JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2016
Together with Independent Auditor's Report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Consolidated statement of financial position 1
Consolidated income statement 2
Consolidated statement of comprehensive income 4
Consolidated statement of changes in equity 5
Consolidated statement of cash flows 6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities 8
2. Basis of Preparation 8
3. Summary of Significant Accounting Policies 11
4. Significant Accounting Judgements and Estimates 27
5. Segment Information 28
6. Cash and Cash Equivalents 32
7. Amounts Due from Credit Institutions 32
8. Investment Securities Available-for-Sale 32
9. Loans to Customers 33
10. Finance Lease Receivables 36
11. Investment Properties 37
12. Property and Equipment 37
13. Goodwill 40
14. Taxation 41
15. Other Assets and Other Liabilities 43
16. Amounts Due to Customers 45
17. Amounts Owed to Credit Institutions and Other Borrowings 46
18. Debt Securities Issued 46
19. Commitments and Contingencies 47
20. Equity 47
21. Net Fee and Commission Income 49
22. Net Real Estate Revenue 50
23. Salaries and Other Employee Benefits, and General and Administrative Expenses 50
24. Net Non-recurring Expenses 51
25. Share-based Payments 51
26. Risk Management 53
27. Fair Value Measurements 63
28. Maturity Analysis of Financial Assets and Liabilities 69
29. Related Party Disclosures 71
30. Capital Adequacy 72
31. Event after the Reporting Period 74

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Independent auditor's report

To the Shareholders and Supervisory Board of JSC Bank of Georgia

Opinion

We have audited the 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 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed it
Impairment of loans to customers	
The allowance for loan impairment recognized by the Group amounted to GEL 249,077 thousand as at 31 December 2016. The allowance for loan losses is estimated using a combination of a collective and individual impairment assessment based on discounted cash flow analyses. Both collectively and individually assessed impairment depend on a number of assumptions and judgments made by the management, including significant unobservable inputs and factors such as probabilities of default and loss-given-default assumptions, as well as estimates of expected future cash flows and valuations of collateral. The use of alternative provisioning models and assumptions could have a material impact on the recognized impairment allowance and reported profits of the Group. Information on the impairment of loans to customers is included in Note 9, *Loans to Customers*, and Note 26, *Risk Management*, to the consolidated financial statements.	We performed a walkthrough of the loan loss allowance processes for both collectively assessed and individually impaired loans and assessed the design and operating effectiveness of key controls. We tested key controls over the individual loan loss allowance, which included controls over the identification of loans to be subject to the individual allowance assessment and management's review of key assumptions. We tested key controls over collective loan loss allowance, which addressed aspects such as the classification of borrowers into their respective risk grades, calculation of days past due, and the recalculation of the loan loss allowance, including the valuation of collateral. For individually assessed loan loss allowance, we tested loan exposures subject to individual assessment on a sample basis. We focused on review of the Group's documented credit assessment of the borrowers, on analysis of the management's assumptions around future cash flow projections and the valuation of collateral held. For the collectively assessed loan loss allowance, we assessed the collective provisioning methodology as well as the assumptions and data inputs, recalculated the collective loan loss allowance and performed sensitivity analysis to changes in key model inputs. We reviewed a sample of renegotiated loans, evaluated management's assessment of respective exposures, and assessed classification, measurement and disclosure of the renegotiated loans in the consolidated financial statements.
Valuation of land, office buildings and investment properties	
The aggregate value of land, office buildings and investment properties of the Group was GEL 350,359 thousand as at 31 December 2016. The Group applies the revaluation model for the measurement of its land and office buildings and the fair value model for investment properties. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's	We engaged our Real Estate specialists to evaluate a sample of the Group's individually significant real estate valuations. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Group, analysis of the methods and assumptions used and testing of the data provided by the valuers.

Key audit matter	How our audit addressed it
real estate properties are located primarily in Georgia and include certain assets where valuation, due to specifics of the Georgian real estate market, involves application of unobservable inputs that could have significant impact on the valuation results and, accordingly, on the Group's reported equity and profits. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of land, office buildings and investment properties is included to Note 11, *Investment Properties*, Note 12, *Property and Equipment*, and Note 27, *Fair Value Measurements*, to the consolidated financial statements.	In respect of properties which were not subject to individual valuation by the external valuers, we involved our real estate valuation specialists to assess management's assumptions about changes in the prices of such properties for the reporting period. We corroborated these by reference to our understanding of the Group's real estate portfolio and observable market information. We assessed recognition of the results of the valuations and the Group's disclosures in relation to the valuation of land, office buildings and investment properties.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Building a better working world

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

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

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

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

Building a better working world

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



Ruslan Khoroshvili

For and on behalf of EY Georgia LLC

Tbilisi, Georgia

3 April 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015	2014
Assets				
Cash and cash equivalents	6	1,487,170	1,376,782	709,861
Amounts due from credit institutions	7	940,485	718,677	418,502
Investment securities available-for-sale	8	1,283,902	902,240	769,712
Loans to customers	9	6,379,965	5,322,887	4,329,795
Finance lease receivables	10	13,096	14,010	38,519
Investments in associates		9,626	-	-
Investment properties	11	152,596	135,453	190,860
Property and equipment	12	310,269	307,692	588,513
Intangible assets		35,814	30,669	34,432
Goodwill	13	33,453	33,453	49,633
Current income tax assets		18,505	988	4,215
Deferred income tax assets		194	12,106	18,530
Prepayments		12,452	17,662	33,503
Other assets	15	88,280	130,926	351,226
Total assets		**10,765,807**	**9,003,545**	**7,537,301**
Liabilities				
Amounts due to customers	16	5,773,512	5,025,677	3,473,429
Amounts due to credit institutions and other borrowings	17	3,468,353	1,677,587	1,409,213
Debt securities issued	18	177,271	940,945	856,695
Current income tax liabilities		-	9,658	11,093
Deferred income tax liabilities		22,242	79,497	86,471
Provisions	19	3,380	2,254	4,732
Other liabilities	15	55,103	43,320	234,581
Total liabilities		**9,499,861**	**7,778,938**	**6,076,214**
Equity	20			
Share capital		27,821	27,821	36,513
Additional paid-in capital		216,030	297,300	611,238
Treasury shares		(9)	(3)	(1,522)
Other reserves		25,685	(7,040)	31,211
Retained earnings		981,815	893,520	728,839
Total equity attributable to shareholders of the Bank		**1,251,342**	**1,211,598**	**1,406,279**
Non-controlling interests		14,604	13,009	54,808
Total equity		**1,265,946**	**1,224,607**	**1,461,087**
Total liabilities and equity		**10,765,807**	**9,003,545**	**7,537,301**

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

Kaha Kiknavelidze — Chief Executive Officer



Levan Kulijanishvili — Chief Financial Officer



3 April 2017

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015	2014
Interest income				
Loans to customers		806,641	783,514	555,288
Investment securities – available-for-sale		90,589	69,407	39,988
Amounts due from credit institutions		7,933	9,588	5,119
Finance lease receivables		2,879	2,834	2,327
		908,042	**865,343**	**602,722**
Interest expense				
Amounts due to customers		(194,029)	(191,155)	(134,838)
Amounts due to credit institutions and other borrowings		(137,248)	(101,205)	(54,764)
Debt securities issued		(41,583)	(66,926)	(54,090)
		(372,860)	**(359,286)**	**(243,692)**
Net interest income		**535,182**	**506,057**	**359,030**
Fee and commission income		168,386	157,529	129,043
Fee and commission expense		(58,496)	(52,435)	(42,885)
Net fee and commission income	21	**109,890**	**105,094**	**86,158**
Net real estate revenue	22	8,631	11,831	5,600
Net gain from trading securities and investment securities available-for-sale		2,162	73	93
Net loss from other derivative financial instruments		(634)	-	-
Net (loss) gain from revaluation of investment properties	11	(1,221)	6,388	-
Net gain from foreign currencies:				
– dealing		65,461	64,561	44,599
– translation differences		18,307	1,257	13,135
Other operating income		1,912	1,761	3,959
Other operating non-interest income		**94,618**	**85,871**	**67,386**
Revenue		**739,690**	**697,022**	**512,574**
Salaries and other employee benefits	23	(153,760)	(139,141)	(116,996)
General and administrative expenses	23	(75,534)	(67,239)	(51,680)
Depreciation and amortization		(34,883)	(31,520)	(23,494)
Other operating expenses		(3,425)	(2,855)	(2,293)
Operating expenses		**(267,602)**	**(240,755)**	**(194,463)**
Operating income before cost of credit risk		**472,088**	**456,267**	**318,111**

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015	2014
Operating income before cost of credit risk		**472,088**	**456,267**	**318,111**
Impairment charge on loans to customers	9	(155,366)	(142,814)	(45,087)
(Impairment charge) reversal of impairment on finance lease receivables	10	(161)	(1,615)	76
Impairment charge on other assets and provisions		(5,616)	(6,013)	(9,568)
Cost of credit risk		**(161,143)**	**(150,442)**	**(54,579)**
Net operating income before non-recurring items		**310,945**	**305,825**	**263,532**
Net non-recurring expense / loss	24	(49,169)	(10,659)	(11,432)
Profit before income tax gain (expense) from continuing operations		**261,776**	**295,166**	**252,100**
Income tax benefit (expense)	14	27,318	(42,722)	(30,272)
Profit for the year from continuing operations		**289,094**	**252,444**	**221,828**
Profit from discontinued operations		-	8,278	24,156
Profit for the year		**289,094**	**260,722**	**245,984**
Total profit attributable to:				
– shareholders of the Bank		287,945	257,628	238,644
– non-controlling interests		1,149	3,094	7,340
		289,094	**260,722**	**245,984**
Profit from continuing operations attributable to:				
– shareholders of the Bank		287,945	249,997	219,384
– non-controlling interests		1,149	2,447	2,444
		289,094	**252,444**	**221,828**
Profit from discontinued operations attributable to:				
– shareholders of the Bank		-	7,631	19,260
– non-controlling interests		-	647	4,896
		-	**8,278**	**24,156**
Basic and diluted earnings per share, total:	20	**10.3511**	**7.9944**	**6.9044**
– earnings per share from continuing operations		10.3511	7.7576	6.3472
– earnings per share from discontinued operations		-	0.2368	0.5572

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015	2014
Profit for the year		**289,094**	**260,722**	**245,984**
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		85,612	(30,863)	(4,079)
– Realised (gain) loss on available-for-sale securities redassified to the consolidated income statement		(28,143)	(34)	(83)
– Gain (loss) from currency translation differences		580	(17,523)	33,634
Income tax effect	14	(4,961)	2,598	(109)
Net other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods		**53,088**	**(45,822)**	**29,363**
Other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	12	(2,105)	(7,782)	-
Income tax effect	14	4,827	400	-
Net other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods		**2,722**	**(7,382)**	**-**
Other comprehensive gain (loss) from discontinued operations		-	(117)	(3,683)
Other comprehensive income (loss) for the year, net of tax		**55,810**	**(53,321)**	**25,680**
Total comprehensive income for the year from continuing operations		344,904	199,240	251,191
Total comprehensive income for the year from discontinued operations		-	8,161	20,473
Total comprehensive income for the year		**344,904**	**207,401**	**271,664**
Total comprehensive income attributable to:				
– shareholders of the Bank		343,309	207,654	266,187
– non-controlling interests		1,595	(253)	5,477
		344,904	**207,401**	**271,664**
Total comprehensive income from continuing operations attributable to:				
– shareholders of the Bank		343,309	200,076	249,693
– non-controlling interests		1,595	(836)	1,498
		344,904	**199,240**	**251,191**
Total comprehensive income from discontinued operations attributable to:				
– shareholders of the Bank		-	7,578	16,494
– non-controlling interests		-	583	3,979
		-	**8,161**	**20,473**

