JSC Bank of Georgia
Separate Financial Statements

31 December 2018
Together with Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

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

Opinion

We have audited the separate financial statements of JSC Bank of Georgia (the Bank), which comprise the separate statement of financial position as at 31 December 2018, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2018 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

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Key audit matter	How our audit addressed it
Allowance for expected credit loss and application of IFRS 9 'Financial instruments'	
Given the significance of the allowance for expected credit loss on loans to customers to the Bank's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 Financial instruments ("IFRS 9"), we considered this area as a key audit matter. The impairment for loan losses is calculated using a combination of a collective provisioning model and individual loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates. Both collective and individual provisioning depend on a number of assumptions and judgments such as: ► Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL); ► Allocation of loans to stage 1, 2 or 3 using criteria set in accordance with IFRS 9; ► Inputs and assumptions used to estimate the impact of multiple economic scenarios; ► Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and ► Measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral ► Accuracy and adequacy of financial statement disclosures. As a consequence of the judgment involved in establishing the allowance, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses. Information on the impairment of loans to customers is included in Note 9, *Loans to Customers* and Note 27, *Risk Management*, to the separate financial statements.	We obtained an understanding of the expected credit loss process and assessed the design and operating effectiveness of key controls, which included controls over the identification of loans to be subject to the individual allowance assessment, classification of borrowers into their respective risk grades and impairment stages, credit monitoring, data accuracy and completeness. For testing automated controls, we involved our IT specialists. We focused on analysis of the following areas during our audit: • evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis; • assessing management's judgement in relation to the identification of significant increases in credit risk on an individual and collective basis based on quantitative and qualitative criteria; • testing allocation of loans to respective impairment stages based on predefined criteria; • testing estimated future cash flows, including collateral-sourced cash flows, in relation to significant credit-impaired loans and advances to customers. Our audit procedures included evaluation of expected credit loss methodology developed by the Bank to calculate the allowance for loans and advances to customers. We assessed the reasonableness of the credit risk factors and thresholds selected by the management to determine whether significant increase in credit risk has occurred on individual and collective basis. We evaluated consistency of application of the criteria selected by the management as of the reporting date. To test allowance calculated on a collective basis, with the support of our internal modelling specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. We also analysed the sensitivity of allowances to changes in key model inputs. For a sample of significant credit-impaired corporate exposures, we challenged assumptions on estimated future cash flows, including value of collateral and probabilities of expected outcomes. We assessed the adequacy and appropriateness of disclosures on the impairment of loans to customers.

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Key audit matter	How our audit addressed it
Valuation of investment properties	
The Bank applies the fair value model for investment properties. The Bank engaged a professional valuer to determine the fair value of its investment properties. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Bank's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid, which increases the judgement involved in determining these valuations. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of investment properties is included to Note 3, Summary *of Significant Accounting Policies*, Note 10, *Investment Properties*, and Note 28, *Fair Value Measurements*, to the separate financial statements.	We engaged our Real Estate specialists to evaluate a sample of the Bank's individually significant real estate valuations. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Bank, analysis of the methods and assumptions used and testing of the data provided by the valuers. In respect of properties, which were not subject to individual valuation by the external valuer, we assessed management's assumptions about changes in the prices of such properties for the reporting period. We corroborated these by reading the market overview reports prepared by external valuers, and by reference to our understanding of the Bank's real estate portfolio and observable market information. We assessed recognition of the results of the valuations and the Bank's disclosures in relation to the valuation of investment properties.

Other information included in the Bank's 2018 Annual report

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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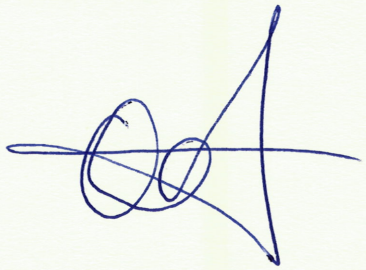
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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



Oleg Youshenkov

On behalf of EY LLC

Tbilisi, Georgia

13 August 2019

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

Oleg Youshenkov

On behalf of EY LLC

Tbilisi, Georgia

13 August 2019

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017
Assets			
Cash and cash equivalents	6	1,109,388	1,401,881
Amounts due from credit institutions	7	1,282,764	1,205,844
Investment securities	8	1,864,818	1,540,344
Loans to customers	9	8,716,788	7,063,894
Finance lease receivables		6,156	6,603
Investment properties	10	132,327	185,493
Prepayments		42,885	48,635
Property and equipment	11	294,647	287,886
Intangible assets		72,802	48,190
Investments in subsidiaries	12	158,981	159,888
Investments in associates		12,371	11,031
Goodwill	13	33,453	33,453
Current income tax assets		19,159	-
Other assets	15	108,728	100,533
Assets held for sale		42,408	-
Total assets		**13,897,675**	**12,093,675**
Liabilities			
Amounts due to customers	16	7,811,761	6,815,768
Amounts due to credit institutions and other borrowings	17	2,559,277	2,969,635
Debt securities issued	18	1,635,929	694,993
Current income tax liabilities		-	8,386
Deferred income tax liabilities	14	23,459	7,602
Provisions	19	3,745	2,816
Other liabilities	15	96,014	57,923
Total liabilities		**12,130,185**	**10,557,123**
Equity	20		
Share capital		27,994	27,821
Additional paid-in capital		173,278	140,358
Treasury shares		(9)	(9)
Other reserves		33,341	29,216
Retained earnings		1,532,886	1,339,166
Total equity		**1,767,490**	**1,536,552**
Total liabilities and equity		**13,897,675**	**12,093,675**

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

Archil Gachechiladze — Chief Executive Officer

Sulkhan Gvalia — Chief Financial Officer

13 August 2019

The accompanying notes on pages 6 to 77 are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Thousands of Georgian Lari)

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Archil Gachechiladze — Chief Executive Officer

Sulkhan Gvalia — Chief Financial Officer

13 August 2019

The accompanying notes on pages 6 to 77 are an integral part of these financial statements.

SEPARATE INCOME STATEMENT

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017
Interest income			
Loans to customers		1,086,205	919,957
Investment securities		133,129	106,017
Amounts due from credit institutions		28,274	16,355
Finance lease receivables		2,194	952
		1,249,802	1,043,281
Interest expense			
Amounts due to customers		(245,407)	(209,151)
Amounts due to credit institutions and other borrowings		(190,896)	(181,988)
Debt securities issued		(110,990)	(41,069)
		(547,293)	(432,208)
Deposit insurance fees		(4,847)	-
Net interest income		697,662	611,073
Fee and commission income		210,693	183,131
Fee and commission expense		(89,078)	(71,268)
Net fee and commission income	21	121,615	111,863
Net real estate gain	22	4,690	5,989
Net loss on derecognition of financial assets measured at fair value through other comprehensive income		(1,743)	n/a
Net gain from investment securities available-for-sale		n/a	2,121
Net loss on financial assets at fair value through profit or loss		(878)	n/a
Net gain from other derivative financial instruments		n/a	1,479
Net gain from revaluation of investment properties	10	-	6,200
Net gain from foreign currencies:			
– dealing		81,724	57,617
– translation differences		27,952	17,015
Net other operating income (expense)		2,622	(1,297)
Other operating non-interest income		114,367	89,124
Revenue		933,644	812,060
Salaries and other employee benefits	23	(182,360)	(170,467)
General and administrative expenses	23	(96,698)	(83,278)
Depreciation and amortisation		(40,790)	(37,153)
Other operating expenses		(2,687)	(2,575)
Operating expenses		(322,535)	(293,473)
Operating income before cost of risk		611,109	518,587
Expected credit loss / impairment charge on loans to customers	24	(137,618)	(146,696)
Expected credit loss (recovery) / impairment charge on finance lease receivables	24	74	(93)
Other expected credit loss	24	(1,516)	n/a
Impairment charge on other assets and provisions		(17,040)	(11,251)
Cost of risk		(156,100)	(158,040)
Net operating income before non-recurring items		455,009	360,547
Net non-recurring items	25	(68,812)	(3,538)
Profit before income tax expense		386,197	357,009
Income tax expense	14	(52,895)	(24,942)
Profit for the year		333,302	332,067
Basic and diluted earnings per share	20	11.9777	11.9396

The accompanying notes on pages 6 to 77 are an integral part of these financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017
Profit for the year		333,302	332,067
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
– Net change in fair value on investments in debt instruments measured at FVOCI		1,676	n/a
– Unrealized revaluation of available-for-sale securities		n/a	3,142
– Realised loss on financial assets measured at FVOCI		1,743	n/a
– Realised gain on available-for-sale securities redassified to the consolidated income statement		n/a	(2,121)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI redassified to the consolidated income statement		827	n/a
Income tax impact	14	(140)	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		4,106	1,021
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
– Revaluation of property and equipment redassified to investment property	10, 11	1,043	3,483
– Net loss on investments in equity instruments designated at FVOCI		(2,525)	n/a
Income tax impact	14	-	(781)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		(1,482)	2,702
Other comprehensive income for the year, net of tax		2,624	3,723
Total comprehensive income for the year		335,926	335,790

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank					
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*
1 January 2017	27,821	216,030	(9)	25,493	1,007,099	1,276,434
Profit for the year	-	-	-	-	332,067	332,067
Other comprehensive (loss) income for the year	-	-	-	3,723	-	3,723
Total comprehensive income for the year	-	-	-	3,723	332,067	335,790
Increase in equity arising from share-based payments (Note 26)	-	50,394	-	-	-	50,394
Contributions under share-based payment plan (Note 26)	-	(126,066)	-	-	-	(126,066)
31 December 2017	27,821	140,358	(9)	29,216	1,339,166	1,536,552
Adoption of IFRS 15 (Note 3)	-	-	-	-	(15,759)	(15,759)
Adoption of IFRS 9 (Note 3)	-	-	-	2,719	(5,041)	(2,322)
1 January 2018	27,821	140,358	(9)	31,935	1,318,366	1,518,471
Profit for the year	-	-	-	-	333,302	333,302
Other comprehensive (loss) income for the year	-	-	-	2,624	-	2,624
Total comprehensive income for the year	-	-	-	2,624	333,302	335,926
Transfer of property and equipment revaluation reserve, net of tax	-	-	-	(3,743)	3,743	-
Increase in equity arising from share-based payments (Note 26)	-	82,483	-	-	-	82,483
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(120,000)	(120,000)
Sale of investments in equity instruments designated at FVOCI GCAP shares	-	-	-	2,525	(2,525)	-
Vesting of investment business shares to employees as a result of demerger	-	2,649	-	-	-	2,649
Issue of share capital (Note 20)	173	13,145	-	-	-	13,318
Contributions under share-based payment plan (Note 26)	-	(65,357)	-	-	-	(65,357)
31 December 2018	27,994	173,278	(9)	33,341	1,532,886	1,767,490

The accompanying notes on pages 6 to 77 are an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017
Cash flows from operating activities			
Interest received		1,228,822	1,024,276
Interest paid		(524,845)	(429,429)
Fees and commissions received		254,416	170,758
Fees and commissions paid		(89,078)	(71,268)
Net cash inflow from real estate		4,667	5,673
Net realised gains from foreign currencies		81,724	57,617
Recoveries of loans to customers previously written off	9	35,306	52,792
Other income received (expense paid)		30,742	(15,559)
Salaries and other employee benefits paid		(132,469)	(118,083)
General and administrative and operating expenses paid		(103,783)	(68,042)
Cash flows from operating activities before changes in operating assets and liabilities		785,502	608,735
Net (increase) decrease in operating assets			
Amounts due from credit institutions		(39,100)	(287,274)
Loans to customers		(1,692,143)	(1,416,089)
Finance lease receivables		6,999	4,916
Prepayments and other assets		(95,099)	(10,482)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions and other borrowings		(460,307)	(261,521)
Debt securities issued		897,650	561,320
Amounts due to customers		839,468	1,350,109
Other liabilities		17,703	17,217
Net cash flows from operating activities before income tax		260,673	566,931
Income tax paid		(61,699)	(9,666)
Net cash flow from operating activities		198,974	557,265
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired		-	(10,066)
Net purchase of investment securities		(320,028)	(333,146)
Proceeds from sale of investment properties		85,143	11,067
Proceeds from sale of property and equipment and intangible assets		1,299	923
Purchase of property and equipment and intangible assets		(90,046)	(101,861)
Net cash flows used in investing activities		(323,632)	(433,083)
Cash flows used in financing activities			
Dividends paid	20	(120,000)	(211)
Contributions under share-based payment plan (Note 26)		(65,357)	(126,066)
Issue of share capital (Note 20)		13,318	-
Purchase of additional interests in existing subsidiaries		(1,343)	(17,793)
Net cash used in financing activities		(173,382)	(144,070)
Effect of exchange rates changes on cash and cash equivalents		5,665	1,803
Effect of expected credit losses on cash and cash equivalents		(118)	n/a
Net decrease in cash and cash equivalents		(292,493)	(18,085)
Cash and cash equivalents, beginning of the year	6	1,401,881	1,419,966
Cash and cash equivalents, end of the year	6	1,109,388	1,401,881

The accompanying notes on pages 6 to 77 are an integral part of these 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 2018 the Bank had 276 operating outlets in all major cities of Georgia (31 December 2017: 286). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

As at 31 December 2017 BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) was a public limited liability company incorporated in England and Wales and represented the ultimate parent company of the Bank. The shares of BGEO PLC were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012.

