiaries 31
13. Goodwill 32
14. Taxation 33
15. Other Assets and Other Liabilities 35
16. Amounts Due to Customers 36
17. Amounts Owed to Credit Institutions and Other Borrowings 37
18. Debt Securities Issued 37
19. Commitments and Contingencies 38
20. Equity 38
21. Net Fee and Commission Income 40
22. Net Real Estate Revenue 40
23. Salaries and Other Employee Benefits, and General and Administrative Expenses 40
24. Net Non-recurring Items 41
25. Share-based Payments 41
26. Risk Management 43
27. Fair Value Measurements 53
28. Maturity Analysis of Financial Assets and Liabilities 60
29. Related Party Disclosures 62
30. Capital Adequacy 65
31. Events after the Reporting Period 67

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Independent auditor's report

To the Shareholders and the Supervisory Board of JSC Bank of Georgia

Opinion

We have audited the separate financial statements of JSC Bank of Georgia (the Bank), which comprise the separate statement of financial position as at 31 December 2017, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2017 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

Key audit matter	How our audit addressed it
Impairment of loans to customers	
The allowance for loan losses is estimated using a combination of a collective and individual impairment assessment based on discounted cash flow analyses. Both collectively and individually assessed impairment depend on a number of assumptions and judgments made by the management, including significant unobservable inputs and factors such as probabilities of default and loss-given-default assumptions, as well as estimates of expected future cash flows and valuations of collateral. The use of alternative provisioning models and assumptions could have a material impact on the recognized impairment allowance and reported profits of the Bank. Information on the impairment of loans to customers is included in Note 9, *Loans to Customers*, and Note 26, *Risk Management*, to the separate financial statements.	We performed a walkthrough of the loan loss allowance processes for both collectively assessed and individually impaired loans and assessed the design and operating effectiveness of key controls. We tested key controls over the loan loss allowance, which included controls over the identification of loans to be subject to the individual allowance assessment, management's review of key assumptions, classification of borrowers into their respective risk grades, calculation of days past due, and the recalculation of the loan loss allowance, including the valuation of collateral. For individually assessed loan loss allowance, we tested loan exposures subject to individual assessment on a sample basis. We focused on review of the Bank's documented credit assessment of the borrowers, on analysis of the management's assumptions around future cash flow projections and the valuation of collateral held. For the collectively assessed loan loss allowance, we assessed the collective provisioning methodology as well as the assumptions and data inputs, recalculated the collective loan loss allowance and performed sensitivity analysis to changes in key model inputs. We also assessed the disclosures in the separate financial statements about the Bank's allowance for impairment.
Valuation of investment properties	
The Bank applies the fair value model for investment properties. The Bank engaged a professional valuer to determine the fair value of its investment properties. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Bank's real estate properties are located in Georgia, where the secondary market is relatively illiquid, that	We engaged our real estate specialists to evaluate a sample of the Bank's investment properties. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Bank, analysis of the methods and assumptions used and testing of the data provided by the valuers.

Key audit matter	How our audit addressed it
could have significant impact on the valuation results and, accordingly, on the Bank's reported equity and profits. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of investment properties is included to Note 10, *Investment Properties* and Note 27, *Fair Value Measurements*, to the separate financial statements.	We assessed recognition of the results of the valuations and the Bank's disclosures in relation to the valuation of investment properties.

Other information included in the Bank's 2017 Annual report

Other information consists of the information included in the Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.
Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and

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are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

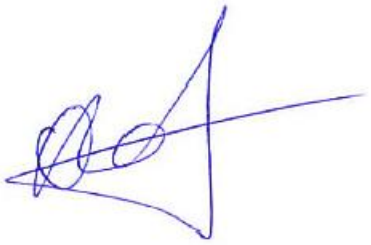
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because

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the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Oleg Youshenkov.



Oleg Youshenkov

For and on behalf of EY Georgia LLC

Tbilisi, Georgia

16 August 2018

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016	1 January 2016
Assets				
Cash and cash equivalents	6	1,401,881	1,419,966	1,266,377
Amounts due from credit institutions	7	1,205,844	936,925	718,464
Investment securities available-for-sale	8	1,540,344	1,199,177	902,240
Loans to customers	9	7,063,894	6,021,634	5,005,169
Finance lease receivables		6,603	122	2,272
Investment properties	10	185,493	146,379	129,817
Prepayments		48,635	11,031	15,631
Property and equipment	11	287,886	262,053	257,188
Intangible assets		48,190	33,929	28,912
Investments in subsidiaries	12	159,888	134,228	133,863
Investments in associates		11,031	9,626	-
Goodwill	13	33,453	33,453	33,453
Current income tax assets		-	18,505	-
Other assets	15	100,533	83,417	121,913
Total assets		**12,093,675**	**10,310,445**	**8,615,299**
Liabilities				
Amounts due to customers	16	6,815,768	5,546,947	4,752,210
Amounts due to credit institutions and other borrowings	17	2,969,635	3,262,571	1,589,799
Debt securities issued	18	694,993	153,145	940,945
Current income tax liabilities		8,386	-	9,658
Deferred income tax liabilities	14	7,602	18,436	67,753
Provisions	19	2,816	3,008	2,243
Other liabilities	15	57,923	49,904	39,343
Total liabilities		**10,557,123**	**9,034,011**	**7,401,951**
Equity	20			
Share capital		27,821	27,821	27,821
Additional paid-in capital		140,358	216,030	297,300
Treasury shares		(9)	(9)	(3)
Other reserves		29,216	25,493	(31,498)
Retained earnings		1,339,166	1,007,099	919,728
Total equity		**1,536,552**	**1,276,434**	**1,213,348**
Total liabilities and equity		**12,093,675**	**10,310,445**	**8,615,299**

Signed and authorised for release on behalf of the Management Board:

Kaha Kiknavelidze — Chief Executive Officer



David Tsiklauri — Chief Financial Officer

16 August 2018

The accompanying notes on pages 6 to 67 are an integral part of these Separate Financial Statements.

SEPARATE INCOME STATEMENT

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016
Interest income			
Loans to customers		919,957	757,777
Investment securities – available-for-sale		106,017	87,835
Amounts due from credit institutions		16,355	6,147
Finance lease receivables		952	316
		1,043,281	**852,075**
Interest expense			
Amounts due to customers		(209,151)	(180,689)
Amounts due to credit institutions and other borrowings		(181,988)	(126,184)
Debt securities issued		(41,069)	(40,618)
		(432,208)	**(347,491)**
Net interest income		**611,073**	**504,584**
Fee and commission income		183,131	158,121
Fee and commission expense		(71,268)	(55,694)
Net fee and commission income	21	**111,863**	**102,427**
Net real estate revenue	22	5,989	8,433
Net gain from investment securities available-for-sale		2,121	2,093
Net gain (loss) from other derivative financial instruments		1,479	(634)
Net gain from revaluation of investment properties	10	6,200	-
Net gain from foreign currencies:			
– dealing		57,617	58,113
– translation differences		17,015	18,309
Net other operating (expense) income		(1,297)	1,840
Other operating non-interest income		**89,124**	**88,154**
Revenue		**812,060**	**695,165**
Salaries and other employee benefits	23	(170,467)	(141,209)
General and administrative expenses	23	(83,278)	(69,443)
Depreciation and amortization		(37,153)	(33,681)
Other operating expenses		(2,575)	(2,959)
Operating expenses		**(293,473)**	**(247,292)**
Operating income before cost of credit risk		**518,587**	**447,873**
Impairment charge on loans to customers	9	(146,696)	(140,507)
(Impairment charge) reversal of impairment on finance lease receivables		(93)	19
Impairment charge on other assets and provisions		(11,251)	(4,858)
Cost of credit risk		**(158,040)**	**(145,346)**
Net operating income before non-recurring items		**360,547**	**302,527**
Net non-recurring items	24	(3,538)	(47,751)
Profit before income tax (expense) benefit		**357,009**	**254,776**
Income tax (expense) benefit	14	(24,942)	33,192
Profit for the year		**332,067**	**287,968**
Basic and diluted earnings per share	20	**11.9396**	**10.3519**

The accompanying notes on pages 6 to 67 are an integral part of these Separate Financial Statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016
Profit for the year		**332,067**	**287,968**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
– Unrealized revaluation of available-for-sale securities		3,142	59,084
– Realised gain on available-for-sale securities redassified to the separate income statement		(2,121)	(2,093)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**1,021**	**56,991**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
– Revaluation of property and equipment transferred to investment properties	11	3,483	-
Income tax effect	14	(781)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**2,702**	**-**
Other comprehensive income for the year		**3,723**	**56,991**
Total comprehensive income for the year		**335,790**	**344,959**

The accompanying notes on pages 6 to 67 are an integral part of these Separate Financial Statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*
1 January 2016	**27,821**	**297,300**	**(3)**	**(31,498)**	**919,728**	**1,213,348**
Profit for the year	-	-	-	-	287,968	287,968
Other comprehensive gain for the year	-	-	-	56,991	-	56,991
Total comprehensive income	**-**	**-**	**-**	**56,991**	**287,968**	**344,959**
Increase in equity arising from share-based payments	-	38,195	-	-	-	38,195
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(200,597)	(200,597)
Contributions under share-based payment plan (Note 25)	-	(119,465)	(6)	-	-	(119,471)
31 December 2016	**27,821**	**216,030**	**(9)**	**25,493**	**1,007,099**	**1,276,434**
Profit for the year	-	-	-	-	332,067	332,067
Other comprehensive gain for the year	-	-	-	3,723	-	3,723
Total comprehensive income	**-**	**-**	**-**	**3,723**	**332,067**	**335,790**
Increase in equity arising from share-based payments	-	50,394	-	-	-	50,394
Contributions under share-based payment plan (Note 25)	-	(126,066)	-	-	-	(126,066)
31 December 2017	**27,821**	**140,358**	**(9)**	**29,216**	**1,339,166**	**1,536,552**

The accompanying notes on pages 6 to 67 are an integral part of these Separate Financial Statements.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016
Cash flows from (used in) operating activities			
Interest received		1,024,276	839,029
Interest paid		(429,429)	(385,048)
Fees and commissions received		170,758	152,792
Fees and commissions paid		(71,268)	(55,694)
Net cash inflow from real estate		5,673	12,403
Net realised gains from foreign currencies		57,617	58,113
Recoveries of loans to customers previously written off	9	52,792	36,244
Other expenses paid		(15,559)	(55,880)
Salaries and other employee benefits paid		(118,083)	(109,717)
General and administrative and operating expenses paid		(68,042)	(68,031)
Cash flows from operating activities from continuing operations before changes in operating assets and liabilities		**608,735**	**424,211**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		(287,274)	(143,247)
Loans to customers		(1,416,089)	(704,309)
Finance lease receivables		4,916	3,707
Prepayments and other assets		(10,482)	7,318
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions and other borrowings		(261,521)	1,557,452
Debt securities issued		561,320	(853,466)
Amounts due to customers		1,350,109	432,470
Other liabilities		17,217	2,628
Net cash flows from operating activities before income tax		**566,931**	**726,764**
Income tax paid		(9,666)	(44,326)
Net Cash flow from operating activities		**557,265**	**682,438**
Cash flows from (used in) investing activities			
Acquisition of subsidiaries	12	(10,066)	-
Repayment of remaining holdback amounts from previous year acquisitions		-	(8,768)
Net purchase of investment securities available-for-sale		(333,146)	(230,953)
Proceeds from sale of investment properties		11,067	4,384
Proceeds from sale of property and equipment and intangible assets		923	806
Purchase of property and equipment and intangible assets		(101,861)	(44,022)
Net cash flows used in investing activities		**(433,083)**	**(278,553)**
Cash flows from (used in) financing activities			
Dividends paid		(211)	(200,099)
Contributions under share-based payment plan	25	(126,066)	(119,471)
Purchase of additional interests in existing subsidiaries		(17,793)	(365)
Net cash used in financing activities		**(144,070)**	**(319,935)**
Effect of exchange rates changes on cash and cash equivalents		1,803	69,639
Net (decrease) increase in cash and cash equivalents		**(18,085)**	**153,589**
Cash and cash equivalents, beginning	6	**1,419,966**	**1,266,377**
Cash and cash equivalents, ending	6	**1,401,881**	**1,419,966**

The accompanying notes on pages 6 to 67 are an integral part of these Separate Financial Statements.