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(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 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 Bank (Note 20)	-	-	-	-	(74,638)	(74,638)	-	(74,638)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(17,639)	-	(17,639)	(15,516)	(33,155)
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	10,942	10,942
Sale of treasury shares	-	27,525	469	-	-	27,994	-	27,994
Purchase of treasury shares	-	(5,045)	(97)	-	-	(5,142)	-	(5,142)
31 December 2014	**36,513**	**611,238**	**(1,522)**	**31,211**	**728,839**	**1,406,279**	**54,808**	**1,461,087**
Profit for the year	-	-	-	-	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 Bank (Note 20)	-	-	-	-	(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)	(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**
Profit for the year	-	-	-	-	287,945	287,945	1,149	289,094
Other comprehensive loss for the year	-	-	-	54,938	426	55,364	446	55,810
Total comprehensive income	**-**	**-**	**-**	**54,938**	**288,371**	**343,309**	**1,595**	**344,904**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(521)	521	-	-	-
Increase in share capital arising from share-based payments	-	38,195	-	-	-	38,195	-	38,195
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(200,597)	(200,597)	-	(200,597)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(21,692)	-	(21,692)	-	(21,692)
Contributions under share-based payment plan (Note 25)	-	(119,465)	(6)	-	-	(119,471)	-	(119,471)
31 December 2016	**27,821**	**216,030**	**(9)**	**25,685**	**981,815**	**1,251,342**	**14,604**	**1,265,946**

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015	2014
Cash flows from operating activities				
Interest received		894,996	867,191	596,778
Interest paid		(410,417)	(352,394)	(263,773)
Fees and commissions received		163,926	152,416	130,536
Fees and commissions paid		(58,501)	(52,535)	(43,099)
Net cash inflow from real estate		12,601	7,158	5,600
Net realised gains from trading securities		1,177	39	10
Net realised gains from investment securities available-for-sale		2,091	34	83
Net realised gains from foreign currencies		65,461	64,561	44,599
Recoveries of loans to customers previously written off	9	36,244	33,685	28,706
Other expenses paid		(50,681)	(11,949)	(7,826)
Salaries and other employee benefits paid		(121,198)	(112,712)	(109,595)
General and administrative and operating expenses paid		(73,887)	(64,563)	(44,265)
Cash flows from operating activities from continuing operations before changes in operating assets and liabilities		**461,812**	**530,931**	**337,754**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(146,572)	(196,780)	(49,000)
Loans to customers		(719,819)	249,879	(943,727)
Finance lease receivables		2,291	3,228	5,284
Prepayments and other assets		46,354	11,692	389
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions and other borrowings		1,641,229	98,738	211,632
Debt securities issued		(831,549)	(113,121)	82,148
Amounts due to customers		357,110	396,460	428,231
Other liabilities		11,545	(16,918)	13,256
Net cash flows from operating activities from continuing operations before income tax		**822,401**	**964,109**	**85,967**
Income tax paid		(44,326)	(28,360)	(14,783)
Net cash flows from operating activities from continuing operations		**778,075**	**935,749**	**71,184**
Net cash flows from operating activities from discontinued operations		-	63,298	59,543
Net Cash flow from operating activities		**778,075**	**999,047**	**130,727**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired		-	22,620	-
Repayment of remaining holdback amounts from previous year acquisitions		(8,768)	-	-
Net purchase of investment securities available-for-sale		(317,297)	(157,139)	(255,670)
Proceeds from sale of investment properties	11	4,455	19,813	6,467
Proceeds from sale of property and equipment and intangible assets	12	980	3,592	521
Purchase of property and equipment and intangible assets		(45,794)	(51,575)	(28,047)
Net cash flows used in investing activities from continuing operations		**(366,424)**	**(162,689)**	**(276,729)**
Net cash flows used in investing activities from discontinued operations		-	(104,815)	(120,634)
Reorganization		-	(4,356)	-
Net cash flows used in investing activities		**(366,424)**	**(271,860)**	**(397,363)**

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015	2014
Cash flows (used in) from financing activities				
Dividends paid		(200,099)	(66,627)	(72,729)
Contributions under share-based payment plan (Note 25)		(119,471)	(9,450)	(5,142)
Sale of treasury shares		-	-	27,994
Net cash used in financing activities from continuing operations		**(319,570)**	**(76,077)**	**(49,877)**
Net cash from (used in) financing activities from discontinued operations		-	26,330	(28,972)
Net cash used in financing activities		**(319,570)**	**(49,747)**	**(78,849)**
Effect of exchange rates changes on cash and cash equivalents		18,307	(10,519)	6,277
Net increase (decrease) in cash and cash equivalents		**110,388**	**666,921**	**(339,208)**
Cash and cash equivalents, beginning	6	**1,376,782**	**709,861**	**1,049,069**
Cash and cash equivalents, ending	6	**1,487,170**	**1,376,782**	**709,861**

The accompanying notes on pages 8 to 74 are an integral part of these consolidated financial statements.

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2016 the Bank has 278 operating outlets in all major cities of Georgia (31 December 2015: 266, 31 December 2014: 219). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

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

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in 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. The Group accounted for this transaction with JSC BGEO as an 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 2016, 31 December 2015 JSC BGEO, and 31 December 2014 BGEO PLC were the principal shareholders of the Bank:

Shareholder	*31 December 2016*	*31 December 2015*	*31 December 2014*
JSC BGEO Group	99.55%	99.52%	-
BGEO Group Plc*	-	-	99.62%
Others**	0.45%	0.48%	0.38%
Total	**100.00%**	**100.00%**	**100.00%**

**** Formerly known as Bank of Georgia Holdings Plc.***
***** Shares listed on Georgian Stock Exchange.***

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 2016 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 2016, 31 December 2015 and 31 December 2014 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	*31 December 2016*	*31 December 2015*	*31 December 2014*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO	100.00%	100.00%	100.00%	Georgia	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	Representative Office	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	(a)	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)	-	(b)	100.00%	Georgia	Investments	4/11/2008	–
⇒ JSC m2 Real Estate	-	(c)	100.00%	Georgia	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	-	(c)	-	Georgia	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	-	(c)	100.00%	Georgia	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	-	(c)	100.00%	Georgia	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	-	(c)	-	Georgia	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	-	(c)	100.00%	Georgia	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	-	(c)	100.00%	Georgia	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	-	(c)	100.00%	Georgia	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	-	(c)	100.00%	Georgia	Real estate	21/5/2013	–
⇒ M Square Park, LLC	-	(c)	-	Georgia	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	-	(c)	-	Georgia	Real estate	15/9/2015	–
⇒ m2 Hospitality, LLC	-	(c)	-	Georgia	Real estate	17/8/2015	–
⇒ m2, LLC (formerly JSC m2)	-	(c)	100.00%	Georgia	Real estate	12/2/2014	–
⇒ Caucasus Autohause, LLC	-	(c)	100.00%	Georgia	Real estate	29/3/2011	–
⇒ Land, LLC	-	(c)	100.00%	Georgia	Real estate	3/10/2014	–
⇒ JSC Georgian Renewable Power Company	-	(c)	-	Georgia	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	-	(c)	85.00%	Georgia	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	-	(c)	100.00%	Georgia	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	-	(c)	-	Georgia	Renewable Energy	20/8/2015	–
⇒ Georgia Healthcare Group PLC	-	(c)	-	United Kingdom	Healthcare	27/8/2015	28/8/2015
⇒ JSC Georgia Healthcare Group	-	(c)	-	Georgia	Healthcare	29/4/2015	–
⇒ JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI) (a)	-	(c)	100.00%	Georgia	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	-	(c)	100.00%	Georgia	Various	22/6/2010	10/1/2011
⇒ JSC Medical Corporation EVEX	-	(c)	100.00%	Georgia	Healthcare	31/7/2014	–
⇒ JSC My Family Clinic	-	(c)	100.00%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	-	(c)	66.70%	Georgia	Medical services	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	-	(c)	66.70%	Georgia	Medical services	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	-	(c)	66.70%	Georgia	Medical services	29/9/1999	12/9/2011
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	-	(c)	92.90%	Georgia	Medical services	3/11/2000	20/5/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	-	(c)	100.00%	Georgia	Medical services	19/7/2010	10/1/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	-	(c)	100.00%	Georgia	Medical services	11/6/1998	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	-	(c)	100.00%	Georgia	Medical services	30/11/1999	29/11/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	-	(c)	100.00%	Georgia	Medical services	1/9/1999	12/9/2011
⇒ Martvili Multi profile Hospital, LLC	-	(c)	100.00%	Georgia	Medical services	17/3/2000	12/9/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	-	(c)	100.00%	Georgia	Medical services	16/3/2000	12/9/2011
⇒ Khobi Central Regional Hospital, LLC	-	(c)	100.00%	Georgia	Medical services	13/7/2000	12/9/2011
⇒ Traumatologist, LLC	-	(c)	100.00%	Georgia	Medical Service	20/7/2011	30/9/2014

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and 31 December 2016	31 December 2015	31 December 2014	Country of incorporation	Industry	Date of incorporation	Date of acquisition
⇒ GN KO, LLC	-	(c)	-	Georgia	Medical services	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	-	(c)	-	Georgia	Healthcare Service	16/4/1999	5/8/2015
⇒ Geolab, LLC	-	(c)	-	Georgia	Healthcare Service	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	-	(c)	-	Georgia	Healthcare Service	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	-	(c)	-	Georgia	Medical services	18/6/2013	5/8/2015
⇒ Deka, LLC	-	(c)	-	Georgia	Medical services	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	-	(c)	-	Georgia	Medical services	2/2/2015	–
⇒ Unimed Achara, LLC	-	(c)	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC	-	(c)	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Kakheti, LLC	-	(c)	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
⇒ LLC Caraps Medline	-	(c)	100.00%	Georgia	Medical Service	26/8/1998	26/12/2013
⇒ Avante Hospital Management Group, LLC	-	(c)	100.00%	Georgia	Medical Service	5/8/2011	19/2/2014
⇒ Children's New Hospital, LLC	-	(c)	75.00%	Georgia	Medical Service	18/7/2011	19/2/2014
⇒ New Life, LLC	-	(c)	100.00%	Georgia	Medical Service	21/9/1999	19/2/2014
⇒ Batumi Regional Healthcare Center for Mothers and Children, LLC	-	(c)	100.00%	Georgia	Medical Service	19/11/2004	19/2/2014
⇒ Sunstone Medical, LLC	-	(c)	100.00%	Georgia	Medical Service	9/11/2012	21/5/2014
⇒ M. Iashvili Children's Central Hospital, LLC	-	(c)	66.70%	Georgia	Medical Service	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	-	(c)	100.00%	Georgia	Medical Service	6/3/2000	19/2/2014
⇒ Referral Centre of Pathology, LLC	-	(c)	100.00%	Georgia	Medical services	29/12/2014	–
⇒ EVEX Learning Center	-	(c)	100.00%	Georgia	Education	20/12/2013	–
⇒ JSC Liberty Consumer	-	(c)	70.12%	Georgia	Investments	24/5/2006	–
⇒ JSC Teliani Valley	-	(c)	50.92%	Georgia	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	-	(c)	100.00%	Georgia	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	-	(c)	100.00%	Ukraine	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	-	(c)	100.00%	Georgia	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	-	(c)	70.00%	Georgia	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	-	(c)	100.00%	Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ JSC Intertour	-	(c)	99.94%	Georgia	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	-	(c)	100.00%	Georgia	Fitness centre	7/3/2006	–
⇒ JSC Galt & Taggart	-	(c)	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Branch Office of "BG Kapital" JSC in Azerbaijan	-	(c)	100.00%	Azerbaijan	Representative Office	28/12/2013	–
⇒ Galt and Taggart Holdings Limited	-	(c)	100.00%	Cyprus	Investments	3/7/2006	–
⇒ BG Capital (Belarus), LLC	-	(c)	100.00%	Belarus	Brokerage	19/2/2008	–
⇒ Georgian Leasing Company, LLC	-	(c)	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing	-	(c)	-	Georgia	Leasing	27/1/2012	21/1/2015
⇒ Solo, LLC	-	(c)	-	Georgia	Trade	22/4/2015	–
⇒ JSC United Securities Registrar of Georgia	-	(c)	100.00%	Georgia	Registrar	29/5/2006	–
⇒ JSC Express Technologies	-	(c)	100.00%	Georgia	Investments	29/10/2007	–
⇒ JSC Georgian Card	-	(c)	98.23%	Georgia	Card processing	17/1/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	-	(c)	100.00%	Georgia	Electronic payment services	7/3/2006	–
⇒ LLC Didi Digomi Research Center	-	(c)	100.00%	Georgia	Communication services	23/4/2007	–
⇒ Metro Service +, LLC	-	(c)	100.00%	Georgia	Business servicing	10/5/2006	–
⇒ Express Technologies CEE, LLC	-	(c)	100.00%	Hungary	Other Financial Service Activities	5/3/2014	N/A
⇒ JSC Insurance Company Aldagi	-	(c)	100.00%	Georgia	Insurance	31/7/2014	–
⇒ JSC Insurance Company Tao	-	(c)	-	Georgia	Insurance	22/8/2007	21/1/2015
⇒ Aliance, LLC	-	(c)	100.00%	Georgia	Various	3/1/2000	5/1/2012
⇒ Green Way, LLC	-	(c)	100.00%	Georgia	Various	9/8/2008	5/1/2012
⇒ Premium Residence, LLC	-	(c)	100.00%	Georgia	Hotel	9/7/2010	1/5/2012