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 a legal restructuring in August 2015. 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").

On 3 July 2017, BGEO Group PLC announced its intention to demerge BGEO Group PLC into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC, by the end of the first half of 2018. The demerger (hereafter referred to as "the demerger") was completed on 29 May 2018 and as a result Bank of Georgia Group PLC ("BOGG PLC") became the 100% owner of JSC BGEO Group, principal shareholder of the Bank. As at 31 December 2018 Bank of Georgia Group PLC represented the ultimate parent company of the Bank.

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

As at 31 December 2018 and 31 December 2017, JSC BGEO was the principal shareholder of the Bank:

Shareholder	*31 December 2018*	*31 December 2017*
JSC BGEO Group	79.78%	99.55%
Bank of Georgia Group PLC	19.78%	-
Others*	0.45%	0.45%
Total	100.00%	100.00%

** Shares listed on Georgian Stock Exchange.*

As at 31 December 2018 and 31 December 2017 the principal holdings of the Bank were as follows:

	Proportion of voting rights and ordinary share capital held					
Subsidiaries	*31 December 2018*	*31 December 2017*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO	100.00%	100.00%	Georgia	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	Turkey	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	Israel	Information Sharing and Market Research	9/2/2009	–
Professional Basketball Club Dinamo Tbilisi, LLC	(a)	100.00%	Georgia	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	100.00%	100.00%	Georgia	Education	15/10/2013	–
Benderlock Investments Limited	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
⇒ JSC Belarusky Narodny Bank	99.98%	99.98%	Belarus	Banking	16/4/1992	3/6/2008
⇒ BNB Leasing, LLC	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC (b)	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing (b)	100.00%	100.00%	Georgia	Leasing	27/1/2012	21/1/2015

1. Principal Activities (continued)

Associates	Proportion of voting rights and ordinary share capital held: 31 December 2018	Proportion of voting rights and ordinary share capital held: 31 December 2017	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Credit info	21.08%	21.08%	Georgia	Financial Intermediation	14/2/2005	14/2/2005

(a) JSC Bank of Georgia sold its investment in Professional Basketball Club Dinamo Tbilisi in 2018.
(b) In June 2017, the Bank acquired Georgian Leasing Company ("GLC").

2. Basis of Preparation

General

These separate 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 2018 reporting. These separate financial statements have been prepared in accordance with the requirements of the Order No. 6 of the Service for Accounting, Reporting and Auditing Supervision ("SARAS"), dated 21 May 2019.

On 13 March 2019, the Bank has prepared consolidated financial statements, for the year ended 31 December 2018, 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 2018 reporting. These consolidated financial statements are available on the Bank's official website (www.bankofgeorgia.ge).

The Bank is required to maintain records and prepare financial statements for regulatory purposes in Georgian Lari. These separate financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities and investment properties;
- the measurement of inventories at lower of cost and net realizable value;
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

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

Going concern

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

3. Summary of Significant Accounting Policies

Mergers with subsidiaries and goodwill

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

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

3. Summary of Selected Significant Accounting Policies (continued)

Mergers with subsidiaries and goodwill (continued)

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

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

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

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

Investments in subsidiaries

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

Investments in associates

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

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

Fair value measurement

The Bank measures financial instruments, such as trading and investment securities, certain loans to customers, 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 28.

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

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

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

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

3. Summary of Selected Significant Accounting Policies (continued)

Fair value measurement (continued)

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

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

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

Financial assets and liabilities

IFRS 9 replaces IAS 39 for annual periods commencing on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below. Accounting policies under IAS 39 relating to 2017 financial year can be found in the previous year Separate Financial Statements.

IFRS 9 does not have any impact on regulatory capital and capital adequacy ratios.

Changes to classification and measurement

IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories are replaced by:

- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments;
- fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments; and
- amortised cost.

The accounting treatment for financial liabilities is largely the same as the requirements of IAS 39.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms as explained below. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Classification and Measurement Implementation

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

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.

3. Summary of Selected Significant Accounting Policies (continued)

Measurement of financial instruments at initial recognition (continued)

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

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

Subsequent measurement of financial instruments

Financial instruments measured at amortised cost

From 1 January 2018 the Bank measures due from credit institutions, loans to customers and other financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model

There are three business models available under IFRS 9:

- Held to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

The assessment of business model requires judgment based on facts and circumstances at the date of the assessment. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on observable factors. The Bank has considered quantitative factors (e.g,. the expected frequency and volume of sales) and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel; the risks that affect the performance of the business model and, in particular, the way those risks are managed; and how managers of the business are compensated.

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either to a Hold to Collect or a Hold to Collect and Sell business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows, that represent solely payments of principal and Interest on the principal amount outstanding, are consistent with basic lending arrangement. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Bank considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

3. Summary of Selected Significant Accounting Policies (continued)

Subsequent measurement of financial instruments (continued)

Financial instruments measured at amortised cost (continued)

Interest Income Recognition

For Financial Instruments in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For Financial Instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. As a result of the amendments to International Accounting Standard 1: "presentation of Financial Statements" (IAS1) following IFRS 9, the Bank will present interest revenue calculated using the EIR method separately in the income statement.

Debt instruments at FVOCI

From 1 January 2018 the Bank measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes;
- The contractual terms of the financial asset meet the SPPI test.

These instruments comprise assets that had previously been classified as investment securities available-for-sale under IAS 39.

FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI - option

Upon initial recognition, the Bank elects to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

Financial assets at FVTPL

Groups of financial assets for which the business model is other than held to collect and held to collect and sell are measured at FVTPL from the date of initial application of IFRS 9.

Derivatives recorded at fair value through profit or loss

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, Forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net gain / loss from financial instruments measured at FVTPL, excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain.

Financial guarantees, letter of credits and other financial commitments

Financial guarantees, letter of credits and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and an ECL provision.

3. Summary of Selected Significant Accounting Policies (continued)

Offsetting

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

Cash and cash equivalents

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

Borrowings

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

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

Subordinated debt

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

Leases

i. Finance – Bank as lessor

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

ii. Operating – Bank as lessee

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

iii. Operating – Bank as lessor

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

3. Summary of Selected Significant Accounting Policies (continued)

Impairment of financial assets

Changes to the impairment estimation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record ECL on all of its debt financial assets at amortised cost or FVOCI, finance lease receivables, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

Details of the Bank's impairment method and quantitative impact of applying IFRS 9 as at 1 January 2018 are disclosed below.

From 1 January 2018 the Bank recorded the allowance for expected credit loss for all debt instruments that are measured at amortised cost, debt instruments at FVOCI and for financial guarantees, letter of credits and other financial commitments (thereafter collectively referred to as "financial instruments"). This contrasts to the IAS 39 impairment model which was not applicable to off balance sheet financial commitments, as these were instead covered by IAS 37: Provisions, Contingent Liabilities and Contingent Assets. The Bank applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime expected losses on them.

The determination of impairment losses and allowance moves from an incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where provisions are taken upon initial recognition of the financial instruments. Under IFRS 9, the Bank first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three stage approach to impairment for Financial Instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

- Stage 1: The Bank recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.
- Stage 2: The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the Financial Instrument is credit-impaired, it is then moved to stage 3. The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 % for those Financial Instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless purchased or originated credit impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

Purchased or originated credit-impaired (POCI) assets are financial Instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and expected credit losses. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses where ECLs are calculated based on lifetime expected credit loss. Once the Financial Asset is recognised as POCI, it retains this status until derecognised.

Key judgments and estimates used under IFRS 9 are disclosed in Note 4.

3. Summary of Selected Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities

Derecognition of Financial assets

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

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

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

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

De-recognition and modification of financial assets

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms based on qualitative and quantitative criteria. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a financial instrument the Bank considers the following factors:

- Change in currency of the loan
- Change in interest rate type
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial Asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

Forbearance and modified loans

The Bank sometimes makes concessions of modifications to the original terms of the loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of a new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forborne the assets are classified in stage 3. The decision as to how long the asset remains in the forborne category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to stage 2. Once the loan is transferred to stage 2, the Bank continues to reassess whether there has been a significant increase in credit risk, however, such assets remain in stage 2 for a minimum of 12-month probation period until transferred to stage 1.

3. Summary of Selected Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition of 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 separate income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets held for sale

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset are measured in accordance with applicable IFRSs.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.
Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

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 also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

3. Summary of Selected Significant Accounting Policies (continued)

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Bank.

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

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated. If an investment property satisfies asset held for sale criteria, it is reclassified to the assets held for sale category.

Property and equipment

Property and equipment, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

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

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

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

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

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

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

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

Intangible assets

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a 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 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

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

3. Summary of Selected Significant Accounting Policies (continued)

Provisions

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

Share-based payment transactions

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

Equity-settled transactions

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

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

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions 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 a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a 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.

Equity

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 purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

3. Summary of Selected Significant Accounting Policies (continued)

Contingencies

Contingent liabilities are not recognised in the separate 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 separate statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

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

Interest and similar income and expense

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when the Bank satisfies a performance obligation. Fee income can be divided into the following 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, package services on bundled products and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Customer loyalty program

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

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 upon satisfaction of the performance obligations on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligation are recognised after fulfilling the corresponding criteria.

Dividend income

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

Non-recurring items

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

3. Summary of Selected Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation

The separate financial statements are presented in Georgian Lari, which is the Bank's presentation currency. The Bank's functional currency is Georgian Lari. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the separate 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 the income statement.

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 2018 and 31 December 2017 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2018	3.3955	2.6766	3.0701	1.2418
31 December 2017	3.5005	2.5922	3.1044	1.3083

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.

Adoption of new or revised standards and interpretations

The nature and the effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

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

The Bank adopted the new revenue recognition standard effective from 1 January 2018 using the modified retrospective approach. The impact of adoption was GEL 15,759 decrease of retained earnings, with corresponding increase of accruals and deferred income and decrease in deferred tax liabilities.

The Bank's revenue streams affected by transition to IFRS 15 included fee and commission income from credit card transactions and fee and commission income under certain transactions involving loyalty programs. For revenue streams, part of the revenue was deferred under IFRS 15 requirements until satisfaction of respective performance obligations, which are expected over the anticipated term of credit cards issued and settlement or expiration of bonus points under loyalty programs.

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The details of adjustments to opening retained earnings and other accounts:

	31 December 2017	Effect of IFRS 15 adoption	1 January 2018
Liabilities			
Other liabilities	57,923	17,603	75,526
Deferred income tax liabilities	7,602	(1,844)	5,758
Other	10,491,598	-	10,491,598
Total liabilities	10,557,123	15,759	10,572,882
Total equity	1,536,552	(15,759)	1,520,793

In accordance with new revenue standard requirements, the disclosure of the impact of adoption on the Bank's consolidated income statement and financial position for the year ended 31 December 2018 were as follows:

Extract from Separate Income Statement for the year end 31 December 2018	As reported	Amount without IFRS 15 adoption	Effect of change
Fee and commission income	210,693	214,650	(3,957)
Fee and commission expense	(89,078)	(89,078)	-
Net fee and commission income	121,615	125,572	(3,957)
Other	812,029	812,029	-
Revenue	933,644	937,601	(3,957)
Other expenses	(322,535)	(322,535)	-
Operating income before cost of risk	611,109	615,066	(3,957)
Profit for the year	333,302	337,259	(3,957)

Extract from Separate Statement of Financial Position as at 31 December 2018	As reported	Amount without IFRS 15 adoption	Effect of change
Liabilities			
Other liabilities	96,014	74,387	21,627
Deferred income tax liabilities	23,459	25,370	(1,911)
Other	12,010,712	12,010,712	-
Total liabilities	12,130,185	12,110,469	19,716
Total equity	1,767,490	1,787,206	(19,716)
Total liabilities and equity	13,897,675	13,897,675	-

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

IFRS 9 transition

The following tables summarise the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	Original classification under IAS 39	*Original carrying amount under IAS 39*	*Reclassification*	*Remeasurement**		*New carrying amount under IFRS 9*	*New classification under IFRS 9*
				ECL	*Other***		
Cash and cash equivalents	Loans and receivables	1,401,881	-	(67)	-	1,401,814	Amortised cost
Amounts due from credit institutions	Loans and receivables	1,205,844	-	(514)	-	1,205,330	Amortised cost
Investment securities		1,540,344	-	-	-	1,540,344	
Debt securities	Available for sale	1,539,949	-	-	-	1,539,949	FVOCI - debt
Corporate shares	Available for sale	395	-	-	-	395	FVOCI - equity
Loans to customers	Loans and receivables	7,063,894	-	(34,508)	31,905	7,061,291	Amortised cost
Other assets - accounts receivable and other loans	Loans and receivables	1,041	-	2	-	1,043	Amortised cost
Other assets - derivative financial assets	FVTPL	13,337	-	-	-	13,337	FVTPL
Finance lease receivables	-	6,603	-	-	-	6,603	-
All other assets	-	860,731	-	-	-	860,731	-
Total assets		12,093,675	-	(35,087)	31,905	12,090,493	
Provisions	-	(2,816)	-	(320)	-	(3,136)	-
Deferred income tax liabilities	-	(7,602)	-	-	1,180	(6,422)	-
All other liabilities	-	(10,546,705)	-	-	-	(10,546,705)	-
Total liabilities		(10,557,123)	-	(320)	1,180	(10,556,263)	
Net impact on equity due to adopting IFRS 9 at 1 January 2018			-	(35,407)	33,085		

* Re-measurement in the above table includes the effect of ECL in the amount of GEL 1,677 recognised on contractually accrued interest income ("ECL gross-up").