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 2017 the Bank has 286 operating outlets in all major cities of Georgia (31 December 2016: 278, 1 January 2016: 266). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

Primary business activities of the Bank include providing banking services to corporate and individual customers.

As at 31 December 2017, JSC BGEO Group was the principal shareholder of the Bank, owning 99.55% of the Bank's shares. The remaining 0.45% of the shares were listed on the Georgian Stock Exchange. JSC BGEO Group was itself fully owned by BGEO Group PLC ("BGEO PLC") that is a public limited liability company incorporated in England and Wales and represents the ultimate parent company of the Bank. As at 31 December 2017, the shares of BGEO Group PLC were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012.

As at 31 December 2017, 31 December 2016 and 1 January 2016 JSC BGEO, was the principal shareholder of the Bank:

Shareholder	*31 December 2017*	*31 December 2016*	*1 January 2016*
JSC BGEO Group	99.55%	99.55%	99.52%
Others*	0.45%	0.45%	0.48%
Total	**100.00%**	**100.00%**	**100.00%**

**** Shares listed on Georgian Stock Exchange.***

As at 31 December 2017, 31 December 2016 and 1 January 2016 the principal holdings of the Bank were as follows:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	*31 December 2017*	*31 December 2016*	*1 January 2016*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO	100.00%	100.00%	100.00%	Georgia	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	Information Sharing and Market Research	9/2/2009	–
Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	100.00%	Georgia	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	100.00%	100.00%	100.00%	Georgia	Education	15/10/2013	–
Privat Guard, LLC	-	-	100.00%	Georgia	Security	–	21/1/2015
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
⇒ JSC Belarusky Narodny Bank	99.98%	79.99%	79.99%	Belarus	Banking	16/4/1992	3/6/2008
⇒ BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC (a)	100.00%	-	-	Georgia	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing (a)	100.00%	-	-	Georgia	Leasing	27/1/2012	21/1/2015

	Proportion of voting rights and ordinary share capital held						
Associates	*31 December 2017*	*31 December 2016*	*1 January 2016*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
JSC Credit info	21.08%	19.11%	16.63%	Georgia	Financial Intermediation	14/2/2005	14/2/2005

(a) In June 2017 the Bank acquired Georgian Leasing Company ("GLC")

2. Basis of Preparation

General

These separate financial statements, for the year ended 31 December 2017, are the first the Bank has prepared and they are 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 2017 reporting. These separate financial statements have been prepared in accordance with the requirements of the Order No. 15 of the Service for Accounting, Reporting and Auditing Supervision ("SARAS"), dated 18 September 2017. The Bank has applied exemptions provided by IFRS 1 with regard to currency translation reserve which it deemed to be zero at the date of transition to IFRS.

On 27 April 2018, the Bank has prepared consolidated financial statements, for the year ended 31 December 2017, 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 2017 reporting. These consolidated financial statements are available on the Bank's official website (www.bankofgeorgia.ge).

The Bank is required to maintain records and prepare financial statements for regulatory purposes in Georgian Lari. These Separate 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.
- the measurement of inventories 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 Bank's Management Board has made an assessment of the Bank'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 Bank'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.

3. Summary of Significant Accounting Policies

Mergers with subsidiaries and goodwill

The investment in the subsidiary is initially measured at cost. Giving up the shares for the underlying assets is essentially a change in perspective of the parent of its investment, from a 'direct equity interest' to 'the reported results and net assets.' Hence, at the date of legal merger the values recognised in the combined financial statements become the cost of these assets for the parent. The acquired assets (including investments in subsidiaries, associates, or joint ventures held by the merged subsidiary) and assumed liabilities are recognised at the carrying amounts in the combined financial statements as of the date of the legal merger. This includes any associated goodwill, intangible assets, or other adjustments arising from measurement at fair value upon acquisition that were recognised when the subsidiary was originally acquired, less the subsequent related amortisation, depreciation, impairment losses, as applicable.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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.

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 merger with the subsidiary is, from the merger date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the merger, irrespective of whether other assets or liabilities of the Bank 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 Bank at which 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)

Investments in subsidiaries

Investments in subsidiaries, including those acquired through common control transactions, are measured at acquisition cost less impairment losses, if any.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not 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 Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When available for sale investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognized in other comprehensive income is reclassified in profit or loss.

Fair value measurement

The Bank 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 27.

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 Bank. 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 Bank 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 Bank 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 Bank 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 Bank 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 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 income statement. However, interest calculated using the effective interest method is recognised in the income statement.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognized 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 income statements as gains less losses from foreign currencies translation difference.

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 Bank 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 Bank 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 Bank 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 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 Bank 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 income statement when the borrowings are derecognised as well as through the amortisation process.

If the Bank 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 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 – Bank as lessor

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. The Bank recognises finance lease receivables in the 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 – Bank 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 – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the 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 Bank 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 Bank 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 Bank 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 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 Bank. 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 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 Bank'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 Bank 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 income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the 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 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 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 income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

A renegotiated loan is a loan for which the terms have been modified or for which additional collateral has been requested that was not contemplated in the original contract in response to a customer's financial difficulties.

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. When the contractual payment terms of a loan are modified because we have significant concerns about the borrower's ability to meet contractual payments when due, these loans are classified as 'renegotiated loans'. Indicators of financial difficulties include defaults on covenants, significant arrears for 30 days or more in a three-month period, or concerns raised by the Credit Risk Department. Typical key features of terms and conditions granted through renegotiation to avoid default include special interest rates, postponement of interest or amortization payments, modification of the schedule of repayments or amendment of loan maturity. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

For the purposes of measuring credit losses within the collective loan loss assessment, these loans are not segregated from other loans which have not been renegotiated. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired.

Once a loan in retail book is identified as renegotiated, it remains within this category until maturity or de-recognition from the balance sheet unless the customer is able to cure the break by making 6 regular payments on time. Corporate loans retain renegotiated loan designation until maturity or de-recognition unless borrower experiences significant credit improvement during the remaining life of the loan. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank'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 income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Separate Financial Statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank'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 income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost of 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 realizable 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 of Georgia. It represents the sum of the current and deferred tax expenses.

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. 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.

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.

Georgia also has various operating taxes that are assessed on the Bank'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 Bank 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 Bank's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within net real estate revenues. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented as net gains or losses from revaluation of investment properties.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank 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 propertyand equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3. Summary of Significant Accounting Policies (continued)

Property and equipment

Property and equipment 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.

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.

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
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.

Intangible assets

The Bank'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 merger with subsidiaries is fair value as at the date of the merger. 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 Bank 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.

Provisions

Provisions are recognised when the Bank 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.

3. Summary of Significant Accounting Policies (continued)

Retirement and other employee benefit obligations

The Bank provides management and employees of the Bank with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Bank. The Bank 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 Bank. 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 Bank 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 Bank's best estimate of the number of equity instruments that will ultimately vest. The 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 merger with subsidiaries, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank purchases the Bank'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 Separate Financial Statements are authorised for issue.

3. Summary of Significant Accounting Policies (continued)

Contingencies

Contingent liabilities are not recognised in the 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 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 Bank 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 Bank 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 Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Non-recurring items

The Bank separately classifies and discloses those income and expenses that are non-recurring by nature. The Bank defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Bank and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of future results.

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation

The Separate Financial Statements are presented in Georgian Lari, which is the Bank's presentation currency. The Bank's functional currency is Georgian Lari. 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 income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2017, 31 December 2016 and 1 January 2016 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2017	3.5005	2.5922	3.1044	1.3083
31 December 2016	3.2579	2.6468	2.794	1.3532
1 January 2016	3.5492	2.3949	2.6169	1.2904

Exemptions applied

Currency translation reserve that has been recorded initially upon the functional currency change on 1 January 2015 is deemed to be zero as at 1 January 2016.

Standards issued but not yet effective

Up to the date of approval of the Separate 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 Bank has not early adopted. Such standards that are expected to have an impact on the Bank, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

Introduction

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 for annual periods on or after 1 January 2018, with early application permitted. In 2016, the Bank set up a multidisciplinary implementation team with members from Risk, Finance and Operations teams and hired an external consultant to initiate the implementation of IFRS 9. The project was sponsored by Chief Risk and Chief Financial Officers who provided regular updates to the Bank's Management Board. Implementation consisted of six key phases: the initial assessment and analysis, design, build, testing, parallel running and go live. Currently the Bank has completed the IFRS 9 implementation programme including building of the new expected credit loss model and approving the IFRS 9 accounting policy across the Bank.

The Bank will adopt the new standard from the effective date by recognizing the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. Based on the data as at 31 December 2017, the Bank estimates that the adoption of IFRS 9 will result in a pre-tax decrease in shareholders' equity as at 1 January 2018 of approximately GEL 28,505. IFRS 9 is not expected to have an impact on regulatory capital and capital adequacy ratios (regulatory capital requirements in Georgia are set by the National Bank of Georgia and are applied to the Bank on a stand-alone basis).

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, expect equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments, fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments and amortized cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

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

The Bank expects to continue measuring at fair value all financial assets currently held at fair value. Investments in debt securities and equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income will continue to be measured at fair value through other comprehensive income. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) Impairment of financial assets

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. The Bank has determined that the allowance for impairment will increase by GEL 28,187.

In summary, the pre-tax impact of IFRS 9 adoption is expected to be, as follows:

Pre-tax impact on equity (increase/(decrease)) as of 31 December 2017:

	Adjustment	Amount
Assets		
Cash and cash equivalents	(b)	(67)
Amounts due from credit institutions	(b)	(514)
Loans to customers and finance lease receivables	(b)	(27,606)
Other assets	(b)	2
Total assets		**(28,185)**
Liabilities		
Other liabilities - provisions	(b)	320
Total liabilities		**320**
Total equity		**(28,505)**

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Bank is currently evaluating the impact.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach. The Bank will adopt modified retrospective approach. Anticipated impact of adoption is expected to be approximately GEL 15,759 decrease to shareholders' equity, with corresponding increase of accruals and deferred income and decrease in deferred tax liabilities. The Bank's revenue streams affected by transition to IFRS 15 will mostly include fee and commission income from credit card transactions and fee and commission income under certain transactions involving loyalty programs. For revenue streams, part of the revenue will be deferred under IFRS 15 requirements until satisfaction of respective performance obligations, which are expected over the anticipated term of credit cards issued and settlement or expiration of bonus points under loyalty programs.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its Separate Financial Statements.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Amendment is effective for annual periods beginning on or after 1 January 2018. The Bank is currently assessing the impact.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Annual Improvements 2016-2017 Cycle

IAS 12, Income Taxes

The amendment to IAS 12 clarifies that the income tax consequences (if any) of dividends as defined in IFRS 9 (i.e. distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:
• at the same time as the liability to pay those dividends is recognised; and
• in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

The amendment to IAS 12 is effective for periods beginning on or after 1 January 2019, although earlier application is permitted. Entities must apply the amendment to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period presented. The Bank is currently assessing the impact.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. The Bank does not expect a material effect from application of these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its separate financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank is currently assessing the impact.

4. Significant Accounting Judgements and Estimates

In the process of applying the Bank's accounting policies, the board of directors and management use their judgment and make estimates in determining the amounts recognised in the Separate 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 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 27).

Measurement of fair value of investment properties

The fair value of investment properties 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 Bank performs valuation of its investment properties with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in note 10, while valuation inputs and techniques are presented in note 27. The Bank's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for impairment of loans and finance lease receivables

The Bank regularly reviews its loans and finance lease receivables to assess impairment. The Bank 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 Bank 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 Bank uses its judgment to adjust observable data for a group of loans and finance lease receivables to reflect current circumstances.

The Bank 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 expert judgment or independent opinion to adjust the fair value to reflect current conditions. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Information about allowance for impairment of loans is presented in Note 9.

5. Segment Information

For management purposes, the Bank is organised into the following operating segments based on products and services as follows:

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;

Corporate Banking - Principally providing loans and other credit facilities to high net worth individuals as well as other legal entities, larger than SME and Micro, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers;

Investment Management - Principally providing private banking services to resident and non-resident wealthy individuals as well as their direct family members by ensuring an individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory services;

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 Separate Financial Statements.