Associates	Proportion of voting rights and ordinary share capital held 31 December 2016	31 December 2015	31 December 2014	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Credit info (d)	19.11%	16.63%	16.63%	Georgia	Financial Intermediation	14/2/2005	14/2/2005

(a) Was discontinued in 2016
(b) Merged to JSC Bank of Georgia in 2015
(c) Moved under JSC BGEO Group, as a result of reorganization in 2015
(d) On 22 December 2016 the Group obtained significant influence over JSC Credit info

The Group recognized a liability in amount of GEL 21,692 in respect of a put notice for 15% of BNB's shares received in 2016.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

As required by IAS 1 Disclosure Initiative the Group now presents its share of associates and joint ventures accounted for using the equity method in aggregate as a single line item, and classifies it between those items that will or will not be subsequently reclassified to profit or loss.

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 2016. The Group consolidates a subsidiary when it controls it.Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the 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. When available for sale investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognized in other comprehensive income is reclassified in profit or loss.

Fair value measurement

The 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 27.

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

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

The principal or the most advantageous market must be accessible by the 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

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

ii. Operating – Group as lessee

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

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

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

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

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

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 land, 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. Land, office buildings and service centres are classified in land and building category and 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, land, 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 and service centers	Up to 100
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

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

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

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

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

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 15.

Share-based payment transactions

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

Equity-settled transactions

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

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

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;
- Loss from early redemption of Eurobonds;

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 2016, 31 December 2015 and 31 December 2014 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2016	3.2579	2.6468	2.794	1.3532
31 December 2015	3.5492	2.3949	2.6169	1.2904
31 December 2014	2.8932	1.8636	2.2656	1.5727

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.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Classification and measurement
From a classification and measurement perspective, the new standard will require all financial assets, expect equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

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

Impairment of financial assets

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

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. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statement.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach. . Anticipated impact of early adoption is expected to be approximately GEL 12,709 decrease to shareholders' equity. Main revenue stream impacted by early adoption includes fees and commission income.

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. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. IFRS 16 can be adopted using either a full retrospective or a modified retrospective approach. 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 statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Leases must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Lessor accounting remains substantially the same as in IAS 17. The Group does not anticipate early adoption of IFRS 16 and 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)

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, The Group will need to disclose changes in its financial liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

IFRS 2 Share-based Payments

On 20 June 2016, the IASB issued amendments to IFRS 2 Share Based Payment that clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

Annual Improvements 2014-2016 Cycle

The improvements to IAS 28 are effective for annual periods beginning on or after 1 January 2018 and the improvements to IFRS 12 for annual periods beginning on or after 1 January 2017.

IFRS 12 Disclosure of Interests in Other Entities

The amendment clarifies the scope of the standard by specifying that when an entity's interest in a subsidiary, a joint arrangement (or a portion of its interest in a joint venture or an associate) is classified as asset held for sale or as held for distribution to owners in accordance with IFRS 5, the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate in accordance with IFRS 12. This improvement is not expected to have any impact on the Group.

IAS 28 Investments in Associates and Joint Ventures

The amendment clarifies that the election to measure an investment in as associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, at fair value through profit or loss, is available for each investment in as associate or joint venture on an investment by investment basis, upon initial recognition. This improvement is 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 27).

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties, land, 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, land, office buildings and service centres with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in notes 11 and 12, while valuation inputs and techniques are presented in note 27. The Group's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for impairment of loans and finance lease receivables

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

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

Information about allowance for impairment of loans and finance lease receivables is presented in Notes 9 and 10.

5. 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 an individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory services;

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 2016, 2015 or 2014.

(Thousands of Georgian Lari)

5. Segment Information (continued)

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

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	113,052	371,060	20,294	30,773	3	-	535,182
Net fees and commission income	25,346	76,372	710	7,462	-	-	109,890
Real estate income	5,845	2,596	(7)	392	-	(195)	8,631
Net gains (losses) from foreign currencies	45,792	26,605	2,920	8,452	(1)	-	83,768
Other revenues	2,577	785	579	(1,130)	-	(592)	2,219
Revenue	**192,612**	**477,418**	**24,496**	**45,949**	**2**	**(787)**	**739,690**
Operating expenses	(52,839)	(185,478)	(9,503)	(20,905)	336	787	(267,602)
Operating income (expense) before cost of credit risk	**139,773**	**291,940**	**14,993**	**25,044**	**338**	**-**	**472,088**
Cost of credit risk	(70,075)	(75,690)	419	(15,797)	-	-	(161,143)
Net operating income (loss) before non-recurring items	**69,698**	**216,250**	**15,412**	**9,247**	**338**	**-**	**310,945**
Net non-recurring (expense/loss) income/gain	(13,559)	(32,647)	(1,545)	(1,418)	-	-	(49,169)
Profit before income tax benefit (expense)	**56,139**	**183,603**	**13,867**	**7,829**	**338**	**-**	**261,776**
Income tax benefit (expense)	10,067	21,733	1,090	(5,141)	(431)	-	27,318
Profit (Loss) for the year	**66,206**	**205,336**	**14,957**	**2,688**	**(93)**	**-**	**289,094**
Assets and liabilities							
Total assets	4,152,692	6,002,815	49,703	549,132	27,372	(15,907)	10,765,807
Total liabilities	3,661,784	5,343,035	34,941	475,324	684	(15,907)	9,499,861
Other segment information							
Property and equipment	4,326	28,716	459	1,407	67	-	34,975
Intangible assets	1,368	9,042	115	300	-	-	10,825
Capital expenditure	**5,694**	**37,758**	**574**	**1,707**	**67**	**-**	**45,800**
Depreciation	(3,638)	(24,150)	(448)	(917)	-	-	(29,153)
Amortization	(716)	(4,731)	(60)	(223)	-	-	(5,730)
(Impairment) Reversal	-	-	(63)	(1,403)	-	-	(1,466)

(Thousands of Georgian Lari)

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the 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)

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the 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	(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. Cash and Cash Equivalents

	2016	2015	2014
Cash on hand	478,256	447,015	393,315
Current accounts with central banks, excluding obligatory reserves	150,152	152,455	152,647
Current accounts with other credit institutions	446,142	415,463	137,960
Time deposits with credit institutions with maturity of up to 90 days	412,620	361,849	25,939
Cash and cash equivalents	**1,487,170**	**1,376,782**	**709,861**

As at 31 December 2016 GEL 812,798 (2015: GEL 661,543 , 2014: GEL 136,387) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.90% interest per annum on these deposits (2015: up to 0.59%, 2014: up to 1.30%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts Due from Credit Institutions

	2016	2015	2014
Obligatory reserves with central banks	934,996	620,287	382,963
Time deposits with maturity of more than 90 days	38	29	34,053
Deposits pledged as security for open commitments	-	96,405	-
Inter-bank loan receivables	5,451	1,956	1,486
Amounts due from credit institutions	**940,485**	**718,677**	**418,502**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the regulation. The Group earned up to 0.25% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2016 (2015: Nil, 2014: Nil).

As at 31 December 2016 inter-bank loan receivables include GEL 2,164 (2015: GEL 1,956, 2014: GEL 1,486) placed with non-OECD banks.

8. Investment Securities Available-for-Sale

	2016	2015	2014
Georgian ministry of Finance treasury bonds*	811,531	575,590	459,400
Georgian ministry of Finance treasury bills**	88,411	165,545	169,796
Certificates of deposit of central banks***	24,015	76,807	92,547
Other debt instruments****	359,650	84,003	46,557
Corporate shares	295	295	1,412
Investment securities available-for-sale	**1,283,902**	**902,240**	**769,712**

**** GEL 712,169 was pledged for short-term loans from the NBG (2015: GEL 229,800, 2014: GEL 341,681).***
***** GEL 55,842 was pledged for short-term loans from the NBG(2015: GEL 3,805, 2014: GEL 60,889).***
****** GEL 9,402 was pledged for short-term loans from the NBG (2015: GEL 2,966, 2014: Nil);***
******* GEL 286,832 was pledged for short-term loans from the NBG (2015:GEL 79,187, 2014:GEL 25,069) .***

Other debt instruments as at 31 December 2016 comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 133,055 (2015: GEL 50,666, 2014: GEL 25,069), GEL denominated bonds issued by the International Finance Corporation of GEL 28,402, (2015: GEL 28,460, 2014: Nil), GEL denominated bonds issued by the Asian Development Bank of GEL 64,921 (2015: Nil, 2014: Nil), and GEL denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,454 (2015: Nil, 2014: Nil).