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 9 had no impact on the Bank's financial liabilities.

The application of these policies resulted in reclassification set out in the table above and explained below:

a) Loans to customers

As of 1 January 2018, the Bank assessed its business model for loans to customers which are all held to collect the contractual cash flows, meet SPPI criteria and therefore are measured at amortised cost.

b) Securities

Investment securities other than equity instruments and those securities held for trading

As at 1 January 2018 the Bank has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Bank concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets and meet SPPI criteria. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.

Equity instruments

The Bank has elected to irrevocably designate investment securities of GEL in the portfolio of non-trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available for sale. The changes in fair value of such securities is no longer to be reclassified to profit or loss when they are disposed of.

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Other reserves and retained earnings
Other reserves	
Closing balance under IAS 39 (31 December 2017)	29,216
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	2,802
Income tax in relation to the above	(83)
Opening balance under IFRS 9 (1 January 2018)	31,935
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	1,339,166
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(39,886)
Reinstatement of loans to customers previously written off *	33,582
Income tax in relation to the above	1,263
Adoption of IFRS 15	(15,759)
Opening balance under IFRS 9 (1 January 2018)	1,318,366
Total change in equity due to adopting IFRS 9	(2,322)

* As at transition date, the change in write-off policy as a result of IFRS 9 application resulted in reinstatement of loans to customers previously written off.

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

The following table reconciles the aggregate opening loan loss provision allowance under IAS 39 and provisions for loan commitments and financial guarantees contracts in accordance with IAS 37 Provisions, Contingent liabilities and Contingent Assets to the ECL allowance under IFRS 9.

	Loan loss provision under IAS 39 / IAS 37	*Remeasure-ment*	*ECL net-off on accrued interest*	*ECLs under IFRS 9*
Loans and receivables (IAS 39) / Financial assets at amortized cost (IFRS 9)	31 December 2017			1 January 2018
Cash and cash equivalents	-	67	-	67
Amounts due from credit institutions	-	514	-	514
Loans to customers	237,905	34,508	17,273	289,686
Other assets - accounts receivable and other loans	39,550	(2)	-	39,548
	277,455	35,087	17,273	329,815
Available for sale financial instruments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities	-	2,802	-	2,802
	-	2,802	-	2,802
Finance lease receivables	94	-	-	94
Provisions	2,816	320	-	3,136
	280,365	38,209	17,273	335,847

Hedge Accounting

IFRS 9 incorporates new hedge accounting rules that intend to better align hedge accounting with risk management practices. Generally, some restrictions under IAS 39 rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Bank has not applied hedge accounting.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendment has no effect on the Bank's financial position and performance.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. The amendment has no effect on the Bank's financial position and performance.

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. Since the Bank's current practice is in line with the new requirements the amendment did not have any material effect on the Bank's financial position and performance.

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

The amendments clarify that:

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

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

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

3. Summary of Selected Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Transition to IFRS 16

The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank plans to apply the standard using a modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. The Standard will be applied to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4. The Bank will apply the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. A lease liability will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Right-of-use assets will be measured on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid amounts recognised immediately before the date of initial application.

The Bank has completed an initial assessment of the potential impact of transition to IFRS 16 on its separate financial statements. Based on the data as at 1 January 2019, the Bank estimates that the adoption of the new standard will result in an increase in the Bank's liabilities by GEL 72,078 and recognition of right-of-use assets of GEL 86,375, of which GEL 14,297 is expected to be reclassified from prepayments to right-of-use assets.

Annual Improvements 2015-2017 Cycle

IAS 12, Income Taxes

The amendment to IAS 12 clarifies that the income tax consequences (if any) of dividends as defined in IFRS 9 (i.e. distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:

- at the same time as the liability to pay those dividends is recognised; and
- in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

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

4. Significant Accounting Judgements and Estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the separate 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 judgement is required in establishing fair values (Note 28).

Measurement of fair value of investment properties

The fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Bank performs valuation of its investment properties with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in Note 10, while valuation inputs and techniques are presented in Note 28. The Bank's properties are 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 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 financial assets

IFRS 9 requires management to make a number of judgments, assumptions and estimates that affect the allowance for ECL. Estimates and judgments are based on management's knowledge and historical experience. A summary of the key judgments made by management is set out below.

Definition of default, credit-impaired and cure (Note 27)

The Bank's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced or there is other evidence that payment obligations will not be fully met. The determination of whether a Financial Instrument is credit-impaired focusses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI.

Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. Minimum period of consecutive 6 months payment is applied as exit criteria to Financial Assets restructured due to credit risk other than corporate loan portfolio and debts instruments measured at FVOCI where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired financial Instruments exit criteria is determined as repayment of entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in stage 2 at least for the next 12 consecutive months. After 12 consecutive payments it is transferred to stage 1 if it's credit risk is not significantly higher than at origination date.

4. Significant Accounting Judgements and Estimates (continued)

Significant Increase in Credit Risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgment. In assessing whether the credit risk has significantly increased the Bank has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators such as external market indicators of credit risk or general economic conditions which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at Financial Instrument level in order to track changes in credit risk since initial recognition date.

Measurement of expected credit losses

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of default (PD), loss given default (LGD) and exposure at default (EAD) which are further explained below:

PD estimation: The Bank estimates PD based on combination of rating model calibration results and migration matrices approach which is further adjusted for macroeconomic expectations for minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way to reflect the weighted average yearly migration over the historical date period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolio other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information, and where practical build on information from top rating agencies, Credit Bureau or internal Credit rating systems. Since a Stage 3 Financial Instruments are defaulted, the probability of default is equal to 100%.

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 Financial Instruments, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI Financial Instruments, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EAD differently for products with the repayment schedules and those without repayment schedules. For Financial Instruments with repayment schedules the Bank estimates forward looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees the Bank estimates the forward looking EAD using the limit utilisation approach.

Loss given default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected pay-outs from bankruptcy proceedings for unsecured claims and where applicable time to realization of collateral and the seniority of claims. The Bank segments its Financial Instruments into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types). Based on this information, the Bank estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each Financial Instrument.

4. Significant Accounting Judgements and Estimates (continued)

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Bank. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis for all material exposures.

Forward-Looking Information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Bank's allowance for credit losses, the Bank uses the macroeconomic forecasts provided by National Bank of Georgia. Macroeconomic variables covered by these forecasts and which the Bank incorporated in its ECL assessment model include GDP growth foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are updated on a semi-annual basis.

The determination of the probability weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Bank uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a baseline (weight 0.50) and downside (weight 0.25), scenario relevant for each respective portfolio. A weight is computed for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia.

The Bank considers these forecasts to represent its best estimate of the possible outcomes based on reliable available information.

Forward-looking variable assumptions

The most significant period-end assumptions used for ECL estimate as at 31 December 2018 per geographical segments are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Georgia

Key Drivers	ECL Scenario	Assigned Weight	As at 31 December 2018			As at 1 January 2018		
			2019	2020	2021	2018	2019	2020
GDP growth in %								
	Upside	25%	6.00%	5.50%	5.00%	5.50%	6.00%	5.70%
	Base case	50%	5.00%	5.00%	5.00%	4.50%	4.80%	5.00%
	Downside	25%	2.00%	2.50%	3.50%	3.00%	2.00%	3.00%
GEL/USD exchange rate %								
	Upside	25%	10.00%	5.00%	-5.00%	5.00%	7.00%	0.00%
	Base case	50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Downside	25%	-15.00%	-10.00%	5.00%	-10.00%	-15.00%	-10.00%
CPI inflation rate in %								
	Upside	25%	3.40%	3.20%	3.00%	2.50%	2.50%	2.70%
	Base case	50%	2.90%	3.00%	3.00%	3.50%	3.00%	3.00%
	Downside	25%	4.50%	4.00%	3.00%	4.50%	4.30%	3.80%

4. Significant Accounting Judgements and Estimates (continued)

All other parameters held constant, increase in GDP growth and decrease in foreign exchange rate and inflation would result in decrease in ECL, with opposite changes resulting in ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation which does not have significant impact on corporate ECL.

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on as asset type, overdue buckets, collateralization level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products the expected life of financial instrument is determined either with reference to the next renewal date or with the reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write offs

The Bank writes-off financial assets when there is no reasonable expectation of recovery which is materially unchanged for corporate and unsecured loan portfolios or for loans secured by collateral other than real estate as compared to the previous accounting policy under IAS 39. For mortgages and other loans secured by real estate the number of overdue days after which the balances are considered to be irrecoverable and are to be written off has been increased from 365 to 1460 days. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an expected credit loss expense. Any subsequent recoveries are credited to expected credit loss expense.

5. Segment Information

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

Retail Banking - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses;

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

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

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

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

The Bank's operations are primarily concentrated in Georgia.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenues in 2018 or 2017.

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Bank's operating segments as at and for the year ended 31 December 2018:

	Corporate banking	*Retail banking*	*Investment management*	*Total*
Net interest income	123,870	547,904	25,888	697,662
Net fees and commission income	22,305	98,489	821	121,615
Net real estate gain	4,293	394	3	4,690
Net gains from foreign currencies	50,343	55,386	3,947	109,676
Other revenues (expenses)	(349)	348	2	1
Revenue	200,462	702,521	30,661	933,644
Operating expenses	(59,638)	(251,843)	(11,054)	(322,535)
Operating income before cost of risk	140,824	450,678	19,607	611,109
Cost of risk	(25,280)	(130,743)	(77)	(156,100)
Net operating income before non-recurring items	115,544	319,935	19,530	455,009
Net non-recurring items	(14,827)	(52,037)	(1,948)	(68,812)
Profit before income tax expense	100,717	267,898	17,582	386,197
Income tax expense	(13,758)	(36,735)	(2,402)	(52,895)
Profit for the year	86,959	231,163	15,180	333,302
Assets and liabilities				
Total assets	4,170,663	9,649,388	77,624	13,897,675
Total liabilities	3,657,346	8,406,444	66,395	12,130,185
Other segment information				
Property and equipment	5,690	47,745	399	53,834
Intangible assets	2,763	36,087	225	39,075
Capital expenditure	8,453	83,832	624	92,909
Depreciation	(3,377)	(28,339)	(237)	(31,953)
Amortization	(888)	(7,877)	(72)	(8,837)

5. Segment Information (continued)

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

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

6. Cash and Cash Equivalents

	2018	*2017*
Cash on hand	489,919	433,639
Current accounts with central banks, exduding obligatory reserves	245,921	45,294
Current accounts with other credit institutions	206,148	165,142
Time deposits with credit institutions with maturity of up to 90 days	167,518	757,806
Cash and cash equivalents	1,109,506	1,401,881
Less – Allowance for expected credit loss / impairment loss	(118)	-
Cash and cash equivalents	1,109,388	1,401,881

As at 31 December 2018, GEL 311,524 (2017: GEL 921,612) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Bank in performing international settlements. The Bank earned up to 2.50% interest per annum on these deposits (2017: up to 2.00%). 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

	2018	*2017*
Obligatory reserves with central banks	1,239,848	996,617
Time deposits with maturity of more than 90 days	43,459	209,227
Amounts due from credit institutions	1,283,307	1,205,844
Less – Allowance for expected credit loss / impairment loss	(543)	-
Amounts due from credit institutions	1,282,764	1,205,844

Obligatory reserves with central banks represent amounts deposited with the NBG. Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by regulation. The Bank earned up to 0.50% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2018 (2017: 1.00%).