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

The Bank's operations are primarily concentrated in Georgia.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2017 or 2016.

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Bank's operating segments as at and for the year ended 31 December 2017:

	Corporate banking	*Retail banking*	*Investment management*	*Total*
Net interest income	104,894	480,823	25,356	611,073
Net fees and commission income	22,783	88,351	729	111,863
Net real estate gain (loss)	4,435	1,585	(31)	5,989
Net gains from foreign currencies	44,331	27,939	2,362	74,632
Other revenues	4,031	4,451	21	8,503
Revenue	**180,474**	**603,149**	**28,437**	**812,060**
Operating expenses	(58,339)	(224,891)	(10,243)	(293,473)
Operating income before cost of credit risk	**122,135**	**378,258**	**18,194**	**518,587**
Cost of credit risk	(47,480)	(110,564)	4	(158,040)
Net operating income before non-recurring items	**74,655**	**267,694**	**18,198**	**360,547**
Net non-recurring items	(757)	(2,585)	(196)	(3,538)
Profit before income tax expense	**73,898**	**265,109**	**18,002**	**357,009**
Income tax expense	(5,360)	(18,276)	(1,306)	(24,942)
Profit for the year	**68,538**	**246,833**	**16,696**	**332,067**
Assets and liabilities				
Total assets	4,205,149	7,855,478	33,048	12,093,675
Total liabilities	3,676,155	6,857,614	23,354	10,557,123
Other segment information				
Property and equipment	5,531	41,655	568	47,754
Intangible assets	2,532	18,759	218	21,509
Capital expenditure	**8,063**	**60,414**	**786**	**69,263**
Depreciation	(3,464)	(26,085)	(356)	(29,905)
Amortization	(853)	(6,322)	(73)	(7,248)

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Bank's operating segments as at and for the year ended 31 December 2016:

	Corporate banking	*Retail banking*	*Investment management*	*Total*
Net interest income	109,303	374,216	21,065	504,584
Net fees and commission income	25,346	76,371	710	102,427
Net real estate gain (loss)	5,845	2,595	(7)	8,433
Net gains from foreign currencies	46,887	26,604	2,931	76,422
Other revenues	2,506	788	5	3,299
Revenue	**189,887**	**480,574**	**24,704**	**695,165**
Operating expenses	(52,768)	(185,401)	(9,123)	(247,292)
Operating income before cost of credit risk	**137,119**	**295,173**	**15,581**	**447,873**
Cost of credit risk	(70,075)	(75,690)	419	(145,346)
Net operating income before non-recurring items	**67,044**	**219,483**	**16,000**	**302,527**
Net non-recurring items	(13,559)	(32,647)	(1,545)	(47,751)
Profit before income tax benefit	**53,485**	**186,836**	**14,455**	**254,776**
Income tax benefit	10,359	21,733	1,100	33,192
Profit for the year	**63,844**	**208,569**	**15,555**	**287,968**
Assets and liabilities				
Total assets	4,174,269	6,087,060	49,116	10,310,445
Total liabilities	3,667,335	5,332,378	34,298	9,034,011
Other segment information				
Property and equipment	4,326	28,713	459	33,498
Intangible assets	1,368	9,041	115	10,524
Capital expenditure	**5,694**	**37,754**	**574**	**44,022**
Depreciation	(3,638)	(24,150)	(386)	(28,174)
Amortization	(716)	(4,731)	(60)	(5,507)

6. Cash and Cash Equivalents

	2017	2016	1 January 2016
Cash on hand	433,639	450,580	402,110
Current accounts with central banks, excluding obligatory reserves	45,294	126,673	119,903
Current accounts with other credit institutions	165,142	434,500	383,657
Time deposits with credit institutions with maturity of up to 90 days	757,806	408,213	360,707
Cash and cash equivalents	**1,401,881**	**1,419,966**	**1,266,377**

As at 31 December 2017 GEL 921,612 (2016: GEL 806,945, 1 January 2016: GEL 647,192) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Bank in performing international settlements. The Bank earned up to 2.00% interest per annum on these deposits (2016: up to 0.90%, 1 January 2016: up to 0.59%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts Due from Credit Institutions

	2017	2016	1 January 2016
Obligatory reserves with central banks	996,617	933,600	618,337
Time deposits with maturity of more than 90 days	209,227	38	3,722
Deposits pledged as security for open commitments	-	-	96,405
Inter-bank loan receivables	-	3,287	-
Amounts due from credit institutions	**1,205,844**	**936,925**	**718,464**

Obligatory reserves with central banks represent amounts deposited with the NBG. Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by the regulation. The Bank earned up to 1.00% interest on obligatory reserves with NBG for the years ended 31 December 2017 (2016: 0.25%, 1 January 2016: nil).

8. Investment Securities Available-for-Sale

	2017	2016	1 January 2016
Georgian ministry of Finance treasury bonds*	847,839	726,805	575,590
Georgian ministry of Finance treasury bills**	77,460	88,412	165,545
Certificates of deposit of central banks***	-	24,015	76,807
Other debt instruments****	614,844	359,650	84,003
Corporate shares	201	295	295
Investment securities available-for-sale	**1,540,344**	**1,199,177**	**902,240**

**** GEL 448,558 was pledged for short-term loans from the NBG (2016: GEL 712,169, 1 January 2016: GEL 229,800).***
***** GEL Nil was pledged for short-term loans from the NBG (2016: GEL 55,842, 1 January 2016: GEL 3,805).***
****** GEL Nil was pledged for short-term loans from the NBG (2016: GEL 9,402, 1 January 2016: 2,966);***
******* GEL 475,735 was pledged for short-term loans from the NBG (2016: GEL 286,832, 1 January 2016: GEL 79,187).***

Other debt instruments as at 31 December 2017 mainly comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 268,057 (2016: GEL 133,055, 1 January 2016: GEL 50,666), GEL denominated bonds issued by the International Finance Corporation of GEL 110,862, (2016: GEL 28,402, 1 January 2016: 28,460), GEL denominated bonds issued by the Asian Development Bank of GEL 65,245 (2016: GEL 64,921, 1 January 2016: Nil), GEL denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,625 (2016: GEL 60,454, 1 January 2016: Nil), USD denominated bonds issued by an internationally recognized investment bank of GEL 26,666 (2016: Nil, 1 January 2016: Nil) and other GEL 83,389 (2016: 72,818, 1 January 2016: 4,877).

9. Loans to Customers

	2017	*2016*	*1 January 2016*
Commercial loans	2,149,236	2,235,029	2,247,710
Consumer loans	1,734,751	1,357,075	1,155,955
Micro and SME loans	1,637,357	1,346,341	903,864
Residential mortgage loans	1,712,515	1,234,176	814,344
Gold – pawn loans	67,940	60,685	61,140
Loans to customers, gross	**7,301,799**	**6,233,306**	**5,183,013**
Less – Allowance for loan impairment	(237,905)	(211,672)	(177,844)
Loans to customers, net	**7,063,894**	**6,021,634**	**5,005,169**

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2017	*2017*	*2017*	*2017*	*2017*
At 1 January	**145,047**	**56,926**	**3,891**	**5,808**	**211,672**
Charge	38,061	80,304	2,700	25,631	146,696
Recoveries	9,980	23,483	8,151	11,178	52,792
Write-offs	(32,224)	(72,845)	(9,912)	(25,970)	(140,951)
Accrued interest on written-off loans	(10,746)	(16,649)	(768)	(4,141)	(32,304)
At 31 December	**150,118**	**71,219**	**4,062**	**12,506**	**237,905**
Individual impairment	145,347	610	2,427	2,173	150,557
Collective impairment	4,771	70,609	1,635	10,333	87,348
	150,118	**71,219**	**4,062**	**12,506**	**237,905**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**293,960**	**1,499**	**14,671**	**23,685**	**333,815**

	Commercial loans 2016	*Consumer loans 2016*	*Residential mortgage loans 2016*	*Micro and SME loans 2016*	*Total 2016*
At 1 January	**119,621**	**49,429**	**6,061**	**2,733**	**177,844**
Charge	67,424	63,926	3,899	5,258	140,507
Recoveries	3,525	21,632	4,003	7,084	36,244
Write-offs	(41,625)	(65,597)	(8,597)	(8,625)	(124,444)
Accrued interest on written-off loans	(3,898)	(12,464)	(1,475)	(642)	(18,479)
At 31 December	**145,047**	**56,926**	**3,891**	**5,808**	**211,672**
Individual impairment	134,721	273	2,272	1,501	138,767
Collective impairment	10,326	56,653	1,619	4,307	72,905
	145,047	**56,926**	**3,891**	**5,808**	**211,672**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**448,559**	**751**	**11,869**	**18,505**	**479,684**

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2017 comprised GEL 14,960 (2016: GEL 25,913).

9. Loans to Customers (continued)

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 Bank'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 Bank does not occupy repossessed properties for business use.

Without taking into account discounted value of collateral, allowance for loan impairment would be GEL 253,818 higher as at 31 December 2017 (2016: GEL 322,880, 1 January 2016: GEL 176,759 higher).

Concentration of loans to customers

As at 31 December 2017, the concentration of loans granted by the Bank to the ten largest third party borrowers comprised GEL 671,120 accounting for 9% of the gross loan portfolio of the Bank (2016: GEL 580,343 and 9% respectively, 1 January 2016: GEL 708,839 and 14% respectively). An allowance of GEL 41,207 (2016: GEL 17,203, 1 January 2016: GEL 2,484) was established against these loans.

As at 31 December 2017, the concentration of loans granted by the Bank to the ten largest third party group of borrowers comprised GEL 860,946 accounting for 12% of the gross loan portfolio of the Bank (2016: GEL 965,964 and 15% respectively, 1 January 2016: GEL 1,128,146 and 22% respectively). An allowance of GEL 73,269 (2016: GEL 35,049, 1 January 2016: GEL 41,410) was established against these loans.

As at 31 December 2017, 31 December 2016 and 1 January 2016 loans are principally issued within Georgia, and their distribution by the types of customers was as follows:

	2017	*2016*	*1 January 2016*
Private companies	3,021,038	2,885,315	2,670,065
Individuals	4,280,761	3,326,370	2,473,182
State-owned entities	-	21,621	39,766
Loans to customers, gross	**7,301,799**	**6,233,306**	**5,183,013**
Less – allowance for loan impairment	(237,905)	(211,672)	(177,844)
Loans to customers, net	**7,063,894**	**6,021,634**	**5,005,169**

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2017, 31 December 2016 and 1 January 2016 distribution of Loans to Customers by industry sector was as follows:

	2017	*2016*	*1 January 2016*
Individuals	4,280,761	3,326,370	2,473,182
Trade	625,750	652,436	587,749
Manufacturing	637,652	582,651	665,586
Construction	346,824	278,359	166,351
Real estate	325,050	326,856	264,905
Hospitality	278,163	227,392	157,856
Service	196,838	168,455	223,658
Mining and quarrying	104,799	114,115	127,391
Transport & Communication	96,400	146,671	149,806
Electricity, gas and water supply	84,727	34,835	77,331
Financial intermediation	51,342	125,453	75,323
Other	273,493	249,713	213,875
Loans to customers, gross	**7,301,799**	**6,233,306**	**5,183,013**
Less – allowance for loan impairment	(237,905)	(211,672)	(177,844)
Loans to customers, net	**7,063,894**	**6,021,634**	**5,005,169**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2017 and 31 December 2016:

	2017			*2016*		
	Individual impairment	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*
	2017	*2017*	*2017*	*2016*	*2016*	*2016*
At 1 January	**138,767**	**72,905**	**211,672**	**121,099**	**56,745**	**177,844**
Charge for the year	50,856	95,840	146,696	60,480	80,027	140,507
Recoveries	10,948	41,844	52,792	7,884	28,360	36,244
Write-offs	(39,246)	(101,705)	(140,951)	(45,302)	(79,142)	(124,444)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)	(5,394)	(13,085)	(18,479)
At 31 December	**150,557**	**87,348**	**237,905**	**138,767**	**72,905**	**211,672**

10. Investment Properties

	2017	*2016*
At 1 January	**146,379**	**129,817**
Additions*	59,520	22,835
Disposals	(10,667)	(4,384)
Net gains from revaluation of investment property	6,200	-
Transfers from (to) property and equipment and other assets**	(15,939)	(1,889)
At 31 December	**185,493**	**146,379**

**** All additions of 2017 and 2016 comprise foreclosed properties, no cash transactions were involved.***
***** Comprised of GEL 4,396 transfer to property and equipment (2016: transfers to property and equipment GEL 351), Nil transfer to other assets - inventories (2016: Nil transfer to other assets – inventories) and GEL 11,490 transfer to finance lease receivables (2016: transfer to finance lease receivable GEL 1,538).***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2017 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 27 for details on fair value measurements of investment properties.