(Thousands of Georgian Lari)

9. Loans to Customers

	2016	*2015*	*2014*
Commercial loans	2,473,016	2,439,276	2,201,890
Consumer loans	1,367,228	1,165,107	801,474
Micro and SME loans	1,493,937	1,041,929	772,283
Residential mortgage loans	1,234,176	814,344	604,143
Gold – pawn loans	60,685	61,140	53,785
Loans to customers, gross	**6,629,042**	**5,521,796**	**4,433,575**
Less – Allowance for loan impairment	(249,077)	(198,909)	(103,780)
Loans to customers, net	**6,379,965**	**5,322,887**	**4,329,795**

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*
	2016	*2016*	*2016*	*2016*	*2016*
At 1 January	**125,327**	**51,017**	**6,061**	**16,504**	**198,909**
Charge	71,763	64,099	3,899	15,605	155,366
Recoveries	3,525	21,632	4,003	7,084	36,244
Write-offs	(41,624)	(65,597)	(8,597)	(10,317)	(126,135)
Accrued interest on written-off loans	(3,901)	(12,463)	(1,475)	(641)	(18,480)
Currency translation differences	977	97	-	2,099	3,173
At 31 December	**156,067**	**58,785**	**3,891**	**30,334**	**249,077**
Individual impairment	143,312	1,977	2,272	23,704	171,265
Collective impairment	12,755	56,808	1,619	6,630	77,812
	156,067	**58,785**	**3,891**	**30,334**	**249,077**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**462,607**	**2,778**	**11,869**	**51,118**	**528,372**

	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**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment (continued)

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

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2016 comprised GEL 31,433 (2015: GEL 22,234, 2014: GEL 17,021).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

Without taking into account discounted value of collateral, allowance for loan impairment would be GEL 322,880 higher as at 31 December 2016 (2015: GEL 176,759, 2014: GEL 145,838 higher).

Concentration of loans to customers

As at 31 December 2016, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 580,343 accounting for 9% of the gross loan portfolio of the Group (2015: GEL 708,839 and 13% respectively, 2014: GEL 711,647 and 16% respectively). An allowance of GEL 17,203 (2015: GEL 2,484, 2014: GEL 4,034) was established against these loans.

As at 31 December 2016, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 965,964 accounting for 15% of the gross loan portfolio of the Group (2015: GEL 1,128,146 and 20% respectively, 2014: GEL 1,094,084 and 25% respectively). An allowance of GEL 35,049 (2015: GEL 41,410, 2014: GEL 18,324) was established against these loans.

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2016, 31 December 2015 and 31 December 2014 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2016	*2015*	*2014*
Individuals	3,336,523	2,482,334	1,831,479
Trade	807,020	723,776	647,858
Manufacturing	646,228	711,677	719,003
Real estate	423,124	354,325	244,134
Construction	304,890	178,641	114,891
Hospitality	233,891	168,011	166,214
Service	168,455	223,658	164,008
Transport & Communication	166,288	165,330	151,715
Financial intermediation	139,092	88,779	109,201
Mining and quarrying	114,115	127,706	15,310
Electricity, gas and water supply	34,835	77,633	124,772
Other	254,581	219,926	144,990
Loans to customers, gross	**6,629,042**	**5,521,796**	**4,433,575**
Less – allowance for loan impairment	(249,077)	(198,909)	(103,780)
Loans to customers, net	**6,379,965**	**5,322,887**	**4,329,795**

Loans have been extended to the following types of customers:

	2016	*2015*	*2014*
Private companies	3,270,898	2,999,695	2,552,152
Individuals	3,336,523	2,482,334	1,831,479
State-owned entities	21,621	39,767	49,944
Loans to customers, gross	**6,629,042**	**5,521,796**	**4,433,575**
Less – allowance for loan impairment	(249,077)	(198,909)	(103,780)
Loans to customers, net	**6,379,965**	**5,322,887**	**4,329,795**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2016, 31 December 2015 and 31 December 2014:

	2016			*2015*			*2014*		
	Individual impairment	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*
	2016	*2016*	*2016*	*2015*	*2015*	*2015*	*2014*	*2014*	*2014*
At 1 January	**138,935**	**59,974**	**198,909**	**71,381**	**32,399**	**103,780**	**91,799**	**28,986**	**120,785**
Charge for the year	74,051	81,315	155,366	94,883	47,931	142,814	34,088	11,000	45,088
Recoveries	7,880	28,364	36,244	9,994	23,691	33,685	12,897	15,809	28,706
Write-offs	(46,994)	(79,141)	(126,135)	(34,722)	(36,218)	(70,940)	(51,774)	(20,201)	(71,975)
Interest accrued on impaired loans to customers	(5,394)	(13,086)	(18,480)	(3,617)	(8,057)	(11,674)	(14,846)	(3,128)	(17,974)
Currency translation differences	2,787	386	3,173	1,016	228	1,244	(783)	(67)	(850)
At 31 December	**171,265**	**77,812**	**249,077**	**138,935**	**59,974**	**198,909**	**71,381**	**32,399**	**103,780**

(Thousands of Georgian Lari)

10. Finance Lease Receivables

	2016	*2015*	*2014*
Minimum lease payments receivable	17,794	17,757	47,047
Less – Unearned finance lease income	(3,199)	(2,196)	(7,799)
	14,595	**15,561**	**39,248**
Less – Allowance for impairment	(1,499)	(1,551)	(729)
Finance lease receivables, net	**13,096**	**14,010**	**38,519**

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

As at 31 December 2016, the concentration of investment in the five largest lease receivables comprised GEL 5,773 or 40% of total finance lease receivables (2015: GEL 4,499 or 29%, 2014: GEL 10,160 or 26%) and finance income received from it for the year ended 31 December 2016 comprised GEL 866 or 30% of total finance income from lease (2015: GEL 325 or 11%, 2014: GEL 304 or 13%).

Future minimum lease payments to be received after 31 December 2016, 31 December 2015 and 31 December 2014 are as follows:

	2016	*2015*	*2014*
Within 1 year	8,075	11,107	29,901
From 1 to 5 years	9,719	6,650	17,146
Minimum lease payment receivables	**17,794**	**17,757**	**47,047**

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

	Finance lease receivables 2016	*Finance lease receivables 2015*	*Finance lease receivables 2014*
At 1 January	**1,551**	**729**	**643**
Charge	161	1,676	476
Amounts written-off	(293)	(153)	(435)
Reorganization	-	(521)	-
Currency translation differences	80	(180)	45
At 31 December	**1,499**	**1,551**	**729**
Individual impairment	1,263	1,367	243
Collective impairment	236	184	486
	1,499	**1,551**	**729**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,475**	**1,808**	**1,487**

(Thousands of Georgian Lari)

11. Investment Properties

	2016	*2015*	*2014*
At 1 January	**135,453**	**190,860**	**157,707**
Additions*	25,734	49,403	58,449
Disposals	(4,455)	(19,492)	(7,383)
Reorganization	-	(89,960)	-
Business combination	-	705	-
Net (losses) gains from revaluation of investment property	(1,221)	6,388	1,909
Hyperinflation effect	-	-	394
Transfers from (to) property and equipment and other assets**	(3,225)	2,844	(31,025)
Currency translation differences	310	(5,295)	10,809
At 31 December	**152,596**	**135,453**	**190,860**

**** All additions of 2016 comprise foreclosed properties, no cash transactions were involved. GEL 11,587 paid in 2015 for acquisition of properties by the Group's former Real Estate business for development. The remaining additions of 2015 and full additions of 2014 comprise foreclosed properties, no cash transactions were involved.***

***** Comprised of GEL 351 transfer to property and equipment (2015: transfers from property and equipment GEL 1,637 and 2014: transfers to property and equipment GEL 6,389 respectively), GEL 1,336 transfer to other assets - inventories (2015 transfers from other assets GEL 1,608 and 2014: transfer to other assets – inventories GEL 25,132) and GEL 1,538 transfer to finance lease receivables (2015: transfer from finance lease receivable GEL 401 and 2014: transfer to finance lease receivable GEL 496).***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Refer to Note 27 for details on fair value measurements of investment properties.

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

12. Property and Equipment

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

	Land, office buildings & service centres	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2015	**204,782**	**161,806**	**55,124**	**6,398**	**13,758**	**3,804**	**445,672**
Additions	-	17,156	9,326	2,164	87	6,242	34,975
Disposals	-	(126)	(53)	(2,319)	(2,800)	-	(5,298)
Transfers	2,174	25	25	-	3,684	(5,908)	-
Transfers from investment properties	351	-	-	-	-	-	351
Transfers from (to) other assets	-	(760)	(857)	1	-	504	(1,112)
Revaluation	(2,474)	-	-	-	-	-	(2,474)
Currency translation differences	1,312	43	205	26	17	143	1,746
31 December 2016	**206,145**	**178,144**	**63,770**	**6,270**	**14,746**	**4,785**	**473,860**
Accumulated impairment							
31 December 2015	**780**	**37**	**82**	**7**	**-**	**9**	**915**
Impairment charge	1,403	-	-	-	-	-	1,403
Currency translation differences	326	3	4	-	-	(9)	324
31 December 2016	**2,509**	**40**	**86**	**7**	**-**	**-**	**2,642**
Accumulated depreciation							
31 December 2015	**3,169**	**87,263**	**37,077**	**3,912**	**5,644**	**-**	**137,065**
Depreciation charge	2,638	15,873	7,020	903	2,719	-	29,153
Currency translation differences	435	2	82	20	(13)	-	526
Transfers from (to) other assets	-	(414)	(694)	-	-	-	(1,108)
Revaluation	(369)	-	-	-	-	-	(369)
Disposals	-	(49)	(39)	(1,625)	(2,605)	-	(4,318)
31 December 2016	**5,873**	**102,675**	**43,446**	**3,210**	**5,745**	**-**	**160,949**
Net book value:							
31 December 2015	**200,833**	**74,506**	**17,965**	**2,479**	**8,114**	**3,795**	**307,692**
31 December 2016	**197,763**	**75,429**	**20,238**	**3,053**	**9,001**	**4,785**	**310,269**

(Thousands of Georgian Lari)

12. Property and Equipment (continued)

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

	Land, office buildings & service centres	*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	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)

12. Property and Equipment (continued)

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

	Land, office buildings & service centres	*Hospitals & Clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Additions	1,417	26,478	8,492	21,020	2,665	3,258	7,256	70,586
Business combination	2	51,839	**588**	6,076	**306**	-	141	58,952
Disposals	(45)	(38)	(623)	(1,084)	(1,089)	(2,675)	(93)	(5,647)
Transfers	5,040	268	(1,856)	3,005	(1,150)	1,139	(6,446)	**-**
Transfers from investment properties	6,389	-	-	-	-	**-**	-	6,389
Transfers from (to) other assets	478	-	(216)	(511)	-	**-**	(61)	(310)
Effect of hyperinflation	3,225	-	228	438	52	67	58	4,068
Currency translation differences	4,230	-	3,748	303	54	191	(198)	8,328
31 December 2014	**230,375**	**207,038**	**140,130**	**130,810**	**7,566**	**12,751**	**9,599**	**738,269**
Accumulated impairment								
31 December 2013	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Effect of hyperinflation	187	-	7	19	3	**-**	-	216
Currency translation differences	(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**

Land, office buildings and service centres of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2015 and was carried out by professional valuators. Refer to Note 27 for details on fair value measurements of the Group's premises.

If the land, 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 2016, 31 December 2015 and 31 December 2014 would have been as follows:

	2016	*2015*	*2014*
Cost	153,858	150,020	166,839
Accumulated depreciation and impairment	(21,170)	(18,095)	(16,896)
Net carrying amount	**132,688**	**131,925**	**149,943**

(Thousands of Georgian Lari)

13. Goodwill

Movements in goodwill during the years ended 31 December 2016, 31 December 2015 and 31 December 2014, were as follows:

	2016	*2015*	*2014*
Cost			
1 January	**57,209**	**78,083**	**77,170**
Business combinations	-	11,922	913
Reorganization	-	(32,796)	-
At 31 December	**57,209**	**57,209**	**78,083**
Accumulated impairment			
1 January	**23,756**	**28,450**	**28,450**
Reorganization	-	(4,694)	-
At 31 December	**23,756**	**23,756**	**28,450**
Net book value:			
1 January	**33,453**	**49,633**	**48,720**
At 31 December	**33,453**	**33,453**	**49,633**

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:

	2016	*2015*	*2014*
Retail banking	23,488	23,488	12,433
Corporate banking	9,965	9,965	9,965
P&C Insurance	-	-	16,139
Healthcare	-	-	4,195
Health Insurance	-	-	3,462
Liberty Consumer	-	-	3,439
Total	**33,453**	**33,453**	**49,633**

(Thousands of Georgian Lari)

13. 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 a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGUs.

