JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2015
Together with Independent Auditors' Report

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Independent auditor's report

To the shareholders and Supervisory Board of JSC Bank of Georgia

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Bank of Georgia and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year ended 31 December 2015 in accordance with International Financial Reporting Standards.

EY Georgia LLC

15 July 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

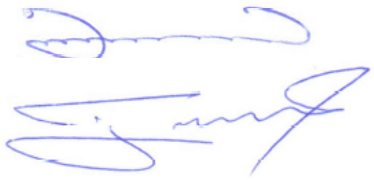
As at 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014	2013
Assets				
Cash and cash equivalents	7	1,376,782	709,861	1,049,069
Amounts due from credit institutions	8	718,677	418,502	347,261
Investment securities available-for-sale	9	902,240	769,712	519,623
Loans to customers	10	5,322,887	4,329,795	3,485,407
Finance lease receivables	11	14,010	38,519	45,606
Investment properties	12	135,453	190,860	157,707
Property and equipment	13	307,692	588,513	470,669
Intangible assets		30,669	34,432	26,434
Goodwill	14	33,453	49,633	48,720
Current income tax assets		988	4,215	4,552
Deferred income tax assets		12,106	18,530	14,544
Prepayments		17,662	33,503	25,416
Other assets	16	130,926	351,226	329,226
Total assets		**9,003,545**	**7,537,301**	**6,524,234**
Liabilities				
Amounts due to customers	17	5,025,677	3,473,429	3,117,757
Amounts due to credit institutions	18	1,677,587	1,409,213	1,157,979
Debt securities issued	19	940,945	856,695	728,117
Current income tax liabilities		9,658	11,093	2,928
Deferred income tax liabilities		79,497	86,471	66,100
Provisions	20	2,254	4,732	481
Other liabilities	16	43,320	234,581	206,557
Total liabilities		**7,778,938**	**6,076,214**	**5,279,919**
Equity	21			
Share capital		27,821	36,513	36,513
Additional paid-in capital		297,300	611,238	570,185
Treasury shares		(3)	(1,522)	(2,428)
Other reserves		(7,040)	31,211	22,733
Retained earnings		893,520	728,839	563,407
Total equity attributable to shareholders of the Group		**1,211,598**	**1,406,279**	**1,190,410**
Non-controlling interests		13,009	54,808	53,905
Total equity		**1,224,607**	**1,461,087**	**1,244,315**
Total liabilities and equity		**9,003,545**	**7,537,301**	**6,524,234**

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

Murtaz Kikoria — Chief Executive Officer



Levan Kulijanashvili — Chief Financial Officer

15 July 2016

The accompanying notes on pages 8 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014	2013
Interest income				
Loans to customers		783,514	555,288	540,168
Investment securities – available-for-sale		69,407	39,988	35,371
Amounts due from credit institutions		9,588	5,119	6,369
Finance lease receivables		2,834	2,327	1,726
		865,343	**602,722**	**583,634**
Interest expense				
Amounts due to customers		(191,155)	(134,838)	(160,787)
Amounts due to credit institutions		(101,205)	(54,764)	(58,828)
Debt securities issued		(66,926)	(54,090)	(35,424)
		(359,286)	**(243,692)**	**(255,039)**
Net interest income before net loss from interest rate swaps		**506,057**	**359,030**	**328,595**
Net loss from interest rate swaps		-	-	(398)
Net interest income		**506,057**	**359,030**	**328,197**
Fee and commission income		157,529	129,043	113,030
Fee and commission expense		(52,435)	(42,885)	(34,976)
Net fee and commission income	22	**105,094**	**86,158**	**78,054**
Net real estate revenue	23	11,831	5,600	3,881
Net gain from trading securities and investment securities available-for-sale		73	93	2,858
Net gain from revaluation of investment properties	12	6,388	-	1,644
Net gain from foreign currencies:				
– dealing		64,561	44,599	46,499
– translation differences		1,257	13,135	2,365
Other operating income		1,761	3,959	819
Other operating non-interest income		**85,871**	**67,386**	**58,066**
Revenue		**697,022**	**512,574**	**464,317**
Salaries and other employee benefits	24	(139,141)	(116,996)	(106,750)
General and administrative expenses	24	(67,239)	(51,680)	(45,532)
Depreciation and amortization		(31,520)	(23,494)	(22,597)
Other operating expenses		(2,855)	(2,293)	(1,533)
Operating expenses		**(240,755)**	**(194,463)**	**(176,412)**
Operating income before cost of credit risk		**456,267**	**318,111**	**287,905**

The accompanying notes on pages 8 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014	2013
Operating income before cost of credit risk		**456,267**	**318,111**	**287,905**
Impairment charge on loans to customers	10	(142,814)	(45,087)	(41,499)
(Impairment charge) reversal of impairment on finance lease receivables	11	(1,615)	76	(121)
Impairment charge on other assets and provisions		(6,013)	(9,568)	(16,297)
Cost of credit risk		**(150,442)**	**(54,579)**	**(57,917)**
Net operating income before non-recurring items		**305,825**	**263,532**	**229,988**
Net non-recurring expense / loss	25	(10,659)	(11,432)	(9,234)
Profit before income tax expense from continuing operations		**295,166**	**252,100**	**220,754**
Income tax expense	15	(42,722)	(30,272)	(29,166)
Profit for the year from continuing operations		**252,444**	**221,828**	**191,588**
Profit from discontinued operations	27	8,278	24,156	22,212
Profit for the year		**260,722**	**245,984**	**213,800**
Total profit attributable to:				
– shareholders of the Group		257,628	238,644	206,748
– non-controlling interests		3,094	7,340	7,052
		260,722	**245,984**	**213,800**
Profit from continuing operations attributable to:				
– shareholders of the Group		249,997	219,384	190,582
– non-controlling interests		2,447	2,444	1,006
		252,444	**221,828**	**191,588**
Profit from discontinued operations attributable to:				
– shareholders of the Group		7,631	19,260	16,166
– non-controlling interests		647	4,896	6,046
		8,278	**24,156**	**22,212**
Basic and diluted earnings per share, total:	21	**7.9944**	**6.9044**	**6.0573**
– earnings per share from continuing operations		7.7576	6.3472	5.5837
– earnings per share from discontinued operations		0.2368	0.5572	0.4736

The accompanying notes on pages 8 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014	2013
Profit for the year		**260,722**	**245,984**	**213,800**
Other comprehensive (loss) income from continuing operations				
Other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Unrealized revaluation of available-for-sale securities		(30,863)	(4,079)	4,617
– Realised gain on available-for-sale securities redassified to the consolidated income statement		(34)	(83)	(2,858)
– (Loss) gain from currency translation differences		(17,523)	33,634	9,896
Income tax effect	15	2,598	(109)	(903)
Net other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods		**(45,822)**	**29,363**	**10,752**
Other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	13	(7,782)	-	2,842
Income tax effect	15	400	-	(449)
Net other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods		**(7,382)**	**-**	**2,393**
Other comprehensive loss from discontinued operations	27	(117)	(3,683)	(1,980)
Other comprehensive (loss) income for the year, net of tax		**(53,321)**	**25,680**	**11,165**
Total comprehensive income for the year from continuing operations		199,240	251,191	204,733
Total comprehensive income for the year from discontinued operations	27	8,161	20,473	20,232
Total comprehensive income for the year		**207,401**	**271,664**	**224,965**
Total comprehensive income attributable to:				
– shareholders of the Group		207,654	266,187	217,970
– non-controlling interests		(253)	5,477	6,995
		207,401	**271,664**	**224,965**
Total comprehensive income from continuing operations attributable to:				
– shareholders of the Group		200,076	249,693	203,826
– non-controlling interests		(836)	1,498	907
		199,240	**251,191**	**204,733**
Total comprehensive income from discontinued operations attributable to:	27			
– shareholders of the Group		7,578	16,494	14,144
– non-controlling interests		583	3,979	6,088
		8,161	**20,473**	**20,232**

The accompanying notes on pages 8 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2012	**36,513**	**561,706**	**(3,041)**	**13,717**	**408,538**	**1,017,433**	**43,751**	**1,061,184**
Profit for the year	-	-	-	-	206,748	206,748	7,052	213,800
Other comprehensive income (loss) for the year	-	-	-	10,801	421	11,222	(57)	11,165
Total comprehensive income	**-**	**-**	**-**	**10,801**	**207,169**	**217,970**	**6,995**	**224,965**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(1,797)	1,797	-	-	-
Increase in share capital arising from share-based payments	-	13,208	717	-	-	13,925	-	13,925
Dividends to shareholders of the Group (Note 21)	-	-	-	-	(54,097)	(54,097)	-	(54,097)
Dilution of interests in subsidiaries	-	-	-	-	-	-	150	150
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	-	-	-	12	-	12	2,958	2,970
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	51	51
Purchase of treasury shares	-	(4,729)	(104)	-	-	(4,833)	-	(4,833)
31 December 2013	**36,513**	**570,185**	**(2,428)**	**22,733**	**563,407**	**1,190,410**	**53,905**	**1,244,315**
Profit for the year	-	-	-	-	238,644	238,644	7,340	245,984
Other comprehensive income (loss) for the year	-	-	-	26,563	980	27,543	(1,863)	25,680
Total comprehensive income	**-**	**-**	**-**	**26,563**	**239,624**	**266,187**	**5,477**	**271,664**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(446)	446	-	-	-
Increase in share capital arising from share-based payments	-	18,573	534	-	-	19,107	-	19,107
Dividends to shareholders of the Group (Note 21)	-	-	-	-	(74,638)	(74,638)	-	(74,638)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(17,639)	-	(17,639)	(15,516)	(33,155)
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	10,942	10,942
Sale of treasury shares	-	27,525	469	-	-	27,994	-	27,994
Purchase of treasury shares	-	(5,045)	(97)	-	-	(5,142)	-	(5,142)
31 December 2014	**36,513**	**611,238**	**(1,522)**	**31,211**	**728,839**	**1,406,279**	**54,808**	**1,461,087**
Profit for the year	-	-	-	-	257,628	257,628	3,094	260,722
Other comprehensive loss for the year	-	-	-	(46,487)	(3,487)	(49,974)	(3,347)	(53,321)
Total comprehensive income	**-**	**-**	**-**	**(46,487)**	**254,141**	**207,654**	**(253)**	**207,401**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(512)	512	-	-	-
Increase in share capital arising from share-based payments	-	22,839	502	-	-	23,341	162	23,503
Dividends to shareholders of the Group (Note 21)	-	-	-	-	(64,988)	(64,988)	-	(64,988)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	1,645	-	1,645	(3,261)	(1,616)
Dilution of interests in subsidiaries	-	-	-		-	-	27,947	27,947
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	1,488	1,488
Reorganization (Notes 1 and 21)	(8,692)	(327,470)	1,160	7,103	(24,984)	(352,883)	(67,882)	(420,765)
Purchase of treasury shares	-	(9,307)	(143)	-	-	(9,450)	-	(9,450)
31 December 2015	**27,821**	**297,300**	**(3)**	**(7,040)**	**893,520**	**1,211,598**	**13,009**	**1,224,607**

The accompanying notes on pages 8 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014	2013
Cash flows from operating activities				
Interest received		867,191	596,778	569,131
Interest paid		(352,394)	(263,773)	(234,971)
Fees and commissions received		152,416	130,536	102,023
Fees and commissions paid		(52,535)	(43,099)	(34,976)
Net cash inflow from real estate		7,158	5,600	-
Net realised gains from trading securities		39	10	-
Net realised gains from investment securities available-for-sale		34	83	2,858
Net realised gains from foreign currencies		64,561	44,599	46,499
Recoveries of loans to customers previously written off	10	33,685	28,706	27,479
Other expenses paid		(11,949)	(7,826)	(11,462)
Salaries and other employee benefits paid		(112,712)	(109,595)	(90,483)
General and administrative and operating expenses paid		(64,563)	(44,265)	(40,641)
Cash flows from operating activities from continuing operations before changes in operating assets and liabilities		**530,931**	**337,754**	**335,457**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(196,780)	(49,000)	37,705
Loans to customers		249,879	(943,727)	(489,076)
Finance lease receivables		3,228	5,284	(47,431)
Prepayments and other assets		11,692	389	6,905
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		98,738	211,632	(61,594)
Debt securities issued		(113,121)	82,148	283,908
Amounts due to customers		396,460	428,231	409,833
Other liabilities		(16,918)	13,256	(11,425)
Net cash flows from operating activities from continuing operations before income tax		**964,109**	**85,967**	**464,282**
Income tax paid		(28,360)	(14,783)	(27,101)
Net cash flows from operating activities from continuing operations		**935,749**	**71,184**	**437,181**
Net cash flows from operating activities from discontinued operations		63,298	59,543	32,871
Net Cash flow from operating activities		**999,047**	**130,727**	**470,052**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	22,620	-	-
Purchase of investment securities available-for-sale		(157,139)	(255,670)	(46,816)
Proceeds from sale of investment properties	12	19,813	6,467	-
Proceeds from sale of property and equipment and intangible assets	13	3,592	521	1,227
Purchase of property and equipment and intangible assets		(51,575)	(28,047)	(24,990)
Net cash flows used in investing activities from continuing operations		**(162,689)**	**(276,729)**	**(70,579)**
Net cash flows used in investing activities from discontinued operations		(104,815)	(120,634)	(39,791)
Reorganization*	27	(4,356)	-	-
Net cash flows used in investing activities		**(271,860)**	**(397,363)**	**(110,370)**

The accompanying notes on pages 8 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2015

(Thousands of Georgian Lari)

	Notes	2015	2014	2013
Cash flows (used in) from financing activities				
Dividends paid		(66,627)	(72,729)	(53,979)
Purchase of treasury shares		(9,450)	(5,142)	(4,833)
Sale of treasury shares		-	27,994	-
Net cash used in financing activities from continuing operations		**(76,077)**	**(49,877)**	**(58,812)**
Net cash from (used in) financing activities from discontinued operations		26,330	(28,972)	-
Net cash used in financing activities		**(49,747)**	**(78,849)**	**(58,812)**
Effect of exchange rates changes on cash and cash equivalents		(10,519)	6,277	(2,318)
Net increase in cash and cash equivalents		**666,921**	**(339,208)**	**298,552**
Cash and cash equivalents, beginning	7	**709,861**	**1,049,069**	**750,517**
Cash and cash equivalents, ending	7	**1,376,782**	**709,861**	**1,049,069**

**** Cash disposed with the discontinued operations.***

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2015 the Bank has 266 operating outlets in all major cities of Georgia (31 December 2014: 219, 31 December 2013: 202). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) is a public limited liability company incorporated in England and Wales and represents the ultimate parent company of the Bank. The shares of BGEO PLC are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012.

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in nonbanking subsidiaries by locally regulated banking entities, the Bank completed legal restructuring in August 2015 ("Reorganization"). As a result, a new holding company was established under the laws of Georgia as a parent of the Bank by BGEO PLC – JSC BGEO Group ("JSC BGEO"). The Bank's former non-banking subsidiaries that represented separate major lines of business ("Discontinued Operations") were moved directly under JSC BGEO as the Bank's sister companies during the reorganization (Note 27). The Group accounted for this transaction with JSC BGEO as equity distribution.