8. Investment Securities

	2018	*2017*
Investment securities measured at FVOCI - debt instruments	1,864,423	n/a
Investment securities designated as at FVOCI - equity investments	395	n/a
Available for sale investment securities	n/a	1,540,344
Investment securities	1,864,818	1,540,344

	2018	*2017*
Georgian ministry of Finance treasury bonds*	899,024	n/a
Georgian ministry of Finance treasury bills**	100,111	n/a
Certificates of deposit of central banks***	11,512	n/a
Other debt instruments****	853,776	n/a
Investment securities measured at FVOCI - debt instruments	1,864,423	n/a

* GEL 573,517 was pledged for short-term loans from the NBG (2017: GEL 448,558).
** Nil was pledged for short-term loans from the NBG (2017: Nil).
*** Nil was pledged for short-term loans from the NBG (2017: Nil).
**** GEL 674,616 was pledged for short-term loans from the NBG (2017: GEL 475,735).

Other debt instruments as at 31 December 2018 mainly comprises bonds issued by European Bank for Reconstruction and Development of GEL 249,659 (2017: GEL 268,057), GEL denominated bonds issued by The Netherlands Development Finance Company of GEL 163,454 (2017: nil), GEL denominated bonds issued by Black Sea Trade and Development Bank of GEL 136,504 (2017: GEL 60,625), GEL denominated bonds issued by International Finance Corporation of GEL 110,545 (2017: GEL 110,862), GEL denominated bonds issued by Asian Development Bank of GEL 65,145 (2017: GEL 65,245), and Dollar denominated bonds issued by Internationally recognised investment bank of nil (2017: GEL 26,666).

During the period expected credit loss recognised on investment securities measured at FVOCI - debt instruments amounted GEL 1,619 (2017: n/a) that was mainly due to the increase in gross carrying value for the period.

9. Loans to Customers

	2018	*2017*
Commercial loans	2,551,358	2,149,236
Consumer loans	1,817,362	1,734,751
Micro and SME loans	2,007,167	1,637,357
Residential mortgage loans	2,548,643	1,712,515
Gold – pawn loans	80,771	67,940
Loans to customers at amortised cost, gross	9,005,301	7,301,799
Less – Allowance for expected credit loss / impairment loss	(288,513)	(237,905)
Loans to customers at amortised cost, net	8,716,788	7,063,894

As at 31 December 2018, loans to customers carried at GEL 357,342 (2017: GEL 333,944) were pledged for short-term loans from the NBG.

9. Loans to Customers (continued)

ECL

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

Commercial loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	1,522,630	332,038	283,309	26,847	2,164,824
New financial asset originated or purchased	2,573,389	88,529	9,875	-	2,671,793
Transfer to Stage 1	358,195	(358,073)	(122)	-	-
Transfer to Stage 2	(480,880)	530,296	(49,416)	-	-
Transfer to Stage 3	(23,976)	(37,819)	61,795	-	-
Assets derecognized (excluding write-offs)	(106,070)	(847)	-	-	(106,917)
Assets repaid	(1,954,759)	(244,936)	(67,918)	(13,664)	(2,281,277)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(39,657)	-	(39,657)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	-	-	3,437	(151)	3,286
Currency translation differences	-	-	-	-	-
Net other changes	120,965	(1,072)	22,494	(5,995)	136,392
Balance at 31 December 2018	2,009,494	308,116	226,711	7,037	2,551,358
Individually assessed	-	-	225,000	988	225,988
Collectively assessed	2,009,494	308,116	1,711	6,049	2,325,370
Balance at 31 December 2018	2,009,494	308,116	226,711	7,037	2,551,358

Commercial loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	2,427	2,548	160,284	5,506	170,765
New financial asset originated or purchased	4,696	43	277	-	5,016
Transfer to Stage 1	1,338	(1,338)	-	-	-
Transfer to Stage 2	(444)	505	(61)	-	-
Transfer to Stage 3	(88)	-	88	-	-
Impact on ECL of exposures transferred between stages during the year	(373)	278	705	-	610
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(1,613)	(794)	(13,470)	(415)	(16,292)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(39,657)	-	(39,657)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	-	-	3,437	(151)	3,286
Currency translation differences	72	-	-	-	72
Net other measurement of ECL	(3,455)	2,259	36,646	(4,415)	31,035
Balance at 31 December 2018	2,560	3,501	151,163	525	157,749
Individually assessed	-	-	150,724	495	151,219
Collectively assessed	2,560	3,501	439	30	6,530
Balance at 31 December 2018	2,560	3,501	151,163	525	157,749

9. Loans to Customers (continued)

ECL (continued)

Consumer loans at amortised cost, gross:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	1,513,534	146,925	75,340	88	1,735,887
New financial asset originated or purchased	2,078,859	11,259	2,224	4,776	2,097,118
Transfer to Stage 1	272,003	(241,160)	(30,843)	-	-
Transfer to Stage 2	(456,760)	470,591	(13,831)	-	-
Transfer to Stage 3	(166,859)	(175,892)	342,751	-	-
Assets derecognized (excluding write-offs)	-	-	(363)	-	(363)
Assets repaid	(1,664,054)	(110,685)	(173,957)	(472)	(1,949,168)
Impact of modifications	-	-	(2,124)	59	(2,065)
Write-offs	-	-	(126,865)	(73)	(126,938)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Currency translation differences	-	-	-	-	-
Net other changes	14,420	(185)	19,981	77	34,293
Balance at 31 December 2018	1,591,143	100,853	120,895	4,471	1,817,362
Individually assessed	-	-	29	-	29
Collectively assessed	1,591,143	100,853	120,866	4,471	1,817,333
Balance at 31 December 2018	1,591,143	100,853	120,895	4,471	1,817,362

Consumer loans at amortised cost, ECL:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	38,413	15,602	42,709	14	96,738
New financial asset originated or purchased	92,211	2,050	883	255	95,399
Transfer to Stage 1	40,694	(26,099)	(14,595)	-	-
Transfer to Stage 2	(29,905)	36,752	(6,847)	-	-
Transfer to Stage 3	(52,632)	(21,261)	73,893	-	-
Impact on ECL of exposures transferred between stages during the year	(17,313)	(2,343)	26,556	-	6,900
Assets derecognized (excluding write-offs)	-	-	(3)	-	(3)
Assets repaid	(37,709)	(12,817)	(73,092)	(36)	(123,654)
Impact of modifications	-	-	-	(420)	(420)
Write-offs	-	-	(126,865)	(73)	(126,938)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	(14,298)	17,366	110,840	633	114,541
Balance at 31 December 2018	19,461	9,250	62,061	389	91,161
Individually assessed	-	-	29	-	29
Collectively assessed	19,461	9,250	62,032	389	91,132
Balance at 31 December 2018	19,461	9,250	62,061	389	91,161

9. Loans to Customers (continued)

ECL (continued)

Micro and SME loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	1,523,616	50,879	84,652	3,401	1,662,548
New financial asset originated or purchased	1,831,588	3,787	96	1,123	1,836,594
Transfer to Stage 1	83,195	(77,946)	(5,249)	-	-
Transfer to Stage 2	(184,483)	192,586	(8,103)	-	-
Transfer to Stage 3	(36,233)	(63,053)	99,286	-	-
Assets derecognized (excluding write-offs)	-	-	(956)	-	(956)
Assets repaid	(1,421,789)	(43,671)	(50,953)	(1,098)	(1,517,511)
Impact of modifications	-	-	(1,150)	(2)	(1,152)
Write-offs	-	-	(16,447)	(28)	(16,475)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Currency translation differences	-	-	-	-	-
Net other changes	27,049	1,508	7,328	(1,171)	34,714
Balance at 31 December 2018	1,822,943	64,090	117,899	2,235	2,007,167
Individually assessed	-	-	-	-	-
Collectively assessed	1,822,943	64,090	117,899	2,235	2,007,167
Balance at 31 December 2018	1,822,943	64,090	117,899	2,235	2,007,167

Micro and SME loans loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	4,185	1,097	12,768	410	18,460
New financial asset originated or purchased	8,136	-	-	201	8,337
Transfer to Stage 1	3,622	(2,473)	(1,149)	-	-
Transfer to Stage 2	(2,543)	3,686	(1,143)	-	-
Transfer to Stage 3	(1,782)	(2,117)	3,899	-	-
Impact on ECL of exposures transferred between stages during the year	(1,396)	(554)	109	-	(1,841)
Assets derecognized (excluding write-offs)	-	-	(200)	-	(200)
Assets repaid	(4,042)	(793)	(11,079)	(1)	(15,915)
Impact of modifications	-	-	-	(183)	(183)
Write-offs	-	-	(16,447)	(28)	(16,475)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	1,312	3,526	26,482	(339)	30,981
Balance at 31 December 2018	7,492	2,372	22,635	70	32,569
Individually assessed	-	-	-	-	-
Collectively assessed	7,492	2,372	22,635	70	32,569
Balance at 31 December 2018	7,492	2,372	22,635	70	32,569

9. Loans to Customers (continued)

ECL (continued)

Residential mortgage loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	1,583,403	83,581	52,043	751	1,719,778
New financial asset originated or purchased	1,784,047	532	17	24,088	1,808,684
Transfer to Stage 1	161,836	(152,752)	(9,084)	-	-
Transfer to Stage 2	(226,504)	234,139	(7,635)	-	-
Transfer to Stage 3	(73,754)	(49,756)	123,510	-	-
Assets derecognized (excluding write-offs)	-	-	(1,830)	-	(1,830)
Assets repaid	(939,728)	(31,367)	(71,161)	(2,025)	(1,044,281)
Impact of modifications	-	-	(689)	(1)	(690)
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Currency translation differences	-	-	-	-	-
Net other changes	61,097	2,432	2,521	440	66,490
Balance at 31 December 2018	2,350,397	86,809	88,249	23,188	2,548,643
Individually assessed	-	-	732	2,451	3,183
Collectively assessed	2,350,397	86,809	87,517	20,737	2,545,460
Balance at 31 December 2018	2,350,397	86,809	88,249	23,188	2,548,643

Residential mortgage loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	302	59	3,267	61	3,689
New financial asset originated or purchased	1,309	-	-	595	1,904
Transfer to Stage 1	230	(92)	(138)	-	-
Transfer to Stage 2	(57)	209	(152)	-	-
Transfer to Stage 3	(982)	(37)	1,019	-	-
Impact on ECL of exposures transferred between stages during the year	(173)	(106)	1,436	-	1,157
Assets derecognized (excluding write-offs)	-	-	(41)	-	(41)
Assets repaid	(94)	(9)	(4,237)	(94)	(4,434)
Impact of modifications	-	-	-	4	4
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	(298)	7	3,672	588	3,969
Balance at 31 December 2018	237	31	5,383	1,089	6,740
Individually assessed	-	-	-	-	-
Collectively assessed	237	31	5,383	1,089	6,740
Balance at 31 December 2018	237	31	5,383	1,089	6,740

9. Loans to Customers (continued)

ECL (continued)

Gold – pawn loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	65,670	431	1,839	-	67,940
New financial asset originated or purchased	80,944	-	96	-	81,040
Transfer to Stage 1	4,300	(1,855)	(2,445)	-	-
Transfer to Stage 2	(3,396)	3,694	(298)	-	-
Transfer to Stage 3	(8,800)	(1,641)	10,441	-	-
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(63,239)	(92)	(4,553)	-	(67,884)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Currency translation differences	-	-	-	-	-
Net other changes	4	4	155	-	163
Balance at 31 December 2018	75,483	541	4,747	-	80,771
Individually assessed	-	-	-	-	-
Collectively assessed	75,483	541	4,747	-	80,771
Balance at 31 December 2018	75,483	541	4,747	-	80,771

Gold – pawn loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	-	-	34	-	34
New financial asset originated or purchased	76	-	-	-	76
Transfer to Stage 1	22	-	(22)	-	-
Transfer to Stage 2	-	10	(10)	-	-
Transfer to Stage 3	(76)	-	76	-	-
Impact on ECL of exposures transferred between stages during the year	(22)	(10)	77	-	45
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(3)	(1)	(220)	-	(224)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	14	1	836	-	851
Balance at 31 December 2018	11	-	283	-	294
Individually assessed	-	-	-	-	-
Collectively assessed	11	-	283	-	294
Balance at 31 December 2018	11	-	283	-	294

9. Loans to Customers (continued)

ECL (continued)

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

The contractual amounts outstanding on loans to customers that have been written off during the reporting period, but are still subject to enforcement activity was GEL 67,001 (2017: GEL 70,904).

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, third party corporate guarantees and personal guarantees of shareholders.

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

It is the Bank's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

- For commercial loans: GEL 233,806 as at 31 December 2018;
- For consumer loans: GEL 86,325 as at 31 December 2018;
- For Micro and SME: GEL 98,175 as at 31 December 2018;
- For Residential mortgage loans: GEL 75,073 as at 31 December 2018;
- Gold – pawn loans: GEL 283 as at 31 December 2018.

Without taking into account the discounted value of collateral, the allowance for loan impairment would be GEL 250,064 higher as at 31 December 2018 (2017: GEL 253,818 higher).

9. Loans to Customers (continued)

Concentration of loans to customers

As at 31 December 2018, the concentration of loans granted by the Bank to the ten largest third party borrowers comprised GEL 788,216 accounting for 9% of the gross loan portfolio of the Bank (2017: GEL 671,120 and 9% respectively). An allowance of GEL 44,079 (2017: GEL 41,207) was established against these loans.