The Bank 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.

11. Property and Equipment

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Land, office buildings & service centres	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2016	**170,153**	**176,040**	**59,876**	**5,969**	**14,139**	**2,626**	**428,803**
Additions	-	20,471	11,820	954	-	14,509	47,754
Disposals	(698)	(195)	(65)	(84)	(3,779)	-	(4,821)
Transfers	11,040	-	-	-	7,007	(18,047)	-
Transfers from (to) investment properties	(4,115)	-	-	206	-	8,305	4,396
Transfers from (to) other assets	40	(735)	(1,365)	-	232	153	(1,675)
Revaluation*	3,197	-	-	-	-	286	3,483
31 December 2017	**179,617**	**195,581**	**70,266**	**7,045**	**17,599**	**7,832**	**477,940**
Accumulated impairment							
31 December 2016	**1,359**	**-**	**-**	**-**	**-**	**-**	**1,359**
Impairment charge	-	-	-	-	-	-	-
31 December 2017	**1,359**	**-**	**-**	**-**	**-**	**-**	**1,359**
Accumulated depreciation							
31 December 2016	**14,135**	**101,589**	**41,370**	**3,002**	**5,295**	**-**	**165,391**
Depreciation charge	1,834	15,839	7,539	1,018	3,675	-	29,905
Transfers to investment properties	(53)	-	-	-	-	-	(53)
Transfers (to) from other assets	(171)	(1,238)	(1,242)	-	-	-	(2,651)
Disposals	(291)	(83)	(37)	(38)	(3,448)	-	(3,897)
31 December 2017	**15,454**	**116,107**	**47,630**	**3,982**	**5,522**	**-**	**188,695**
Net book value:							
31 December 2016	**154,659**	**74,451**	**18,506**	**2,967**	**8,844**	**2,626**	**262,053**
31 December 2017	**162,804**	**79,474**	**22,636**	**3,063**	**12,077**	**7,832**	**287,886**

**** GEL 3,483 was recognized on property and equipment transferred to investment properties (2016: nil).***

11. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2016 were as follows:

	Land, office buildings & service centres	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
1 January 2016	**167,628**	**159,856**	**52,117**	**6,123**	**13,115**	**2,286**	**401,125**
Additions	-	17,018	8,622	2,164	-	5,694	33,498
Disposals	-	(74)	(6)	(2,319)	(2,660)	-	(5,059)
Transfers	2,174	-	-	-	3,684	(5,858)	-
Transfers from investment properties	351	-	-	-	-	-	351
Transfers from (to) other assets	-	(760)	(857)	1	-	504	(1,112)
31 December 2016	**170,153**	**176,040**	**59,876**	**5,969**	**14,139**	**2,626**	**428,803**
Accumulated impairment							
1 January 2016	**1,359**	**-**	**-**	**-**	**-**	**-**	**1,359**
Impairment charge	-	**-**	**-**	**-**	**-**	**-**	-
31 December 2016	**1,359**	**-**	**-**	**-**	**-**	**-**	**1,359**
Accumulated depreciation							
1 January 2016	**11,928**	**86,313**	**35,370**	**3,745**	**5,222**	**-**	**142,578**
Depreciation charge	2,207	15,700	6,707	882	2,678	-	28,174
Transfers from (to) other assets	-	(414)	(694)	-	-	**-**	(1,108)
Disposals	-	(10)	(13)	(1,625)	(2,605)	-	(4,253)
31 December 2016	**14,135**	**101,589**	**41,370**	**3,002**	**5,295**	**-**	**165,391**
Net book value:							
1 January 2016	**154,341**	**73,543**	**16,747**	**2,378**	**7,893**	**2,286**	**257,188**
31 December 2016	**154,659**	**74,451**	**18,506**	**2,967**	**8,844**	**2,626**	**262,053**

12. Investments in subsidiaries

Cost of shares of the investments in subsidiaries are as follows:

	2017	*2016*	*1 January 2016*
Bank of Georgia Representative Office UK Limited	-	-	-
Tree of Life Foundation NPO	-	-	-
Bank of Georgia Representative Office Hungary	4,135	3,149	3,149
Representative Office of JSC Bank of Georgia in Turkey	-	-	-
Georgia Financial Investments, LLC	3,577	3,577	3,577
Professional Basketball Club Dinamo Tbilisi, LLC	2,250	1,850	1,710
Teaching University of Georgian Bank, LLC	2,281	2,056	1,831
Privat Guard, LLC	-	-	-
Benderlock Investments Limited	58,745	57,110	57,110
JSC Belarusky Narodny Bank	66,486	66,486	66,486
Georgian Leasing Company, LLC	22,414	-	-
Investments in subsidiaries	**159,888**	**134,228**	**133,863**

The Bank assessed impairment indicators for all the subsidiaries. No such impairment indicators have been identified as at 31 December 2017, 31 December 2016 and 1 January 2016.

12. Investments in subsidiaries (continued)

The key combined financial figures of Benderlock Investments Limited and JSC Belarusky Narodny Bank as at 31 December 2017, 31 December 2016 and 1 January 2016 are as follows:

	2017	*2016*	*1 January 2016*
Total assets	678,063	596,577	543,942
Total equity	133,761	121,315	107,939
Total comprehensive income/(loss)	14,660	5,273	12,058
Cash paid	125,231	109,049	109,049
Increase of authorized capital through put option	-	14,547	14,547
Cost of acquisition	**125,231**	**123,596**	**123,596**

The key consolidated financial figures of Georgian Leasing Company, LLC as at 31 December are as follows:

	2017
Total assets	66,207
Total equity	17,693
Total comprehensive income/(loss)	1,840
Cost of acquisition*	**22,414**

*In 2017, loans and receivables to Georgian Leasing Company, LLC in amount of GEL 12,348 was converted into capital of subsidiary.

13. Goodwill

No movements have been identified in goodwill during the years ended 31 December 2017 and 31 December 2016.

Impairment test for goodwill

Goodwill acquired through mergers with subsidiaries with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	2017	*2016*	*1 January 2016*
Retail banking	23,488	23,488	23,488
Corporate banking	9,965	9,965	9,965
Total	**33,453**	**33,453**	**33,453**

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 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 CGUs.

The following discount rates were used by the Bank for Corporate Banking and Retail Banking:

	Corporate Banking			*Retail Banking*		
	2017, %	*2016, %*	*1 January 2016, %*	*2017, %*	*2016, %*	*1 January 2016, %*
Discount rate	4.5%	5.3%	5.8%	6.1%	6.9%	6.7%

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 pre-tax weighted average cost of capital ("pre-tax WACC").

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 reasonably possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2017. Possible change was taken as +/-1% in discount rate and growth rate.

14. Taxation

The corporate income tax benefit (expense) comprises:

	2017	*2016*
Current income tax expense	(36,557)	(16,125)
Deferred income tax benefit	11,615	49,317
Income tax (expense) benefit	**(24,942)**	**33,192**
Deferred income tax (expense) benefit in other comprehensive income	**(781)**	**-**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2017 and 2016 was as follows:

	2017	*2016*
Revaluation of property and equipment transferred to investment properties	(781)	-
Income tax (expense) benefit in other comprehensive income	**(781)**	**-**

The income tax rate applicable to the Bank's income is 15% (2016: 15%).

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Bank considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 31 December 2016. The Bank has calculated the portion of deferred taxes that it expects to utilise before 1 January 2019 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities. During the transitional period, between 1 January 2017 and 1 January 2019, no tax is payable on distributed profits from financial to non-financial businesses.

14. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2017 and 31 December 2016 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2017	*2016*
Profit before income tax (expense) benefit	**357,009**	**254,776**
Average tax rate	15%	15%
Theoretical income tax expense at average tax rate	**(53,551)**	**(38,216)**
Non-taxable income	18,729	12,078
Correction of prior year declarations	4,532	2,726
Effect from change in tax legislation	4,762	56,021
Non-deductible expenses	203	3,596
Other	383	(3,013)
Income tax (expense) benefit	**(24,942)**	**33,192**

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Bank 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.

Deferred tax assets and liabilities as at 31 December 2017 and 31 December 2016 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	1 January 2016	*In the income statement*	*In other compre-hensive income*	*2016*	*In the income statement*	*In other compre-hensive income*	*2017*
Tax effect of deductible temporary differences:							
Amounts due to credit institutions and other borrowings	482	(482)	-	-	-	-	-
Allowances for impairment and provisions for other losses	1,725	(1,725)	-	-	-	-	-
Other liabilities	-	1,704	-	1,704	(574)	-	1,130
Deferred tax assets	**2,207**	**(503)**	**-**	**1,704**	**(574)**	**-**	**1,130**
Tax effect of taxable temporary differences:							
Amounts due to credit institutions and other borrowings	-	1,230	-	1,230	(469)	-	761
Loans to customers	25,328	(15,205)	-	10,123	(6,550)	-	3,573
Allowances for impairment and provisions for other losses	-	1,127	-	1,127	(293)	-	834
Property and equipment	29,295	(26,317)	-	2,978	(3,548)	781	211
Investment properties	4,578	(4,578)	-	-	-	-	-
Intangible assets	3,843	(3,843)	-	-	-	-	-
Other assets	6,916	(2,234)	-	4,682	(1,329)	-	3,353
Deferred tax liabilities	**69,960**	**(49,820)**	**-**	**20,140**	**(12,189)**	**781**	**8,732**
Net deferred tax liabilities	**(67,753)**	**49,317**	**-**	**(18,436)**	**11,615**	**(781)**	**(7,602)**

15. Other Assets and Other Liabilities

Other assets comprise:

	2017	*2016*	*1 January 2016*
Foreclosed assets	52,095	50,821	44,477
Inventory	16,146	5,771	5,251
Derivative financial assets	13,337	2,238	41,756
Receivables from money transfers	12,890	8,915	4,619
Receivables from documentary operations	27,048	18,650	17,617
Operating lease receivables	2,070	1,774	1,139
Accounts receivable	1,041	395	1,698
Settlements on operations	928	1,100	5,080
Receivables from sale of assets	798	482	4,452
Operating tax assets	171	1,471	295
Other	13,559	20,196	21,436
	140,083	**111,813**	**147,820**
Less – Allowance for impairment of other assets	(39,550)	(28,396)	(25,907)
Other assets	**100,533**	**83,417**	**121,913**

Other liabilities comprise:

	2017	*2016*	*1 January 2016*
Creditors	18,976	6,664	7,387
Accruals for employee compensation	16,581	14,591	11,728
Other taxes payable	6,215	3,291	1,156
Derivative financial liabilities	3,529	15,689	3,243
Dividends payable	1,064	1,276	779
Amounts payable for share acquisitions	-	-	9,248
Other	11,558	8,393	5,802
Other liabilities	**57,923**	**49,904**	**39,343**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2017		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	370,523	3,039	1,958
Forwards and Swaps – foreign	145,151	1,429	116
Interest rate contracts			
Forwards and Swaps – foreign	777,660	7,368	-
Options – foreign	10,183	1,501	1,455
Total derivative assets / liabilities	**1,303,517**	**13,337**	**3,529**

	2016			*1 January 2016*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and Swaps – domestic	347,458	2,098	8,012	12,510	183	10
Forwards and Swaps – foreign	243,916	140	7,043	64,320	41,538	510
Options – foreign	-	-	-	56,768	35	2,723
Interest rate contracts						
Forwards and Swaps – foreign	794,040	-	634	-	-	-
Total derivative assets / liabilities	**1,385,414**	**2,238**	**15,689**	**133,598**	**41,756**	**3,243**

16. Amounts Due to Customers

The amounts due to customers include the following:

	2017	*2016*	*1 January 2016*
Current accounts	3,613,887	2,804,147	2,346,240
Time deposits	3,127,415	2,668,572	2,405,102
Promissory notes issued	74,466	74,228	868
Amounts due to customers	**6,815,768**	**5,546,947**	**4,752,210**
Held as security against letters of credit and guarantees (Note 19)	**98,034**	**95,760**	**62,925**

As at 31 December 2017, 31 December 2016 and 1 January 2016, promissory notes issued by the Bank comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 23 month (2016: 16 months, 1 January 2016: 9 months).