The Bank and its remaining subsidiaries make up a group of companies (the "Group") mainly incorporated in Georgia and Belarus. Primary business activities include providing banking services to corporate and individual customers. The list of the companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

As at 31 December 2015 JSC BGEO, and as at 31 December 2014 and 31 December 2013 BGEO PLC were the principal shareholders of the Bank:

Shareholder	*31 December 2015*	*31 December 2014*	*31 December 2013*
JSC BGEO Group	99.52%	-	-
BGEO Group Plc*	-	99.62%	99.62%
Others	0.48%	0.38%	0.38%
Total	**100.00%**	**100.00%**	**100.00%**

**** Formerly known as Bank of Georgia Holdings Plc.***

2. Basis of Preparation

General

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2015 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, investment properties and revalued property and equipment.
- the measurement of inventories and repossessed assets at lower of cost and net realizable value.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

2. Basis of Preparation (continued)

Going concern

The Bank's Supervisory Board has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least twelve months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Subsidiaries and associates

The consolidated financial statements as at 31 December 2015, 31 December 2014 and 31 December 2013 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	*31 December 2015*	*31 December 2014*	*31 December 2013*	*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 (formerly known as Bank of Georgia Future 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%	-	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	79.99%	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
JSC Galt and Taggart Holdings (Georgia)	(e)	100.00%	100.00%	Georgia	Investments	4/11/2008	–
⇒ JSC m2 Real Estate	(f)	100.00%	100.00%	Georgia	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	(f)	-	-	Georgia	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	(f)	100.00%	-	Georgia	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	(f)	100.00%	100.00%	Georgia	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	(f)	-	-	Georgia	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	(f)	100.00%	-	Georgia	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	(f)	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	(f)	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	(f)	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
⇒ M Square Park, LLC	(f)	-	-	Georgia	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	(f)	-	-	Georgia	Real estate	15/9/2015	–
⇒ m2 Hospitality, LLC	(f)	-	-	Georgia	Real estate	17/8/2015	–
⇒ m2, LLC (formerly JSC m2)	(f)	100.00%		Georgia	Real estate	12/2/2014	–
⇒ Caucasus Autohause, LLC	(f)	100.00%	100.00%	Georgia	Real estate	29/3/2011	–
⇒ Land, LLC	(f)	100.00%	-	Georgia	Real estate	3/10/2014	–
⇒ JSC Georgian Renewable Power Company	(f)	-	-	Georgia	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	(f)	85.00%	85.00%	Georgia	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	(f)	100.00%	100.00%	Georgia	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	(f)	-	-	Georgia	Renewable Energy	20/8/2015	–
⇒ Georgia Healthcare Group PLC	(f)	-	-	United Kingdom	Healthcare	27/8/2015	28/8/2015
⇒ JSC Georgia Healthcare Group	(f)	-	-	Georgia	Healthcare	29/4/2015	–
⇒ JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI) (a)	(f)	100.00%	100.00%	Georgia	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	(f)	100.00%	100.00%	Georgia	Various	22/6/2010	10/1/2011
⇒ JSC Medical Corporation EVEX	(f)	100.00%	-	Georgia	Healthcare	31/7/2014	–
⇒ JSC My Family Clinic	(c)	100.00%	51.00%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	(f)	66.70%	66.70%	Georgia	Medical services	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	(f)	66.70%	66.70%	Georgia	Medical services	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	(f)	66.70%	66.70%	Georgia	Medical services	29/9/1999	12/9/2011
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	(f)	92.90%	81.00%	Georgia	Medical services	3/11/2000	20/5/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	(c), (f)	100.00%	100.00%	Georgia	Medical services	19/7/2010	10/1/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	(c), (f)	100.00%	100.00%	Georgia	Medical services	11/6/1998	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	(c), (f)	100.00%	100.00%	Georgia	Medical services	30/11/1999	29/11/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	(c), (f)	100.00%	100.00%	Georgia	Medical services	1/9/1999	12/9/2011
⇒ Martvili Multi profile Hospital, LLC	(c), (f)	100.00%	100.00%	Georgia	Medical services	17/3/2000	12/9/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	(c), (f)	100.00%	100.00%	Georgia	Medical services	16/3/2000	12/9/2011
⇒ Khobi Central Regional Hospital, LLC	(c), (f)	100.00%	100.00%	Georgia	Medical services	13/7/2000	12/9/2011
⇒ Traumatologist, LLC	(c), (f)	100.00%	-	Georgia	Medical Service	20/7/2011	30/9/2014

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and 31 December 2015	31 December 2014	31 December 2013	Country of incorporation	Industry	Date of incorporation	Date of acquisition
⇒ GN KO, LLC	(f)	-	-	Georgia	Medical services	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	(f)	-	-	Georgia	Healthcare Service	16/4/1999	5/8/2015
⇒ Geolab, LLC	(f)	-	-	Georgia	Healthcare Service	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	(f)	-	-	Georgia	Healthcare Service	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	(f)	-	-	Georgia	Medical services	18/6/2013	5/8/2015
⇒ Deka, LLC	(f)	-	-	Georgia	Medical services	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	(f)	-	-	Georgia	Medical services	2/2/2015	–
⇒ Unimed Achara, LLC	(f)	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC	(f)	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Kakheti, LLC	(f)	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ LLC Caraps Medline	(d), (f)	100.00%	100.00%	Georgia	Medical Service	26/8/1998	26/12/2013
⇒ LLC Medline +	-	(b)	100.00%	Georgia	Medical Service	13/12/2007	30/12/2013
⇒ Avante Hospital Management Group, LLC	(d), (f)	100.00%	-	Georgia	Medical Service	5/8/2011	19/2/2014
⇒ Children's New Hospital, LLC	(d), (f)	75.00%	-	Georgia	Medical Service	18/7/2011	19/2/2014
⇒ New Life, LLC	(d), (f)	100.00%	-	Georgia	Medical Service	21/9/1999	19/2/2014
⇒ Batumi Regional Healthcare Center for Mothers and Children, LLC	(d), (f)	100.00%	-	Georgia	Medical Service	19/11/2004	19/2/2014
⇒ Sunstone Medical, LLC	(d), (f)	100.00%	-	Georgia	Medical Service	9/11/2012	21/5/2014
⇒ M. Iashvili Children's Central Hospital, LLC	(f)	66.70%	-	Georgia	Medical Service	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	(f)	100.00%	-	Georgia	Medical Service	6/3/2000	19/2/2014
⇒ Referral Centre of Pathology, LLC	(f)	100.00%	-	Georgia	Medical services	29/12/2014	–
⇒ EVEX Learning Center	(f)	100.00%	100.00%	Georgia	Education	20/12/2013	–
⇒ JSC Liberty Consumer	(f)	70.12%	67.51%	Georgia	Investments	24/5/2006	–
⇒ JSC Teliani Valley	(f)	50.92%	50.88%	Georgia	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	(f)	100.00%	100.00%	Georgia	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	(f)	100.00%	100.00%	Ukraine	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	(f)	100.00%	100.00%	Georgia	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	(f)	70.00%	70.00%	Georgia	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	(f)	100.00%	-	Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ JSC Intertour	(f)	99.94%	99.94%	Georgia	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	(f)	100.00%	100.00%	Georgia	Fitness centre	7/3/2006	–
⇒ JSC Galt & Taggart	(f)	100.00%	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Branch Office of "BG Kapital" JSC in Azerbaijan	(f)	100.00%	-	Azerbaijan	Representative Office	28/12/2013	–
⇒ Galt and Taggart Holdings Limited	(f)	100.00%	100.00%	Cyprus	Investments	3/7/2006	–
⇒ BG Capital (Belarus), LLC	(f)	100.00%	100.00%	Belarus	Brokerage	19/2/2008	–
⇒ Georgian Leasing Company, LLC	(f)	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing	(f)	-	-	Georgia	Leasing	27/1/2012	21/1/2015
⇒ Solo, LLC	(f)	-	-	Georgia	Trade	22/4/2015	–
⇒ JSC United Securities Registrar of Georgia	(f)	100.00%	100.00%	Georgia	Registrar	29/5/2006	–
⇒ JSC Express Technologies	(f)	100.00%	100.00%	Georgia	Investments	29/10/2007	–
⇒ JSC Georgian Card	(f)	98.23%	56.20%	Georgia	Card processing	17/1/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	(f)	100.00%	100.00%	Georgia	Electronic payment services	7/3/2006	–
⇒ LLC Didi Digomi Research Center	(f)	100.00%	100.00%	Georgia	Communication services	23/4/2007	–
⇒ Metro Service +, LLC	(f)	100.00%	100.00%	Georgia	Business servicing	10/5/2006	–
⇒ Express Technologies CEE, LLC	(f)	100.00%	-	Hungary	Other Financial Service Activities	5/3/2014	N/A
⇒ JSC Insurance Company Aldagi	(f)	100.00%	-	Georgia	Insurance	31/7/2014	–
⇒ JSC Insurance Company Tao	(f)	-	-	Georgia	Insurance	22/8/2007	21/1/2015
⇒ Aliance, LLC	(f)	100.00%	100.00%	Georgia	Various	3/1/2000	5/1/2012
⇒ Green Way, LLC	(f)	100.00%	100.00%	Georgia	Various	9/8/2008	5/1/2012
⇒ Premium Residence, LLC	(f)	100.00%	100.00%	Georgia	Hotel	9/7/2010	1/5/2012

(a) On 31 July 2014 a new holding company - JSC Medical Corporation EVEX was created to hold the Group's healthcare subsidiaries. Also, the Group's insurance operations were split between two legal entities - the newly incorporated JSC Insurance Company Aldagi to operate the Group's property & casualty insurance business and the former JSC Insurance Company Aldagi BCI that was renamed to JSC Insurance Company Imedi L to operate the Group's health insurance business
(b) Merged to LLC Caraps Medline in 2014
(c) Merged to JSC Medical Corporation Evex in 2015
(d) Merged to Unimed Kakheti, LLC in 2015
(e) Merged to JSC Bank of Georgia in 2015
(f) Moved under JSC BGEO Group, as a result of reorganization

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

No new or revised IFRS during the year had an impact on the Group's financial position or performance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the data the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

3. Summary of Selected Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. Summary of Selected Significant Accounting Policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Derivative financial instruments

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

3. Summary of Selected Significant Accounting Policies (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

3. Summary of Selected Significant Accounting Policies (continued)

Leases

i. Finance – Group as lessor

The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions, loans to customers and finance lease receivables

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement in the respective impairment line with a negative sign as a reversal of impairment.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 150 days. Retail mortgage loans are written off when overdue by more than 365 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for the modification of financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In cases where the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

3. Summary of Significant Accounting Policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Inventories

Inventories are valued at the lower of cost and net 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.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Bank and its subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

3. Summary of Significant Accounting Policies (continued)

Investment properties (continued)

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 Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to propertyand equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

Property and equipment, except for office buildings and service centres, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Office buildings and service centres are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, office buildings and service centres are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed once in every three years, unless there is a sign of material change in fair value on the market.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	Up to 100
Hospitals and clinics	Up to 100
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

3. Summary of Significant Accounting Policies (continued)

Goodwill Impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

3. Summary of Significant Accounting Policies (continued)

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% - additionally paid by the Group. When an employee reaches 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 16.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions (continued)

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGEO's shares) which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchase 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 consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

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

Fee income from providing transaction services

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

Dividend income

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

Non-recurring income and expenses

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors. Typical non-recurring income or expenses are but not limited to the following:

- Bankruptcy of a subsidiary or an associate or any other extraordinary and irregular event that causes material impairment of an investment in that subsidiary or associate or impairment of associated goodwill;
- Expenses incurred for the purposes of initial public offering ("IPO") that are not directly attributable to issuance of new shares but are rather associated with the listing of existing shares;
- Gains from bargain purchases (negative goodwill) associated with business combinations;
- Impairment of property and equipment, which is an additional loss in excess of a regular depreciation charge caused by unexpected external factors;
- Gains or losses from hyperinflation;
- Gains or losses from breaches of borrowings before maturity;
- Redundancy expenses and costs of lay off of management and executives;
- Failure of a software or license provider to complete implementation of a software or license through a breach of agreement with the Group, resulting in legal disputes and/or litigations;

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2015, 31 December 2014 and 31 December 2013 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYR (10,000)*
31 December 2015	3.5492	2.3949	2.6169	1.2904
31 December 2014	2.8932	1.8636	2.2656	1.5727
31 December 2013	2.8614	1.7363	2.3891	1.8258

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Change in Functional Currency

Prior to 1 January 2007, the Bank determined that GEL was its functional currency, as it was the currency of the primary economic environment in which the Bank operated. However, in 2007 the Bank determined that US Dollar ("USD") was its functional currency, due to the following:

- The USD share of the Bank's assets and liabilities was constantly increasing;
- Pricing of the loans was primarily based on the cost of funds which were sourced primarily from USD denominated offshore banking borrowings and deposits, at the same time Global Depositary Receipts ("GDR") of the Bank floated on the London Stock Exchange, and were priced and traded in USD;
- After the Bank had listed its shares in the form of GDRs on the London Stock Exchange in November 2006, communication, planning and execution of business activities of the Bank with shareholders were generally in USD.

3. Summary of Significant Accounting Policies (continued)

Change in Functional Currency (continued)

In 2015 the Bank performed a re-assessment of its functional currency in accordance with International Accounting Standard 21 – "Effects of Changes in Foreign Exchange Rates" (IAS 21) and determined that GEL was its functional currency, due to the following:

- USD share of the Bank's assets is stable and no longer increasing, while USD share of liabilities is constantly decreasing;
- Due to their decreasing share in debt financing, pricing of the loan is constantly becoming less dependent on USD denominated offshore banking borrowings and deposits, while following the listing of BGEO on the premium listing segment of the London Stock Exchange in February 2012, the Bank's equity financing source also changed from USD to British Pound Sterling ("GBP");
- Communication, planning and execution of business activities of the Bank with shareholders has become less relevant, concentrating more on GEL and GBP;
- Following listing on the premium segment of the London Stock Exchange, share-based compensation of the management has changed from being ISD denominated to being GBP denominated;

As a result, the Bank changed its functional currency from USD to GEL starting 1 January 2015 and this has been accounted from prospectively from that date.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and is currently assessing its impact of IFRS 9.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is currently assessing the impact of IFRS 16 on its financial statements.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41. Agriculture; Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have material impact on the Group.

Amendments to IFRS 2: Share-based Payments

In June 2016, the IASB issued three amendments to IFRS 2 to eliminate diversity in practice in the classification and measurement of particular share-based payment transactions. The amendments are narrow in scope and address specific areas of classification and measurement, namely these amendments are intended to eliminate diversity in practice in 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
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled

The amendments are effective for accounting periods beginning on or after 1 January 2018, but earlier application is permitted provided it is disclosed. On adoption, prior periods are not to be restated. These amendments are not expected to have material impact on the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
• The materiality requirements in IAS 1
• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
• That entities have flexibility as to the order in which they present the notes to financial statements
• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the board of directors and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 30).

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties, and office buildings and service centres included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties, and office buildings and service centres once in every three years, unless there is a sign of material change in fair values on the market. Last valuation was performed as at 31 December 2015 by Colliers International Georgia. Results of this valuation are presented in notes 12 and 13, while valuation inputs and techniques are presented in note 30.

The estimates described above are subject to change as new transaction data and market evidence become available.

Allowance for impairment of loans and finance lease receivables

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

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

Information about allowance for impairment of loans and finance lease receivables is presented in Notes 10 and 11.

5. Business Combinations

Acquisition of JSC PrivatBank

On 9 January 2015, the Bank acquired 100% of shares in JSC PrivatBank ("Acquiree"), a commercial Bank operating in Georgia, from PJSC CB PrivatBank (Ukraine) and its subsidiary for a total consideration of GEL 94,181.

The fair values of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	107,553
Amounts due from credit institutions	26,226
Loans to customers [1]	294,598
Finance lease receivables [1]	2,789
Insurance premiums receivable	2,069
Investment properties (note 13)	705
Property and equipment	20,301
Intangible assets	148
Income tax assets	1,785
Other assets	14,515
	470,689
Amounts due to customers	340,284
Amounts due to credit institutions	38,620
Accruals and deffered income	1,991
Other liabilities	6,668
	387,563
Total identifiable net assets	**83,126**
Goodwill arising on business combination	11,055
Consideration given [2]	**94,181**

The net cash outflow on acquisition was as follows:

	2015
Cash paid	(84,933)
Cash acquired with the subsidiary	107,553
Net cash inflow	**22,620**

The Bank decided to increase its presence in retail segment of Georgia's banking sector, by acquiring JSC PrivatBank, thus consolidating a leading position in the growing retail segment of the Georgian commercial banking sector. Management considers that the deal will have a positive impact on the value of the Group.