As at 31 December 2018, the concentration of loans granted by the Bank to the ten largest third party group of borrowers comprised GEL 1,067,718 accounting for 12% of the gross loan portfolio of the Bank (2017: GEL 860,946 and 12% respectively). An allowance of GEL 42,108 (2017: GEL 73,269) was established against these loans.

As at 31 December 2018 and 31 December 2017, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2018	*2017*
Individuals	5,443,549	4,280,761
Trade	851,918	625,750
Manufacturing	882,848	637,652
Real estate	342,859	325,050
Construction	351,906	346,824
Hospitality	289,830	278,163
Transport & communication	105,528	96,400
Service	145,757	196,838
Mining and quarrying	127,835	104,799
Electricity, gas and water supply	76,574	84,727
Financial intermediation	61,691	51,342
Other	325,006	273,493
Loans to customers, gross	9,005,301	7,301,799
Less – Allowance for expected credit loss / impairment loss	(288,513)	(237,905)
Loans to customers, net	8,716,788	7,063,894

Loans have been extended to the following types of customers:

	2018	*2017*
Individuals	5,443,549	4,280,761
Private companies	3,558,975	3,021,038
State-owned entities	2,777	-
Loans to customers, gross	9,005,301	7,301,799
Less – Allowance for expected credit loss / impairment loss	(288,513)	(237,905)
Loans to customers, net	8,716,788	7,063,894

10. Investment Properties

	2018	*2017*
At 1 January	185,493	146,379
Additions*	66,159	59,520
Disposals	(74,278)	(10,667)
Net (losses) gains from revaluation of investment property	(1,184)	6,200
Transfers to property and equipment, other assets and assets held for sale**	(43,863)	(15,939)
At 31 December	132,327	185,493

** The additions of 2018 and 2017 comprise foreclosed properties, no cash transactions were involved.*

*** Comprised of GEL 17,302 transfer from property and equipment (2017: transfers to property and equipment GEL 4,449) and GEL 6,478 transfer to finance lease receivables (2017: transfer to finance lease receivable GEL 11,490). In addition, in 2018 the Bank identified certain investment properties in the amount of GEL 54,687 which met assets held for sale criteria and transferred these assets to respective category.*

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2018 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 28 for details on fair value measurements of investment properties.

11. Property and Equipment

The movements in property and equipment during the year ended 31 December 2018 were as follows:

	Office buildings & service centers	*Furniture & fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost							
31 December 2017	179,617	195,581	70,266	7,045	17,599	7,832	477,940
Additions	-	23,855	13,317	920	-	15,742	53,834
Disposals	(1,671)	(2,871)	(490)	(2,632)	(819)	-	(8,483)
Transfers	11,200	(972)	-	-	6,651	(16,879)	-
Transfers to investment properties	(14,472)	-	-	-	-	(3,741)	(18,213)
Transfers (to) from other assets	-	(12,874)	(2,201)	(1,101)	-	43	(16,133)
Revaluation	2,227	-	-	-	-	-	2,227
Currency translation differences	(11)	2	(1)	2	2	2	(4)
31 December 2018	176,890	202,721	80,891	4,234	23,433	2,999	491,168
Accumulated impairment							
31 December 2017	1,359	-	-	-	-	-	1,359
31 December 2018	1,359	-	-	-	-	-	1,359
Accumulated depreciation							
31 December 2017	15,454	116,107	47,630	3,982	5,522	-	188,695
Depreciation charge	1,818	14,695	7,974	845	5,042	-	30,374
Transfers to investment properties	(911)	-	-	-	-	-	(911)
Transfers (to) from other assets	-	(14,760)	(1,048)	-	-	-	(15,808)
Disposals	(1,244)	(2,302)	(197)	(2,633)	(812)	-	(7,188)
31 December 2018	15,117	113,740	54,359	2,194	9,752	-	195,162
Net book value:							
31 December 2017	162,804	79,474	22,636	3,063	12,077	7,832	287,886
31 December 2018	160,414	88,981	26,532	2,040	13,681	2,999	294,647

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

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

11. Property and Equipment (continued)

Within the regular cycle of the useful life review for its intangible assets, the Bank has changed the estimates regarding the remaining useful life of certain assets. The change in the estimates resulted from the updated strategy in relation to using these assets in the future. The useful life of these assets was increased on average from 10 to 15. The change in accounting estimate was applied from the second half of the year on prospective basis resulting in decrease of amortization expense by GEL 621 .

12. Investments in subsidiaries

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

	2018	*2017*
Bank of Georgia Representative Office UK Limited	-	-
Tree of Life Foundation NPO	-	-
Bank of Georgia Representative Office Hungary	5,194	4,135
Representative Office of JSC Bank of Georgia in Turkey	-	-
Georgia Financial Investments, LLC	3,577	3,577
Professional Basketball Club Dinamo Tbilisi, LLC	-	2,250
Teaching University of Georgian Bank, LLC	2,476	2,281
Benderlock Investments Limited	58,745	58,745
JSC Belarusky Narodny Bank	66,575	66,486
Georgian Leasing Company, LLC	22,414	22,414
Investments in subsidiaries	158,981	159,888

The Bank assessed impairment indicators for all the subsidiaries. No such impairment indicators have been identified as at 31 December 2018 and 31 December 2017.

The key combined financial figures of Benderlock Investments Limited and JSC Belarusky Narodny Bank as at 31 December 2018 and 31 December 2017 are as follows:

	2018	*2017*
Total assets	726,731	678,063
Total equity	132,089	133,761
Total comprehensive income	5,553	14,660
Cash paid	125,320	125,231
Cost of acquisition	125,320	125,231

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

	2018	*2017*
Total assets	116,698	66,207
Total equity	20,645	17,693
Total comprehensive income	2,330	1,840
Cost of acquisition*	22,414	22,414

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

13. Goodwill

No movements have been identified in goodwill during the years ended 31 December 2018 and 31 December 2017.

Impairment test for goodwill

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

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

	2018	*2017*
Retail banking	23,488	23,488
Corporate banking	9,965	9,965
Total	33,453	33,453

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering 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 CGU.

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

	Corporate Banking		*Retail Banking*	
	2018, %	*2017, %*	*2018, %*	*2017, %*
Discount rate	4.7%	4.5%	6.2%	6.1%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("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 reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2018. Possible change was taken as +/-1% in discount rate and growth rate.

14. Taxation

The corporate income tax credit (expense) comprises:

	2018	*2017*
Current income tax expense	(34,154)	(36,557)
Deferred income tax credit (expense)	(18,741)	11,615
Income tax expense	(52,895)	(24,942)
Deferred income tax expense in other comprehensive income	(140)	(781)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2018 and 2017 was as follows:

	2018	*2017*
Net results on investment securities	(140)	-
Revaluation of buildings	-	(781)
Income tax expense in other comprehensive income	(140)	(781)

The income tax rate applicable to the Bank's income is 15% (2017: 15%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 30 June 2018, deferred tax assets and liabilities balances have been re-measured, in line with the new date for the change to be implemented. The Bank has calculated the portion of deferred taxes that it expects to utilise before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period the Bank will only continue to recognize the portion of deferred tax assets and liabilities arising on items charged or credited to income statement during the same period, which it expects to utilize before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2018 and 31 December 2017 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2018	*2017*
Profit before income tax expense	386,197	357,009
Average tax rate	15%	15%
Theoretical income tax expense at average tax rate	(57,930)	(53,551)
Non-taxable income	22,534	18,729
Correction of prior year declarations	-	4,532
Effects from changes in tax legislation	(15,696)	4,762
Non-deductible expenses	(2,764)	(582)
Other	961	1,168
Income tax expense	(52,895)	(24,942)

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

14. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*				
	2016	*In the income statement*	*In other comprehensive income*	*2017*	*In the income statement*	*IFRS 15 adoption*	*IFRS 9 adoption*	*In other comprehensive income*	*2018*
Tax effect of deductible temporary differences:									
Cash and cash equivalents	-	-	-	-	8	-	10	-	18
Amounts due from credit institutions	-	-	-	-	4	-	77	-	81
Intangible assets	-	-	-	-	174	-	-	-	174
Other assets and liabilities	1,704	(574)	-	1,130	2,900	1,844	-	-	5,874
Deferred tax assets	1,704	(574)	-	1,130	3,086	1,844	87	-	6,147
Tax effect of taxable temporary differences:									
Investment securities	-	-	-	-	(109)	-	83	140	114
Loans to customers	10,123	(6,550)	-	3,573	11,537	-	(1,176)	-	13,934
Finance lease receivables	-	-	-	-	557	-	-	-	557
Investment properties	-	-	-	-	584	-	-	-	584
Property and equipment	2,978	(3,548)	781	211	5,831	-	-	-	6,042
Assets held for sale	-	-	-	-	1,102	-	-	-	1,102
Amounts due to credit institutions and other borrowings	1,230	(469)	-	761	1,792	-	-	-	2,553
Debt securities issued	-	-	-	-	2,722	-	-	-	2,722
Allowances for impairment and provisions for other losses	1,127	(293)	-	834	1,164	-	-	-	1,998
Other assets and liabilities	4,682	(1,329)	-	3,353	(3,353)	-	-	-	-
Deferred tax liabilities	20,140	(12,189)	781	8,732	21,827	-	(1,093)	140	29,606
Net deferred tax liabilities	(18,436)	11,615	(781)	(7,602)	(18,741)	1,844	1,180	(140)	(23,459)

15. Other Assets and Other Liabilities

Other assets comprise:

	2018	*2017*
Derivative financial assets	31,084	13,337
Accounts receivable	18,780	1,041
Other receivables	9,048	-
Receivables from money transfers	8,866	12,890
Inventory	8,377	16,146
Receivables from documentary operations	6,607	27,048
Foreclosed assets	1,458	52,095
Operating lease receivables	4,025	2,070
Receivables from sale of assets	821	798
Settlements on operations	167	928
Operating tax assets	112	171
Other	20,834	13,559
	110,179	140,083
Less – Allowance for impairment of other assets	(1,451)	(39,550)
Other assets	108,728	100,533

Other liabilities comprise:

	2018	*2017*
Deferred income and other accruals	21,627	-
Accruals for employee compensation	18,411	16,581
Derivative financial liabilities	11,569	3,529
Creditors	11,330	18,976
Advances received	8,279	-
Other taxes payable	6,776	6,215
Dividends payable	1,304	1,064
Other	16,718	11,558
Other liabilities	96,014	57,923

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.

	2018			*2017*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and Swaps – domestic	721,906	3,110	981	370,523	3,039	1,958
Forwards and Swaps – foreign	1,783,252	15,338	4,228	145,151	1,429	116
Interest rate contracts						
Forwards and Swaps – foreign	1,109,990	12,636	6,360	777,660	7,368	-
Options – foreign	-	-	-	10,183	1,501	1,455
Total derivative assets / liabilities	3,615,148	31,084	11,569	1,303,517	13,337	3,529

16. Amounts due to customers

The amounts due to customers include the following:

	2018	*2017*
Current accounts	4,044,340	3,613,887
Time deposits	3,767,421	3,127,415
Promissory notes issued	-	74,466
Amounts due to customers	7,811,761	6,815,768
Held as security against letters of credit and guarantees (Note19)	125,217	98,034

As at 31 December 2017, promissory notes issued by the Bank comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate.

At 31 December 2018, amounts due to customers of GEL 966,873 (12%) were due to the 10 largest customers (2017: GEL 1,066,616 (16%)).

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

	2018	*2017*
Individuals	4,611,854	3,698,795
Private enterprises	2,659,687	2,652,686
State and state-owned entities	540,220	464,287
Amounts due to customers	7,811,761	6,815,768

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

	2018	*2017*
Individuals	4,611,854	3,698,795
Construction	549,444	255,329
Government services	508,410	438,492
Trade	478,417	555,035
Financial intermediation	457,293	647,639
Transport & communication	324,478	242,516
Service	307,572	307,076
Manufacturing	144,325	198,771
Electricity, gas and water supply	95,987	109,780
Real estate	81,316	84,428
Health and social work	48,547	68,846
Hospitality	40,216	41,703
Other	163,902	167,358
Amounts due to customers	7,811,761	6,815,768

17. Amounts Owed to Credit Institutions

Amounts due to credit institutions comprise:

	2018	*2017*
Short-term loans from the National Bank of Georgia	1,118,100	793,528
Borrowings from international credit institutions	812,189	940,335
Time deposits and inter-bank loans	90,903	211,174
Correspondent accounts	118,904	209,499
Other borrowings*	-	386,426
Subtotal	2,140,096	2,540,962
Non-convertible subordinated debt	419,181	428,673
Amounts due to credit institutions and other borrowings	2,559,277	2,969,635

* Other borrowings represent borrowings from JSC Georgia Capital on arm's length terms.