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

	Corporate Banking			*Retail Banking*		
	2016, %	***2015, %***	***2014, %***	***2016, %***	***2015, %***	***2014, %***
Discount rate	5.3%	5.8%	6.2%	6.9%	6.7%	6.5%

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 2016. Possible change was taken as +/-1% in discount rate and growth rate.

14. Taxation

The corporate income tax benefit (expense) comprises:

	2016	***2015***	***2014***
Current income expense	(18,159)	(34,949)	(24,493)
Deferred income tax credit (expense)	45,477	(9,037)	(11,333)
Income tax credit (expense)	**27,318**	**(43,986)**	**(35,826)**
Income tax credit (expense) attributable to continuing operations	27,318	(42,722)	(30,272)
Income tax expense attributable to a discontinued operation	-	(1,264)	(5,554)
Deferred income tax (expense) credit from continuing operations in other comprehensive (loss) income	(134)	2,998	(109)
Deferred income tax expense from discontinued operations in other comprehensive income	-	-	(14)
Deferred income tax (expense) credit in other comprehensive income (loss)	**(134)**	**2,998**	**(123)**

(Thousands of Georgian Lari)

14. Taxation (continued)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2016, 2015 and 2014 was as follows:

	2016	*2015*	*2014*
Currency translation differences	(4,938)	2,598	(123)
Net losses on investment securities available-for-sale	(23)	-	-
Revaluation of buildings	4,827	400	-
Income tax (expense) credit in other comprehensive income	**(134)**	**2,998**	**(123)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 25% (2015: from 15% to 25%, 2014: from 15% to 27%).

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

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2016, 31 December 2015 and 31 December 2014 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2016	*2015*	*2014*
Profit before income tax expense from continuing operations	261,776	295,166	252,100
Net gain before income tax benefit from discontinued operations	-	9,543	29,710
Profit before income tax benefit (expense)	**261,776**	**304,709**	**281,810**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(39,266)**	**(45,706)**	**(42,272)**
Tax at the domestic rates applicable to profits in each country	213	(237)	186
Non-taxable income	12,767	3,735	-
Change in unrecognised deferred tax assets	-	-	6,100
Correction of prior year declarations	2,726	649	(298)
Effect of changes in tax rate	52,495	-	(502)
Non-deductible expenses	(1,605)	(2,129)	-
Other	(12)	(298)	960
Income tax benefit (expense)	**27,318**	**(43,986)**	**(35,826)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or 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)

14. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2016, 31 December 2015 and 31 December 2014 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				Origination and reversal of temporary differences					Origination and reversal of temporary differences		
	2013	In the income statement	Business combination	In other comprehensive income	2014	In the income statement	Business combination	Reorganization	In other comprehensive income	2015	In the income statement	In other comprehensive income	2016
Tax effect of deductible temporary differences:													
Amounts due to credit institutions and other borrowings	1,180	(175)	-	-	1,005	(512)	-	(11)	-	482	(482)	-	-
Investment securities: available-for-sale	1,196	(1)	-	-	1,195	(1,194)	-	(1)	-	-	-	-	-
Investment properties	2,479	-	-	(1,499)	980	-	-	(980)	-	-	431	59	490
Insurance premiums receivables	886	624	-	-	1,510	-	-	(1,510)	-	-	-	-	-
Allowances for impairment and provisions for other losses	455	(257)	-	-	198	4,866	-	(198)	-	4,866	1,602	23	6,491
Tax losses carried forward	8,791	2,650	-	855	12,296	3,493	(1,992)	(3,474)	1,800	12,123	(3,886)	(8,237)	-
Property and equipment	942	(6)	-	-	936	-	-	(936)	-	-	188	632	820
Other assets and liabilities	3,169	751	-	(51)	3,869	(2,129)	-	(694)	(468)	578	923	695	2,196
Deferred tax assets	**19,098**	**3,586**	**-**	**(695)**	**21,989**	**4,524**	**(1,992)**	**(7,804)**	**1,332**	**18,049**	**(1,224)**	**(6,828)**	**9,997**
Tax effect of taxable temporary differences:													
Amounts due to credit institutions and other borrowings	52	(5)	-	(3)	44	(19)	-	(23)	(2)	-	1,230	-	1,230
Amounts due to customers	1,325	-	-	-	1,325	(1,325)	-	-	-	-	-	-	-
Loans to customers	21,839	8,562	-	(165)	30,236	(763)	-	-	(517)	28,956	(11,210)	720	18,466
Other insurance liabilities & pension fund obligations	956	426	-	-	1,382	-	-	(1,382)	-	-	-	-	-
Property and equipment	32,611	4,473	4,929	(330)	41,683	10,498	2,421	(14,414)	(1,034)	39,154	(26,681)	(5,983)	6,490
Investment properties	2	69	-	(7)	64	6,500	-	-	(53)	6,511	(4,966)	(1,545)	-
Intangible assets	5,575	965	-	(8)	6,532	(742)	-	(2,020)	(7)	3,763	(3,846)	102	19
Other assets and liabilities	8,294	429	-	(59)	8,664	(588)	-	(967)	(53)	7,056	(1,228)	12	5,840
Deferred tax liabilities	**70,654**	**14,919**	**4,929**	**(572)**	**89,930**	**13,561**	**2,421**	**(18,806)**	**(1,666)**	**85,440**	**(46,701)**	**(6,694)**	**32,045**
Net deferred tax liabilities	**(51,556)**	**(11,333)**	**(4,929)**	**(123)**	**(67,941)**	**(9,037)**	**(4,413)**	**11,002**	**2,998**	**(67,391)**	**45,477**	**(134)**	**(22,048)**

15. Other Assets and Other Liabilities

Other assets comprise:

	2016	2015	2014
Foreclosed assets *	50,821	49,602	49,090
Receivables from money transfers	8,915	4,619	4,080
Inventory	5,798	5,290	101,807
Operating tax assets	3,856	1,737	10,473
Derivative financial assets	2,610	42,212	45,733
Receivables from documentary operations	1,827	1,676	43
Operating lease receivables	1,774	1,139	474
Settlements on operations	1,101	5,080	2,869
Accounts receivable	902	2,018	60,674
Receivables from sale of assets	482	4,452	214
Trading securities owned	-	1,106	1,034
Insurance premiums receivable	-	-	36,028
Reinsurance assets	-	-	11,289
Assets purchased for finance lease purposes	-	-	6,841
Other	22,459	21,997	30,850
	100,545	**140,928**	**361,499**
Less – Allowance for impairment of other assets	(12,265)	(10,002)	(10,273)
Other assets	**88,280**	**130,926**	**351,226**

**** Foreclosed assets represent movable repossessed assets. As at 31 December 2016 foreclosed assets are mostly represented by assets held for sale.***

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	2016	*2015*	*2014*
Accruals for employee compensation	18,004	14,070	25,685
Derivative financial liabilities	15,689	3,243	7,505
Creditors	6,664	7,387	10,436
Other taxes payable	3,657	1,263	4,258
Dividends payable	1,276	779	2,419
Deferred income and other accruals	455	293	82,824
Accounts payable	12	198	15,658
Amounts payable for share acquisitions	-	9,248	13,694
Insurance contracts liabilities	-	-	46,586
Pension benefit obligations	-	-	11,201
Other insurance liabilities	-	-	7,395
Other	9,346	6,839	6,920
Other liabilities	**55,103**	**43,320**	**234,581**

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.

	2016		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	347,458	2,098	8,012
Forwards and Swaps – foreign	302,679	512	7,043
Interest rate contracts			
Forwards and Swaps – foreign	794,040	-	634
Total derivative assets / liabilities	**1,444,177**	**2,610**	**15,689**

	2015			*2014*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and Swaps – domestic	12,510	183	10	49,648	247	1,242
Forwards and Swaps – foreign	145,055	41,994	510	494,206	45,486	6,263
Options – foreign	56,768	35	2,723	-	-	-
Total derivative assets / liabilities	**214,333**	**42,212**	**3,243**	**543,854**	**45,733**	**7,505**

(Thousands of Georgian Lari)

16. Amounts Due to Customers

The amounts due to customers include the following:

	2016	*2015*	*2014*
Time deposits	2,844,948	2,619,461	1,914,366
Current accounts	2,854,336	2,405,348	1,534,053
Promissory notes issued	74,228	868	25,010
Amounts due to customers	**5,773,512**	**5,025,677**	**3,473,429**
Held as security against letters of credit and guarantees (Note19)	**96,692**	**64,534**	**53,393**

As at 31 December 2016, 31 December 2015 and 31 December 2014, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 16 month (2015: 9 months, 2014: 1 months).

At 31 December 2016, amounts due to customers of GEL 635,303 (11%) were due to the 10 largest customers (2015: GEL 834,215 (17%), 2014: GEL 533,673 (15%).

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

	2016	*2015*	*2014*
Individuals	3,123,534	2,611,447	1,868,762
Private enterprises	2,512,506	2,223,850	1,419,659
State and state-owned entities	137,472	190,380	185,008
Amounts due to customers	**5,773,512**	**5,025,677**	**3,473,429**

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

	2016	*2015*	*2014*
Individuals	3,123,534	2,611,447	1,868,762
Financial intermediation	522,046	410,323	110,759
Trade	435,836	375,890	277,792
Service	381,837	328,821	410,208
Construction	291,440	243,554	220,234
Transport & Communication	213,301	317,161	173,591
Manufacturing	208,519	237,899	107,813
Government services	102,530	141,007	128,046
Real estate	127,163	73,042	53,742
Electricity, gas and water supply	113,572	74,125	21,275
Health and social work	46,106	107,643	14,519
Hospitality	22,248	18,818	33,503
Other	185,380	85,947	53,185
Amounts due to customers	**5,773,512**	**5,025,677**	**3,473,429**

(Thousands of Georgian Lari)

17. Amounts Owed to Credit Institutions and Other Borrowings

Amounts due to credit institutions comprise:

	2016	*2015*	*2014*
Borrowings from international credit institutions	1,072,033	604,862	574,240
Short-term loans from the National Bank of Georgia	1,085,000	307,200	400,772
Time deposits and inter-bank loans	150,582	277,818	261,550
Correspondent accounts	329,609	92,617	32,606
Other borrowings*	394,224	-	-
Subtotal	**3,031,448**	**1,282,497**	**1,269,168**
Non-convertible subordinated debt	436,905	395,090	140,045
Amounts due to credit institutions and other borrowings	**3,468,353**	**1,677,587**	**1,409,213**

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

During the year ended 31 December 2016, the Group paid up to 5.79% on USD borrowings from international credit institutions (2015: up to 5.29%, 2014: up to 6.77%). During the year ended 31 December 2016 the Group paid up to 8.44% on USD subordinated debt (2015: up to 7.95% and 2014: up to 10.40%).

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 2016, 31 December 2015 and 31 December 2014 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

18. Debt Securities Issued

Debt securities issued comprise:

	2016	*2015*	*2014*
Certificates of deposit	177,271	32,762	31,033
Eurobonds	-	908,183	779,445
Georgian local bonds	-	-	46,217
Debt securities issued	**177,271**	**940,945**	**856,695**

In July 2016 the Bank fully redeemed the existing 7.75% Eurobonds due 2017. The Group has incurred a loss of GEL 43,919 (note 24) from early redemption of Eurobonds.