GEL 32,130 and GEL 3,546 of revenue and profit, respectively, comes from the Acquiree during five months ended 31 May 2015. Had the acquisition occurred as of the beginning of the reporting period, revenue and profit of the combined entity for the current reporting period would not have been materially different. Fair value of any identified intangible assets was assessed as immaterial and thus no such assets were recognized by the Group. In May 2015, the Bank completed the integration of the Acquiree. The goodwill of GEL 11,055 was added to the Retail Banking cash generating unit, as JSC PrivatBank operations became an indistinguishable part of our Retail Banking business.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy which is expected to be brought into the Group's operations. The whole amount of goodwill recognized is expected to be tax deductible.

1. Gross amount of loans to customers and finance lease receivables was GEL 335,008 of which GEL 37,621 is not expected to be collected;
2. Consideration comprised of GEL 94,181 which consists of GEL 84,933 cash payment and GEL 9,248 fair value of a holdback amount.

5. Business Combinations (continued)

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2015 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Bank at the date of business combination, made following acquisitions:

- On 30 June 2015, 95% of the shares of LLC Deka, a healthcare company operating in Georgia, was acquired from individual shareholders;
- On 1 March 2015, 100% share in LLC Tbilisi Emergency Centre, a healthcare company operating in Georgia, was acquired from individual shareholders.

The provisional fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Cash and cash equivalents	114
Receivables from healthcare services [1]	111
Property and equipment	43,918
Other assets	226
	44,369
Amounts due to credit institutions	54
Accounts payable	1,290
Accruals for employee compensation	186
Deferred income tax liabilities	6,198
Other liabilities	537
	8,265
Total identifiable net assets	**36,104**
Non-controlling interests	1,768
Gain on bargain purchase (note 27) [2]	5,361
Goodwill arising on business combination	867
Consideration given[2]	**29,842**

The net cash inflow on acquisition was as follows:

	2015
Cash paid	(28,280)
Cash acquired with the subsidiary	114
Net cash outflow	**(28,166)**

GEL 3,398 and GEL 599 of revenue and profit, respectively come from the acquirees after their respective acquisition dates, recorded in discontinued operations.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the EVEX's operations. The goodwill of GEL 867 was added to the Healthcare cash generating unit. The whole amount of goodwill recognized is expected to be tax deductible. The Bank has elected to measure the non-controlling interests in LLC Deka at the non-controlling interests' proportionate share of their respective identifiable net assets.

[1] Gross amount of receivables from healthcare services was GEL 506 of which GEL 395 is not expected to be collected;
[2] Prior to acquisition, owners of LLC Deka encountered certain financial difficulties which resulted in a lower acquisition cost and a gain from a bargain purchase in the amount of GEL 5,361, recorded in net non-recurring items;
[3] Consideration comprised GEL 29,842 which consists of cash payment of GEL 28,280 and a holdback amount with a fair value of GEL 1,562.

6. Segment Information

For management purposes, the Group 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 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;

P&C Insurance - (discontinued operation) Principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals;

GHG - (discontinued operation) Georgian Healthcare Group – providing wide-scale healthcare and health insurance services to clients and insured individuals;

m^2 - (discontinued operation) Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Liberty Consumer - (discontinued operation) Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other - Comprising several small corporate and social responsibility companies.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015, 2014 or 2013.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2015:

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*P&C*	*GHG*	*M2*	*Liberty Consumer*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income (expense)	134,031	322,711	20,008	29,890	-	-	-	-	(583)	-	506,057
Net fees and commission income	31,178	63,818	900	9,198	-	-	-	-	-	-	105,094
Real estate income	5,531	5,941	69	485	-	-	-	-	-	(195)	11,831
Net gains (losses) from foreign currencies	32,681	14,488	1,614	17,036	-	-	-	-	(1)	-	65,818
Other revenues	2,819	3,604	87	1,713	-	-	-	-	(1)	-	8,222
Revenue	**206,240**	**410,562**	**22,678**	**58,322**	**-**	**-**	**-**	**-**	**(585)**	**(195)**	**697,022**
Operating expenses	(50,381)	(161,312)	(9,109)	(19,731)	-	-	-	-	(417)	195	(240,755)
Operating income (expense) before cost of credit risk	**155,859**	**249,250**	**13,569**	**38,591**	**-**	**-**	**-**	**-**	**(1,002)**	**-**	**456,267**
Cost of credit risk	(55,312)	(75,407)	(453)	(19,270)	-	-	-	-	-	-	(150,442)
Net operating income (loss) before non-recurring items	**100,547**	**173,843**	**13,116**	**19,321**	**-**	**-**	**-**	**-**	**(1,002)**	**-**	**305,825**
Net non-recurring (expense/loss) income/gain	(2,838)	(8,962)	(337)	1,478	-	-	-	-	-	-	(10,659)
Profit (loss) before income tax (expense) benefit from continuing operations	**97,709**	**164,881**	**12,779**	**20,799**	**-**	**-**	**-**	**-**	**(1,002)**	**-**	**295,166**
Income tax (expense) benefit	(14,605)	(23,412)	(2,049)	(2,753)	-	-	-	-	97	-	(42,722)
Profit (Loss) for the year from continuing operations	**83,104**	**141,469**	**10,730**	**18,046**	**-**	**-**	**-**	**-**	**(905)**	**-**	**252,444**
(Loss) Profit from discontinued operations	**(1,518)**	**1,593**	**2,919**	**-**	**69**	**17,995**	**(2,408)**	**(1,978)**	**(8,394)**	**-**	**8,278**
Profit (Loss) for the year	**81,586**	**143,062**	**13,649**	**18,046**	**69**	**17,995**	**(2,408)**	**(1,978)**	**(9,299)**	**-**	**260,722**
Assets and liabilities											
Total assets	3,871,531	4,559,392	89,626	475,483	-	-	-	-	14,887	(7,374)	9,003,545
Total liabilities	3,247,095	3,094,217	1,056,136	388,698	-	-	-	-	166	(7,374)	7,778,938
Other segment information											
Property and equipment	5,684	41,774	941	1,193	319	30,904	462	1,291	159	-	82,727
Intangible assets	870	5,753	63	598	621	1,678	-	12	7	-	9,602
Capital expenditure	**6,554**	**47,527**	**1,004**	**1,791**	**940**	**32,582**	**462**	**1,303**	**166**	**-**	**92,329**
Depreciation	(3,389)	(23,453)	(414)	(898)	(244)	(5,275)	(82)	(755)	-	-	(34,510)
Amortization	(688)	(4,166)	(54)	(140)	(187)	(121)	(10)	(5)	-	-	(5,371)
(Impairment) Reversal	(1,279)	(1,649)	(64)	1,524	-	-	-	-	-	-	(1,468)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2014:

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*P&C*	*GHG*	*M2*	*Liberty Consumer*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income (expense)	105,704	215,671	13,512	22,410	-	-	-	-	1,733	-	359,030
Net fees and commission income	24,935	47,396	4,384	9,443	-	-	-	-	-	-	86,158
Real estate income	2,751	2,552	10	482	-	-	-	-	-	(195)	5,600
Net gains (losses) from foreign currencies	27,368	20,325	1,280	9,932	-	-	-	-	(1,171)	-	57,734
Other revenues	3,856	196	(13)	22	-	-	-	-	(9)	-	4,052
Revenue	**164,614**	**286,140**	**19,173**	**42,289**	**-**	**-**	**-**	**-**	**553**	**(195)**	**512,574**
Operating expenses	(47,525)	(119,029)	(8,629)	(18,390)	-	-	-	-	(1,085)	195	(194,463)
Operating income (expense) before cost of credit risk	**117,089**	**167,111**	**10,544**	**23,899**	**-**	**-**	**-**	**-**	**(532)**	**-**	**318,111**
Cost of credit risk	(41,198)	(9,241)	47	(4,187)	-	-	-	-	-	-	(54,579)
Net operating income (loss) before non-recurring items	**75,891**	**157,870**	**10,591**	**19,712**	**-**	**-**	**-**	**-**	**(532)**	**-**	**263,532**
Net non-recurring (expense/loss) income/gain	(2,725)	(5,340)	(294)	(3,073)	-	-	-	-	-	-	(11,432)
Profit (loss) before income tax (expense) benefit from continuing operations	**73,166**	**152,530**	**10,297**	**16,639**	**-**	**-**	**-**	**-**	**(532)**	**-**	**252,100**
Income tax (expense) benefit	(9,328)	(18,984)	(1,343)	(962)	-	-	-	-	345	-	(30,272)
Profit (Loss) for the year from continuing operations	**63,838**	**133,546**	**8,954**	**15,677**	**-**	**-**	**-**	**-**	**(187)**	**-**	**221,828**
Profit (Loss) from discontinued operations	**767**	**1,706**	**2,511**	**-**	**5,914**	**14,655**	**5,794**	**1,969**	**(9,160)**	**-**	**24,156**
Profit (Loss) for the year	**64,605**	**135,252**	**11,465**	**15,677**	**5,914**	**14,655**	**5,794**	**1,969**	**(9,347)**	**-**	**245,984**
Assets and liabilities											
Total assets	3,329,853	3,225,230	39,426	403,764	86,746	409,945	236,179	41,632	29,723	(265,197)	7,537,301
Total liabilities	2,412,767	2,316,680	842,300	319,308	58,695	237,565	112,407	18,907	23,640	(266,055)	6,076,214
Other segment information											
Property and equipment	2,629	19,540	3,894	2,101	1,477	38,503	368	1,761	313	-	70,586
Intangible assets	1,121	6,503	130	304	232	1,519	27	30	7	-	9,873
Capital expenditure	**3,750**	**26,043**	**4,024**	**2,405**	**1,709**	**40,022**	**395**	**1,791**	**320**	**-**	**80,459**
Depreciation	(3,174)	(17,094)	(368)	(1,218)	(382)	(7,852)	(295)	(1,098)	(4)	-	(31,485)
Amortization	(639)	(3,385)	(44)	(100)	(188)	(205)	(37)	(20)	-	-	(4,618)
Impairment	(4,259)	(3,315)	(138)	-	-	-	-	-	-	-	(7,712)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2013:

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*P&C*	*GHG*	*M2*	*Liberty Consumer*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income (expense)	105,870	192,686	8,174	18,565	-	-	-	-	1,744	1,158	328,197
Net fees and commission income	27,352	43,823	529	6,350	-	-	-	-	-	-	78,054
Real estate income	2,700	1,317	13	(149)	-	-	-	-	-	-	3,881
Net gains from foreign currencies	25,385	16,263	1,341	5,875	-	-	-	-	-	-	48,864
Other revenues	2,926	2,398	1,145	22	-	-	-	-	4	(1,174)	5,321
Revenue	**164,233**	**256,487**	**11,202**	**30,663**	**-**	**-**	**-**	**-**	**1,748**	**(16)**	**464,317**
Operating expenses	(42,174)	(110,342)	(8,477)	(15,201)	-	-	-	-	(234)	16	(176,412)
Operating income before cost of credit risk	**122,059**	**146,145**	**2,725**	**15,462**	**-**	**-**	**-**	**-**	**1,514**	**-**	**287,905**
Cost of credit risk	(28,424)	(28,940)	10	(563)	-	-	-	-	-	-	(57,917)
Net operating income (loss) before non-recurring items	**93,635**	**117,205**	**2,735**	**14,899**	**-**	**-**	**-**	**-**	**1,514**	**-**	**229,988**
Net non-recurring expense/loss	(5,947)	(2,225)	(255)	(399)	-	-	-	-	(408)	-	(9,234)
Profit (loss) before income tax (expense) benefit from continuing operations	**87,688**	**114,980**	**2,480**	**14,500**	**-**	**-**	**-**	**-**	**1,106**	**-**	**220,754**
Income tax (expense) benefit	(11,116)	(14,268)	(340)	(3,514)	-	-	-	-	72	-	(29,166)
Profit for the year from continuing operations	**76,572**	**100,712**	**2,140**	**10,986**	**-**	**-**	**-**	**-**	**1,178**	**-**	**191,588**
Profit (Loss) from discontinued operations	**603**	**1,397**	**(2,173)**	**-**	**11,081**	**13,092**	**6,621**	**(703)**	**(7,706)**	**-**	**22,212**
Profit (Loss) for the year	**77,175**	**102,109**	**(33)**	**10,986**	**11,081**	**13,092**	**6,621**	**(703)**	**(6,528)**	**-**	**213,800**
Assets and liabilities											
Total assets	3,085,647	2,689,011	30,749	326,465	70,477	275,197	135,993	41,498	30,599	(161,402)	6,524,234
Total liabilities	2,344,860	1,830,958	683,569	254,451	50,576	176,118	59,021	18,926	24,277	(162,837)	5,279,919
Other segment information											
Property and equipment	2,853	20,921	302	466	503	35,136	463	1,422	136	-	62,202
Intangible assets	972	5,665	78	249	522	832	47	11	13	-	8,389
Capital expenditure	**3,825**	**26,586**	**380**	**715**	**1,025**	**35,968**	**510**	**1,433**	**149**	**-**	**70,591**
Depreciation	(2,945)	(16,086)	(312)	(1,523)	(373)	(5,646)	(73)	(1,034)	(50)	-	(28,042)
Amortization	(514)	(3,007)	(41)	(106)	(179)	(228)	(2)	(1)	(2)	-	(4,080)
(Impairment) Reversal	(713)	(641)	(5)	1,295	-	-	-	(1,107)	-	-	(1,171)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2015	*2014*	*2013*
Cash on hand	447,015	393,315	384,410
Current accounts with central banks, excluding obligatory reserves	152,455	152,647	132,219
Current accounts with other credit institutions	415,463	137,960	352,845
Time deposits with credit institutions with maturity of up to 90 days	361,849	25,939	179,595
Cash and cash equivalents	**1,376,782**	**709,861**	**1,049,069**

As at 31 December 2015 GEL 661,543 (2014: GEL 136,387 , 2013: GEL 481,137) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.59% interest per annum on these deposits (2014: up to 1.30%, 2013: up to 6.92%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

8. Amounts Due from Credit Institutions

	2015	*2014*	*2013*
Obligatory reserves with central banks	620,287	382,963	330,319
Time deposits with maturity of more than 90 days	29	34,053	9,623
Deposits pledged as security for open commitments	96,405	-	1,761
Inter-bank loan receivables	1,956	1,486	5,558
Amounts due from credit institutions	**718,677**	**418,502**	**347,261**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned nil interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

As at 31 December 2015 inter-bank loan receivables include GEL 1,956 (2014: GEL 1,486, 2013: GEL 4,685) placed with non-OECD banks.

9. Investment Securities Available-for-Sale

	2015	*2014*	*2013*
Georgian ministry of Finance treasury bonds*	575,590	459,400	391,486
Georgian ministry of Finance treasury bills**	165,545	169,796	63,606
Certificates of deposit of central banks***	76,807	92,547	59,265
Other debt instruments****	84,003	46,557	-
Corporate shares	295	1,412	5,266
Investment securities available-for-sale	**902,240**	**769,712**	**519,623**

**** GEL 229,800 was pledged for short-term loans from the NBG (2014: GEL 341,681, 2013: GEL 200,065).***
***** GEL 3,805 was pledged for short-term loans from the NBG(2014: GEL 60,889, 2013: GEL 19,773).***
****** GEL 2,966 was pledged for short-term loans from the NBG (2014: Nil, 2013: 30,328);***
******* GEL 79,187 was pledged for short-term loans from the NBG (2014:25,069, 2013: Nil) .***

Other debt instruments as at 31 December 2015 comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 50,666 (2014: 25,069, 2013: Nil), and GEL denominated bonds issued by the International Finance Corporation of GEL 28,460, (2014: Nil, 2013: Nil).