During the year ended 31 December 2018, the Bank paid up to 6.10% on USD borrowings from international credit institutions (2017: up to 6.27%). During the year ended 31 December 2018, the Bank paid up to 10.00% on USD subordinated debt (2017: up to 8.92%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Bank maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2018 and 31 December 2017 the Bank complied with all the Lender Covenants of the significant borrowings from international credit institutions.

Interest-bearing liabilities and borrowings of BOGG was formed as a result of Demerger, during which BGEO Group limited, former BGEO Group PLC, contributed the entire issued share capital of JSC Georgia Capital, the investment business, in exchange of interest-bearing loan.

Changes in liabilities arising from financing activities

	Amounts due to credit institutions
Carrying amount at 31 December 2016	17,793
Cash repayments	(17,793)
Carrying amount at 31 December 2017	-
Carrying amount at 31 December 2018	-

18. Debt Securities Issued

Debt securities issued comprise:

	2018	*2017*
Eurobonds and notes issued	1,350,921	454,954
Certificates of deposit	285,008	240,039
Debt securities issued	1,635,929	694,993

19. Commitments and Contingencies

Legal

Sai-invest

As at 31 December 2018, the Bank was engaged in a litigation proceeding with Sai-Invest LLC in relation to a deposit pledge in the amount of EUR 7 million used to reduce the outstanding loan of LTD Sport Invest towards JSC Bank of Georgia. The management is of the opinion that the probability of incurring material losses on this claim is low, and accordingly no provision has been made in these consolidated financial statements.

Rustavi Azoti

As at 31 December 2018, the Bank was engaged in litigation proceedings in Tbilisi City Court with East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC. Claimants request reinstatement of the title to the property owned by Rustavi Azoti LLC and compensation of damages in the amount of around USD 93.6m. No provision has been made as the management believes that the claim is groundless and it is extremely unlikely that any significant loss will eventuate from this claim.

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

Financial commitments and contingencies

As at 31 December 2018 and 31 December 2017 the Bank's financial commitments and contingencies comprised the following:

	2018	*2017*
Credit-related commitments		
Guarantees issued	991,816	602,364
Undrawn loan facilities	237,222	232,337
Letters of credit	43,815	42,152
	1,272,853	876,853
Less – Cash held as security against letters of credit and guarantees (Note 16)	(125,217)	(98,034)
Less – Provisions	(3,745)	(2,816)
Operating lease commitments		
Not later than 1 year	27,514	18,877
Later than 1 year but not later than 5 years	72,824	46,638
Later than 5 years	28,754	18,486
	129,092	84,001
Capital expenditure commitments	6,616	2,538

20. Equity

Share capital

As at 31 December 2018 and 2017 authorized common capital comprised 43,308,125. As at 31 December 2018, issued and fully paid share capital comprised 27,993,660 common shares (2017: 27,821,150). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2018 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2016	27,821,150	27,821
31 December 2017	27,821,150	27,821
Issue of share capital	172,510	173
31 December 2018	27,993,660	27,994

20. Equity (continued)

Treasury shares

The number of treasury shares held by the Bank as at 31 December 2018 comprised 8,995 (31 December 2017: 8,995), with nominal amount of GEL 9 (31 December 2017: GEL 9).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 14 June 2018, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2017 of Georgian Lari 4.31 per share. Payment of the total GEL 120,000 final dividends was received by shareholders on 2 July 2018.

Earnings per share

	2018	*2017*
Basic and diluted earnings per share		
Profit for the year attributable to ordinary shareholders of the Bank	333,302	332,067
Weighted average number of ordinary shares outstanding during the year	27,826,807	27,812,155
Earnings per share	11.9777	11.9396

Nature and purpose of Other Reserves

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.

Movements in other reserves during the years ended 31 December 2018 and 31 December 2017 are presented in the statements of other comprehensive income.

21. Net Fee and Commission Income

	2018	*2017*
Settlements operations	173,018	146,580
Guarantees and letters of credit	17,307	16,749
Cash operations	14,866	14,906
Currency conversion operations	1,610	274
Other	3,892	4,622
Fee and commission income	210,693	183,131
Settlements operations	(80,660)	(61,236)
Cash operations	(4,742)	(5,147)
Guarantees and letters of credit	(889)	(1,352)
Currency conversion operations	(289)	-
Brokerage service fees	(256)	(206)
Other	(2,242)	(3,327)
Fee and commission expense	(89,078)	(71,268)
Net fee and commission income	121,615	111,863

Revenue from customers

The Bank has recognised the following amounts relating to revenue from contracts with customers in the income statement:

	2018
Revenue from contracts with customers	224,668

Contract assets and liabilities

The Bank has recognised the following revenue-related contract assets and liabilities:

	31-Dec-18	1-Jan-18
Accruals and deferred income	21,627	17,670

The Bank does not adjust the promised amount of consideration for the effects of a significant financing component if the Bank expects, at contract inception, that the period between when the Bank transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Bank recognised GEL 6,873 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2019	In the year ending 31 December 2020	In the year ending 31 December 2021	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers	21,523	9,427	5,533	2,169	152	38,804

The Bank applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

22. Net Real Estate Revenue

	2018	*2017*
Income from operating lease	4,796	3,453
Gain from sale of real estate properties	13,836	4,630
Real estate revenue	18,632	8,083
Loss on real estate property sale	(13,942)	(2,094)
Net real estate revenue	4,690	5,989

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

Salaries and other employee benefits

	2018	*2017*
Salaries and bonuses	(182,360)	(170,467)
Salaries and other employee benefits	(182,360)	(170,467)

Salaries and bonuses include GEL 48,061 and GEL 50,393 of the Equity Compensation Plan costs for the years ended 31 December 2018 and 31 December 2017, respectively, associated with the existing share-based compensation scheme approved in the Bank (Notes 26 and 30).

General and administrative expenses

	2018	*2017*
Occupancy and rent	(24,797)	(22,739)
Marketing and advertising	(16,168)	(13,755)
Repairs and maintenance	(10,423)	(9,805)
Legal and other professional services	(9,842)	(7,150)
Personnel training and recruitment	(5,928)	(3,386)
Corporate hospitality and entertainment	(5,651)	(5,141)
Operating taxes	(5,298)	(4,992)
Office supplies	(5,185)	(5,150)
Communication	(4,155)	(3,877)
Security	(2,593)	(1,976)
Insurance	(2,290)	(1,793)
Travel expenses	(1,599)	(1,562)
Penalties	(568)	(49)
Other	(2,201)	(1,903)
General and administrative expenses	(96,698)	(83,278)

Auditors' remuneration

Auditors' remuneration is included within legal and other professional services expenses above and comprises:

	2018	*2017*
Fees for the audit of the annual financial statements for the year ended 31 December	520	428
Expenditures for other assurance services	-	592
Total fees and expenditures	520	1,020

In 2017, fees and expenditures payable to other auditors and audit firms in respect of other professional services GEL 192, net of VAT.

24. Expected credit loss

The table below shows ECL charges on financial instruments for the year recorded in the income statement:

	As at 31 December 2018					
	Stage 1	Stage 2	Stage 3			
	Collective	*Collective*	*Individual*	*Collective*	POCI	*Total*
Cash and cash equivalents	(51)	-	-	-	-	(51)
Amounts due from credit institutions	(29)	-	-	-	-	(29)
Investment securities measured at FVOCI - debt instruments	(827)	-	-	-	-	(827)
Loans to customers at amortised cost	15,638	4,152	9,119	(170,154)	3,627	(137,618)
Finance lease receivables	74	-	-	-	-	74
Accounts receivable	-	-	-	-	-	-
Financial guarantees	(1,836)	18	304	83	-	(1,431)
Letter of credit to customers	186	15	-	621	-	822
Other financial commitments	-	-	-	-	-	-
For the year ended 31 December 2018	13,155	4,185	9,423	(169,450)	3,627	(139,060)

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

	2017		
	Individual impairment	*Collective impairment*	*Total*
	2017	*2017*	*2017*
At 1 January	138,767	72,905	211,672
Charge for the year	50,856	95,840	146,696
Recoveries	10,948	41,844	52,792
Write-offs	(39,246)	(101,705)	(140,951)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)
At 31 December	150,557	87,348	237,905

25. Net Non-recurring Items

	2018	*2017*
Demerger related expenses*	(34,984)	-
Corporate social responsibility expense**	(11,478)	-
Loss on early repayment of parent loan	(10,432)	-
Termination benefits / sign-up compensation expenses	(4,401)	(868)
Loss from sale of subsidiary	(3,659)	-
Other	(3,858)	(2,670)
Net non-recurring items	(68,812)	(3,538)

* Demerger related expenses comprise of: employee compensation expenses in amount of GEL 31,913 including acceleration of share-based compensation of investment business employees, demerger costs recognised in the separate income statement in amount of GEL 1,663 and other demerger related expenses in amount of GEL 1,408.

** Corporate social responsibility comprise of the one-off project to support the fiber-optic broadband infrastructure development in rural Georgia.

26. Share-based Payments

Executives' Equity Compensation Plan

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

In 2018, the Bank contributed GEL 65,357 (2017: GEL 126,066) as intra-group recharge under share-based compensation schemes described above.

Following the Demerger, Bank of Georgia Group PLC's remuneration committee resolved to amend the contingent share-based compensation of the Management Board members using estimated valuation of the relative share prices of BGEO Group PLC before Demerger and Bank of Georgia Group PLC after the listing.

In February 2018, BGEO's remuneration committee resolved to award 232,548 ordinary shares of BGEO Group PLC to the members of the Management Board and 79,050 ordinary shares of BGEO Group PCC to the Bank's 16 executives. Shares awarded are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Bank considers 14 February 2018 as the grant date. The Bank estimates that the fair value of the shares awarded on 14 February 2018 was Georgian Lari 114.56 per share.

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

In 2018 the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 82,000 ordinary shares of BGEO Group PLC and 115,000 ordinary shares of BOG Group PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2020, of which each award will be subject to a four-year vesting period. The Bank considers 16 February 2018, 23 March 2018 and 10 July 2018 as the grant date for the awards. The Bank estimates that the fair value of the shares on 16 February 2018, 23 March 2018 and 10 July 2018 were Georgian Lari 115.03, 122.23 and 60.47, respectively.

At the end of 2016 and during 2017, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 141,000 ordinary shares of BGEO PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2018, of which each award will be subject to a four-year vesting period. The Bank considers 11 October 2016, 18 October 2016 and 1 March 2017 as the grant date for the awards. The Bank estimates that the fair value of the shares on 11 October 2016, 18 October 2016 and 1 March 2017 were Georgian Lari 86.4, 87.6 and 92.2, respectively.

The Bank grants share compensation to its non-executive employees. In February 2018 and February 2017, the Supervisory Board of the Bank resolved to award 158,960 and 131,710 ordinary shares to its non-executive employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Bank considers 14 February 2018 and 28 February 2017 as the grant dates of these awards, respectively. The Bank estimates that the fair values of the shares awarded on 14 February 2018 and 28 February 2017 were Georgian Lari 114.56 and 90.01 per share, respectively.

26. Share-based Payments (continued)

Executives' Equity Compensation Plan (continued)

Summary

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

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 106.38 per share in year ended 31 December 2018 (31 December 2017: Georgian Lari 89.79 per share).

The Bank's total share-based payment expenses for the year ended 31 December 2018 comprised GEL 82,483 (31 December 2017: GEL 50,393) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2018	*2017*
Total number of equity instruments awarded*	667,558	597,210
– Among them, to top management and board of directors	*429,548*	*394,950*
Weighted average value at grant date, per share (GEL in full amount)	106.38	89.79
Value at grant date, total (GEL)	**71,012**	**53,626**
Total expense recognised during the year (GEL)	**(82,483)**	**(50,394)**

**** 2018 Expense recognised during the year includes GEL 34,422 recorded in non-recurring expenses.***

27. Risk Management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

Risk management structure

Audit Committee
The Audit Committee assists the Board in relation to the oversight of the Bank's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Risk Committee
The Risk Committee assists the Board in relation to the oversight of risk. It reviews the Bank's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Management Board
The Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

27. Risk Management (continued)

Introduction (continued)

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO) is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits.

Internal Audit
The Internal Audit Department is responsible for the annual audit of the Bank's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Bank's internal control systems and detecting any infringements or errors on the part of the Bank's departments and divisions. It examines both the adequacy of and the Bank's compliance with those procedures. The Bank's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

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

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

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

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

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

Risk mitigation

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

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

27. Risk Management (continued)

Introduction (continued)

Excessive risk concentration

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

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

Credit risk

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

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

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

There were no material changes in credit risk management practice at the Bank as a consequence of IFRS 9 application.

Derivative financial instruments

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

Credit-related commitments risks

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank through internal and external credit ratings used in ECL calculations. For retail and micro loans, the Bank uses external ratings provided by Credit Bureau.

For corporate and SME loan portfolios the Bank runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. Attributable risk ratings are assessed and updated regularly.