At 31 December 2017, amounts due to customers of GEL 1,066,616 (16%) were due to the 10 largest customers (2016: GEL 761,093 (14%), 1 January 2016: GEL 834,215 (18%).

Amounts due to customers include accounts with the following types of customers:

	2017	*2016*	*1 January 2016*
Individuals	3,698,795	3,006,592	2,458,442
Private enterprises	2,652,686	2,402,883	2,103,388
State and state-owned entities	464,287	137,472	190,380
Amounts due to customers	**6,815,768**	**5,546,947**	**4,752,210**

The breakdown of customer accounts by industry sector is as follows:

	2017	*2016*	*1 January 2016*
Individuals	3,698,795	3,006,592	2,458,442
Financial intermediation	647,639	517,522	405,607
Trade	555,035	391,881	341,519
Government services	438,492	102,530	141,007
Service	307,076	381,837	328,821
Construction	255,329	275,521	234,947
Transport & Communication	242,516	196,175	301,482
Manufacturing	198,771	187,647	216,110
Electricity, gas and water supply	109,780	113,572	57,495
Real estate	84,428	116,283	52,573
Health and social work	68,846	45,461	106,916
Hospitality	41,703	21,424	18,413
Other	167,358	190,502	88,878
Amounts due to customers	**6,815,768**	**5,546,947**	**4,752,210**

17. Amounts Owed to Credit Institutions and Other Borrowings

Amounts due to credit institutions comprise:

	2017	*2016*	*1 January 2016*
Borrowings from international credit institutions	940,335	888,268	512,543
Short-term loans from the National Bank of Georgia	793,528	1,085,000	307,200
Time deposits and inter-bank loans	211,174	125,018	267,666
Correspondent accounts	209,499	333,155	92,753
Other borrowings*	386,426	408,771	14,547
Subtotal	**2,540,962**	**2,840,212**	**1,194,709**
Non-convertible subordinated debt	428,673	422,359	395,090
Amounts due to credit institutions and other borrowings	**2,969,635**	**3,262,571**	**1,589,799**

* Other borrowings comprise mainly of USD-denominated borrowing from JSC BGEO Group maturing in 2023.

During the year ended 31 December 2017, the Bank paid up to 6.27% on USD borrowings from international credit institutions (2016: up to 5.79%, 1 January 2016: up to 5.29%). During the year ended 31 December 2017 the Bank paid up to 8.92% on USD subordinated debt (2016: up to 8.44% and 1 January 2016: up to 7.95%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Bank maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2017, 31 December 2016 and 1 January 2016 the Bank complied with all the Lender Covenants of the significant borrowings from international credit institutions.

Changes in liabilities arising from financing activities

	Amounts due to credit institutions
Carrying amount at 1 January 2016	17,793
Accrual	17,793
Carrying amount at 31 December 2016	**17,793**
Cash repayments	(17,793)
Carrying amount at 31 December 2017	-

18. Debt Securities Issued

Debt securities issued comprise:

	2017	*2016*	*1 January 2016*
Eurobonds and notes issued	454,954	-	908,183
Certificates of deposit	240,039	153,145	32,762
Debt securities issued	**694,993**	**153,145**	**940,945**

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

19. Commitments and Contingencies

Legal

In the ordinary course of business, the Bank 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 Bank.

Financial commitments and contingencies

As at 31 December 2017, 31 December 2016 and 1 January 2016 the Bank's financial commitments and contingencies comprised the following:

	2017	*2016*	*1 January 2016*
Credit-related commitments			
Guarantees issued	602,364	429,929	448,254
Undrawn loan facilities	232,337	209,558	246,503
Letters of credit	42,152	49,047	42,510
	876,853	**688,534**	**737,267**
Operating lease commitments			
Not later than 1 year	18,877	17,803	12,586
Later than 1 year but not later than 5 years	46,638	44,107	26,739
Later than 5 years	18,486	18,713	5,526
	84,001	**80,623**	**44,851**
Capital expenditure commitments	**2,538**	**2,394**	**2,422**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(98,034)	(95,760)	(62,925)
Less – Provisions	(2,816)	(3,008)	(2,243)

20. Equity

Share capital

As at 31 December 2017, 31 December 2016 and 1 January 2016 authorized common capital comprised 43,308,125, issued share capital comprised 27,821,150 common shares, of which 27,821,150 were fully paid. Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2017 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
1 January 2016	**27,821,150**	**27,821**
31 December 2016	**27,821,150**	**27,821**
31 December 2017	**27,821,150**	**27,821**

20. Equity (continued)

Treasury shares

The number of treasury shares held by the Bank as at 31 December 2017 comprised 8,995 (31 December 2016: 8,995, 1 January 2016: 2,543).

Nominal amount of treasury shares of GEL 9 as at 31 December 2017 comprise the Bank's shares owned by the Bank (31 December 2016: GEL 9, 1 January 2016: GEL 3).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 29 November 2016, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2015 of Georgian Lari 3.59 per share. Payment of the total GEL 100,000 dividends was received by shareholders on 29 December 2016.

On 12 February 2016, the annual general meeting of shareholders' of JSC Bank of Georgia declared a final dividend for 2014 of Georgian Lari 3.48 per share. Payment of the total GEL 100,597 dividends was received by shareholders on 15 March 2016.

Nature and purpose of Other Reserves

Unrealised gains (losses) on investment securities
This reserve records fair value changes on investment securities.

Revaluation of property and equipment transferred to investment properties
This reserve records revaluation effect of property and equipment transferred to investment properties. The property and equipment is re-measured at fair value at the date of the transfer and any resulting revaluation gain or loss, being the difference between the fair value and the previous carrying amount, is accounted for as a revaluation surplus or deficit in equity.

Movements in other reserves during the years ended 31 December 2017 and 31 December 2016 are presented in the statements of other comprehensive income.

Earnings per share

Basic and diluted earnings per share	*2017*	*2016*
Profit for the year attributable to ordinary shareholders of the Bank	332,067	287,968
Weighted average number of ordinary shares outstanding during the year	27,812,155	27,817,934
Earnings per share	11.9396	10.3519

21. Net Fee and Commission Income

	2017	*2016*
Settlements operations	146,580	120,627
Guarantees and letters of credit	16,749	18,354
Cash operations	14,906	14,001
Currency conversion operations	274	404
Other	4,622	4,735
Fee and commission income	**183,131**	**158,121**
Settlements operations	(61,236)	(46,287)
Cash operations	(5,147)	(5,307)
Guarantees and letters of credit	(1,352)	(2,187)
Brokerage service fees	(206)	(227)
Currency conversion operations	-	-
Other	(3,327)	(1,686)
Fee and commission expense	**(71,268)**	**(55,694)**
Net fee and commission income	**111,863**	**102,427**

22. Net Real Estate Revenue

	2017	*2016*
Income from operating lease	3,453	5,865
Gain from sale of real estate properties	4,630	2,911
Real estate revenue	**8,083**	**8,776**
Loss on real estate property sale	(2,094)	(343)
Net real estate revenue	**5,989**	**8,433**

23. Salaries and Other Employee Benefits, and General and Administrative Expenses

Salaries and bonuses include GEL 50,394 and GEL 39,696 of the Equity Compensation Plan costs for the years ended 31 December 2017 and 31 December 2016, respectively, associated with the existing share-based compensation scheme approved in the Bank (Notes 25 and 29).

	2017	*2016*
Occupancy and rent	(22,739)	(17,824)
Marketing and advertising	(13,755)	(12,369)
Repairs and maintenance	(9,805)	(7,772)
Legal and other professional services	(7,150)	(7,024)
Operating taxes	(4,992)	(4,616)
Office supplies	(5,150)	(4,061)
Corporate hospitality and entertainment	(5,141)	(4,732)
Communication	(3,877)	(3,521)
Personnel training and recruitment	(3,386)	(1,619)
Insurance	(1,793)	(1,845)
Security	(1,976)	(1,350)
Travel expenses	(1,562)	(944)
Penalties	(49)	(17)
Other	(1,903)	(1,749)
General and administrative expenses	**(83,278)**	**(69,443)**

23. Salaries and Other Employee Benefits, and General and Administrative Expenses (continued)

Auditors' remuneration

Remuneration of Bank's auditor for the years ended 31 December 2017 and 31 December 2016 comprises (net of VAT):

	2017	*2016*
Fees for the audit of annual financial statements for the year ended 31 December	428	423
Expenditures for other assurance services	592	149
Expenditures for other professional services	-	115
Total fees and expenditures	**1,020**	**688**

Fees and expenditures payable to other auditors and audit firms in respect of other professional services GEL 192 (2016: GEL 2), net of VAT.

24. Net Non-recurring Items

	2017	*2016*
Gain from the sale of Class C and Class B shares of Visa Inc. and MasterCard, respectively	-	16,426
Gain on reclassification of AFS investment to investment in associate	-	9,626
Other non-recurring income/gain	-	516
Total non-recurring income/gain	**-**	**26,568**
Termination benefits / sign-up compensation expenses	(868)	(12,643)
Loss from full redemption of debt securities issued	-	(43,919)
Loss from early repayments of borrowings	-	(6,979)
Consulting costs	-	(5,258)
Impairment of prepayments	-	(2,205)
Other	(2,670)	(3,315)
Total non-recurring expense/loss	**(3,538)**	**(74,319)**
Net non-recurring items	**(3,538)**	**(47,751)**

25. Share-based Payments

Executives' Equity Compensation Plan

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Bank's Executives' Equity Compensation Plan ("EECP"). The Bank makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent

In 2017, the Bank contributed GEL 125,270 (2016: GEL 119,465) as intra-group recharge under share-based compensation schemes described above.

In February 2017, BGEO PLC's remuneration committee resolved to award 253,950 ordinary shares of BGEO PLC to the members of the Management Board and Supervisory Board and 70,550 ordinary shares of BGEO PLC to the Bank's 19 executives. Shares awarded to the Management Board, Supervisory Board and the other 19 executives are subject to two-year vesting for Management Board and Supervisory Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Bank considers 28 February 2017 as the grant date. The Bank estimates that the fair value of the shares awarded on 28 February 2017 was Georgian Lari 90.01 per share.

In February 2016, BGEO PLC's remuneration committee resolved to award 288,500 ordinary shares of BGEO PLC to the members of the Management Board and Supervisory Board and 52,600 ordinary shares of BGEO PLC to the Bank's 19 executives. Shares awarded to the Management Board, Supervisory Board and the other 19 executives are subject to two-year vesting for Management Board and Supervisory Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Bank considers 12 February 2016 as the grant date. The Bank estimates that the fair value of the shares awarded on 12 February 2016 was Georgian Lari 57.83 per share.

25. Share-based Payments (continued)

Executives' Equity Compensation Plan (Continued)

At the end of 2016 and during 2017, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 141,000 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 2018, of which each award will be subject to a four-year vesting period. The Bank considers 11 October 2016, 18 October 2016 and 1 March 2017 as the grant date for the awards. The Bank estimates that the fair value of the shares on 11 October 2016, 18 October 2016 and 1 March 2017 were Georgian Lari 86.4, 87.6 and 92.2, respectively.

At the end of 2015 and during 2016, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 225,000 ordinary shares of BGEO 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 Bank considers 30 December 2015 and 6 September 2016 as the grant date for the awards. The Bank estimates that the fair value of the shares on 30 December 2015 and 6 September 2016 were Georgian Lari 68.30 and 90.22, respectively.

The Bank grants share compensation to its non-executive employees too. In February 2017 and February 2016, the Supervisory Board of the Bank resolved to award 131,710 and 91,851 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 Bank considers 28 February 2017 and 12 February 2016 as the grant dates of these awards, respectively. The Bank estimates that the fair values of the shares awarded on 28 February 2017 and 12 February 2016 were Georgian Lari 90.01 and 57.83 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 89.79 per share in year ended 31 December 2017 (31 December 2016: Georgian Lari 66.60 per share, 1 January 2016: Georgian Lari 58.68).