(Thousands of Georgian Lari)

10. Loans to Customers

	2015	*2014*	*2013*
Commercial loans	2,439,276	2,201,890	1,870,765
Consumer loans	1,165,107	801,474	660,220
Micro and SME loans	1,041,929	772,283	566,273
Residential mortgage loans	814,344	604,143	447,063
Gold – pawn loans	61,140	53,785	61,871
Loans to customers, gross	**5,521,796**	**4,433,575**	**3,606,192**
Less – Allowance for loan impairment	(198,909)	(103,780)	(120,785)
Loans to customers, net	**5,322,887**	**4,329,795**	**3,485,407**

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*
	2015	*2015*	*2015*	*2015*	*2015*
At 1 January	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Charge	59,085	62,638	3,410	17,681	142,814
Recoveries	4,331	21,079	3,066	5,209	33,685
Write-offs	(10,324)	(47,075)	(2,847)	(10,694)	(70,940)
Accrued interest on written-off loans	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation differences	436	(238)	-	1,046	1,244
At 31 December	**125,327**	**51,017**	**6,061**	**16,504**	**198,909**
Individual impairment	118,960	1,850	4,380	13,745	138,935
Collective impairment	6,367	49,167	1,681	2,759	59,974
	125,327	**51,017**	**6,061**	**16,504**	**198,909**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**330,084**	**3,136**	**15,902**	**27,421**	**376,543**

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2014	*2014*	*2014*	*2014*	*2014*
At 1 January	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Charge (reversal)	34,617	14,147	(2,280)	(1,396)	45,088
Recoveries	3,104	14,730	5,661	5,211	28,706
Write-offs	(41,894)	(22,556)	(2,777)	(4,748)	(71,975)
Accrued interest on written-off loans	(13,581)	(3,341)	(704)	(348)	(17,974)
Currency translation differences	(310)	(104)	-	(436)	(850)
At 31 December	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Individual impairment	63,816	1,403	2,525	3,637	71,381
Collective impairment	9,069	22,245	468	617	32,399
	72,885	**23,648**	**2,993**	**4,254**	**103,780**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**243,825**	**1,924**	**7,944**	**10,594**	**264,287**

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2013	*Consumer loans 2013*	*Residential mortgage loans 2013*	*Micro and SME loans 2013*	*Total 2013*
At 1 January	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Charge (reversal)	13,671	27,550	(5,388)	5,666	41,499
Recoveries	4,693	14,363	4,958	3,465	27,479
Write-offs	(4,404)	(35,866)	(4,974)	(4,707)	(49,951)
Accrued interest on written-off loans	(1,153)	(5,509)	(1,216)	(344)	(8,222)
Currency translation differences	(56)	(15)	-	14	(57)
At 31 December	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Individual impairment	76,009	8,221	2,861	4,708	91,799
Collective impairment	14,940	12,551	232	1,263	28,986
	90,949	**20,772**	**3,093**	**5,971**	**120,785**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**144,020**	**14,817**	**6,792**	**10,925**	**176,554**

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2015 comprised GEL 22,234 (2014: GEL 17,021, 2013: GEL 18,170).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account discounted value of collateral, allowance for loan impairment would be GEL 176,759 higher as at 31 December 2015 (2014: GEL 145,838, 2013: GEL 47,256 higher).

Concentration of loans to customers

As at 31 December 2015, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 708,839 accounting for 13% of the gross loan portfolio of the Group (2014: GEL 711,647 and 16% respectively, 2013: GEL 610,916 and 17% respectively). An allowance of GEL 2,484 (2014: GEL 4,034, 2013: GEL 22,740) was established against these loans.

As at 31 December 2015, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,128,146 accounting for 20% of the gross loan portfolio of the Group (2014: GEL 1,094,084 and 25% respectively, 2013: GEL 912,106 and 25% respectively). An allowance of GEL 41,410 (2014: GEL 18,324, 2013: GEL 9,345) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2015, 31 December 2014 and 31 December 2013 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2015	*2014*	*2013*
Individuals	2,482,334	1,831,479	1,411,958
Trade	723,776	647,858	560,389
Manufacturing	711,677	719,003	659,527
Real estate	354,325	244,134	250,147
Service	223,658	164,008	132,809
Construction	178,641	114,891	132,477
Hospitality	168,011	166,214	106,997
Transport & Communication	165,330	151,715	148,849
Mining and quarrying	127,706	15,310	9,517
Financial intermediation	88,779	109,201	14,758
Electricity, gas and water supply	77,633	124,772	63,378
Other	219,926	144,990	115,386
Loans to customers, gross	**5,521,796**	**4,433,575**	**3,606,192**
Less – allowance for loan impairment	(198,909)	(103,780)	(120,785)
Loans to customers, net	**5,322,887**	**4,329,795**	**3,485,407**

Loans have been extended to the following types of customers:

	2015	*2014*	*2013*
Private companies	2,999,695	2,552,152	2,089,290
Individuals	2,482,334	1,831,479	1,411,958
State-owned entities	39,767	49,944	104,944
Loans to customers, gross	**5,521,796**	**4,433,575**	**3,606,192**
Less – allowance for loan impairment	(198,909)	(103,780)	(120,785)
Loans to customers, net	**5,322,887**	**4,329,795**	**3,485,407**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2015, 31 December 2014 and 31 December 2013:

	2015			*2014*			*2013*		
	Individual impairment	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*
	2015	*2015*	*2015*	*2014*	*2014*	*2014*	*2013*	*2013*	*2013*
At 1 January	**71,381**	**32,399**	**103,780**	**91,799**	**28,986**	**120,785**	**83,172**	**26,865**	**110,037**
Charge for the year	94,883	47,931	142,814	34,088	11,000	45,088	19,395	22,104	41,499
Recoveries	9,994	23,691	33,685	12,897	15,809	28,706	10,828	16,651	27,479
Write-offs	(34,722)	(36,218)	(70,940)	(51,774)	(20,201)	(71,975)	(17,269)	(32,682)	(49,951)
Interest accrued on impaired loans to customers	(3,617)	(8,057)	(11,674)	(14,846)	(3,128)	(17,974)	(4,273)	(3,949)	(8,222)
Currency translation differences	1,016	228	1,244	(783)	(67)	(850)	(54)	(3)	(57)
At 31 December	**138,935**	**59,974**	**198,909**	**71,381**	**32,399**	**103,780**	**91,799**	**28,986**	**120,785**

(Thousands of Georgian Lari)

11. Finance Lease Receivables

	2015	*2014*	*2013*
Minimum lease payments receivable	17,757	47,047	56,124
Less – Unearned finance lease income	(2,196)	(7,799)	(9,875)
	15,561	**39,248**	**46,249**
Less – Allowance for impairment	(1,551)	(729)	(643)
Finance lease receivables, net	**14,010**	**38,519**	**45,606**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2015, the concentration of investment in the five largest lease receivables comprised GEL 4,499 or 29% of total finance lease receivables (2014: GEL 10,160 or 26%, 2013: GEL 5,766 or 12%) and finance income received from it for the year ended 31 December 2015 comprised GEL 325 or 11% of total finance income from lease (2014: GEL 304 or 13%, 2013: GEL 429 or 25%).

Future minimum lease payments to be received after 31 December 2015, 31 December 2014 and 31 December 2013 are as follows:

	2015	*2014*	*2013*
Within 1 year	11,107	29,901	35,472
From 1 to 5 years	6,650	17,146	18,880
More than 5 years	-	-	1,772
Minimum lease payment receivables	**17,757**	**47,047**	**56,124**

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2015	*Finance lease receivables 2014*	*Finance lease receivables 2013*
At 1 January	**729**	**643**	**507**
Charge	1,676	476	2,809
Amounts written-off	(153)	(435)	(2,639)
Reorganization	(521)	-	-
Currency translation differences	(180)	45	(34)
At 31 December	**1,551**	**729**	**643**
Individual impairment	1,367	243	100
Collective impairment	184	486	543
	1,551	**729**	**643**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,808**	**1,487**	**870**

(Thousands of Georgian Lari)

12. Investment Properties

	2015	*2014*	*2013*
At 1 January	**190,860**	**157,707**	**160,353**
Additions*	49,403	58,449	20,051
Disposals	(19,492)	(7,383)	(10,748)
Reorganization	(89,960)	-	-
Business combination	705	-	-
Net gains from revaluation of investment property	6,388	1,909	9,788
Hyperinflation effect	-	394	-
Transfers from (to) property and equipment and other assets**	2,844	(31,025)	(21,737)
Currency translation differences	(5,295)	10,809	-
At 31 December	**135,453**	**190,860**	**157,707**

**** GEL 11,587 paid in 2015 for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2015 and full additions of 2014 and 2013 comprise foreclosed properties, no cash transactions were involved.***
***** Comprised of GEL -1,637 transfer to property and equipment (2014: transfers to property and equipment GEL 6,389 and 2013: transfers from property and equipment GEL 4,979 respectively), GEL -1,608 transfer from other assets - inventories (2014 and 2013: transfer to other assets – inventories GEL 25,132 and GEL 14,089) and GEL -401 transfer from finance lease receivables (2014: transfer from finance lease receivable GEL 496 and 2013: transfer to finance lease receivable 12,627).***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2015 and was carried out by professional valuers. Refer to Note 29 for details on fair value measurements of investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2015 were as follows:

	Land & buildings	*Hospitals & clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2014	**230,375**	**207,038**	**140,130**	**130,810**	**7,566**	**12,751**	**9,599**	**738,269**
Additions	4,888	6,540	21,692	29,314	2,596	3,494	14,203	82,727
Business combination, Note 5	3,550	43,918	6,900	7,324	737	1,790	-	64,219
Disposals	(1,837)	(964)	(313)	(3,040)	(426)	(1,796)	-	(8,376)
Transfers	3,101	828	2,953	(1,546)	(923)	3,989	(8,402)	-
Reorganization	(21,266)	(257,360)	(8,948)	(106,472)	(3,073)	(6,393)	(5,028)	(408,540)
Transfers to investment properties	(1,637)	-	-	-	-	-	-	(1,637)
Transfers from (to) other assets	-	-	(343)	(736)	4	-	(6,231)	(7,306)
Revaluation	(8,774)	-	-	-	-	-	-	(8,774)
Currency translation differences	(3,618)	-	(265)	(530)	(83)	(77)	(337)	(4,910)
31 December 2015	**204,782**	**-**	**161,806**	**55,124**	**6,398**	**13,758**	**3,804**	**445,672**
Accumulated impairment								
31 December 2014	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Impairment charge	(1,473)	-	-	-	-	-	-	(1,473)
Reorganization	(66)	-	-	2	4	-	-	(60)
Transfers to investment properties	(1,040)	-	-	-	-	-	-	(1,040)
Currency translation differences	(252)	-	(3)	(29)	(3)	-	9	(278)
31 December 2015	**780**	**-**	**37**	**82**	**7**	**-**	**9**	**915**
Accumulated depreciation								
31 December 2014	**3,217**	**2,646**	**75,541**	**55,413**	**4,030**	**5,134**	**9**	**145,990**
Depreciation charge	2,853	1,288	14,705	11,323	1,769	2,572	-	34,510
Reorganization	(1,438)	(3,908)	(3,163)	(30,036)	(1,599)	(751)	-	(40,895)
Transfers	(193)	58	615	(379)	(23)	(79)	-	(1)
Transfers to investment properties	(54)	-	-	-	-	-	-	(54)
Currency translation differences	(199)	-	(96)	(242)	(31)	(45)	(9)	(622)
Transfers from (to) other assets	-	-	(233)	(606)	3	-	-	(836)
Revaluation	(992)	-	-	-	-	-	-	(992)
Disposals	(25)	(84)	(106)	1,604	(237)	(1,187)	-	(35)
31 December 2015	**3,169**	**-**	**87,263**	**37,077**	**3,912**	**5,644**	**-**	**137,065**
Net book value:								
31 December 2014	**223,547**	**204,392**	**64,549**	**75,288**	**3,530**	**7,617**	**9,590**	**588,513**
31 December 2015	**200,833**	**-**	**74,506**	**17,965**	**2,479**	**8,114**	**3,795**	**307,692**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2014 were as follows:

	Land & buildings	*Hospitals & Clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Additions	1,417	26,478	8,492	21,020	2,665	3,258	7,256	70,586
Business combination, Note 5	2	51,839	588	6,076	306	-	141	58,952
Disposals	(45)	(38)	(623)	(1,084)	(1,089)	(2,675)	(93)	(5,647)
Transfers	5,040	268	(1,856)	3,005	(1,150)	1,139	(6,446)	-
Transfers from investment properties	6,389	-	-	-	-	-	-	6,389
Transfers from (to) other assets	478	-	(216)	(511)	-	-	(61)	(310)
Effect of hyperinflation	3,225	-	228	438	52	67	58	4,068
Currency translation differences	4,230	-	3,748	303	54	191	(198)	8,328
31 December 2014	**230,375**	**207,038**	**140,130**	**130,810**	**7,566**	**12,751**	**9,599**	**738,269**
Accumulated impairment								
31 December 2013	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Effect of hyperinflation	187	**-**	7	19	3	-	-	216
Currency translation differences	(187)	**-**	(7)	(19)	(3)	-	-	(216)
31 December 2014	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Accumulated depreciation								
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**-**	**121,468**
Depreciation charge	3,009	1,141	12,471	11,828	1,187	1,849	-	31,485
Effect of hyperinflation	134	-	102	238	38	66	-	578
Currency translation differences	(261)	-	(1,333)	(1,129)	(233)	(298)	-	(3,254)
Transfers (to) from other assets	(352)	-	(499)	(494)	-	-	**-**	(1,345)
Disposals	134	(21)	(642)	556	(1,279)	(1,699)	9	(2,942)
31 December 2014	**3,217**	**2,646**	**75,541**	**55,413**	**4,030**	**5,134**	**9**	**145,990**
Net book value:								
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**
31 December 2014	**223,547**	**204,392**	**64,549**	**75,288**	**3,530**	**7,617**	**9,590**	**588,513**

The movements in property and equipment during the year ended 31 December 2013 were as follows:

	Land & buildings	*Hospitals & Clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Additions	684	12,833	13,760	21,405	1,453	1,378	10,689	62,202
Business combination	1	4,889	**345**	162	**-**	526	82	6,005
Disposals	(1,645)	(425)	(207)	(2,306)	(4,514)	(434)	(4)	(9,535)
Transfers	6,088	32,622	1,123	112	-	1,335	(41,280)	**-**
Transfers from (to) investment	(7,300)	-	-	40	-	**-**	2,055	(5,205)
Transfers to other assets	-	-	(316)	(1,187)	-	**-**	-	(1,503)
Revaluation	(5,620)	-	-	(289)	-	**-**	106	(5,803)
Effect of hyperinflation	2,864	-	207	376	48	61	72	3,628
Currency translation differences	4,385	-	1,871	519	125	66	(45)	6,921
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Accumulated impairment								
31 December 2012	**2,189**	**-**	**36**	**99**	**6**	**-**	**-**	**2,330**
Impairment charge	1,171	**-**	-	-	**-**	**-**	**-**	1,171
Effect of hyperinflation	364	-	6	16	1	**-**	-	387
Currency translation differences	(113)	-	(2)	(6)	(1)	**-**	**-**	(122)
31 December 2013	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Accumulated depreciation								
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**-**	**105,986**
Depreciation charge	3,010	1,032	11,162	9,913	1,328	1,597	**-**	28,042
Effect of hyperinflation	364	-	6	16	1	-	-	387
Currency translation differences	(239)	-	44	81	21	32	**-**	(61)
Transfers to investment properties	(226)	-	-	-	-	-	**-**	(226)
Transfers from (to) other assets	**-**	-	(86)	(962)	**-**	**-**	**-**	(1,048)
Revaluation	(7,047)	-	-	(347)	-	-	**-**	(7,394)
Disposals	-	(14)	(90)	**(557)**	(3,419)	**(138)**	**-**	(4,218)
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**-**	**121,468**
Net book value:								
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

Office buildings and service centres of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2015 and was carried out by professional valuers. Refer to Note 29 for details on fair value measurements of the Group's premises.