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available the Bank credit risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

27. Risk Management (continued)

Credit risk (continued)

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grade	External Rating		
		Credit bureau rating	Moody's	S&P
High grade				
	Aaa	2	A	AAA
	Aa1	2-	B	AA+
	Aa2	3+	C1	AA
	Aa3	3	C2	AA-
	A1	3-	C3	A+
	A2	4+		A
	A3	4		A-
	Baa1	4-		BBB+
	Baa2	5+		BBB
	Baa3	5		BBB-
Standard grade				
	Ba1	5-	D1	BB+
	Ba2	6+	D2	BB
	Ba3	6		BB-
	B1	6-		B+
	B2	7+		B
Low grade				
	B3	7	D3	B-
	Caa1	7-	E1	CCC+
	Caa2	7-	E2	CCC
	Caa3	7-	E3	CCC-
	Ca	7-		CC
				C

*Grades are not supposed to be linked to each other across the rating categories above.

27. Risk Management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset in the statement of financial position, based on the Bank's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents	*As at 31 December 2018*	
	Stage 1	*Total*
High grade	315,769	315,769
Standard grade	303,053	303,053
Low grade	765	765
Balance at 31 December 2018	619,587	619,587

Amounts due from credit institutions	*As at 31 December 2018*	
	Stage 1	*Total*
High grade	26,982	26,982
Standard grade	1,256,325	1,256,325
Balance at 31 December 2018	1,283,307	1,283,307

Investment securities measured at FVOCI - debt instruments	*As at 31 December 2018*	
	Stage 1	*Total*
High grade	830,008	830,008
Standard grade	1,028,605	1,028,605
Low grade	6,246	6,246
Not rated	3,110	3,110
Balance at 31 December 2018	1,867,969	1,867,969

27. Risk Management (continued)

Credit risk (continued)

Commercial loans at amortised cost	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,327,033	59,862	-	-	1,386,895
Standard grade	373,478	166,814	-	-	540,292
Low grade	102,328	73,296	-	6,050	181,674
Not rated	206,655	8,144	-	-	214,799
Defaulted					
Non-performing	-	-	171,738	-	171,738
Other	-	-	54,973	987	55,960
Balance at 31 December 2018	2,009,494	308,116	226,711	7,037	2,551,358

Consumer loans at amortised cost	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	749,583	2,731	-	109	752,423
Standard grade	299,181	4,100	-	-	303,281
Low grade	483,340	93,786	-	194	577,320
Not rated	59,039	236	76	-	59,351
Defaulted					
Non-performing	-	-	38,535	214	38,749
Other	-	-	82,284	3,954	86,238
Balance at 31 December 2018	1,591,143	100,853	120,895	4,471	1,817,362

Micro and SME loans at amortised cost	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,024,192	7,449	-	-	1,031,641
Standard grade	347,357	10,016	-	-	357,373
Low grade	240,321	45,920	-	5	286,246
Not rated	211,073	705	-	5	211,783
Defaulted					
Non-performing	-	-	70,438	1,979	72,417
Other	-	-	47,461	246	47,707
Balance at 31 December 2018	1,822,943	64,090	117,899	2,235	2,007,167

Residential mortgage loans at amortised cost	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,691,375	18,777	-	311	1,710,463
Standard grade	290,796	7,038	-	-	297,834
Low grade	319,076	60,994	-	533	380,603
Not rated	49,150	-	-	-	49,150
Defaulted					
Non-performing	-	-	23,239	3,455	26,694
Other	-	-	65,010	18,889	83,899
Balance at 31 December 2018	2,350,397	86,809	88,249	23,188	2,548,643

Gold – pawn loans at amortised cost	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Not rated	75,483	541	-	-	76,024
Defaulted					
Non-performing	-	-	369	-	369
Other	-	-	4,378	-	4,378
Balance at 31 December 2018	75,483	541	4,747	-	80,771

27. Risk Management (continued)

Credit risk (continued)

Finance lease receivables	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	6,176	-	-	6,176
Balance at 31 December 2018	6,176	-	-	6,176

Accounts receivable	*As at 31 December 2018*	
	Stage 1	*Total*
Not rated	18,780	18,780
Balance at 31 December 2018	18,780	18,780

Guarantees issued	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	165,401	5,697	-	171,098
Standard grade	37,795	5,708	-	43,503
Low grade	17,791	466	-	18,257
Not rated	736,473	-	-	736,473
Defaulted				
Other	-	-	22,485	22,485
Balance at 31 December 2018	957,460	11,871	22,485	991,816

Letters of credit	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	31,381	2,553	-	33,934
Standard grade	6,649	-	-	6,649
Low grade	-	2,355	-	2,355
Not rated	877	-	-	877
Balance at 31 December 2018	38,907	4,908	-	43,815

Undrawn loan facilities	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	185,926	165	-	186,091
Standard grade	22,951	150	-	23,101
Low grade	19,349	3,495	-	22,844
Not rated	3,781	4	61	3,846
Defaulted				
Other	-	-	1,340	1,340
Balance at 31 December 2018	232,007	3,814	1,401	237,222

27. Risk Management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position as at 31 December 2017, based on the Bank's credit rating system.

		Neither past due nor impaired				
31 December 2017	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	7	1,205,844	-	-	-	1,205,844
Debt investment securities available-for-sale	8	1,540,143	-	-	-	1,540,143
Loans to customers:	9					
Commercial loans		1,753,679	100,967	359	294,231	2,149,236
Consumer loans		1,576,185	26,976	31,600	99,990	1,734,751
Micro and SME loans		1,532,066	22,924	19,741	62,626	1,637,357
Residential mortgage loans		1,619,638	28,961	19,783	44,133	1,712,515
Gold – pawn loans		65,865	-	-	2,075	67,940
		6,547,433	179,828	71,483	503,055	7,301,799
Finance lease receivables	0	6,698	-	-	-	6,698
Total		9,300,118	179,828	71,483	503,055	10,054,484

Prior to IFRS 9 transition, the credit risk assessment policy for non-past due and individually non-impaired financial assets was determined by the Bank as follows:

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

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

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

27. Risk Management (continued)

Credit risk (continued)

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

During the year, the Bank modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during the period:	*Amortized cost before modification*	*Net loss arising from Modification*
Commercial loans	-	-
Consumer loans	19,092	(2,065)
Micro and SME loans	20,810	(1,152)
Residential mortgage loans	5,883	(690)
Gold – pawn loans	-	-
	45,785	(3,907)

The table below shows the carrying amount for renegotiated financial assets, by class as at 31 December 2017:

	2017
Loans to customers:	
Commercial loans	101,412
Micro and SME loans	44,264
Residential mortgage loans	44,058
Consumer loans	39,318
Total	229,052

There were no loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses.

27. Risk Management (continued)

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

	2018				2017			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	789,037	311,524	8,827	1,109,388	475,065	921,612	5,204	1,401,881
Amounts due from credit institutions	1,255,782	26,982	-	1,282,764	1,023,145	182,699	-	1,205,844
Investment securities	1,020,244	779,097	65,477	1,864,818	980,876	559,468	-	1,540,344
Loans to customers	8,716,788	-	-	8,716,788	7,063,894	-	-	7,063,894
Finance lease receivables	6,156	-	-	6,156	6,603	-	-	6,603
All other assets	883,151	34,578	32	917,761	870,829	4,271	9	875,109
	12,671,158	1,152,181	74,336	13,897,675	10,420,412	1,668,050	5,213	12,093,675
Liabilities:								
Amounts due to customers	6,075,044	656,499	1,080,218	7,811,761	5,358,184	662,957	794,627	6,815,768
Amounts due to credit institutions and other borrowings	1,262,352	1,241,312	55,613	2,559,277	1,449,742	1,462,523	57,370	2,969,635
Debt securities issued	-	1,635,929	-	1,635,929	-	694,993	-	694,993
All other liabilities	114,507	8,573	138	123,218	76,530	152	45	76,727
	7,451,903	3,542,313	1,135,969	12,130,185	6,884,456	2,820,625	852,042	10,557,123
Net balance sheet position	5,219,255	(2,390,132)	(1,061,633)	1,767,490	3,535,956	(1,152,575)	(846,829)	1,536,552

Liquidity risk and funding management

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

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

The liquidity position is assessed and managed by the Bank primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. Minimum NBG requirement for liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by liabilities for the same month (with certain exceptions established by the NBG). For the years ended 31 December 2018 and 31 December 2017 these ratios were as follows:

	2018, %	2017, %
Average annual liquidity ratio*	33.3%	39.8%
Maximum average monthly liquidity ratio*	36.8%	44.8%
Minimum average monthly liquidity ratio*	30.2%	34.4%

27. Risk Management (continued)

Liquidity risk and funding management (continued)

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

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

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

In addition, on 15 May 2017 NBG issued an Order on Liquidity Coverage Ratio for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2018 was 120.1% (2017: 112.4%).

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

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

Financial liabilities As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	2,918,654	4,249,045	723,925	78,764	7,970,388
Amounts due to credit institutions and other borrowings	1,341,749	173,406	1,068,662	302,379	2,886,196
Debt securities issued	26,685	347,441	1,604,609	-	1,978,735
Derivative financial liabilities	10,574	995	-	-	11,569
Total undiscounted financial liabilities	4,297,662	4,770,887	3,397,196	381,143	12,846,888

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

27. Risk Management (continued)

Liquidity risk and funding management (continued)

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2018	360,431	336,138	615,015	96,977	1,408,561
31 December 2017	339,763	191,847	328,538	103,244	963,392

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

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

Included in amounts 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).

Market risk

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

Interest rate risk

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

The sensitivity of the separate 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 2018. 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 years ended 31 December 2018 and 2017 sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

Currency	*Increase in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of other comprehensive income 2018*
GEL	6	251	1,019
EUR	(1)	(50)	(2)
USD	6	121	63

Currency	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of other comprehensive income 2018*
GEL	6	(251)	(1,019)
EUR	(1)	50	2
USD	6	(121)	(63)

27. Risk Management (continued)

Market risk (continued)

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

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

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2018 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. 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 2018 and year ended 31 December 2017, sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
	2018		2017	
EUR	9.9%	36	12.0%	(2,487)
USD	7.1%	2,230	8.9%	5,758

Prepayment risk

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

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

The estimated effect of prepayment risk on net interest income of the Bank for the years ended 31 December 2018 and 31 December 2017 is as follows:

	Effect on net interest income
2018	(73,870)
2017	(46,527)

27. Risk Management (continued)

Operational risk

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

Operating environment

Most of the Bank's business is 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.

28. Fair Value Measurements

Fair value hierarchy

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

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	132,327	132,327
Land	-	-	15,094	15,094
Residential properties	-	-	75,171	75,171
Non-residential properties	-	-	42,062	42,062
Investment securities	-	1,864,423	395	1,864,818
Other assets – derivative financial assets	-	31,084	-	31,084
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,109,388	-	1,109,388
Amounts due from credit institutions	-	1,282,764	-	1,282,764
Loans to customers	-	-	8,672,510	8,672,510
Finance lease receivables	-	-	6,156	6,156
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	11,569	-	11,569
Liabilities for which fair values are disclosed				
Amounts due to customers	-	7,807,863	-	7,807,863
Amounts due to credit institutions and other borrowings	-	2,506,659	52,618	2,559,277
Debt securities issued	-	1,374,229	285,008	1,659,237

28. Fair Value Measurement (continued)

Fair value hierarchy (continued)

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

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

Derivative financial instruments

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

Trading securities and investment securities

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

Movements in level 3 financial instruments measured at fair value

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

	At 31 December 2016	*Disposal*	*At 31 December 2017*	*Purchase*	*At 31 December 2018*
Level 3 financial assets					
Equity investment securities	295	(94)	201	194	395

28. Fair Value Measurement (continued)

Fair value hierarchy (continued)

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

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

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

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

	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2018		*2017*	
Level 3 financial assets				
Equity investment securities	395	+/- 59	201	+/- 30

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

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

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:

	2018	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	132,327						
Land	15,094	Market approach	Price per square metre	0.11 - 1,008 (215.8)	Square metres, land	7 - 4,667,136 (454,326)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	75,171	Market approach	Price per square metre	24 - 2,678 (1,128)	Square metres, building	2 - 1,583 (301)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	42,062						
	13,252	Market approach	Price	5.6k - 4.8 mln (0.3 mln)	Square metres, land Square metres, building	77 - 73,575 (2,540) 6 - 3,823 (1,195)	Increase (decrease) in the price would result in increase (decrease) in fair value
			Rent per square metere	2.1 - 67.7 (9.96)	Square metres, building	23.5 - 5,984 (2,503)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
	21,620	Income approach	Occupancy rate	10% - 75% (32%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	78 - 244 (97)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	7,190	Cost approach	Land price per square metre	0.65 - 563 (53)	Square metres, land	600 - 240,000 (121,780)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	259 - 648 (413)	Square metres, building	20 - 10,600 (5,943)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.*

28. Fair Value Measurement (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Bank as at 31 December 2018 and 31 December 2017:

	31 December 2018			31 December 2017		
	Amortised cost	*Fair value through OCI*	*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	1,282,764	-	-	1,205,844	-	-
Loans to customers	8,716,788	-	-	7,063,894	-	-
Finance lease receivables	6,156	-	-	6,603	-	-
Trade and other receivables (in other assets)	20,319	-	-	42,806	-	-
Equity instruments	-	395	-	-	201	-
Debt instruments	-	1,864,423	-	-	1,540,143	-
Interest rate contracts	-	-	12,636	-	-	8,869
Foreign currency derivative financial instruments	-	-	18,448	-	-	4,468
Total:	10,026,027	1,864,818	31,084	8,319,147	1,540,344	13,337
Financial liabilities						
Amounts owed to customers	7,811,761	-	-	6,815,768	-	-
Amounts due to credit institutions and other borrowings	2,559,277	-	-	2,969,635	-	-
Debt securities issued	1,635,929	-	-	694,993	-	-
Trade and other payables (in other liabilities)	19,410	-	-	26,255	-	-
Interest rate contracts	-	-	6,360	-	-	1,455
Foreign currency derivative financial instruments	-	-	5,209	-	-	2,074
Total:	12,026,377	-	11,569	10,506,651	-	3,529

Fair value of financial instruments that are carried in the financial statements not at fair value

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

	Carrying value 2018	*Fair value 2018*	*Unrecognised gain (loss) 2018*	*Carrying value 2017*	*Fair value 2017*	*Unrecognised gain (loss) 2017*
Financial assets						
Cash and cash equivalents	1,109,388	1,109,388	-	1,401,881	1,401,881	-
Amounts due from credit institutions	1,282,764	1,282,764	-	1,205,844	1,205,844	-
Loans to customers	8,716,788	8,672,510	(44,278)	7,063,894	7,177,440	113,546
Finance lease receivables	6,156	6,156	-	6,603	6,603	-
Financial liabilities						
Amounts due to customers	7,811,761	7,807,863	3,898	6,815,768	6,820,049	(4,281)
Amounts due to credit institutions and other borrowings	2,559,277	2,559,277	-	2,969,635	2,969,635	-
Debt securities issued	1,635,929	1,659,237	(23,308)	694,993	754,786	(59,793)
Total unrecognised change in unrealised fair value			(63,688)			49,472

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts as described below. See Note 27 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2018							
	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	941,876	167,512	-	-	-	-	-	1,109,388
Amounts due from credit institutions	1,239,365	43,399	-	-	-	-	-	1,282,764
Investment securities	751,039	923,354	921	31,514	105,577	35,115	17,298	1,864,818
Loans to customers	-	1,308,416	581,470	1,337,221	2,322,705	1,264,925	1,902,051	8,716,788
Finance lease receivables	-	441	1,026	1,250	1,529	1,905	5	6,156
Total	2,932,280	2,443,122	583,417	1,369,985	2,429,811	1,301,945	1,919,354	12,979,914
Financial liabilities								
Amounts due to customers	1,500,440	1,407,397	643,427	3,555,472	613,952	52,520	38,553	7,811,761
Amounts due to credit institutions and other borrowings	118,923	1,227,965	62,069	129,616	453,928	405,273	161,503	2,559,277
Debt securities issued	-	26,569	159,165	171,540	525,053	753,602	-	1,635,929
Total	1,619,363	2,661,931	864,661	3,856,628	1,592,933	1,211,395	200,056	12,006,967
Net	1,312,917	(218,809)	(281,244)	(2,486,643)	836,878	90,550	1,719,298	972,947
Accumulated gap	1,312,917	1,094,108	812,864	(1,673,779)	(836,901)	(746,351)	972,947	

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

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

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

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

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

As at 31 December 2018 amounts due to customers amounted to GEL 7,811,761 (2017: GEL 6,815,768) and represented 64% (2017: 65%) of the Bank's total liabilities. These funds continue to provide a majority of the Bank's funding and represent a diversified and stable source of funds. As at 31 December 2018 amounts owed to credit institutions amounted to GEL 2,559,277 (2017: GEL 2,969,635) and represented 21% (2017: 28%) of total liabilities. As at 31 December 2018 debt securities issued amounted to GEL 1,635,929 (2017: GEL 694,993) and represented 13% (2017: 7%) of total liabilities.

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

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

	31 December 2018			*31 December 2017*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,109,388	-	1,109,388	1,401,881	-	1,401,881
Amounts due from credit institutions	1,282,764	-	1,282,764	1,205,844	-	1,205,844
Investment securities	1,706,828	157,990	1,864,818	1,458,770	81,574	1,540,344
Loans to customers	3,227,107	5,489,681	8,716,788	3,026,587	4,037,307	7,063,894
Finance lease receivables	2,717	3,439	6,156	2,167	4,436	6,603
Investment properties	-	132,327	132,327	-	185,493	185,493
Prepayments	25,783	17,102	42,885	19,819	28,816	48,635
Property and equipment	-	294,647	294,647	-	287,886	287,886
Intangible assets	-	72,802	72,802	-	48,190	48,190
Investments in subsidiaries	-	158,981	158,981	-	159,888	159,888
Investments in associates	-	12,371	12,371	-	11,031	11,031
Goodwill	-	33,453	33,453	-	33,453	33,453
Current income tax assets	19,159	-	19,159	-	-	-
Other assets	106,293	2,435	108,728	69,860	30,673	100,533
Assets held for sale	42,408	-	42,408	-	-	-
Total assets	7,522,447	6,375,228	13,897,675	7,184,928	4,908,747	12,093,675
Amounts due to customers	7,106,736	705,025	7,811,761	6,228,449	587,319	6,815,768
Amounts due to credit institutions	1,538,573	1,020,704	2,559,277	1,695,085	1,274,550	2,969,635
Debt securities issued	357,274	1,278,655	1,635,929	116,876	578,117	694,993
Current income tax liabilities	-	-	-	8,386	-	8,386
Deferred income tax liabilities	-	23,459	23,459	-	7,602	7,602
Provisions	3,745	-	3,745	2,816	-	2,816
Other liabilities	94,688	1,326	96,014	57,923	-	57,923
Total liabilities	9,101,016	3,029,169	12,130,185	8,109,535	2,447,588	10,557,123
Net	(1,578,569)	3,346,059	1,767,490	(924,607)	2,461,159	1,536,552

30. Related Party Disclosures

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

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

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

	2018					*2017*			
	The parent	*Entities under common control*	*Subsidiaries*	*Associates*	*Key management personnel**	*The parent*	*Entities under common control*	*Subsidiaries*	*Associates*
Cash and cash equivalents outstanding at 31 December	-	-	72	-	-	-	-	210	-
Interest income on amounts due from credit institutions	-	-	2	-	-	-	-	1	-
Loans outstanding at 1 January, gross	-	101,956	14,800	-	2,361	-	64,771	-	-
Loans issued during the year	-	26,030	14,866	-	2,768	-	146,961	17,528	-
Loan repayments during the year	-	(34,359)	(12,713)	-	(2,474)	-	(76,070)	(12,164)	-
Other movements	-	(93,627)	271	-	(1,001)	-	(33,706)	9,436	-
Loans outstanding at 31 December, gross	-	-	17,224	-	1,654	-	101,956	14,800	-
Less: allowance for impairment at 31 December	-	-	-	-	-	-	(3)	(105)	-
Loans outstanding at 31 December, net	-	-	17,224	-	1,654	-	101,953	14,695	-
Interest income on loans	-	2,900	1,386	-	62	-	5,949	515	-
Loan impairment charge	-	-	105	-	-	-	-	-	-
Deposits at 1 January	42,720	396,678	1,942	33	25,718	-	207,661	6,999	12
Deposits received during the year	3,299	2,701	3,266	361	9,363	-	238,797	54	21
Deposits repaid during the year	-	(24,649)	(1,308)	-	(774)	(133,051)	(14,983)	(7,738)	-
Other movements	(7)	(343,102)	275	(67)	(19,835)	175,771	(34,797)	2,628	-
Deposits at 31 December	46,012	31,628	4,175	327	14,472	42,720	396,678	1,942	33
Interest expense on deposits	(989)	(564)	(809)	-	(410)	(6,546)	(3,591)	(84)	-
Other income	-	-	-	-	-	-	-	48	-
Borrowings at 1 January	386,508	-	5,039	-	-	394,224	-	3,549	-
Borrowings received during the year	-	-	26	-	-	-	-	1,433	-
Borrowings repaid during the year	-	-	(4,742)	-	-	(25,464)	-	(3)	-
Other movements	(386,508)	-	(14)	-	-	17,748	-	59	-
Borrowings at 31 December	-	-	309	-	-	386,508	-	5,039	-
Interest expense on borrowings	(2,141)	-	(2)	-	-	(25,823)	-	(3)	-
Debt securities at 1 January	-	27,329	-	-	-	-	-	-	-
Other movements	-	(27,329)	-	-	-	-	27,329	-	-
Debt securities at 31 December	-	-	-	-	-	-	27,329	-	-
Commitments and guarantees issued	-	-	1,805	-	-	-	12,453	-	-

** Key management personnel include members of BOGG's Board of Directors and key executives of the Bank.*
***Other movements mainly relate to the Demerger.*

Compensation of key management comprised the following:

	2018	2017
Salaries and other benefits	4,504	7,372
Share-based payments compensation*	56,711	33,635
Social security costs	69	82
Total key management compensation	61,284	41,089

** In 2018, share-based compensation included an amount of GEL 28,347 (2017: nil) for key management personnel reflected in the non-recurring items.*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2018 was 16 (31 December 2017: 19).

31. Capital Adequacy

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

During the year ended 31 December 2018, the Bank and the Bank complied in full with all its externally imposed capital requirements.

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

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

NBG (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 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017
Tier 1 capital	1,241,866
Less: Deductions from capital	(100,021)
Tier 2 capital	501,689
Total capital	1,643,534
Risk-weighted assets	11,115,315
Total capital ratio	14.8%
Tier 1 capital ratio	10.3%

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

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements. As at 31 December 2018 and 31 December 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2018	*2017*
Tier 1 capital	1,379,953	1,141,845
Tier 2 capital	502,355	501,689
Total capital	1,882,308	1,643,534
Risk-weighted assets	11,338,660	9,192,078
Total capital ratio	16.6%	17.9%
Tier 1 capital ratio	12.2%	12.4%
Total Capital ratio Min Requirement	15.9%	12.4%

31. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the separate 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 2018 and 31 December 2017, was as follows:

	2018	*2017*
Tier 1 capital	1,719,989	1,471,714
Less: Deductions - Goodwill	(33,340)	(33,340)
Tier 2 capital	580,408	560,771
Less: Deductions from capital	(9)	(9)
Total capital	2,267,048	1,999,136
Risk-weighted assets	12,014,414	9,750,829
Total capital ratio	18.9%	20.5%
Tier 1 capital ratio	14.0%	14.8%
Minimum capital adequacy ratio	8.0%	8.0%

32. Events after the Reporting Period

Issue of US$ 100 million Additional Tier 1 Capital Notes

On 21 March 2019 JSC Bank of Georgia successfully priced inaugural US$ 100 million offering of 11.125% Additional Tier 1 Capital Perpetual Subordinated Notes callable after 5.25 years and on every subsequent interest payment date, subject to prior consent of the National Bank of Georgia (the "Notes"). The Notes are being issued in accordance with Regulation S and sold at an issue price of 100.00%.

Dividends declared

On 14 May 2019, the annual general meeting of shareholders of JSC Bank of Georgia declared a final dividend for 2018 of Georgian Lari 4.97 per share. Payment of the total GEL 139,200 final dividends was received by shareholders on 17 June 2019.

GEL 28 million 5-year loan agreement with EBRD

On 12 July 2019, JSC Bank of Georgia attracted a c. GEL 28 million loan from the European Bank for Reconstruction and Development ("EBRD") with a maturity of 5 years. EBRD obtained the local currency funds through a private placement of GEL-denominated bonds arranged by Galt & Taggart - a wholly owned brokerage subsidiary of the Bank of Georgia Group PLC.

JSC Bank of Georgia signs US$50 million Trade Finance Facility with Citi

On 24 July 2019, Bank of Georgia Group PLC announces that JSC Bank of Georgia has signed a one-year US$50 million Trade Finance Facility ("the Facility") with Citi. The Facility has been arranged under the Continuing Agreement for Reimbursement of Trade Advances ("CARTA"), signed with Citi in 2011, and is the third successful transaction between Citi and Bank of Georgia under this agreement.

JSC Bank of Georgia signs GEL 100 million 5-year loan agreement with IFC

On 1 August 2019, Bank of Georgia Group PLC announces that JSC Bank of Georgia and the International Finance Corporation ("IFC") have signed a GEL 100 million loan agreement with a maturity of 5 years. IFC will raise the local currency funds through a private placement of GEL-denominated bonds to be arranged by Galt & Taggart - a wholly owned brokerage subsidiary of Bank of Georgia Group PLC.