In 2016, the JSC Belarusky Narodny Bank completed the issuance of USD 3.8 million (GEL 14.2 million) and EUR 5.1million (GEL 10.1 million) certificates of deposit. The certificates were issued at par with an average annual coupon rate of 5.94%.

(Thousands of Georgian Lari)

19. 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 2016, 31 December 2015 and 31 December 2014 the Group's financial commitments and contingencies comprised the following:

	2016	*2015*	*2014*
Credit-related commitments			
Guarantees issued	456,996	494,180	465,527
Undrawn loan facilities	231,704	273,851	144,634
Letters of credit	58,561	43,126	95,669
	747,261	**811,157**	**705,830**
Operating lease commitments			
Not later than 1 year	19,200	13,608	12,382
Later than 1 year but not later than 5 years	45,405	28,579	21,943
Later than 5 years	18,713	5,526	3,178
	83,318	**47,713**	**37,503**
Capital expenditure commitments	**2,394**	**2,424**	**10,035**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(96,692)	(64,534)	(53,393)
Less – Provisions	(3,380)	(2,254)	(4,732)
Financial commitments and contingencies, net	**732,901**	**794,506**	**695,243**

As at 31 December 2016 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 460 and software and other intangible assets of GEL 1,934. 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.

20. Equity

Share capital

As at 31 December 2016, authorized common capital comprised 43,308,125, issued share capital comprised 27,821,150 common shares, of which 27,821,150 were fully paid (31 December 2015: 27,821,150 issued share capital, 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). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2016 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**
31 December 2016	**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)

20. Equity (continued)

Treasury shares

The number of treasury shares held by the Group as at 31 December 2016 comprised 8,995 (31 December 2015: 2,543, 31 December 2014: 1,522,254).

Nominal amount of treasury shares of GEL 9 as at 31 December 2016 comprise the Group's shares owned by the Group (31 December 2015: GEL 3, 31 December 2014: GEL 1,522).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

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

On 12 February 2016, the annual general meeting of shareholders' of JSC Bank of Georgia declared a final dividend for 2015 of Georgian Lari 3.48 per share. Payment of the total GEL 100,597 dividends was received by shareholders on 15 March 2016.

On 20 July 2015, the annual general meeting of shareholders' of JSC Bank of Georgia declared a final dividend for 2014 of Georgian Lari 1.78 per share. Payment of the total GEL 64,988 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 a final dividend for 2013 of Georgian Lari 2.0per share. Payment of the total GEL 74,638 dividends was received by shareholders on 6 May 2014.

Nature and purpose of Other Reserves

Revaluation reserve for property and equipment
The revaluation reserve for property and equipment is used to record increases in the fair value of land, 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 2016, 31 December 2015 and 31 December 2014 are presented in the statements of other comprehensive income.

(Thousands of Georgian Lari)

20. Equity (continued)

Earnings per share

Basic and diluted earnings per share	*2016*	*2015*	*2014*
Profit for the year attributable to ordinary shareholders of the Group	287,945	257,628	238,644
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	287,945	249,997	219,384
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	-	7,631	19,260
Weighted average number of ordinary shares outstanding during the year	27,817,934	32,226,222	34,564,182
Earnings per share	10.3511	7.9944	6.9044
Earnings per share from continuing operations	10.3511	7.7576	6.3472
Earnings per share from discontinued operations	-	0.2368	0.5572

Following the Reorganization, the number of ordinary shares of the Bank was reduced by 8,691,403 – the number of 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 2014.

Basic and diluted earnings per share	*2016*	*2015*	*2014*
Profit for the year attributable to ordinary shareholders of the Group	287,945	257,628	238,644
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	287,945	249,997	219,384
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	-	7,631	19,260
Weighted average number of ordinary shares outstanding during the year	27,817,934	27,178,064	25,872,779
Earnings per share	10.3511	9.4793	9.2237
Earnings per share from continuing operations	10.3511	9.1985	8.4793
Earnings per share from discontinued operations *	-	0.2808	0.7444

**** 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.***

21. Net Fee and Commission Income

	2016	*2015*	*2014*
Settlements operations	127,633	110,590	85,166
Guarantees and letters of credit	19,517	27,360	22,675
Cash operations	14,682	14,137	10,274
Currency conversion operations	585	1,549	3,204
Brokerage service fees	-	-	3,337
Other	5,969	3,893	4,387
Fee and commission income	**168,386**	**157,529**	**129,043**
Settlements operations	(47,743)	(42,496)	(32,511)
Cash operations	(5,954)	(4,913)	(3,917)
Guarantees and letters of credit	(2,865)	(3,803)	(3,940)
Insurance brokerage service fees	(227)	(81)	(130)
Currency conversion operations	(20)	(59)	(108)
Other	(1,687)	(1,083)	(2,279)
Fee and commission expense	**(58,496)**	**(52,435)**	**(42,885)**
Net fee and commission income	**109,890**	**105,094**	**86,158**

(Thousands of Georgian Lari)

22. Net Real Estate Revenue

	2016	*2015*	*2014*
Income from operating lease	6,045	5,614	4,257
Gain from sale of real estate properties	2,929	6,553	1,748
Real estate revenue	**8,974**	**12,167**	**6,005**
Loss on real estate property sale	(343)	(336)	(405)
Net real estate revenue	**8,631**	**11,831**	**5,600**

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

	2016	*2015*	*2014*
Salaries and bonuses	(150,710)	(136,187)	(114,078)
Social security costs	(3,050)	(2,954)	(2,918)
Salaries and other employee benefits	**(153,760)**	**(139,141)**	**(116,996)**

Salaries and bonuses include GEL 39,696, GEL 31,025 and GEL 27,193 of the Equity Compensation Plan costs for the years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 25 and 29).

	2016	*2015*	*2014*
Occupancy and rent	(19,458)	(16,308)	(9,270)
Marketing and advertising	(12,652)	(7,193)	(5,916)
Repairs and maintenance	(10,051)	(9,248)	(7,474)
Legal and other professional services	(6,508)	(7,211)	(5,466)
Operating taxes	(5,688)	(4,540)	(3,436)
Corporate hospitality and entertainment	(4,873)	(3,578)	(3,169)
Office supplies	(4,355)	(4,197)	(3,381)
Communication	(4,323)	(4,907)	(3,708)
Insurance	(1,904)	(1,756)	(1,535)
Personnel training and recruitment	(1,619)	(1,537)	(1,391)
Security	(1,540)	(1,688)	(2,329)
Travel expenses	(1,029)	(1,407)	(1,058)
Penalties	(17)	(67)	(22)
Banking services	(1)	(2)	(2)
Other	(1,516)	(3,600)	(3,523)
General and administrative expenses	**(75,534)**	**(67,239)**	**(51,680)**

(Thousands of Georgian Lari)

24. Net Non-recurring Expenses

	2016	*2015*	*2014*
Gain from the sale of Class C and Class B shares of Visa Inc. and MasterCard, respectively	16,426	-	-
Gain on reclassification of AFS investment to investment in associate	9,626	-	-
Reversal of impairment on property and equipment	-	1,524	-
Other non-recurring income/gain	516	508	-
Total non-recurring income/gain	**26,568**	**2,032**	**-**
Loss from full redemption of debt securities issued	(43,919)	-	-
Management termination benefits / sign-up compensation expenses	(12,643)	(1,167)	-
Loss from early repayments of borrowings	(6,979)	(4,033)	(2,503)
Consulting costs	(5,258)	-	-
Impairment of prepayments	(2,205)	(2,205)	-
Impairment of property and equipment, and intangible assets	(1,403)	-	-
JSC PrivatBank integration costs	-	(3,731)	-
Impairment of finance lease receivables	-	(735)	-
Impairment of investment securities available-for-sale	-	-	(3,837)
Loss from Belarus Hyperinflation	-	-	(3,073)
Charity expenses	-	-	(210)
Other	(3,330)	(820)	(1,809)
Total non-recurring expense/loss	**(75,737)**	**(12,691)**	**(11,432)**
Net non-recurring expense/loss	**(49,169)**	**(10,659)**	**(11,432)**

25. Share-based Payments

Executives' Equity Compensation Plan

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

In 2016, the Group contributed GEL 119,471 (2015:9,450, 2014:5,142) as intra-group recharge under share-based compensation schemes described below.

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

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 PLC to the Group's 27 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 27 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was Georgian Lari 67.90 per share.

(Thousands of Georgian Lari)

25. Share-based Payments (continued)

Executives' Equity Compensation Plan (Continued)

At the end of 2015 and during 2016, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 225,000 ordinary shares of BGEO PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 30 December 2015 and 6 September 2016 as the grant date for the awards. The Group estimates that the fair value of the shares on 30 December 2015 and 6 September 2016 were Georgian Lari 68.30 and 90.22, respectively.

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.

The Bank grants share compensation to its non-executive employees too. In February 2016, March 2015 and February 2014, the Supervisory Board of the Bank resolved to award 91,851, 111,298 and 42,745 ordinary shares to its non-executive employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 12 February 2016, 19 March 2015 and 24 February 2014 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 12 February 2016, 19 March 2015 and 24 February 2014 were Georgian Lari 57.83, 57.41 and 67.90 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 66.60 per share in year ended 31 December 2016 (31 December 2015: Georgian Lari 58.68 per share, 31 December 2014: Georgian Lari 67.90).

The Group's total share-based payment expenses for the year ended 31 December 2016 comprised GEL 39,696 (31 December 2015: GEL 31,025, 31 December 2014: GEL 27,193) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2016	***2015***	***2014***
Total number of equity instruments awarded*	657,951	1,336,013	267,020
– Among them, to top management and board of directors	*513,500*	*1,076,000*	*135,500*
Weighted average value at grant date, per share (GEL in full amount)	66.60	58.68	67.90
Value at grant date, total (GEL)	**43,821**	**78,395**	**18,132**
Total expense recognised during the year (GEL)	**(39,696)**	**(31,025)**	**(27,193)**

**** 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.***

(Thousands of Georgian Lari)

26. 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 the 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)

26. 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 fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

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

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to carrying value of respective instruments.

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

The 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 2016	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	7	940,485	-	-	-	940,485
Debt investment securities available-for-sale	8	1,283,607	-	-	-	1,283,607
Loans to customers:	9					
Commercial loans		1,693,220	286,282	17,814	475,700	2,473,016
Consumer loans		1,243,553	21,520	23,740	78,415	1,367,228
Micro and SME loans		1,225,610	113,565	37,761	117,001	1,493,937
Residential mortgage loans		1,134,266	49,285	15,052	35,573	1,234,176
Gold – pawn loans		56,977	-	-	3,708	60,685
		5,353,626	**470,652**	**94,367**	**710,397**	**6,629,042**
Finance lease receivables	10	1,426	7,525	2,337	3,307	14,595
Total		**7,579,144**	**478,177**	**96,704**	**713,704**	**8,867,729**

		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	7	718,677	-	-	-	718,677
Debt investment securities available-for-sale	8	901,945	-	-	-	901,945
Loans to customers:	9					
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	10	4,283	8,375	855	2,048	15,561
Total		**6,207,212**	**329,889**	**119,633**	**501,245**	**7,157,979**

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

31 December 2014	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	7	418,502	-	-	-	418,502
Debt investment securities available-for-sale	8	768,300	-	-	-	768,300
Loans to customers:	9					
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	10	19,437	4,684	2,150	12,977	39,248
Total		**4,890,228**	**265,070**	**172,573**	**331,754**	**5,659,625**

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 2016	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	34,353	10,940	9,349	20,995	75,637
Micro and SME loans	20,035	9,494	6,479	29,874	65,882
Residential mortgage loans	10,074	4,472	1,840	7,319	23,705
Commercial loans	10,235	4,558	387	1,621	16,801
Finance lease receivables	832	-	-	-	832
Total	**75,529**	**29,464**	**18,055**	**59,809**	**182,857**

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

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**

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**

See Notes 9 and 10 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 293,054, GEL 166,224 and GEL 118,131 as at 31 December 2016, 31 December 2015 and 31 December 2014, 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.