If the office buildings and service centres had been measured using the cost model, the carrying amounts of the office buildings and service centres as at 31 December 2015, 31 December 2014 and 31 December 2013 would have been as follows:

	2015	*2014*	*2013*
Cost	150,020	166,839	146,104
Accumulated depreciation and impairment	(18,095)	(16,896)	(14,023)
Net carrying amount	**131,925**	**149,943**	**132,081**

14. Goodwill

Movements in goodwill during the years ended 31 December 2015, 31 December 2014 and 31 December 2013, were as follows:

	2015	*2014*	*2013*
Cost			
1 January	**78,083**	**77,170**	**74,107**
Business combinations, Note 5	11,922	913	3,063
Reorganization	(32,796)	-	-
At 31 December	**57,209**	**78,083**	**77,170**
Accumulated impairment			
1 January	**28,450**	**28,450**	**28,450**
Impairment charge	-	-	-
Reorganization	(4,694)	-	-
At 31 December	**23,756**	**28,450**	**28,450**
Net book value:			
1 January	**49,633**	**48,720**	**45,657**
At 31 December	**33,453**	**49,633**	**48,720**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to six individual cash-generating units, for impairment testing: Corporate Banking, Retail Banking, P&C Insurance, Health Insurance, Healthcare and Liberty Consumer.

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

	2015	*2014*	*2013*
P&C Insurance	-	16,139	16,139
Retail banking *	23,488	12,433	12,433
Corporate banking	9,965	9,965	9,965
Healthcare	-	4,195	3,282
Health Insurance	-	3,462	3,462
Liberty Consumer	-	3,439	3,439
Total	**33,453**	**49,633**	**48,720**

**** GEL 11,055 increase in goodwill for 2015 is from acquisition of JSC PrivatBank (note 5), which was added to Retail Banking CGU. Impairment test revealed no need for impairment as at 31 December 2015.***

(Thousands of Georgian Lari)

14. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGUs.

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

	Corporate Banking			*Retail Banking*		
	2015, %	***2014, %***	***2013, %***	***2015, %***	***2014, %***	***2013, %***
Discount rate	5.80%	6.20%	8.50%	6.70%	6.50%	8.50%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using weighted average cost of capital ("WACC").

For the 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 2015. Possible change was taken as +/-1% in discount rate and growth rate.

15. Taxation

The corporate income tax (expense) benefit comprises:

	2015	***2014***	***2013***
Current income expense	(34,949)	(24,493)	(17,283)
Deferred income tax expense	(9,037)	(11,333)	(18,629)
Income tax expense	**(43,986)**	**(35,826)**	**(35,912)**
Income tax expense attributable to continuing operations	(42,722)	(30,272)	(29,166)
Income tax expense attributable to a discontinued operation (Note 27)	(1,264)	(5,554)	(6,746)
Deferred income tax benefit (expense) from continuing operations in other comprehensive (loss) income	2,998	(109)	(1,352)
Deferred income tax (expense) benefit from discontinued operations in other comprehensive income (Note 27)	-	(14)	257
Deferred income tax (expense) benefit in other comprehensive income (loss)	**2,998**	**(123)**	**(1,095)**

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2015, 2014 and 2013 was as follows:

	2015	*2014*	*2013*
Currency translation differences	2,598	(123)	(883)
Net losses on investment securities available-for-sale	-	-	1
Revaluation of buildings	400	-	(213)
Income tax (expense) benefit in other comprehensive income	**2,998**	**(123)**	**(1,095)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 25% (2014: from 15% to 27%, 2013: from 15% to 24%).

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2015, 31 December 2014 and 31 December 2013 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2015	*2014*	*2013*
Profit before income tax expense from continuing operations	295,166	252,100	220,754
Net gain before income tax benefit from discontinued operations (Note 27)	9,543	29,710	28,958
Profit before income tax expense	**304,709**	**281,810**	**249,712**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(45,706)**	**(42,272)**	**(37,457)**
Tax at the domestic rates applicable to profits in each country	(237)	186	(447)
Non-taxable income	3,735	-	-
Change in unrecognised deferred tax assets	-	6,100	-
Correction of prior year declarations	649	(298)	2,402
Effect of changes in tax rate	-	(502)	-
Non-deductible expenses	(2,129)	-	(525)
Other	(298)	960	115
Income tax expense	**(43,986)**	**(35,826)**	**(35,912)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2015, 31 December 2014 and 31 December 2013 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences			Origination and reversal of temporary differences				Origination and reversal of temporary differences				
	2012	In the income statement	In other comprehensive income	2013	In the income statement	Business combination	In other comprehensive income	2014	In the income statement	Business combination	Reorganization	In other comprehensive income	2015
Tax effect of deductible temporary differences:													
Amounts due to credit institutions	55	1,125	-	1,180	(175)	-	-	1,005	(512)	-	(11)	-	482
Investment securities: available-for-sale	7	1,188	1	1,196	(1)	-	-	1,195	(1,194)	-	(1)	-	-
Investment properties	-	2,479	-	2,479	-	-	(1,499)	980	-	-	(980)	-	-
Insurance premiums receivables	1,324	(438)	-	886	624	-	-	1,510	-	-	(1,510)	-	-
Allowances for impairment and provisions for other losses	1,059	(604)	-	455	(257)	-	-	198	4,866	-	(198)	-	4,866
Tax losses carried forward	9,145	(974)	620	8,791	2,650	-	855	12,296	3,493	(1,992)	(3,474)	1,800	12,123
Property and equipment	933	9	-	942	(6)	-	-	936	-	-	(936)	-	-
Other assets and liabilities	2,730	439	-	3,169	751	-	(51)	3,869	(2,129)	-	(694)	(468)	578
Deferred tax assets	**15,253**	**3,224**	**621**	**19,098**	**3,586**	**-**	**(695)**	**21,989**	**4,524**	**(1,992)**	**(7,804)**	**1,332**	**18,049**
Tax effect of taxable temporary differences:													
Amounts due to credit institutions	72	28	(48)	52	(5)	-	(3)	44	(19)	-	(23)	(2)	-
Amounts due to customers	-	1,325	-	1,325	-	-	-	1,325	(1,325)	-	-	-	-
Loans to customers	9,008	12,831	-	21,839	8,562	-	(165)	30,236	(763)	-	-	(517)	28,956
Other insurance liabilities & pension fund obligations	850	106	-	956	426	-	-	1,382	-	-	(1,382)	-	-
Property and equipment	29,782	1,650	1,179	32,611	4,473	4,929	(330)	41,683	10,498	2,421	(14,414)	(1,034)	39,154
Investment properties	461	1,711	(2,170)	2	69	-	(7)	64	6,500	-	-	(53)	6,511
Intangible assets	4,887	688	-	5,575	965	-	(8)	6,532	(742)	-	(2,020)	(7)	3,763
Other assets and liabilities	2,025	3,514	2,755	8,294	429	-	(59)	8,664	(588)	-	(967)	(53)	7,056
Deferred tax liabilities	**47,085**	**21,853**	**1,716**	**70,654**	**14,919**	**4,929**	**(572)**	**89,930**	**13,561**	**2,421**	**(18,806)**	**(1,666)**	**85,440**
Net deferred tax liabilities	**(31,832)**	**(18,629)**	**(1,095)**	**(51,556)**	**(11,333)**	**(4,929)**	**(123)**	**(67,941)**	**(9,037)**	**(4,413)**	**11,002**	**2,998**	**(67,391)**

16. Other Assets and Other Liabilities

Other assets comprise:

	2015	2014	2013
Foreclosed assets *	49,602	49,090	43,924
Derivative financial assets	42,212	45,733	39,431
Inventory	5,290	101,807	88,209
Settlements on operations	5,080	2,869	10,461
Receivables from money transfers	4,619	4,080	4,054
Receivables from sale of assets	4,452	214	692
Accounts receivable	2,018	60,674	32,474
Operating tax assets	1,737	10,473	15,515
Receivables from documentary operations	1,676	43	14,562
Operating lease receivables	1,139	474	489
Trading securities owned	1,106	1,034	1,149
Insurance premiums receivable	-	36,028	64,988
Reinsurance assets	-	11,289	9,471
Assets purchased for finance lease purposes	-	6,841	3,649
Other	21,997	30,850	18,447
	140,928	**361,499**	**347,515**
Less – Allowance for impairment of other assets	(10,002)	(10,273)	(18,289)
Other assets	**130,926**	**351,226**	**329,226**

**** Foreclosed assets represent movable repossessed assets.***

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	2015	*2014*	*2013*
Accruals for employee compensation	14,070	25,685	20,830
Amounts payable for share acquisitions *	9,248	13,694	-
Creditors	7,387	10,436	7,855
Derivative financial liabilities	3,243	7,505	1,513
Other taxes payable	1,263	4,258	1,826
Dividends payable	779	2,419	511
Deferred income and other accruals	293	82,824	61,173
Accounts payable	198	15,658	10,979
Insurance contracts liabilities	-	46,586	73,719
Pension benefit obligations	-	11,201	9,540
Other insurance liabilities	-	7,395	7,360
Other	6,839	6,920	11,251
Other liabilities	**43,320**	**234,581**	**206,557**

**** Amounts payable for share acquisitions comprise GEL** 9,248 **payable for the acquisition of JSC PrivatBank. 2014 amounts payable for share acquisitions comprise GEL 13,694 payable for healthcare business acquisitions.***

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

	2015		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	12,510	183	10
Forwards and Swaps – foreign	145,055	41,994	510
Options Foreign	56,768	35	2,723
Total derivative assets / liabilities	**214,333**	**42,212**	**3,243**

	2014			*2013*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Forwards and Swaps – foreign	-	-	-	97,566	-	1,453
Foreign exchange contracts						
Forwards and Swaps – domestic	49,648	247	1,242	66,640	332	50
Forwards and Swaps – foreign	494,206	45,486	6,263	100,465	39,076	10
Equity / Commodity contracts						
Call options – foreign	-	-	-	1,166	23	-
Total derivative assets / liabilities	**543,854**	**45,733**	**7,505**	**265,837**	**39,431**	**1,513**

Foreign exchange forwards and swaps primarily consist of currency swaps with the National Bank of the Republic of Belarus of GEL 40,102 (2014: GEL 45,482, 2013: GEL 38,917), with the effective maturities of 3 months (2014: 13 months, 2013: 25 months).

(Thousands of Georgian Lari)

17. Amounts Due to Customers

The amounts due to customers include the following:

	2015	*2014*	*2013*
Time deposits	2,619,461	1,914,366	1,593,196
Current accounts	2,405,348	1,534,053	1,514,038
Promissory notes issued	868	25,010	10,523
Amounts due to customers	**5,025,677**	**3,473,429**	**3,117,757**
Held as security against letters of credit and guarantees (Note20)	**64,534**	**53,393**	**53,903**

As at 31 December 2015, 31 December 2014 and 31 December 2013, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 9 month (2014: 1 months, 2013: 12 months).

At 31 December 2015, amounts due to customers of GEL 834,215 (17%) were due to the 10 largest customers (2014: GEL 533,673 (15%), 2013: GEL 436,694 (14%).

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

	2015	*2014*	*2013*
Individuals	2,611,447	1,868,762	1,511,452
Private enterprises	2,223,850	1,419,659	1,435,925
State and state-owned entities	190,380	185,008	170,380
Amounts due to customers	**5,025,677**	**3,473,429**	**3,117,757**

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

	2015	*2014*	*2013*
Individuals	2,611,447	1,868,762	1,511,452
Financial intermediation	410,323	110,759	69,239
Trade	375,890	277,792	360,378
Service	328,821	410,208	350,583
Transport & Communication	317,161	173,591	143,681
Construction	243,554	220,234	241,271
Manufacturing	237,899	107,813	85,673
Government services	141,007	128,046	50,481
Health and social work	107,643	14,519	9,759
Electricity, gas and water supply	74,125	21,275	78,537
Real estate	73,042	53,742	69,625
Hospitality	18,818	33,503	35,049
Other	85,947	53,185	112,029
Amounts due to customers	**5,025,677**	**3,473,429**	**3,117,757**

(Thousands of Georgian Lari)

18. Amounts Owed to Credit Institutions

Amounts due to credit institutions comprise:

	2015	*2014*	*2013*
Borrowings from international credit institutions	604,862	574,240	504,943
Short-term loans from the National Bank of Georgia	307,200	400,772	250,138
Time deposits and inter-bank loans	277,818	261,550	221,267
Correspondent accounts	92,617	32,606	12,921
Subtotal	**1,282,497**	**1,269,168**	**989,269**
Non-convertible subordinated debt	395,090	140,045	168,710
Amounts due to credit institutions	**1,677,587**	**1,409,213**	**1,157,979**

During the year ended 31 December 2015, the Group paid up to 5.29% on USD borrowings from international credit institutions (2014: up to 6.77%, 2013: up to 6.23%). During the year ended 31 December 2015 the Group paid up to 7.95% on USD subordinated debt (2014: up to 10.40% and 2013: up to 11.33%).

In June 2015, the Group signed a USD 90 million subordinated loan agreement with the International Finance Corporation. The loan facility, which includes USD 20 million from the European Fund for Southeast Europe, bears a maturity of ten years and qualifies as Tier II capital under the Basel 2 framework.

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2015, 31 December 2014 and 31 December 2013 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

19. Debt Securities Issued

Debt securities issued comprise:

	2015	*2014*	*2013*
Eurobonds	908,183	779,445	728,117
Certificates of deposit	32,762	31,033	-
Georgian local bonds	-	46,217	-
Debt securities issued	**940,945**	**856,695**	**728,117**

In May 2015, the Group's healthcare subsidiary JSC Medical Corporation EVEX completed the issuance of 2-year local bonds of USD 15 million (GEL 34 million). The bonds were issued at par with a coupon rate of annual 9.50% payable semi-annually with 5% withholding tax applying to individuals. Bonds were derecognized as a result of reorganization.

In May 2015 , the Group's real estate subsidiary JSC m2 completed the issuances of 2-year local bonds of USD 20 million (GEL 45 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with a 5% withholding tax applying to individuals. Bonds were derecognized as a result of reorganization.

(Thousands of Georgian Lari)

20. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

As at 31 December 2015, 31 December 2014 and 31 December 2013 the Group's financial commitments and contingencies comprised the following:

	2015	*2014*	*2013*
Credit-related commitments			
Guarantees issued	494,180	465,527	478,247
Undrawn loan facilities	273,851	144,634	147,273
Letters of credit	43,126	95,669	55,608
	811,157	**705,830**	**681,128**
Operating lease commitments			
Not later than 1 year	13,608	12,382	7,978
Later than 1 year but not later than 5 years	28,579	21,943	12,844
Later than 5 years	5,526	3,178	1,693
	47,713	**37,503**	**22,515**
Capital expenditure commitments	**2,424**	**10,035**	**11,463**
Less – Cash held as security against letters of credit and guarantees (Note 17)	(64,534)	(53,393)	(53,903)
Less – Provisions	(2,254)	(4,732)	(481)
Financial commitments and contingencies, net	**794,506**	**695,243**	**660,722**

As at 31 December 2015 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 715 and software and other intangible assets of GEL 1,709. As at 31 December 2014 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 9,810 and software and other intangible assets of GEL 225. As at 31 December 2013 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 8,796 and software and other intangible assets of GEL 2,667.