The Bank's total share-based payment expenses for the year ended 31 December 2017 comprised GEL 50,393 (31 December 2016: GEL 39,696) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Below is the summary of the share-based payments related data:

	2017	*2016*
Total number of equity instruments awarded*	597,210	657,951
– Among them, to top management and board of directors	*394,950*	*513,500*
Weighted average value at grant date, per share (GEL in full amount)	89.79	66.60
Value at grant date, total (GEL)	**53,626**	**43,821**
Total expense recognised during the year (GEL)	**(50,393)**	**(39,696)**

26. Risk Management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank 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 Bank'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 Bank'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 Bank; oversee and monitor the implementation of the risk strategy by senior management to address the risk exposures of the Bank; review the effectiveness of the Bank's risk management framework and internal control systems (other than internal financial control systems which is the responsibility of the BGEO PLC's Audit Committee); assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Bank; ensure that risk is properly considered in setting the Bank's remuneration policy; oversee the communication regarding risk management through the entire management structure; review and approve the Bank's risk management policy.

Management Board
The Management Board has the responsibility to monitor and manage the entire risk process within the Bank, 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 overall financial structure of the Bank. 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 Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank'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 Bank'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 Bank 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.

26. Risk Management (continued)

Introduction (continued)

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 the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank 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 Bank.

For all levels throughout the Bank, 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 Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank 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 Bank 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 Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank'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 Bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Bank 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 Bank 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 Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to carrying value of respective instruments.

26. Risk Management (continued)

Credit risk (continued)

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank 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 Bank's credit rating system.

		Neither past due nor impaired				
31 December 2017	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	7	1,205,844	-	-	-	1,205,844
Debt investment securities available-for-sale	8	1,540,143	-	-	-	1,540,143
Loans to customers:	9					
Commercial loans		1,753,679	100,967	359	294,231	2,149,236
Consumer loans		1,576,185	26,976	31,600	99,990	1,734,751
Micro and SME loans		1,532,066	22,924	19,741	62,626	1,637,357
Residential mortgage loans		1,619,638	28,961	19,783	44,133	1,712,515
Gold – pawn loans		65,865	-	-	2,075	67,940
		6,547,433	**179,828**	**71,483**	**503,055**	**7,301,799**
Finance lease receivables		6,698	-	-	-	6,698
Total		**9,300,118**	**179,828**	**71,483**	**503,055**	**10,054,484**

		Neither past due nor impaired				
31 December 2016	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	7	936,925	-	-	-	936,925
Debt investment securities available-for-sale	8	1,198,882	-	-	-	1,198,882
Loans to customers:	9					
Commercial loans		1,627,212	145,962	226	461,629	2,235,029
Consumer loans		1,240,665	16,948	23,511	75,951	1,357,075
Micro and SME loans		1,206,270	33,106	23,732	83,233	1,346,341
Residential mortgage loans		1,134,266	49,285	15,052	35,573	1,234,176
Gold – pawn loans		56,977	-	-	3,708	60,685
		5,265,390	**245,301**	**62,521**	**660,094**	**6,233,306**
Finance lease receivables		123	-	-	-	123
Total		**7,401,320**	**245,301**	**62,521**	**660,094**	**8,369,236**

26. Risk Management (continued)

Credit risk (continued)

1 January 2016	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	7	718,464	-	-	-	718,464
Debt investment securities available-for-sale	8	901,945	-	-	-	901,945
Loans to customers:	9					
Commercial loans		1,722,903	128,904	49,711	346,192	2,247,710
Consumer loans		1,046,052	18,054	22,045	69,804	1,155,955
Micro and SME loans		854,878	18,559	7,710	22,717	903,864
Residential mortgage loans		750,455	22,033	11,223	30,633	814,344
Gold – pawn loans		61,140	-	-	-	61,140
		4,435,428	**187,550**	**90,689**	**469,346**	**5,183,013**
Finance lease receivables		2,292	-	-	-	2,292
Total		**6,058,129**	**187,550**	**90,689**	**469,346**	**6,805,714**

Past due loans to customers, analysed by age below, include those that are past due by at least one day and are not impaired.

It is the Bank'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 Bank'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 Bank 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 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	42,250	15,035	12,321	28,885	98,491
Micro and SME loans	7,466	8,822	4,777	17,875	38,940
Residential mortgage loans	14,446	4,969	2,144	7,903	29,462
Commercial loans	1,487	452	208	200	2,347
Total	**65,649**	**29,278**	**19,450**	**54,863**	**169,240**

26. Risk Management (continued)

Credit risk (continued)

31 December 2016	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer loans	34,023	10,921	9,349	20,907	75,200
Micro and SME loans	19,997	9,489	6,479	28,763	64,728
Residential mortgage loans	10,074	4,472	1,840	7,319	23,705
Commercial loans	10,235	4,558	387	1,597	16,777
Total	**74,329**	**29,440**	**18,055**	**58,586**	**180,410**

1 January 2016	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer loans	29,151	8,498	6,930	23,704	68,283
Micro and SME loans	5,158	3,513	1,000	2,889	12,560
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,726	1,227	20	1,470	24,443
Total	**63,629**	**14,445**	**8,858**	**33,086**	**120,018**

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

The Bank 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 244,443, GEL 256,588 and GEL 143,225 as at 31 December 2017, 31 December 2016 and 1 January 2016, respectively.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2017	*2016*	*1 January 2016*
Loans to customers:			
Commercial loans	101,412	232,881	139,564
Micro and SME loans	44,264	34,904	19,452
Residential mortgage loans	44,058	38,757	28,594
Consumer loans	39,318	29,802	18,224
Finance lease receivables	-	-	-
Total	**229,052**	**336,344**	**205,834**

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 Bank 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 Bank methodology, or history of the debt service is deteriorated by certain percentage, as defined per the Bank 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 Bank.

26. Risk Management (continued)

Credit risk (continued)

Individually assessed allowances

For loan loss allowance determination purposes the Bank 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 pay-out 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 Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

The geographical concentration of the Bank's assets and liabilities is set out below:

	2017			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	475,065	921,612	5,204	1,401,881
Amounts due from credit institutions	1,023,145	182,699	-	1,205,844
Investment securities available-for-sale	980,876	559,468	-	1,540,344
Loans to customers	7,063,894	-	-	7,063,894
Finance lease receivables	6,603	-	-	6,603
All other assets	870,829	4,271	9	875,109
	10,420,412	**1,668,050**	**5,213**	**12,093,675**
Liabilities:				
Amounts due to customers	5,358,184	662,957	794,627	6,815,768
Amounts due to credit institutions and other borrowings	1,449,742	1,462,523	57,370	2,969,635
Debt securities issued	-	694,993	-	694,993
All other liabilities	76,530	152	45	76,727
	6,884,456	**2,820,625**	**852,042**	**10,557,123**
Net balance sheet position	**3,535,956**	**(1,152,575)**	**(846,829)**	**1,536,552**

26. Risk Management (continued)

Credit risk (continued)

	2016				*1 January 2016*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	608,000	806,945	5,021	1,419,966	568,760	647,192	50,425	1,266,377
Amounts due from credit institutions	933,638	3,287	-	936,925	619,670	95,100	3,694	718,464
Investment securities available-for-sale	912,345	286,832	-	1,199,177	823,193	79,047	-	902,240
Loans to customers	6,021,634	-	-	6,021,634	5,005,169	-	-	5,005,169
Finance lease receivables	122	-	-	122	2,272	-	-	2,272
All other assets	732,482	79	60	732,621	681,117	-	39,660	720,777
	9,208,221	**1,097,143**	**5,081**	**10,310,445**	**7,700,181**	**821,339**	**93,779**	**8,615,299**
Liabilities:								
Amounts due to customers	4,155,332	673,290	718,325	5,546,947	3,632,837	592,669	526,704	4,752,210
Amounts due to credit institutions and other borrowings	1,767,392	1,385,089	110,090	3,262,571	430,038	1,030,291	129,470	1,589,799
Debt securities issued	-	153,145	-	153,145	-	940,945	-	940,945
All other liabilities	71,348	-	-	71,348	79,337	-	39,660	118,997
	5,994,072	**2,211,524**	**828,415**	**9,034,011**	**4,142,212**	**2,563,905**	**695,834**	**7,401,951**
Net balance sheet position	**3,214,149**	**(1,114,381)**	**(823,334)**	**1,276,434**	**3,557,969**	**(1,742,566)**	**(602,055)**	**1,213,348**

Liquidity risk and funding management

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. 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 Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs. 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.

The liquidity position is assessed and managed by the Bank primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. Minimum NBG requirement for liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by liabilities for the same month (with certain exceptions established by the NBG). As at 31 December 2017, 31 December 2016 and 1 January 2016 these ratios were as follows:

	2017, %	*2016, %*	*1 January 2016, %*
Average liquidity ratio	39.8%	43.6%	38.1%
Maximum liquidity ratio	47.0%	62.5%	48.0%
Minimum liquidity ratio	31.3%	34.1%	28.9%

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 customer deposits placed in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

26. Risk Management (continued)

Liquidity risk and funding management (continued)

In addition, on 15 May 2017 NBG issued an Order on Liquidity Coverage Ratio for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2017 was 112.4%

The Bank 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 Bank'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 Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities **As at 31 December 2017**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	2,744,779	3,543,627	602,753	65,330	6,956,489
Amounts due to credit institutions and other borrowings	1,279,348	469,014	865,868	917,642	3,531,872
Debt securities issued	-	124,424	720,065	-	844,489
Derivative financial liabilities	3,139	390	-	-	3,529
Total undiscounted financial liabilities	**4,027,266**	**4,137,455**	**2,188,686**	**982,972**	**11,336,379**

Financial liabilities **As at 31 December 2016**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	2,072,241	3,068,924	484,151	48,773	5,674,089
Amounts due to credit institutions and other borrowings	1,648,055	444,855	995,361	755,118	3,843,389
Debt securities issued	31,163	17,328	117,995	-	166,486
Derivative financial liabilities	8,466	6,589	634	-	15,689
Total undiscounted financial liabilities	**3,759,925**	**3,537,696**	**1,598,141**	**803,891**	**9,699,653**

Financial liabilities **As at 1 January 2016**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	3,031,493	1,202,598	603,769	60,061	4,897,921
Amounts due to credit institutions and other borrowings	299,149	314,976	467,759	515,649	1,597,533
Debt securities issued	48,477	18,552	971,731	-	1,038,760
Derivative financial liabilities	3,243	-	-	-	3,243
Total undiscounted financial liabilities	**3,382,362**	**1,536,126**	**2,043,259**	**575,710**	**7,537,457**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2017	339,763	191,847	328,538	103,244	963,392
31 December 2016	332,198	192,751	213,468	33,134	771,551
1 January 2016	396,443	272,730	104,909	10,458	784,540

The Bank 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).

26. 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 Bank 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 Bank's separate income statement.

The sensitivity of the 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 2017. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the year ended 31 December 2017 and year ended 31 December, sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of other comprehensive income 2017*
GEL	13	443	(1,159)
EUR	1	(22)	-
USD	3	(73)	-

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of other comprehensive income 2017*
GEL	13	(443)	1,159
EUR	1	22	-
USD	3	73	-

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	206	261	(1,758)
EUR	1	1	-
USD	3	69	-

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	206	(261)	1,758
EUR	1	(1)	-
USD	3	(69)	-

26. 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 Bank had significant exposure at 31 December 2017 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables being constant. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2017 and year ended 31 December 2016, sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2017		*2016*	
EUR	12.0%	(2,487)	11.6%	(3,336)
USD	8.9%	5,758	9.3%	3,507

Prepayment risk

Prepayment risk 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, or other credit facilities, for similar reasons.

The Bank 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 Bank's income.

The estimated effect of prepayment risk on net interest income of the Bank for the years ended 31 December 2017 and 31 December 2016 is as follows:

	Effect on net interest income
2017	(46,527)
2016	(27,487)

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 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.

26. Risk Management (continued)

Operating environment

Most of the Bank'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 management, 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.

27. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	185,493	185,493
Land	-	-	*34,468*	*34,468*
Residential properties	-	-	*87,005*	*87,005*
Non-residential properties	-	-	*64,020*	*64,020*
Investment securities available-for-sale	-	1,540,143	201	1,540,344
Other assets – derivative financial assets	-	13,337	-	13,337
Other assets – trading securities owned	-	-	-	-
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,401,881	-	1,401,881
Amounts due from credit institutions	-	1,205,844	-	1,205,844
Loans to customers	-	-	7,177,440	7,177,440
Finance lease receivables	-	-	6,603	6,603
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	3,529	-	3,529
Liabilities for which fair values are disclosed				
Amounts due to customers	-	6,820,049	-	6,820,049
Amounts due to credit institutions and other borrowings	-	209,499	2,760,136	2,969,635
Debt securities issued	-	754,786	-	754,786

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	146,379	146,379
Land	-	-	*31,610*	*31,610*
Residential properties	-	-	*41,390*	*41,390*
Non-residential properties	-	-	*73,379*	*73,379*
Investment securities available-for-sale	-	1,198,882	295	1,199,177
Other assets – derivative financial assets	-	2,238	-	2,238
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,419,966	-	1,419,966
Amounts due from credit institutions	-	936,925	-	936,925
Loans to customers	-	-	6,098,641	6,098,641
Finance lease receivables	-	-	122	122
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	15,689	-	15,689
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	5,553,016	5,553,016
Amounts due to credit institutions and other borrowings	-	-	3,262,571	3,262,571
Debt securities issued	-	-	153,145	153,145

1 January 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	129,817	129,817
Land	-	-	*24,153*	*24,153*
Residential properties	-	-	*36,528*	*36,528*
Non-residential properties	-	-	*69,136*	*69,136*
Investment securities available-for-sale	-	901,945	295	902,240
Other assets – derivative financial assets	-	41,756	-	41,756
Other assets – trading securities owned	-	-	-	-
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,266,377	-	1,266,377
Amounts due from credit institutions	-	718,464	-	718,464
Loans to customers	-	-	4,967,351	4,967,351
Finance lease receivables	-	-	2,272	2,272
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	3,243	-	3,243
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	4,777,916	4,777,916
Amounts due to credit institutions and other borrowings	-	-	1,589,799	1,589,799
Debt securities issued	-	938,894	32,762	971,656

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 Bank's estimate of assumptions that a market participant would make when valuing the instruments.

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	At 1 January 2016	*At 31 December 2016*	*Disposal*	*At 31 December 2017*
Level 3 financial assets				
Equity investment securities available-for-sale	295	295	(94)	201

Movements in level 3 non-financial assets measured at fair value

All investment properties are level 3. Reconciliations of their opening and closing amounts are provided in Note 10.

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*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2017		*2016*		*1 January 2016*	
Level 3 financial assets						
Equity investment securities available-for-sale	201	+/- 30	295	+/- 44	295	+/- 44

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows:

For equities, the Bank adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Bank 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.

27. 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:

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment properties	**185,493**						
Land	34,468	Market approach	Price per square metre	0.11 - 1,008 (215.8)	Square metres, land	7 - 4,667,136 (454,326)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	87,005	Market approach	Price per square metre	24 - 2,678 (1,128)	Square metres, building	2 - 1,583 (301)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	64,020						
	20,170	Market approach	Price	5.6k - 4.8 mln (0.3 mln)	Square metres, land	77 - 73,575 (2,540)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6 - 3,823 (1,195)	
			Rent per square metere	2.1 - 67.7 (9.96)	Square metres, building	23.5 - 5,984 (2,503)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
	32,907	Income approach	Occupancy rate	10% - 75% (32%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	78 - 244 (97)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	10,943	Cost approach	Land price per square metre	0.65 - 563 (53)	Square metres, land	600 - 240,000 (121,780)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	259 - 648 (413)	Square metres, building	20 - 10,600 (5,943)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment properties	**146,379**						
Land	31,610	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	41,390	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	73,379						
	12,918	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)	
			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
	52,134	Income approach	Occupancy rate	35% - 90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12 - 218 (26)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	8,327	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

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets (continued)

	1 January 2016	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment properties	**129,817**						
Land	24,153	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	36,528	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	69,136						
	12,171	Market approach	Price	2.8 - 5.5 mln (4.1 mln)	Square metres, land Square metres, building	8,383 - 18,635 (11,826) 2,293 - 6,702 (3,774)	Increase (decrease) in the price would result in increase (decrease) in fair value
			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
	49,119	Income approach	Occupancy rate	35% - 90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12 - 218 (26)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	7,846	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

27. 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 Bank as at 31 December 2017, 31 December 2016 and 1 January 2016:

	31 December 2017		
	Loans and receivables	*Available-for sale*	*Fair value through profit or loss*
Financial assets			
Amounts due from credit institutions	1,205,844	-	-
Loans to customers	7,063,894	-	-
Finance lease receivables	6,603	-	-
Trade and other receivables (in other assets)	42,806	-	-
Equity instruments	-	201	-
Debt instruments	-	1,540,143	-
Interest rate contracts	-	-	8,869
Foreign currency derivative financial instruments	-	-	4,468
Total:	**8,319,147**	**1,540,344**	**13,337**
Financial liabilities			
Amounts owed to customers	6,815,768	-	-
Amounts due to credit institutions and other borrowings	2,969,635	-	-
Debt securities issued	694,993	-	-
Trade and other payables (in other liabilities)	26,255	-	-
Interest rate contracts	-	-	1,455
Foreign currency derivative financial instruments	-	-	2,074
Total:	**10,506,651**	**-**	**3,529**

	31 December 2016			*1 January 2016*		
	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	936,925	-	-	718,464	-	-
Loans to customers	6,021,634	-	-	5,005,169	-	-
Finance lease receivables	122	-	-	2,272	-	-
Trade and other receivables (in other assets)	29,821	-	-	27,827	-	-
Equity instruments	-	295	-	-	295	-
Debt instruments	-	1,198,882	-	-	901,945	-
Foreign currency derivative financial instruments	-	-	2,238	-	-	41,756
Total:	**6,988,502**	**1,199,177**	**2,238**	**5,753,732**	**902,240**	**41,756**
Financial liabilities						
Amounts owed to customers	5,546,947	-	-	4,752,210	-	-
Amounts due to credit institutions and other borrowings	3,262,571	-	-	1,589,799	-	-
Debt securities issued	153,145	-	-	940,945	-	-
Trade and other payables (in other liabilities)	11,231	-	-	18,570	-	-
Interest rate contracts	-	-	634	-	-	-
Foreign currency derivative financial instruments	-	-	15,055	-	-	3,243
Total:	**8,973,894**	**-**	**15,689**	**7,301,524**	**-**	**3,243**

27. Fair Value Measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank'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 value of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2017	*Fair value 2017*	*Unrecognised gain (loss) 2017*
Financial assets			
Cash and cash equivalents	1,401,881	1,401,881	-
Amounts due from credit institutions	1,205,844	1,205,844	-
Loans to customers	7,063,894	7,177,440	113,546
Finance lease receivables	6,603	6,603	-
Financial liabilities			
Amounts due to customers	6,815,768	6,820,049	(4,281)
Amounts due to credit institutions and other borrowings	2,969,635	2,969,635	-
Debt securities issued	694,993	754,786	(59,793)
Total unrecognised change in unrealised fair value			**49,472**

	Carrying value 2016	*Fair value 2016*	*Unrecognised gain (loss) 2016*	*Carrying value 1 January 2016*	*Fair value 1 January 2016*	*Unrecognised loss 1 January 2016*
Financial assets						
Cash and cash equivalents	1,419,966	1,419,966	-	1,266,377	1,266,377	-
Amounts due from credit institutions	936,925	936,925	-	718,464	718,464	-
Loans to customers	6,021,634	6,098,641	77,007	5,005,169	4,967,351	(37,818)
Finance lease receivables	122	122	-	2,272	2,272	-
Financial liabilities						
Amounts due to customers	5,546,947	5,553,016	(6,069)	4,752,210	4,777,916	(25,706)
Amounts due to credit institutions and other borrowings	3,262,571	3,262,571	-	1,589,799	1,589,799	-
Debt securities issued	153,145	153,145	-	940,945	971,656	(30,711)
Total unrecognised change in unrealised fair value			**70,938**			**(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 Separate 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.

28. 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 26 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2017							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	644,075	757,806	-	-	-	-	-	1,401,881
Amounts due from credit institutions	1,005,631	182,699	5,006	12,508	-	-	-	1,205,844
Investment securities available-for-sale	837,933	603,389	2,910	14,538	20,812	58,916	1,846	1,540,344
Loans to customers	-	1,147,789	534,228	1,344,570	1,824,079	961,957	1,251,271	7,063,894
Finance lease receivables	-	1,382	4	781	-	42	4,394	6,603
Total	**2,487,639**	**2,693,065**	**542,148**	**1,372,397**	**1,844,891**	**1,020,915**	**1,257,511**	**11,218,566**
Financial liabilities								
Amounts due to customers	1,595,473	1,139,594	576,811	2,916,571	516,812	38,578	31,929	6,815,768
Amounts due to credit institutions and other borrowings	209,521	1,065,950	114,963	304,651	414,648	300,235	559,667	2,969,635
Debt securities issued	-	54	94,051	22,771	578,117	-	-	694,993
Total	**1,804,994**	**2,205,598**	**785,825**	**3,243,993**	**1,509,577**	**338,813**	**591,596**	**10,480,396**
Net	**682,645**	**487,467**	**(243,677)**	**(1,871,596)**	**335,314**	**682,102**	**665,915**	**738,170**
Accumulated gap	**682,645**	**1,170,112**	**926,435**	**(945,161)**	**(609,847)**	**72,255**	**738,170**	

	2016							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,011,700	408,266	-	-	-	-	-	1,419,966
Amounts due from credit institutions	933,690	-	3,235	-	-	-	-	936,925
Investment securities available-for-sale	110,360	1,011,949	30,857	395	6,269	38,971	376	1,199,177
Loans to customers	-	1,033,748	442,109	1,201,323	1,641,112	759,336	944,006	6,021,634
Finance lease receivables	-	62	2	6	52	-	-	122
Total	**2,055,750**	**2,454,025**	**476,203**	**1,201,724**	**1,647,433**	**798,307**	**944,382**	**9,577,824**
Financial liabilities								
Amounts due to customers	1,287,802	775,400	538,759	2,475,851	390,892	52,616	25,627	5,546,947
Amounts due to credit institutions and other borrowings	333,155	1,299,232	94,759	265,119	425,862	253,295	591,149	3,262,571
Debt securities issued	-	30,052	-	16,591	106,502	-	-	153,145
Total	**1,620,957**	**2,104,684**	**633,518**	**2,757,561**	**923,256**	**305,911**	**616,776**	**8,962,663**
Net	**434,793**	**349,341**	**(157,315)**	**(1,555,837)**	**724,177**	**492,396**	**327,606**	**615,161**
Accumulated gap	**434,793**	**784,134**	**626,819**	**(929,018)**	**(204,841)**	**287,555**	**615,161**	

	1 January 2016							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	905,657	360,720	-	-	-	-	-	1,266,377
Amounts due from credit institutions	619,670	1,932	26,496	70,366	-	-	-	718,464
Investment securities available-for-sale	559,124	241,481	31,247	6,531	59,613	3,057	1,187	902,240
Loans to customers	-	721,090	482,031	978,576	1,473,939	674,819	674,714	5,005,169
Finance lease receivables	-	204	33	2,035	-	-	-	2,272
Total	**2,084,451**	**1,325,427**	**539,807**	**1,057,508**	**1,533,552**	**677,876**	**675,901**	**7,894,522**
Financial liabilities								
Amounts due to customers	1,039,968	682,212	492,555	2,002,174	436,961	78,188	20,152	4,752,210
Amounts due to credit institutions and other borrowings	107,300	512,325	90,679	213,704	302,454	103,101	260,236	1,589,799
Debt securities issued	-	48,345	-	50,623	841,977	-	-	940,945
Total	**1,132,721**	**1,242,882**	**583,234**	**2,266,501**	**1,581,392**	**181,289**	**280,388**	**7,268,407**
Net	**951,730**	**82,545**	**(43,427)**	**(1,208,993)**	**(47,840)**	**496,587**	**395,513**	**626,115**
Accumulated gap	**951,730**	**1,034,275**	**990,848**	**(218,145)**	**(265,985)**	**230,602**	**626,115**	

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

The Bank'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 Bank'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 Bank calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 1 year category in the table above. The remaining current accounts are included in the on demand category. Obligatory reserves with central banks do not have contractual maturity and are allocated in on demand category.