	2016	*2015*	*2014*
Loans to customers:			
Commercial loans	235,026	141,294	115,155
Micro and SME loans	37,003	20,890	8,734
Residential mortgage loans	38,757	28,594	3,446
Consumer loans	29,828	18,243	617
Finance lease receivables	836	-	4,957
Total	**341,450**	**209,021**	**132,909**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by certain number of days as prescribed per the Group methodology, or history of the debt service is deteriorated by 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)

26. 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:

	2016			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	608,415	812,798	65,957	1,487,170
Amounts due from credit institutions	933,638	3,287	3,560	940,485
Investment securities available-for-sale	912,345	286,832	84,725	1,283,902
Loans to customers	6,030,838	-	349,127	6,379,965
Finance lease receivables	123	-	12,973	13,096
All other assets	628,486	4,950	27,753	661,189
	9,113,845	**1,107,867**	**544,095**	**10,765,807**
Liabilities:				
Amounts due to customers	4,270,165	557,909	945,438	5,773,512
Amounts due to credit institutions and other borrowings	1,774,115	1,583,393	110,845	3,468,353
Debt securities issued	-	153,145	24,126	177,271
All other liabilities	68,432	7,091	5,202	80,725
	6,112,712	**2,301,538**	**1,085,611**	**9,499,861**
Net balance sheet position	**3,001,133**	**(1,193,671)**	**(541,516)**	**1,265,946**

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

	2015				2014			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	568,759	661,543	146,480	1,376,782	475,747	136,387	97,727	709,861
Amounts due from credit institutions	619,671	95,100	3,906	718,677	394,196	1,686	22,620	418,502
Investment securities available-for-sale	823,193	79,047	-	902,240	726,880	25,069	17,763	769,712
Loans to customers	5,005,171	9,340	308,376	5,322,887	4,068,261	7,609	253,925	4,329,795
Finance lease receivables	2,273	-	11,737	14,010	26,491	-	12,028	38,519
All other assets	635,131	4,630	29,188	668,949	1,204,659	10,069	56,184	1,270,912
	7,654,198	**849,660**	**499,687**	**9,003,545**	**6,896,234**	**180,820**	**460,247**	**7,537,301**
Liabilities:								
Amounts due to customers	3,628,734	592,673	804,270	5,025,677	2,163,558	650,584	659,287	3,473,429
Amounts due to credit institutions and other borrowings	424,705	1,035,802	217,080	1,677,587	582,905	770,838	55,470	1,409,213
Debt securities issued	-	940,945	-	940,945	46,216	810,479	-	856,695
All other liabilities	129,834	185	4,710	134,729	321,641	3,373	11,863	336,877
	4,183,273	**2,569,605**	**1,026,060**	**7,778,938**	**3,114,320**	**2,235,274**	**726,620**	**6,076,214**
Net balance sheet position	**3,470,925**	**(1,719,945)**	**(526,373)**	**1,224,607**	**3,781,914**	**(2,054,454)**	**(266,373)**	**1,461,087**

Liquidity risk and funding management

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

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

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December 2016, 31 December 2015 and 31 December 2014 these ratios were as follows:

	2016, %	2015, %	2014, %
Average liquidity ratio	43.6%	38.1%	39.3%
Maximum liquidity ratio	62.5%	48.0%	46.8%
Minimum liquidity ratio	34.1%	28.9%	31.7%

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

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

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

(Thousands of Georgian Lari)

26. 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 2016	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	2,231,133	3,119,928	504,757	49,205	5,905,023
Amounts due to credit institutions and other borrowings	1,670,504	530,156	1,116,111	755,118	4,071,889
Debt securities issued	31,520	20,905	139,825	-	192,250
Derivative financial liabilities	8,466	6,589	634	-	15,689
Total undiscounted financial liabilities	**3,941,623**	**3,677,578**	**1,761,327**	**804,323**	**10,184,851**

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 and other borrowings	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 and other borrowings	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**

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 2016	343,628	218,438	228,957	41,950	832,973
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

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

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

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 16).

(Thousands of Georgian Lari)

26. Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The 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 2016. 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 2016, year ended 31 December 2015 and year ended 31 December 2014, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	2.06%	261	(1,758)
EUR	-0.01%	1	-
USD	0.03%	69	-

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	2.06%	(261)	1,758
EUR	-0.01%	(1)	-
USD	0.03%	(69)	-

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

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

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

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

(Thousands of Georgian Lari)

26. Risk Management (continued)

Market risk (continued)

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2016 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months ended 31 December 2016. 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 2016, year ended 31 December 2015 and year ended 31 December 2014, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*change in currency rate in %*	*Effect on profit before tax*	*change in currency rate in %*	*Effect on profit before tax*	*change in currency rate in %*	*Effect on profit before tax*
	To 2016		*To 2015*		*To 2014*	
EUR	11.6%	(3,336)	2.9%	1	14.3%	11
USD	9.3%	3,507	1.1%	(1,329)	23.4%	(4,745)

Prepayment risk

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

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

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 is as follows:

	Effect on net interest income
2016	(27,487)
2015	(19,341)
2014	(16,744)

Operational risk

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

(Thousands of Georgian Lari)

26. 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.

27. 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 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	152,596	152,596
Land	-	-	*31,610*	*31,610*
Residential properties	-	-	*41,389*	*41,389*
Non-residential properties	-	-	*79,597*	*79,597*
Investment securities available-for-sale	-	1,283,607	295	1,283,902
Other assets – derivative financial assets	-	2,610	-	2,610
Other assets – trading securities owned	-	-	-	-
Total revalued property	-	-	197,763	197,763
Office buildings	-	-	*110,727*	*110,727*
Service centers	-	-	*87,036*	*87,036*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,487,170	-	1,487,170
Amounts due from credit institutions	-	940,485	-	940,485
Loans to customers	-	-	6,457,145	6,457,145
Finance lease receivables	-	-	13,096	13,096
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	15,689	-	15,689
Liabilities for which fair values are disclosed				
Amounts due to customers	-	5,779,581	-	5,779,581
Amounts due to credit institutions and other borrowings	-	2,983,236	485,117	3,468,353
Debt securities issued	-	-	177,271	177,271

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*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 and other borrowings	-	-	1,677,587	1,677,587
Debt securities issued	-	938,894	32,762	971,656

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 and other borrowings	-	-	1,409,213	1,409,213
Debt securities issued	-	-	856,695	856,695

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

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Derivative financial instruments

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

Trading securities and investment securities

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

Movements in level 3 financial instruments measured at fair value

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

	31 December 2013	*Sale of AFS securities*	*Transfers from level 2*	*At 31 December 2014*	*Transfers from level 2*	*Reorganization*	*At 31 December 2015*	*Transfers from level 2*	*At 31 December 2016*
Level 3 financial assets									
Equity investment securities available-for-sale	5,222	(3,837)	27	1,412	28	(1,145)	295	-	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 11 and 12 respectively.

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

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

	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2016		*2015*		*2014*	
Level 3 financial assets						
Equity investment securities available-for-sale	295	+/- 44	295	+/- 44	1,412	+/- 212

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

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

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

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

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

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**152,596**						
Land	31,610	Market approach	Price per square metre	51 - 1,332 (457)	Square metres, land	8,165 - 230,398 (116,236)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	41,389	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	79,597						
	14,013	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
	56,552	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
	9,032	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	**197,763**						
Office buildings	110,727	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	87,036						
	20,311	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
	59,149	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
	7,576	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)

27. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2016, 31 December 2015 and 31 December 2014:

	31 December 2016		
	Loans and receivables	*Available-for sale*	*Fair value through profit or loss*
Financial assets			
Amounts due from credit institutions	940,485	-	-
Loans to customers	6,379,965	-	-
Finance lease receivables	13,096	-	-
Trade and other receivables (in other assets)	13,268	-	-
Equity instruments	-	295	-
Debt instruments	-	1,283,607	-
Foreign currency derivative financial instruments	-	-	2,610
Total:	**7,346,814**	**1,283,902**	**2,610**
Financial liabilities			
Amounts owed to customers	5,773,512	-	-
Amounts due to credit institutions and other borrowings	3,468,353	-	-
Debt securities issued	177,271	-	-
Trade and other payables (in other liabilities)	11,609	-	-
Foreign currency derivative financial instruments	-	-	15,689
Total:	**9,430,745**	**-**	**15,689**

	31 December 2015			*31 December 2014*		
	Loans and receivables	*Available-for sale*	*Fair value through profit or loss*	*Loans and receivables*	*Available-for sale*	*Fair value through profit or loss*
Financial assets						
Amounts due from credit institutions	718,677	-	-	418,502	-	-
Loans to customers	5,322,887	-	-	4,329,795	-	-
Finance lease receivables	14,010	-	-	38,519	-	-
Trade and other receivables (in other assets)	11,886	-	-	62,164	-	-
Equity instruments	-	295	-	-	1,412	41
Debt instruments	-	901,945	1,106	-	768,300	993
Foreign currency derivative financial instruments	-	-	42,212	-	-	45,733
Total:	**6,067,460**	**902,240**	**43,318**	**4,848,980**	**769,712**	**46,767**
Financial liabilities						
Amounts owed to customers	5,025,677	-	-	3,473,429	-	-
Amounts due to credit institutions and other borrowings	1,677,587	-	-	1,409,213	-	-
Debt securities issued	940,945	-	-	856,695	-	-
Trade and other payables (in other liabilities)	18,875	-	-	79,551	-	-
Foreign currency derivative financial instruments	-	-	3,243	-	-	7,505
Total:	**7,663,084**	**-**	**3,243**	**5,818,888**	**-**	**7,505**

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the 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 2016	*Fair value 2016*	*Unrecognised gain (loss) 2016*
Financial assets			
Cash and cash equivalents	1,487,170	1,487,170	-
Amounts due from credit institutions	940,485	940,485	-
Loans to customers	6,379,965	6,457,145	77,180
Finance lease receivables	13,096	13,096	-
Financial liabilities			
Amounts due to customers	5,773,512	5,779,581	(6,069)
Amounts due to credit institutions and other borrowings	3,468,353	3,468,353	-
Debt securities issued	177,271	177,271	-
Total unrecognised change in unrealised fair value			**71,111**

	Carrying value 2015	*Fair value 2015*	*Unrecognised loss 2015*	*Carrying value 2014*	*Fair value 2014*	*Unrecognised loss 2014*
Financial assets						
Cash and cash equivalents	1,376,782	1,376,782	-	709,861	709,861	-
Amounts due from credit institutions	718,677	718,677	-	418,502	418,502	-
Loans to customers	5,322,887	5,285,069	(37,818)	4,329,795	4,429,922	100,127
Finance lease receivables	14,010	14,010	-	38,519	38,519	-
Financial liabilities						
Amounts due to customers	5,025,677	5,051,383	(25,706)	3,473,429	3,500,813	(27,384)
Amounts due to credit institutions and other borrowings	1,677,587	1,677,587	-	1,409,213	1,409,213	-
Debt securities issued	940,945	971,656	(30,711)	856,695	856,695	-
Total unrecognised change in unrealised fair value			**(94,235)**			**72,743**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