21. Equity

Share capital

As at 31 December 2015, authorized common capital comprised 43,308,125, issued share capital comprised 27,821,150 common shares, of which 27,821,150 were fully paid (31 December 2014: 36,512,553 issued share capital, of which 36,512,553 were fully paid, 31 December 2013: 36,512,553 issued share capital, of which 36,512,553 were fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2015 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2013	**36,512,553**	**36,513**
31 December 2014	**36,512,553**	**36,513**
Reorganization *	(8,691,403)	(8,692)
31 December 2015	**27,821,150**	**27,821**

**** Number of ordinary shares of the Bank was reduced by the new holding companies in course of Reorganization in exchange for transfer of subsidiaries presented as discontinued operations.***

(Thousands of Georgian Lari)

21. Equity (continued)

Treasury shares

Treasury shares as at 31 December 2014 and 31 December 2013 were held by the Group solely for the employee's future share-based compensation purposes.

The number of treasury shares held by the Group as at 31 December 2015 comprised 2,543 (31 December 2014: 1,522,254, 31 December 2013: 2,427,560).

Nominal amount of treasury shares of GEL 3 as at 31 December 2015 comprise the Group's shares owned by the Group (31 December 2014: GEL 1,522, 31 December 2013: GEL 2,428).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 20 July 2015, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2015 of Georgian Lari 1.78 per share. Payment of the total GEL 64,988 interim dividends was received by shareholders on 18 August 2015.

On 10 April 2014, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2014 of Georgian Lari 2.0 per share. Payment of the total GEL 74,638 interim dividends was received by shareholders on 6 May 2014.

On 5 April 2013, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2013 of Georgian Lari 1.5per share,. Payment of the total GEL 54,097 interim dividends was received by shareholders on7 May 2013.

Nature and purpose of Other Reserves

Revaluation reserve for property and equipment
The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and service centres and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

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

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements in other reserves during the years ended 31 December 2015, 31 December 2014 and 31 December 2013 are presented in the statements of other comprehensive income.

Earnings per share

Basic and diluted earnings per share	*2015*	*2014*	*2013*
Profit for the year attributable to ordinary shareholders of the Group	257,628	238,644	206,748
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	249,997	219,384	190,582
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	7,631	19,260	16,166
Weighted average number of ordinary shares outstanding during the year	32,226,222	34,564,182	34,132,297
Earnings per share	7.9944	6.9044	6.0573
Earnings per share from continuing operations	7.7576	6.3472	5.5837
Earnings per share from discontinued operations	0.2368	0.5572	0.4736

(Thousands of Georgian Lari)

21. Equity (continued)

Earnings per share (continued)

Following Reorganization, number of ordinary shares of the Bank was reduced by 8,691,403 – number ordinary shares issued by the new holding companies for the discontinued operations. The below table shows earnings per share based on weighted average number of ordinary shares outstanding, had the number of ordinary shares issued been 8,691,403 less from 1 January 2013.

Basic and diluted earnings per share	*2015*	*2014*	*2013*
Profit for the year attributable to ordinary shareholders of the Group	257,628	238,644	206,748
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	249,997	219,384	190,582
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	7,631	19,260	16,166
Weighted average number of ordinary shares outstanding during the year	27,178,064	25,872,779	25,440,893
Earnings per share	9.4793	9.2237	8.1266
Earnings per share from continuing operations	9.1985	8.4793	7.4912
Earnings per share from discontinued operations *	0.2808	0.7444	0.6354

**** Reduction in 2015 due to discontinued operations being part of the Group for only the first seven months, until August 2015, when they got moved under the Bank's sister companies.***

22. Net Fee and Commission Income

	2015	*2014*	*2013*
Settlements operations	110,590	85,166	74,826
Guarantees and letters of credit	27,360	22,675	24,979
Cash operations	14,137	10,274	8,166
Currency conversion operations	1,549	3,204	2,653
Brokerage service fees	-	3,337	-
Other	3,893	4,387	2,406
Fee and commission income	**157,529**	**129,043**	**113,030**
Settlements operations	(42,496)	(32,511)	(26,179)
Cash operations	(4,913)	(3,917)	(2,782)
Guarantees and letters of credit	(3,803)	(3,940)	(3,902)
Insurance brokerage service fees	(81)	(130)	(195)
Currency conversion operations	(59)	(108)	(95)
Other	(1,083)	(2,279)	(1,823)
Fee and commission expense	**(52,435)**	**(42,885)**	**(34,976)**
Net fee and commission income	**105,094**	**86,158**	**78,054**

23. Net Real Estate Revenue

	2015	*2014*	*2013*
Income from operating lease	5,614	4,257	2,733
Gain from sale of real estate properties	6,553	1,748	2,068
Real estate revenue	**12,167**	**6,005**	**4,801**
Loss on real estate property sale	(336)	(405)	(920)
Net real estate revenue	**11,831**	**5,600**	**3,881**

(Thousands of Georgian Lari)

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

	2015	*2014*	*2013*
Salaries and bonuses	(136,187)	(114,078)	(104,443)
Social security costs	(2,954)	(2,918)	(2,307)
Salaries and other employee benefits	**(139,141)**	**(116,996)**	**(106,750)**

Salaries and bonuses include GEL 31,025, GEL 27,193 and GEL 18,702 of the Equity Compensation Plan costs for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 31).

	2015	*2014*	*2013*
Occupancy and rent	(16,308)	(9,270)	(8,039)
Repairs and maintenance	(9,248)	(7,474)	(6,818)
Legal and other professional services	(7,211)	(5,466)	(5,095)
Marketing and advertising	(7,193)	(5,916)	(6,442)
Communication	(4,907)	(3,708)	(3,518)
Operating taxes	(4,540)	(3,436)	(3,166)
Office supplies	(4,197)	(3,381)	(4,004)
Corporate hospitality and entertainment	(3,578)	(3,169)	(2,727)
Insurance	(1,756)	(1,535)	(1,575)
Security	(1,688)	(2,329)	(1,882)
Personnel training and recruitment	(1,537)	(1,391)	(972)
Travel expenses	(1,407)	(1,058)	(971)
Penalties	(67)	(22)	(68)
Banking services	(2)	(2)	(5)
Other	(3,600)	(3,523)	(250)
General and administrative expenses	**(67,239)**	**(51,680)**	**(45,532)**

25. Net Non-recurring Expenses

	2015	*2014*	*2013*
Reversal of impairment on property and equipment	1,524	-	-
Other non-recurring income/gain	508	-	-
Total non-recurring income/gain	**2,032**	**-**	**-**
Loss from early repayments of borrowings from international credit institutions	(4,033)	(2,503)	-
JSC PrivatBank integration costs	(3,731)	-	-
Impairment of prepayments	(2,205)	-	-
Management leave compensation expense	(1,167)	-	-
Impairment of finance lease receivables	(735)	-	-
Impairment of investment securities available-for-sale	-	(3,837)	-
Loss from Belarus Hyperinflation	-	(3,073)	(1,694)
Charity expenses	-	(210)	(240)
Impairment of receivabled from sale of BG Bank	-	-	(3,100)
Impairment of property and equipment, and intangible assets	-	-	(1,171)
Management leave compensation expense	-	-	(577)
Loss from damaged physical assets	-	-	(531)
Other	(820)	(1,809)	(1,921)
Total non-recurring expense/loss	**(12,691)**	**(11,432)**	**(9,234)**
Net non-recurring expense/loss	**(10,659)**	**(11,432)**	**(9,234)**

(Thousands of Georgian Lari)

26. Share-based Payments

Executives' Equity Compensation Plan

Sanne Fiduciary ServicesLimited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. The legal settlor of the awards is JSC BGEO.

In March 2015, BGEO PLC's remuneration committee resolved to award 153,500 ordinary shares of BGEO to the members of the Management Board and 107,215 ordinary shares of BGEO to the Group's 24 executives. Shares awarded to the Management Board and the other executives are subject to two-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 19 March 2015 as the grant date. The Group estimates that the fair value of the shares awarded on 19 March 2015 was Georgian Lari 57.41 per share.

In February 2014 the Bank's Supervisory Board resolved to award 135,500 ordinary shares of BGEO to the members of the Management Board and 88,775 ordinary shares of BGEO to the Group's 27 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 27 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was Georgian Lari 67.90 per share.

In February 2013 the Bank's Supervisory Board resolved to award 200,000 ordinary shares of BGEO to the members of the Management Board and 137,850 ordinary shares of BGEO to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was Georgian Lari 35.56 per share.

In August 2015, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 904,000 ordinary shares of BGEO. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 24 August 2015 as the grant date for the awards. The Group estimates that the fair value of the shares on 24 August 2015 was Georgian Lari 59.17.

In February 2013 CEO of the Bank and the deputies signed new three-year fixed contingent share-based compensation agreements with the Bank for the total of 840,000 ordinary shares of BGEO. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was Georgian Lari 35.45.

The Bank grants share compensation to its non-executive employees too. In March 2015, February 2014 and February 2013, the Supervisory Board of the Bank resolved to award 111,298, 42,745 and 68,850 ordinary shares to its non-executive employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 19 March, 24 February 2014 and 15 February 2013 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 19 March 2015, 24 February 2014 and 15 February 2013 were Georgian Lari 57.41, 67.90 and 35.56 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 58.68 per share in year ended 31 December 2015 (31 December 2014: Georgian Lari 67.90 per share, 31 December 2013: Georgian Lari 35.48).

The Group's total share-based payment expenses for the year ended 31 December 2015 comprised GEL 31,025 (31 December 2014: GEL 27,193, 31 December 2013: GEL 18,702) and are included in "salaries and other employee benefits", as "salaries and bonuses".

(Thousands of Georgian Lari)

26. Share-based Payments (continued)

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

	2015	*2014*	*2013*
Total number of equity instruments awarded*	1,336,013	267,020	1,246,700
– Among them, to top management and board of directors	*1,076,000*	*135,500*	*300,000*
Weighted average value at grant date, per share (GEL in full amount)	58.68	67.90	35.48
Value at grant date, total (GEL)	**78,395**	**18,132**	**44,238**
Total expense recognised during the year (GEL)	**(31,025)**	**(27,193)**	**(18,702)**

**** 2015 award includes fixed contingent share-based compensation of 964,000 ordinary shares per new employment agreements signed 24 August 2015 for subsequent consecutive 3 year period, including 904,000 of the Management Board members.***
2013 award includes fixed contingent share-based compensation of 840,000 ordinary shares per new employment agreements of CEO and deputies, signed in February 2013 for the subsequent consecutive 3 year period;

27. Discontinued operations

Following the Reorganization, former non-banking subsidiaries of the Bank that represented separate major line of business (Note 2) were moved from under its control and constitute discontinued operations for the Group.

Below are presented income statement line items of the Group attributable to these discontinued operations for the years ended 31 December 2015, 31 December 2014 and 31 December 2013:

	2015	*2014*	*2013*
Interest income			
Loans to customers	1,404	1,193	891
Amounts due from credit institutions	2,151	2,423	3,862
Finance lease receivables	4,065	6,043	5,741
	7,620	**9,659**	**10,494**
Interest expense			
Amounts due to credit institutions	(16,463)	(25,604)	(25,703)
Debt securities issued	(1,099)	(467)	-
	(17,562)	**(26,071)**	**(25,703)**
Net interest income	**(9,942)**	**(16,412)**	**(15,209)**
Fee and commission income	8,956	16,565	12,153
Fee and commission expense	(836)	(1,501)	(1,340)
Net fee and commission income	**8,120**	**15,064**	**10,813**
Net insurance premiums earned	53,920	99,072	132,600
Net insurance claims incurred	(36,419)	(66,421)	(84,660)
Net insurance revenue	**17,501**	**32,651**	**47,940**
Healthcare revenue	96,248	125,720	60,013
Cost of healthcare services	(59,564)	(78,836)	(37,644)
Net healthcare revenue	**36,684**	**46,884**	**22,369**
Other operating non-interest income	(526)	22,043	20,582
Revenue	**51,837**	**100,230**	**86,495**
Salaries and other employee benefits	(25,362)	(36,803)	(28,183)
General and administrative expenses	(15,022)	(23,519)	(16,818)
Depreciation and amortization	(2,639)	(4,712)	(3,974)
Other operating expenses	(746)	(1,460)	(1,081)
Operating expenses	**(43,769)**	**(66,494)**	**(50,056)**
Operating income before cost of credit risk	**8,068**	**33,736**	**36,439**
Cost of credit risk	(2,775)	(4,441)	(3,884)
Net operating income before non-recurring items	**5,293**	**29,295**	**32,555**
Net non-recurring income / gain (expense / loss)	4,250	415	(3,597)
Profit before income tax expense	**9,543**	**29,710**	**28,958**
Income tax (expense) gain	(1,264)	(5,554)	(6,746)
Profit for the period	**8,279**	**24,156**	**22,212**

(Thousands of Georgian Lari)

27. Discontinued operations (continued)

Below is presented total comprehensive income of the Group attributable to discontinued operations for the years ended 31 December 2015, 31 December 2014 and 31 December 2013:

	2015	*2014*	*2013*
Profit for the period	**8,279**	**24,156**	**22,212**
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
– Unrealized revaluation of available-for-sale securities	-	1	(6)
– Realised loss on available-for-sale securities redassified to the consolidated income statement	55	-	-
– Loss from currency translation differences	(173)	(3,670)	(980)
Income tax effect	-	(14)	21
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(118)**	**(3,683)**	**(965)**
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
– Revaluation of property and equipment	-	-	(1,251)
Income tax effect	-	-	236
Net other comprehensive income(loss) not to be reclassified to profit or loss in subsequent periods	**-**	**-**	**(1,015)**
Other comprehensive loss for the year from discontinued operations, net of tax	**(118)**	**(3,683)**	**(1,980)**
Total comprehensive income for the year from discontinued operations	**8,161**	**20,473**	**20,232**

The amounts of assets and liabilities of the discontinued operations as at the disposal date were as follows:

	Disposal Date
Cash and cash equivalents *	96,974
Amounts due from credit institutions	35,868
Finance lease receivables	25,256
Accounts receivable	62,408
Insurance premiums receivable	58,287
Reinsurance assets	16,689
Investment properties	89,960
Property and equipment	367,508
Inventories	130,522
Prepayments	24,089
Other assets	113,111
Total assets	**1,020,672**
Amounts due to credit institutions	192,178
Debt securities issued	95,731
Accounts payable	48,133
Insurance contracts liabilities	73,138
Other insurance liabilities	14,778
Accruals and deffered income	125,873
Other liabilities	50,076
Total liabilities	**599,907**
Net assets disposed	**420,765**

**** Comprising GEL 92,618 discontinued operations' accounts with the Bank and the remaining GEL 4,356 cash and cash equivalents with external counterparties of the Group.***

(Thousands of Georgian Lari)

28. Risk Management

Introduction

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Risk Committee

The Risk Committee is responsible for ensuring that the Group's risk appetite and exposure are addressed as part of strategy and appropriateness of risk strategy and appetite; oversee and advise the Board on the current and emerging risk exposures of the Group; oversee and monitor the implementation of the risk strategy by senior management to address the risk exposures of the Group; review the effectiveness of the Group's risk management framework and internal control systems (other than internal financial control systems which is the responsibility of the BGEO Audit Committee); assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group; ensure that risk is properly considered in setting the Group's remuneration policy; oversee the communication regarding risk management through entire management structure; review and approve the Group's risk management policy.