The Bank'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 2017 amounts due to customers amounted to GEL 6,815,768 (2016: GEL 5,546,947, 1 January 2016: GEL 4,752,210) and represented 65% (2016: 61%, 1 January 2016: 64%) of the Bank's total liabilities. These funds continue to provide a majority of the Bank's funding and represent a diversified and stable source of funds. As at 31 December 2017 amounts owed to credit institutions and other borrowings amounted to GEL 2,969,635 (2016: GEL 3,262,571, 1 January 2016: GEL 1,575,252) and represented 28% (2016: 36%, 1 January 2016: 21%) of total liabilities. As at 31 December 2017 debt securities issued amounted to GEL 694,993 (2016: GEL 153,145, 1 January 2016: GEL 940,945) and represented 7% (2016: 2%, 1 January 2016: 13%) of total liabilities.

In the management's opinion, liquidity is sufficient to meet the Bank'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 2017		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	1,401,881	-	1,401,881
Amounts due from credit institutions	1,205,844	-	1,205,844
Investment securities available-for-sale	1,458,770	81,574	1,540,344
Loans to customers	3,026,587	4,037,307	7,063,894
Finance lease receivables	2,167	4,436	6,603
Investment properties	-	185,493	185,493
Prepayments	19,819	28,816	48,635
Property and equipment	-	287,886	287,886
Intangible assets	-	48,190	48,190
Investments in subsidiaries	-	159,888	159,888
Investments in associates	-	11,031	11,031
Goodwill	-	33,453	33,453
Other assets	69,860	30,673	100,533
Total assets	**7,184,928**	**4,908,747**	**12,093,675**
Amounts due to customers	6,228,449	587,319	6,815,768
Amounts due to credit institutions and other borrowings	1,695,085	1,274,550	2,969,635
Debt securities issued	116,876	578,117	694,993
Current income tax liabilities	8,386	-	8,386
Deferred income tax liabilities	-	7,602	7,602
Provisions	2,816	-	2,816
Other liabilities	57,923	-	57,923
Total liabilities	**8,109,535**	**2,447,588**	**10,557,123**
Net	**(924,607)**	**2,461,159**	**1,536,552**

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

	31 December 2016			*1 January 2016*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,419,966	-	1,419,966	1,266,377	-	1,266,377
Amounts due from credit institutions	936,925	-	936,925	718,464	-	718,464
Investment securities available-for-sale	1,153,561	45,616	1,199,177	838,383	63,857	902,240
Loans to customers	2,677,180	3,344,454	6,021,634	2,181,697	2,823,472	5,005,169
Finance lease receivables	70	52	122	2,272	-	2,272
Investment properties	-	146,379	146,379	-	129,817	129,817
Prepayments	11,031	-	11,031	11,888	3,743	15,631
Property and equipment	-	262,053	262,053	-	257,188	257,188
Intangible assets	-	33,929	33,929	-	28,912	28,912
Investments in subsidiaries	-	134,228	134,228	-	133,863	133,863
Investments in associates	-	9,626	9,626	-	-	-
Goodwill	-	33,453	33,453	-	33,453	33,453
Current income tax assets	18,505	-	18,505	-	-	-
Other assets	83,417	-	83,417	77,223	44,690	121,913
Total assets	**6,300,655**	**4,009,790**	**10,310,445**	**5,096,304**	**3,518,995**	**8,615,299**
Amounts due to customers	5,077,812	469,135	5,546,947	4,216,909	535,301	4,752,210
Amounts due to credit institutions and other borrowings	1,992,265	1,270,306	3,262,571	924,008	665,791	1,589,799
Debt securities issued	46,643	106,502	153,145	98,968	841,977	940,945
Current income tax liabilities	-	-	-	9,658	-	9,658
Deferred income tax liabilities	-	18,436	18,436	-	67,753	67,753
Provisions	3,008	-	3,008	1,218	1,025	2,243
Other liabilities	49,904	-	49,904	39,343	-	39,343
Total liabilities	**7,169,632**	**1,864,379**	**9,034,011**	**5,290,104**	**2,111,847**	**7,401,951**
Net	**(868,977)**	**2,145,411**	**1,276,434**	**(193,800)**	**1,407,148**	**1,213,348**

29. 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.

29. Related Party Disclosures (continued)

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

	2017				
	The parent	*Entities under common control*	*Subsidiaries*	*Associates*	*Key management personnel**
Cash and cash equivalents outstanding at 31 December	**-**	**-**	**210**	**-**	**-**
Interest income on amounts due from credit institutions	-	-	1	-	-
Loans outstanding at 1 January, gross	**-**	**64,771**	**-**	**-**	**1,738**
Loans issued during the year	-	146,961	17,528	-	3,259
Loan repayments during the year	-	(76,070)	(12,164)	-	(3,236)
Other movements	-	(33,706)	9,436	-	600
Loans outstanding at 31 December, gross	**-**	**101,956**	**14,800**	**-**	**2,361**
Less: allowance for impairment at 31 December	-	(3)	(105)	-	(1)
Loans outstanding at 31 December, net	**-**	**101,953**	**14,695**	**-**	**2,360**
Interest income on loans	-	5,949	515	-	134
Deposits at 1 January	**-**	**207,661**	**6,999**	**12**	**15,481**
Deposits received during the year	-	238,797	54	21	18,938
Deposits repaid during the year	(133,051)	(14,983)	(7,738)	-	(11,262)
Other movements	175,771	(34,797)	2,628	-	2,561
Deposits at 31 December	**42,720**	**396,678**	**1,942**	**33**	**25,718**
Interest expense on deposits	(6,546)	(3,591)	(84)	-	(361)
Other income	-	-	48	-	-
Commitments and guarantees issued	-	12,453	-	-	-
Borrowings at 1 January	**394,224**	**-**	**3,549**	**-**	**-**
Borrowings received during the year	-	-	1,433	-	-
Borrowings repaid during the year	(25,464)	-	(3)	-	-
Other movements	17,748	-	59	-	-
Borrowings at 31 December	**386,508**	**-**	**5,039**	**-**	**-**
Interest expense on borrowings	(25,823)	-	(3)	-	-
Debt securities issued	-	27,329	-	-	-

29. Related Party Disclosures (continued)

	2016				
	The parent	*Entities under common control*	*Subsidiaries*	*Associates*	*Key management personnel**
Cash and cash equivalents outstanding at 31 December	**-**	**-**	**67**	**-**	**-**
Interest income on amounts due from credit institutions	-	-	131	-	-
Loans outstanding at 1 January, gross	**-**	**51,205**	**-**	**-**	**1,241**
Loans issued during the year	-	59,086	-	-	4,457
Loan repayments during the year	-	(72,589)	-	-	(4,351)
Other movements	-	27,069	-	-	391
Loans outstanding at 31 December, gross	**-**	**64,771**	**-**	**-**	**1,738**
Less: allowance for impairment at 31 December	-	(248)	-	-	-
Loans outstanding at 31 December, net	**-**	**64,523**	**-**	**-**	**1,738**
Interest income on loans	-	8,230	-	-	148
Deposits at 1 January	**-**	**198,593**	**4,140**	**-**	**16,570**
Deposits received during the year	-	65,242	2,528	12	11,328
Deposits repaid during the year	-	(30,828)	(53)	-	(10,934)
Other movements	-	(25,346)	384	-	(1,483)
Deposits at 31 December	**-**	**207,661**	**6,999**	**12**	**15,481**
Interest expense on deposits	(3,239)	(1,592)	(11)	-	(614)
Other income	-	626	6	-	-
Borrowings at 1 January	**-**	**-**	**136**	**-**	**-**
Borrowings received during the year	586,250	-	3,016	-	-
Borrowings repaid during the year	(230,620)	-	(2)	-	-
Other movements	38,594	-	398	-	-
Borrowings at 31 December	**394,224**	**-**	**3,549**	**-**	**-**
Interest expense on borrowings	(19,208)	-	(1)	-	-
Debt securities issued	-	-	-	-	-

**** Key management personnel include members of the Bank's Supervisory Board and Chief Executive Officer and Deputies of the Bank.***

Compensation of key management personnel comprised the following:

	2017	2016
Salaries and other benefits	7,372	4,905
Share-based payments compensation*	33,635	40,679
Social security costs	82	51
Total key management compensation	**41,089**	**45,635**

** In 2016 share-Based payments compensation includes termination benefits in the amount of GEL 9,820 for key management personnel reflected in the non-recurring items note (Note 24).*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 25). The number of key management personnel at 31 December 2017 was 19 (31 December 2016: 16).

30. Capital Adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank and the ratios established by the Basel Capital Accord 1988.

Approved and published on 28 October 2013 by NBG, 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 31 December 2017, during which the Bank will be required to comply with both, the new, and the current, capital regulations of the NBG.

During year ended 31 December 2017, the Bank complied in full with all its externally imposed capital requirements.

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

The Bank 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 Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 9.6% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2017, 31 December 2016 and 1 January 2016, the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*	*1 January 2016*
Core capital	787,225	676,692	728,139
Supplementary capital	787,225	669,940	649,607
Less: Deductions from capital	(116,716)	(79,059)	(60,311)
Total regulatory capital	**1,457,734**	**1,267,573**	**1,317,435**
Risk-weighted assets	**11,004,699**	**9,360,857**	**7,811,398**
Total capital adequacy ratio	**13.2%**	**13.5%**	**16.9%**

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

30. Capital Adequacy (continued)

New NBG (Basel II) capital adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total capital adequacy ratio of 10.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*	*1 January 2016*
Tier 1 capital	1,241,866	958,979	971,635
Less: Deductions from capital	(100,021)	(66,366)	(56,851)
Tier 2 capital	501,689	519,726	479,176
Total capital	**1,643,534**	**1,412,339**	**1,393,960**
Risk-weighted assets	**11,115,315**	**9,790,282**	**8,363,369**
Total capital ratio	**14.8%**	**14.4%**	**16.7%**
Tier 1 capital ratio	**10.3%**	**9.1%**	**10.9%**

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.

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 12.4% and Tier 1 Capital ratio of 9.9% 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 III requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017
Tier 1 capital	1,141,845
Tier 2 capital	501,689
Total capital	**1,643,534**
Risk-weighted assets	**9,192,078**
Total capital ratio	**17.9%**
Tier 1 capital ratio	**12.4%**

30. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2017, 31 December 2016 and 1 January 2016, was as follows:

	2017	*2016*	*1 January 2016*
Tier 1 capital	1,471,714	1,240,270	1,232,808
Less: Deductions Goodwill	(33,340)	(33,340)	(33,340)
Tier 2 capital	560,771	561,713	471,777
Less: Deductions from capital	(9)	(9)	(1,163)
Total capital	**1,999,136**	**1,768,634**	**1,670,082**
Risk-weighted assets	**9,750,829**	**7,929,784**	**6,692,485**
Total capital ratio	20.5%	22.3%	25.0%
Tier 1 capital ratio	14.8%	15.2%	17.9%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**

31. Events after the Reporting Period

In March 2018 the Bank fully settled its obligation towards JSC BGEO Group with outstanding principal amount of US150 million as at transaction date. At the same time JSC Bank of Georgia substituted JSC BGEO Group ("Issuer") as New Obligor in relation to the US350 million 2023 6.00% Notes issued on 26 July 2016 in exchange for the cash consideration. JSC Bank of Georgia replaced the Issuer as principal debtor under the Notes and assumed all the rights, obligations and liabilities of the Issuer.

On 29 May 2018, BGEO Group PLC was demerged into two entities: Bank of Georgia Group PLC (admitted to premium listing segment of the Official List of the UK Listing Authority and traded on the London Stock Exchange PLC under ticker "BGEO") and Georgia Capital PLC (admitted to premium listing segment of the Official List of the UK Listing Authority and traded on the London Stock Exchange PLC under ticker "CGEO").

As discussed in Note 14, in May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). In June 2018, the Parliament of Georgia approved a new date for the change to be implemented for financial institutions, being 1 January 2023. The change will affect deferred tax assets and liabilities and respective tax charges for the year ending 31 December 2018.