(Thousands of Georgian Lari)

28. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2016							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,078,904	408,266	-	-	-	-	-	1,487,170
Amounts due from credit institutions	933,689	-	3,235	2,164	-	-	1,397	940,485
Investment securities available-for-sale	110,363	1,080,185	36,415	11,323	6,269	38,971	376	1,283,902
Loans to customers	-	1,108,622	504,864	1,243,016	1,760,692	818,641	944,130	6,379,965
Finance lease receivables	-	9,259	2,496	781	548	12	-	13,096
Total	**2,122,956**	**2,606,332**	**547,010**	**1,257,284**	**1,767,509**	**857,624**	**945,903**	**10,104,618**
Financial liabilities								
Amounts due to customers	1,337,991	882,170	569,655	2,494,158	409,416	54,063	26,059	5,773,512
Amounts due to credit institutions and other borrowings	329,622	1,321,475	121,642	314,800	525,242	264,423	591,149	3,468,353
Debt securities issued	-	30,324	-	19,109	127,838	-	-	177,271
Total	**1,667,613**	**2,233,969**	**691,297**	**2,828,067**	**1,062,496**	**318,486**	**617,208**	**9,419,136**
Net	**455,343**	**372,363**	**(144,287)**	**(1,570,783)**	**705,013**	**539,138**	**328,695**	**685,482**
Accumulated gap	**455,343**	**827,706**	**683,419**	**(887,364)**	**(182,351)**	**356,787**	**685,482**	

	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 and other borrowings	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 and other borrowings	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**	

(Thousands of Georgian Lari)

28. 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. Obligatory reserves with central banks do not have contractual maturity and are allocated in 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 2016 amounts due to customers amounted to GEL 5,773,512 (2015: GEL 5,025,677, 2014: GEL 3,473,429) and represented 61% (2015: 65%, 2014: 57%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2016 amounts owed to credit institutions and other borrowings amounted to GEL 3,468,353 (2015: GEL 1,677,587, 2014: GEL 1,409,213) and represented 37% (2015: 22%, 2014: 23%) of total liabilities. As at 31 December 2016 debt securities issued amounted to GEL 177,271 (2015: GEL 940,945, 2014: GEL 856,695) and represented 2% (2015: 12%, 2014: 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 2016		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	1,487,170	-	1,487,170
Amounts due from credit institutions	939,088	1,397	940,485
Investment securities available-for-sale	1,238,286	45,616	1,283,902
Loans to customers	2,856,502	3,523,463	6,379,965
Finance lease receivables	12,536	560	13,096
Investments in associates	-	9,626	9,626
Investment properties	-	152,596	152,596
Property and equipment	-	310,269	310,269
Intangible assets	-	35,814	35,814
Goodwill	-	33,453	33,453
Current income tax assets	18,505	-	18,505
Deferred income tax assets	-	194	194
Prepayments	12,395	57	12,452
Other assets	87,158	1,122	88,280
Total assets	**6,651,640**	**4,114,167**	**10,765,807**
Amounts due to customers	5,283,974	489,538	5,773,512
Amounts due to credit institutions and other borrowings	2,087,539	1,380,814	3,468,353
Debt securities issued	49,433	127,838	177,271
Deferred income tax liabilities	-	22,242	22,242
Provisions	3,380	-	3,380
Other liabilities	54,469	634	55,103
Total liabilities	**7,478,795**	**2,021,066**	**9,499,861**
Net	**(827,155)**	**2,093,101**	**1,265,946**

(Thousands of Georgian Lari)

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

	31 December 2015			*31 December 2014*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,376,782	-	1,376,782	709,861	-	709,861
Amounts due from credit institutions	714,771	3,906	718,677	414,041	4,461	418,502
Investment securities available-for-sale	838,383	63,857	902,240	728,562	41,150	769,712
Loans to customers	2,331,982	2,990,905	5,322,887	1,924,699	2,405,096	4,329,795
Finance lease receivables	13,552	458	14,010	29,157	9,362	38,519
Investments in associates	-	-	-	-	-	-
Investment properties	-	135,453	135,453	-	190,860	190,860
Property and equipment	-	307,692	307,692	-	588,513	588,513
Intangible assets	-	30,669	30,669	-	34,432	34,432
Goodwill	-	33,453	33,453	-	49,633	49,633
Current income tax assets	988	-	988	4,215	-	4,215
Deferred income tax assets	-	12,106	12,106	-	18,530	18,530
Prepayments	13,878	3,784	17,662	17,577	15,926	33,503
Other assets	86,203	44,723	130,926	210,715	140,511	351,226
Total assets	**5,376,539**	**3,627,006**	**9,003,545**	**4,038,827**	**3,498,474**	**7,537,301**
Amounts due to customers	4,478,541	547,136	5,025,677	3,062,529	410,900	3,473,429
Amounts due to credit institutions and other borrowings	943,757	733,830	1,677,587	833,384	575,829	1,409,213
Debt securities issued	98,968	841,977	940,945	118,219	738,476	856,695
Current income tax liabilities	9,658	-	9,658	11,093	-	11,093
Deferred income tax liabilities	-	79,497	79,497	-	86,471	86,471
Provisions	1,229	1,025	2,254	3,934	798	4,732
Other liabilities	42,538	782	43,320	124,446	110,135	234,581
Total liabilities	**5,574,691**	**2,204,247**	**7,778,938**	**4,153,605**	**1,922,609**	**6,076,214**
Net	**(198,152)**	**1,422,759**	**1,224,607**	**(114,778)**	**1,575,865**	**1,461,087**

29. Related Party Disclosures

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

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

(Thousands of Georgian Lari)

29. Related Party Disclosures (continued)

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

	2016			2015			2014		
	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	**9,334**	**51,205**	**1,242**	**7,609**	**78,592**	**2,048**	**8,098**	**-**	**1,484**
Loans issued during the year	-	59,086	4,457	-	18,919	5,083	-	85,933	4,853
Loan repayments during the year	-	(72,589)	(4,351)	-	(153,431)	(6,811)	(577)	(16,376)	(4,474)
Reorganization	-	-	-	-	92,143	-	-	-	-
Other movements	(163)	27,070	387	1,725	14,982	922	88	9,035	185
Loans outstanding at 31 December, gross	**9,171**	**64,772**	**1,735**	**9,334**	**51,205**	**1,242**	**7,609**	78,592	**2,048**
Less: allowance for impairment at 31 December	-	(248)	-	-	(131)	(6)	-	(743)	(1)
Loans outstanding at 31 December, net	**9,171**	**64,524**	**1,735**	**9,334**	**51,074**	**1,236**	**7,609**	77,849	**2,047**
Interest income on loans	-	8,230	148	-	8,825	175	-	1,767	86
Loan impairment charge	-	-	-	-	(20)	(2)	-	(743)	-
Deposits at 1 January	**84,368**	**198,593**	**16,349**	**134,705**	**4,975**	**17,500**	**25**	**50**	**11,455**
Deposits received during the year	115,090	65,254	11,328	6,428	101,495	18,284	288,680	132,087	33,646
Deposits repaid during the year	-	(30,828)	(10,934)	(56,765)	(18,278)	(19,098)	(144,028)	(128,859)	(31,225)
Reorganization	-	-	-	-	110,401	-	-	-	-
Other movements	3,184	(25,345)	(1,263)	-	-	(337)	(9,972)	1,697	3,624
Deposits at 31 December	**202,642**	**207,674**	**15,480**	**84,368**	**198,593**	**16,349**	**134,705**	**4,975**	**17,500**
Interest expense on deposits	(3,239)	(1,592)	(614)	(2,246)	(1,263)	(402)	-	(2)	(513)
Other income	-	626	-	-	560	45	-	2	92
Commitments and guarantees issued	-	30,957	-	-	20,374	120	-	-	-
Borrowings at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Borrowings received during the year	586,250	-	-	-	-	-	-	-	-
Borrowings repaid during the year	(230,620)	-	-	-	-	-	-	-	-
Other movements	38,594	-	-	-	-	-	-	-	-
Borrowings at 31 December	**394,224**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest expense on borrowings	(12,229)	-	-	-	-	-	-	-	-
Loss from early repayments of borrowings	(6,979)	-	-	-	-	-	-	-	-

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

Compensation of key management personnel comprised the following:

	2016	2015	2014
Salaries and other benefits	4,905	4,401	3,279
Share-based payments compensation*	40,679	19,435	14,763
Social security costs	51	55	43
Total key management compensation	**45,635**	**23,891**	**18,085**

**** Share-based payments compensation includes termination benefits in the amount of GEL 9,820 for key management personnel reflected in the non-recurring expenses (Note 24).***

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 25). The number of key management personnel at 31 December 2016 was 16 (31 December 2015: 16, 31 December 2014: 16).

30. 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 31 December 2017, during which the Bank will be required to comply with both, the new, and the current, capital regulations of the NBG.

During year ended 31 December 2016, the Bank and the Group complied in full with all its externally imposed capital requirements.

(Thousands of Georgian Lari)

30. Capital Adequacy (continued)

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 10.8% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2016, 31 December 2015 and 31 December 2014, the Bank's capital adequacy ratio on this basis was as follows:

	2016	*2015*	*2014*
Core capital	676,692	728,139	895,318
Supplementary capital	669,940	649,607	398,598
Less: Deductions from capital	(79,059)	(60,311)	(365,487)
Total regulatory capital	**1,267,573**	**1,317,435**	**928,429**
Risk-weighted assets	**9,360,857**	**7,811,398**	**6,719,169**
Total capital adequacy ratio	**13.5%**	**16.9%**	**13.8%**

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

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 2016 the Bank's capital adequacy ratio on this basis was as follows:

	2016	*2015*	*2014*
Tier 1 capital	958,979	971,635	1,128,004
Less: Deductions from capital	(66,366)	(56,851)	(327,539)
Tier 2 capital	519,726	479,176	217,100
Total capital	**1,412,339**	**1,393,960**	**1,017,565**
Risk-weighted assets	**9,790,282**	**8,363,369**	**7,204,080**
Total capital ratio	**14.4%**	**16.7%**	**14.1%**
Tier 1 capital ratio	**9.1%**	**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.

(Thousands of Georgian Lari)

30. Capital Adequacy (continued)

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 2016, 31 December 2015 and 31 December 2014, was as follows:

	2016	*2015*	*2014*
Tier 1 capital	1,240,270	1,232,808	1,431,399
Less: Deductions Goodwill	(33,340)	(33,340)	(49,633)
Tier 2 capital	561,713	471,777	249,419
Less: Deductions from capital	(9)	(1,163)	(1,522)
Total capital	**1,768,634**	**1,670,082**	**1,629,663**
Risk-weighted assets	**7,929,784**	**6,692,485**	**6,252,992**
Total capital ratio	22.3%	25.0%	26.1%
Tier 1 capital ratio	15.2%	17.9%	22.1%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**

31. Event after the Reporting Period

On 11 January 2017, the Government of Georgia approved a "de-dollarization" program. The purpose of the program is to increase the disposable income of individuals, reduce their dependency on foreign exchange rate fluctuations and promote financial stability in Georgia. Under the program rules, all Georgian commercial banks were required to convert eligible US dollar denominated loans into GEL, at a discount that is compensated by the government, until 25 March 2017 at clients' sole discretion, i.e. clients had an option to convert the loans at their own will. Additionally, NBG introduced new regulation, according to which loans that are less than GEL 100 thousands would be issued in local currency effective from 15 January 2017. The conversion program did not affect the Group's 2017 financial results significantly and the Group is currently assessing long-term business impact of the de-dollarization initiative.