Management Board
The Management Board has the responsibility to monitor and manage the entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling the implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Introduction (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(Thousands of Georgian Lari)

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired				
31 December 2015	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	718,677	-	-	-	718,677
Debt investment securities available-for-sale	9	901,945	-	-	-	901,945
Loans to customers:	10					
Commercial loans		1,830,923	196,607	57,085	354,661	2,439,276
Consumer loans		1,047,775	22,810	22,642	71,880	1,165,107
Micro and SME loans		892,014	80,064	27,828	42,023	1,041,929
Residential mortgage loans		750,455	22,033	11,223	30,633	814,344
Gold – pawn loans		61,140	-	-	-	61,140
		4,582,307	**321,514**	**118,778**	**499,197**	**5,521,796**
Finance lease receivables	11	4,283	8,375	855	2,048	15,561
Total		**6,207,212**	**329,889**	**119,633**	**501,245**	**7,157,979**

		Neither past due nor impaired				
31 December 2014	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	418,502	-	-	-	418,502
Debt investment securities available-for-sale	9	768,300	-	-	-	768,300
Loans to customers:	10					
Commercial loans		1,656,170	138,115	159,074	248,531	2,201,890
Consumer loans		739,767	22,293	1,541	37,873	801,474
Micro and SME loans		663,388	83,413	7,799	17,683	772,283
Residential mortgage loans		570,879	16,565	2,009	14,690	604,143
Gold – pawn loans		53,785	-	-	-	53,785
		3,683,989	**260,386**	**170,423**	**318,777**	**4,433,575**
Finance lease receivables	11	19,437	4,684	2,150	12,977	39,248
Total		**4,890,228**	**265,070**	**172,573**	**331,754**	**5,659,625**

(Thousands of Georgian Lari)

28. Risk Management (continued)

Credit risk (continued)

31 December 2013	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	347,261	-	-	-	347,261
Debt investment securities available-for-sale	9	514,357	-	-	-	514,357
Loans to customers:	10					
Commercial loans		1,477,733	114,248	110,791	167,993	1,870,765
Consumer loans		607,344	19,849	1,475	31,552	660,220
Micro and SME loans		486,536	63,501	4,198	12,038	566,273
Residential mortgage loans		411,291	21,359	2,303	12,110	447,063
Gold – pawn loans		61,871	-	-	-	61,871
		3,044,775	**218,957**	**118,767**	**223,693**	**3,606,192**
Finance lease receivables	11	30,325	4,020	1,918	9,986	46,249
Total		**3,936,718**	**222,977**	**120,685**	**233,679**	**4,514,059**

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

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade; A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	29,592	8,498	6,930	23,724	68,744
Micro and SME loans	5,196	4,148	1,000	4,259	14,603
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,727	1,227	25	1,596	24,575
Finance lease receivables	238	-	2	-	240
Total	**64,347**	**15,080**	**8,865**	**34,602**	**122,894**

(Thousands of Georgian Lari)

28. Risk Management (continued)

Credit risk (continued)

31 December 2014	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer loans	19,266	4,758	2,703	9,222	35,949
Micro and SME loans	2,926	3,307	259	598	7,090
Residential mortgage loans	3,822	788	304	1,832	6,746
Commercial loans	2,673	528	342	1,162	4,705
Finance lease receivables	1,977	9,154	156	203	11,490
Total	**30,664**	**18,535**	**3,764**	**13,017**	**65,980**

31 December 2013	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Commercial loans	9,118	2,422	847	11,584	23,971
Consumer loans	16,735	-	-	1	16,736
Residential mortgage loans	4,201	547	288	283	5,319
Micro and SME loans	843	18	200	52	1,113
Finance lease receivables	5,839	3,081	88	108	9,116
Total	**36,736**	**6,068**	**1,423**	**12,028**	**56,255**

See Notes 10 and 11 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 166,224, GEL 118,131 and GEL 123,975 as at 31 December 2015, 31 December 2014 and 31 December 2013, 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.

	2015	*2014*	*2013*
Loans to customers:			
Commercial loans	141,294	115,155	44,559
Micro and SME loans	20,890	8,734	5,147
Residential mortgage loans	28,594	3,446	9,418
Consumer loans	18,243	617	1,031
Finance lease receivables	-	4,957	1,533
Total	**209,021**	**132,909**	**61,688**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by certain number of days as prescribed per the Group methodology, or history of the debt service is deteriorated by certain percentage, as defined per the Group methodology, or any other defined event of default is identified. Impairment for all such loans is assessed individually, rather than through a collective impairment assessment model of the Group.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Credit risk (continued)

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend 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 Group's overall policy.

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

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

	2015			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	568,759	661,543	146,480	1,376,782
Amounts due from credit institutions	619,671	95,100	3,906	718,677
Investment securities available-for-sale	823,193	79,047	-	902,240
Loans to customers	5,005,171	9,340	308,376	5,322,887
Finance lease receivables	2,273	-	11,737	14,010
All other assets	635,131	4,630	29,188	668,949
	7,654,198	**849,660**	**499,687**	**9,003,545**
Liabilities:				
Amounts due to customers	3,628,734	592,673	804,270	5,025,677
Amounts due to credit institutions	424,705	1,035,802	217,080	1,677,587
Debt securities issued	-	940,945	-	940,945
All other liabilities	129,834	185	4,710	134,729
	4,183,273	**2,569,605**	**1,026,060**	**7,778,938**
Net balance sheet position	**3,470,925**	**(1,719,945)**	**(526,373)**	**1,224,607**

(Thousands of Georgian Lari)

28. Risk Management (continued)

Credit risk (continued)

	2014				2013			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	475,747	136,387	97,727	709,861	480,652	481,137	87,280	1,049,069
Amounts due from credit institutions	394,196	1,686	22,620	418,502	293,163	3,638	50,460	347,261
Investment securities available-for-sale	726,880	25,069	17,763	769,712	515,774	-	3,849	519,623
Loans to customers	4,068,261	7,609	253,925	4,329,795	3,287,532	8,098	189,777	3,485,407
Finance lease receivables	26,491	-	12,028	38,519	36,075	-	9,531	45,606
All other assets	1,204,659	10,069	56,184	1,270,912	996,260	4,556	76,452	1,077,268
	6,896,234	**180,820**	**460,247**	**7,537,301**	**5,609,456**	**497,429**	**417,349**	**6,524,234**
Liabilities:								
Amounts due to customers	2,163,558	650,584	659,287	3,473,429	2,165,915	243,697	708,145	3,117,757
Amounts due to credit institutions	582,905	770,838	55,470	1,409,213	359,374	705,177	93,428	1,157,979
Debt securities issued	46,216	810,479	-	856,695	-	728,117	-	728,117
All other liabilities	321,641	3,373	11,863	336,877	259,285	7,189	9,592	276,066
	3,114,320	**2,235,274**	**726,620**	**6,076,214**	**2,784,574**	**1,684,180**	**811,165**	**5,279,919**
Net balance sheet position	**3,781,914**	**(2,054,454)**	**(266,373)**	**1,461,087**	**2,824,882**	**(1,186,751)**	**(393,816)**	**1,244,315**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December 2015, 31 December 2014 and 31 December 2013 these ratios were as follows:

	2015, %	*2014, %*	*2013, %*
Average liquidity ratio	38.1%	39.3%	42.3%
Maximum liquidity ratio	48.0%	46.8%	48.1%
Minimum liquidity ratio	28.9%	31.7%	35.5%

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Liquidity risk and funding management (continued)

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2015	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	3,227,581	1,271,937	616,040	60,094	5,175,652
Amounts due to credit institutions	304,373	351,390	544,589	515,649	1,716,001
Debt securities issued	48,477	18,552	971,731	-	1,038,760
Other liabilities	3,052	-	-	-	3,052
Total undiscounted financial liabilities	**3,583,483**	**1,641,879**	**2,132,360**	**575,743**	**7,933,465**

Financial liabilities As at 31 December 2014	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	979,345	2,076,523	461,975	22,098	3,539,941
Amounts due to credit institutions	616,480	225,911	535,643	189,493	1,567,527
Debt securities issued	45,941	73,767	879,653	-	999,361
Other liabilities	36,846	37,004	17,422	-	91,272
Total undiscounted financial liabilities	**1,678,612**	**2,413,205**	**1,894,693**	**211,591**	**6,198,101**

Financial liabilities As at 31 December 2013	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	828,963	2,061,435	476,370	32,099	3,398,867
Amounts due to credit institutions	437,600	207,191	539,324	141,842	1,325,957
Debt securities issued	27,822	26,913	855,086	-	909,821
Other liabilities	20,625	70,713	14,242	3	105,583
Total undiscounted financial liabilities	**1,315,010**	**2,366,252**	**1,885,022**	**173,944**	**5,740,228**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
31 December 2015	409,444	298,527	136,058	17,265	861,294
31 December 2014	320,945	257,065	162,858	12,500	753,368
31 December 2013	272,385	244,987	181,044	16,690	715,106

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 17).

(Thousands of Georgian Lari)

28. Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the year ended 31 December 2015, year ended 31 December 2014 and year ended 31 December 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	0.63%	1,887	(5,080)
EUR	-0.20%	81	-
USD	0.05%	187	-

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	0.63%	(1,887)	5,080
EUR	-0.20%	(81)	-
USD	0.05%	(187)	-

Currency	*Increase in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of other comprehensive income 2014*
GEL	0.07%	198	-
EUR	0.01%	(6)	-
USD	0.01%	84	-

Currency	*Decrease in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of other comprehensive income 2014*
GEL	0.07%	(198)	-
EUR	0.01%	6	-
USD	0.01%	(84)	-

Currency	*Increase in basis points 2013*	*Sensitivity of net interest income 2013*	*Sensitivity of other comprehensive income 2013*
GEL	0.14%	34	-
USD	0.01%	29	-

Currency	*Decrease in basis points 2013*	*Sensitivity of net interest income 2013*	*Sensitivity of other comprehensive income 2013*
GEL	0.14%	(34)	-
USD	0.01%	(29)	-

(Thousands of Georgian Lari)

28. Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2015 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the last month. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2015, year ended 31 December 2014 and year ended 31 December 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Expected change in currency rate in %*	*Effect on profit before tax*	*Expected change in currency rate in %*	*Effect on profit before tax*	*Expected change in currency rate in %*	*Effect on profit before tax*
	To 2015		*To 2014*		*To 2013*	
EUR	2.9%	1	14.3%	11	1.9%	(7)
GBP	2.5%	-	22.9%	(6)	2.1%	(0)
USD	1.1%	(1,329)	23.4%	(4,745)	0.8%	(1)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 is as follows:

	Effect on net interest income
2015	(19,341)
2014	(16,744)
2013	(5,944)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Operating environment

Most of the Group's business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

29. Fair Value Measurements

Fair value hierarchy

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

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	135,453	135,453
Land	-	-	*24,391*	*24,391*
Residential properties	-	-	*39,991*	*39,991*
Non-residential properties	-	-	*71,071*	*71,071*
Investment securities available-for-sale	-	901,945	295	902,240
Other assets – derivative financial assets	-	42,212	-	42,212
Other assets – trading securities owned	1,106	-	-	1,106
Total revalued property	-	-	200,833	200,833
Office buildings	-	-	*92,410*	*92,410*
Service centers	-	-	*108,423*	*108,423*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,376,782	-	1,376,782
Amounts due from credit institutions	-	718,677	-	718,677
Loans to customers	-	-	5,285,069	5,285,069
Finance lease receivables	-	-	14,010	14,010
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	-	-	5,051,383	5,051,383
Amounts due to credit institutions	-	-	1,677,587	1,677,587
Debt securities issued	-	938,894	32,762	971,656

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*190,860*	190,860
Land	-	-	*92,285*	*92,285*
Residential properties	-	-	*31,632*	*31,632*
Non-residential properties	-	-	*66,943*	*66,943*
Investment securities available-for-sale	-	768,300	1,412	769,712
Other assets – derivative financial assets	-	45,733	-	45,733
Other assets – trading securities owned	1,034	-	-	1,034
Total revalued property	-	-	223,547	223,547
Office buildings	-	-	*112,082*	*112,082*
Service centers	-	-	*111,465*	*111,465*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	-	709,861	709,861
Amounts due from credit institutions	-	-	418,502	418,502
Loans to customers	-	-	4,429,922	4,429,922
Finance lease receivables	-	-	38,519	38,519
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	7,505	-	7,505
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	3,500,813	3,500,813
Amounts due to credit institutions	-	-	1,409,213	1,409,213
Debt securities issued	-	-	856,695	856,695

31 December 2013	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	157,707	157,707
Land	-	-	26,749	26,749
Residential properties	-	-	42,954	42,954
Non-residential properties	-	-	88,004	88,004
Investment securities available-for-sale	-	514,401	5,222	519,623
Other assets – derivative financial assets	-	39,431	-	39,431
Other assets – trading securities owned	1,149	-	-	1,149
Total revalued property	-	-	205,475	205,475
Office buildings	-	-	85,400	85,400
Service centers	-	-	120,075	120,075
Assets for which fair values are disclosed				
Cash and cash equivalents	-	-	1,049,069	1,049,069
Amounts due from credit institutions	-	-	347,261	347,261
Loans to customers	-	-	3,600,245	3,600,245
Finance lease receivables	-	-	45,606	45,606
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	1,513	-	1,513
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	3,159,507	3,159,507
Amounts due to credit institutions	-	-	1,157,979	1,157,979
Debt securities issued	-	-	728,117	728,117

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(Thousands of Georgian Lari)

29. 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:

	31 December 2012	*Sale of AFS securities*	*At 31 December 2013*	*Impairment of Investmen*	*Transfers from level 2*	*At 31 December 2014*	*Transfers from level 2*	*Reorganization*	*At 31 December 2015*
Level 3 financial assets									
Equity investment securities available-for-sale	5,888	(666)	5,222	(3,837)	27	1,412	28	(1,145)	295

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

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 12 and 13 respectively.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2015		*2014*		*2013*	
Level 3 financial assets						
Equity investment securities available-for-sale	295	+/- 44	1,412	+/- 212	5,222	+/- 786

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

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**135,453**						
Land	24,391	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	39,991	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	71,071						
	12,512	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
	50,495	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
	8,064	Cost approach	Land price pet square metre	34 - 67 (57)	Square metres, land	7,939 - 13,946 (9,672)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	366 - 1,054 (778)	Square metres, building	836 - 1,639 (1,851)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value
Property and equipment	**200,833**						
Office buildings	92,410	Income approach	Rent per square metere	53 - 108 (83)	Square metres, building	243 - 17,647 (12,670)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
			Occupancy Rate	60% - 95% (84%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
Service centers	108,423						
	25,302	Market approach	Price per square metre	1926 - 3,996	Square metres, building	66 - 1,589 (1,076)	Increase (decrease) in the price per square metre would result in increase (decrease) in
			Rent per square metere	26.3 - 115.0 (52.4)	Square metres, building	196 - 2,283 (952)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
	73,683	Income approach	Occupancy Rate	40% - 95% (83%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	16 - 256 (29)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	9,438	Cost approach	Depretiated Replacement cost per square metre	501 - 501 (501)			Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2015, 31 December 2014 and 31 December 2013:

	31 December 2015		
	Loans and receivables	*Available-for sale*	*Fair value through profit or loss*
Financial assets			
Amounts due from credit institutions	718,677	-	-
Loans to customers	5,322,887	-	-
Finance lease receivables	14,010	-	-
Trade and other receivables (in other assets)	11,886	-	-
Equity instruments	-	295	-
Debt instruments	-	901,945	1,106
Foreign currency derivative financial instruments	-	-	42,212
Total:	**6,067,460**	**902,240**	**43,318**
Financial liabilities			
Amounts owed to customers	5,025,677	-	-
Amounts owed to credit institutions	1,677,587	-	-
Debt securities issued	940,945	-	-
Trade and other payables (in other liabilities)	18,875	-	-
Foreign currency derivative financial instruments	-	-	3,243
Total:	**7,663,084**	**-**	**3,243**

	31 December 2014			*31 December 2013*		
	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	418,502	-	-	519,623	-	-
Loans to customers	4,329,795	-	-	3,485,407	-	-
Finance lease receivables	38,519	-	-	45,606	-	-
Trade and other receivables (in other assets)	62,164	-	-	52,171	-	-
Equity instruments	-	1,412	41	-	5,266	58
Debt instruments	-	768,300	993	-	514,357	1,091
Foreign currency derivative financial instruments	-	-	45,733	-	-	39,431
Total:	**4,848,980**	**769,712**	**46,767**	**4,102,807**	**519,623**	**40,580**
Financial liabilities						
Amounts owed to customers	3,473,429	-	-	3,117,757	-	-
Amounts owed to credit institutions	1,409,213	-	-	1,157,979	-	-
Debt securities issued	856,695	-	-	728,117	-	-
Trade and other payables (in other liabilities)	79,551	-	-	49,367	-	-
Foreign currency derivative financial instruments	-	-	7,505	-	-	60
Interest rate swaps	-	-	-	-	-	1,453
Total:	**5,818,888**	**-**	**7,505**	**5,053,220**	**-**	**1,513**

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

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

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

	Carrying value 2015	*Fair value 2015*	*Unrecognised gain (loss) 2015*
Financial assets			
Cash and cash equivalents	1,376,782	1,376,782	-
Amounts due from credit institutions	718,677	718,677	-
Loans to customers	5,322,887	5,285,069	(37,818)
Finance lease receivables	14,010	14,010	-
Financial liabilities			
Amounts due to customers	5,025,677	5,051,383	(25,706)
Amounts due to credit institutions	1,677,587	1,677,587	-
Debt securities issued	940,945	971,656	(30,711)
Total unrecognised change in unrealised fair value			**(94,235)**

	Carrying value 2014	*Fair value 2014*	*Unrecognised loss 2014*	*Carrying value 2013*	*Fair value 2013*	*Unrecognised loss 2013*
Financial assets						
Cash and cash equivalents	709,861	709,861	-	1,049,069	1,049,069	-
Amounts due from credit institutions	418,502	418,502	-	347,261	347,261	-
Loans to customers	4,329,795	4,429,922	100,127	3,485,407	3,600,245	114,838
Finance lease receivables	38,519	38,519	-	45,606	45,606	-
Financial liabilities						
Amounts due to customers	3,473,429	3,500,813	(27,384)	3,117,757	3,159,507	(41,750)
Amounts due to credit institutions	1,409,213	1,409,213	-	1,157,979	1,157,979	-
Debt securities issued	856,695	856,695	-	728,117	728,117	-
Total unrecognised change in unrealised fair value			**72,743**			**73,088**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

30. 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 28 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2015							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,016,209	360,573	-	-	-	-	-	1,376,782
Amounts due from credit institutions	615,977	1,932	26,496	70,366	1,956	-	1,950	718,677
Investment securities available-for-sale	559,124	241,481	31,247	6,531	59,613	3,057	1,187	902,240
Loans to customers	-	782,684	531,829	1,017,469	1,599,724	715,701	675,480	5,322,887
Finance lease receivables	-	8,526	2,290	2,736	447	11	-	14,010
Total	**2,191,310**	**1,395,196**	**591,862**	**1,097,102**	**1,661,740**	**718,769**	**678,617**	**8,334,596**
Financial liabilities								
Amounts due to customers	1,099,076	816,646	543,264	2,019,555	446,717	80,012	20,407	5,025,677
Amounts due to credit institutions	92,617	516,988	98,737	235,415	361,828	111,766	260,236	1,677,587
Debt securities issued	-	48,345	-	50,623	841,977	-	-	940,945
Total	**1,191,693**	**1,381,979**	**642,001**	**2,305,593**	**1,650,522**	**191,778**	**280,643**	**7,644,209**
Net	**999,617**	**13,217**	**(50,139)**	**(1,208,491)**	**11,218**	**526,991**	**397,974**	**690,387**
Accumulated gap	**999,617**	**1,012,834**	**962,695**	**(245,796)**	**(234,578)**	**292,413**	**690,387**	

	2014							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	691,290	18,571	-	-	-	-	-	709,861
Amounts due from credit institutions	382,935	808	3,974	26,324	2,486	-	1,975	418,502
Investment securities available-for-sale	327,846	383,657	7,361	9,698	34,008	1,966	5,176	769,712
Loans to customers	-	682,747	505,604	736,348	1,275,465	629,311	500,320	4,329,795
Finance lease receivables	-	17,900	5,466	5,791	8,687	675	-	38,519
Total	**1,402,071**	**1,103,683**	**522,405**	**778,161**	**1,320,646**	**631,952**	**507,471**	**6,266,389**
Financial liabilities								
Amounts due to customers	360,498	603,510	412,441	1,686,080	355,892	39,995	15,013	3,473,429
Amounts due to credit institutions	32,948	582,885	63,704	153,847	314,313	152,742	108,774	1,409,213
Debt securities issued	-	45,864	28,930	43,425	738,476	-	-	856,695
Total	**393,446**	**1,232,259**	**505,075**	**1,883,352**	**1,408,681**	**192,737**	**123,787**	**5,739,337**
Net	**1,008,625**	**(128,576)**	**17,330**	**(1,105,191)**	**(88,035)**	**439,215**	**383,684**	**527,052**
Accumulated gap	**1,008,625**	**880,049**	**897,379**	**(207,812)**	**(295,847)**	**143,368**	**527,052**	

	2013							
	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	880,125	168,944	-	-	-	-	-	1,049,069
Amounts due from credit institutions	289,926	7,438	7,296	29,199	8,953	4,449	-	347,261
Investment securities available-for-sale	256,140	254,202	3,518	1,697	2,915	823	328	519,623
Loans to customers	-	657,902	410,649	696,307	1,051,950	427,194	241,405	3,485,407
Finance lease receivables	-	16,056	5,713	10,184	10,885	1,923	845	45,606
Total	**1,426,191**	**1,104,542**	**427,176**	**737,387**	**1,074,703**	**434,389**	**242,578**	**5,446,966**
Financial liabilities								
Amounts due to customers	284,124	525,229	460,880	1,542,062	251,091	43,228	11,143	3,117,757
Amounts due to credit institutions	13,620	401,781	61,071	137,223	272,072	182,508	89,704	1,157,979
Debt securities issued	-	26,886	-	25,938	94,848	580,445	-	728,117
Total	**297,744**	**953,896**	**521,951**	**1,705,223**	**618,011**	**806,181**	**100,847**	**5,003,853**
Net	**1,128,447**	**150,646**	**(94,775)**	**(967,836)**	**456,692**	**(371,792)**	**141,731**	**443,113**
Accumulated gap	**1,128,447**	**1,279,093**	**1,184,318**	**216,482**	**673,174**	**301,382**	**443,113**	

(Thousands of Georgian Lari)

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

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 1 year category in the table above. The remaining current accounts are included in the on demand category.

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

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

As at 31 December 2015 amounts due to customers amounted to GEL 5,025,677 (2014: GEL 3,473,429, 2013: GEL 3,117,757) and represented 65% (2014: 57%, 2013: 59%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2015 amounts owed to credit institutions amounted to GEL 1,677,587 (2014: GEL 1,409,213, 2013: GEL 1,157,979) and represented 22% (2014: 23%, 2013: 22%) of total liabilities. As at 31 December 2015 debt securities issued amounted to GEL 940,945 (2014: GEL 856,695, 2013: GEL 728,117) and represented 12% (2014: 14%, 2013: 14%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

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

	31 December 2015		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	1,376,782	-	1,376,782
Amounts due from credit institutions	714,771	3,906	718,677
Investment securities available-for-sale	838,383	63,857	902,240
Loans to customers	2,331,982	2,990,905	5,322,887
Finance lease receivables	13,552	458	14,010
Investments in associates	-	-	-
Investment properties	-	135,453	135,453
Property and equipment	-	307,692	307,692
Intangible assets	-	30,669	30,669
Goodwill	-	33,453	33,453
Current income tax assets	988	-	988
Deferred income tax assets	-	12,106	12,106
Prepayments	13,878	3,784	17,662
Other assets	86,203	44,723	130,926
Total assets	**5,376,539**	**3,627,006**	**9,003,545**
Amounts due to customers	4,478,541	547,136	5,025,677
Amounts due to credit institutions	943,757	733,830	1,677,587
Debt securities issued	98,968	841,977	940,945
Current income tax liabilities	9,658	-	9,658
Deferred income tax liabilities	-	79,497	79,497
Provisions	1,229	1,025	2,254
Other liabilities	42,538	782	43,320
Total liabilities	**5,574,691**	**2,204,247**	**7,778,938**
Net	**(198,152)**	**1,422,759**	**1,224,607**

(Thousands of Georgian Lari)

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

	31 December 2014			*31 December 2013*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	709,861	-	709,861	1,049,069	-	1,049,069
Amounts due from credit institutions	414,041	4,461	418,502	333,859	13,402	347,261
Investment securities available-for-sale	728,562	41,150	769,712	515,557	4,066	519,623
Loans to customers	1,924,699	2,405,096	4,329,795	1,764,858	1,720,549	3,485,407
Finance lease receivables	29,157	9,362	38,519	31,953	13,653	45,606
Investments in associates	-	-	-	-	-	-
Investment properties	-	190,860	190,860	-	157,707	157,707
Property and equipment	-	588,513	588,513	-	470,669	470,669
Intangible assets	-	34,432	34,432	-	26,434	26,434
Goodwill	-	49,633	49,633	-	48,720	48,720
Current income tax assets	4,215	-	4,215	4,552	-	4,552
Deferred income tax assets	-	18,530	18,530	-	14,544	14,544
Prepayments	17,577	15,926	33,503	14,684	10,732	25,416
Other assets	210,715	140,511	351,226	221,527	107,699	329,226
Total assets	**4,038,827**	**3,498,474**	**7,537,301**	**3,936,059**	**2,588,175**	**6,524,234**
Amounts due to customers	3,062,529	410,900	3,473,429	2,812,295	305,462	3,117,757
Amounts due to credit institutions	833,384	575,829	1,409,213	613,695	544,284	1,157,979
Debt securities issued	118,219	738,476	856,695	52,824	675,293	728,117
Current income tax liabilities	11,093	-	11,093	2,928	-	2,928
Deferred income tax liabilities	-	86,471	86,471	-	66,100	66,100
Provisions	3,934	798	4,732	481	-	481
Other liabilities	124,446	110,135	234,581	185,332	21,225	206,557
Total liabilities	**4,153,605**	**1,922,609**	**6,076,214**	**3,667,555**	**1,612,364**	**5,279,919**
Net	**(114,778)**	**1,575,865**	**1,461,087**	**268,504**	**975,811**	**1,244,315**

31. Related Party Disclosures

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

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

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

	2015			*2014*			*2013*		
	The parent	*Entities Under Common Control*	*Key management personnel**	*The parent*	*Entities Under Common Control*	*Key management personnel**	*The parent*	*Entities Under Common Control*	*Key management personnel**
Loans outstanding at 1 January, gross	**7,609**	**78,592**	**2,048**	**8,098**	**-**	**1,484**	**13,033**	**-**	**5,136**
Loans issued during the year	-	18,919	5,083	-	85,933	4,853	-	-	2,871
Loan repayments during the year	-	(153,431)	(6,811)	(577)	(16,376)	(4,474)	(5,490)	-	(2,319)
Reorganization	-	92,143	-	-	-	-	-	-	-
Other movements	1,725	14,982	922	88	9,035	185	555	-	(4,204)
Loans outstanding at 31 December, gross	**9,334**	**51,205**	**1,242**	**7,609**	**78,592**	**2,048**	**8,098**	**-**	**1,484**
Less: allowance for impairment at 31 December	-	(131)	(6)	-	(743)	(1)	-	-	(20)
Loans outstanding at 31 December, net	**9,334**	**51,074**	**1,236**	**7,609**	**77,849**	**2,047**	**8,098**	**-**	**1,464**
Interest income on loans	-	8,825	175	-	1,767	86	-	-	66
Loan impairment charge	-	(20)	(2)	-	(743)	-	-	-	(14)
Deposits at 1 January	**134,705**	**4,975**	**17,500**	**25**	**50**	**11,455**	**-**	**17**	**9,681**
Deposits received during the year	6,428	101,495	18,284	288,680	132,087	33,646	53,864	168	20,444
Deposits repaid during the year	(56,765)	(18,278)	(19,098)	(144,028)	(128,859)	(31,225)	(53,839)	(119)	(15,018)
Reorganization	-	110,401	-	-	-	-	-	-	-
Other movements	-	-	(337)	(9,972)	1,697	3,624	-	(16)	(3,652)
Deposits at 31 December	**84,368**	**198,593**	**16,349**	**134,705**	**4,975**	**17,500**	**25**	**50**	**11,455**
Interest expense on deposits	(2,246)	(1,263)	(402)	-	(2)	(513)	-	-	(425)
Other income	-	560	45	-	2	92	-	-	86
Commitments and guarantees issued	-	20,374	120	-	-	-	-	-	-

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

(Thousands of Georgian Lari)

31. Related Party Disclosures (continued)

Compensation of key management personnel comprised the following:

	2015	2014	2013
Salaries and other benefits	4,401	3,279	2,533
Share-based payments compensation	19,435	14,763	12,309
Social security costs	55	43	28
Total key management compensation	**23,891**	**18,085**	**14,870**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2015 was 16 (31 December 2014: 16, 31 December 2013: 15).

32. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank 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 1 January 2017, during which the Bank will be required to comply with both, the new, and the current, capital regulations of the NBG.

During year ended 31 December 2015, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

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

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 11.4% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2015, 31 December 2014 and 31 December 2013, the Bank's capital adequacy ratio on this basis was as follows:

	2015	*2014*	*2013*
Core capital	728,139	895,318	810,545
Supplementary capital	649,607	398,598	313,220
Less: Deductions from capital	(60,311)	(365,487)	(256,471)
Total regulatory capital	**1,317,435**	**928,429**	**867,294**
Risk-weighted assets	**7,811,398**	**6,719,169**	**5,638,556**
Total capital adequacy ratio	**16.9%**	**13.8%**	**15.4%**

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

(Thousands of Georgian Lari)

32. Capital Adequacy (continued)

New NBG (Basel II/III) capital adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total capital adequacy ratio of 10.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II/III requirements. As at 31 December 2015 the Bank's capital adequacy ratio on this basis was as follows:

	2015	*2014*
Tier 1 capital	971,635	1,128,004
Less: Deductions from capital	(56,851)	(327,539)
Tier 2 capital	479,176	217,100
Total capital	**1,393,960**	**1,017,565**
Risk-weighted assets	**8,363,369**	**7,204,080**
Total capital ratio	**16.7%**	**14.1%**
Tier 1 capital ratio	**10.9%**	**11.1%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the consolidated 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 2015, 31 December 2014 and 31 December 2013, was as follows:

	2015	*2014*	*2013*
Tier 1 capital	1,232,808	1,431,399	1,170,104
Less: Deductions Goodwill	(33,340)	(49,633)	-
Tier 2 capital	471,777	249,419	256,224
Less: Deductions from capital	(1,163)	(1,522)	(51,147)
Total capital	**1,670,082**	**1,629,663**	**1,375,181**
Risk-weighted assets	**6,692,485**	**6,252,992**	**5,080,827**
Total capital ratio	25.0%	26.1%	27.1%
Tier 1 capital ratio	17.9%	22.1%	23.0%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**

33. Event after the Reporting Period

In June 2016 amendments were made to the tax code of Georgia, under which the existing regulation for levying a profit tax will change to tax on distributed profits model to be enforced starting 1 January 2017. New rules of levying profit tax do not apply to commercial banks and insurance organizations until 1 January 2019. The profit tax rate has not changed.

New legislation is expected to have material impact on the Group's taxes assessed starting from 1 January 2019 and might have impact on amounts of deferred taxes and respective income tax charges as at 31 December 2016 and for the year then ending.