JSC Bank of Georgia and Subsidiaries Unaudited Interim Condensed Consolidated Financial Statements

30 June 2018
Together with Report on review of interim condensed consolidated financial statements

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Supervisory Board of JSC Bank of Georgia

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC Bank of Georgia and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2018 and the related interim condensed consolidated income statement and interim condensed consolidated statement of comprehensive income for the six-month periods then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



Oleg Youshenkov
On behalf of EY Georgia

21 August 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 (Unaudited)

(Thousands of Georgian Lari)

	Notes	*30 June 2018*	*31 December 2017*
		Unaudited	
Assets			
Cash and cash equivalents	6	1,544,394	1,501,654
Amounts due from credit institutions	7	993,849	1,216,343
Investment securities	8	1,725,202	1,613,759
Loans to customers	9	7,860,205	7,445,578
Finance lease receivables		82,612	65,306
Investment properties	10	221,960	202,534
Prepayments		68,400	55,953
Property and equipment		291,508	305,474
Intangible assets		56,074	50,948
Investments in associates		11,726	11,031
Goodwill		33,453	33,453
Current income tax assets		21,613	696
Deferred income tax assets		122	130
Other assets		114,826	117,857
Total assets		**13,025,944**	**12,620,716**
Liabilities			
Amounts due to customers	11	7,229,911	7,123,866
Amounts due to credit institutions and other borrowings	12	2,618,554	3,162,209
Debt securities issued	13	1,527,914	749,655
Current income tax liabilities		847	8,753
Deferred income tax liabilities		42,479	11,342
Provisions	14	2,815	2,815
Other liabilities		62,747	80,157
Total liabilities		**11,485,267**	**11,138,797**
Equity	15		
Share capital		27,821	27,821
Additional paid-in capital		119,206	141,154
Treasury shares		(10)	(9)
Other reserves		6,321	10,212
Retained earnings		1,387,339	1,302,741
Total equity		**1,540,677**	**1,481,919**
Total liabilities and equity		**13,025,944**	**12,620,716**

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

Kaha Kiknavelidze — Chief Executive Officer

David Tsiklauri — Chief Financial Officer

21 August 2018

The accompanying notes on pages 7 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018 (Unaudited)

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2018	2017
		Unaudited	*Unaudited*
Interest income			
Loans to customers		545,908	457,274
Investment securities		63,403	53,002
Amounts due from credit institutions		16,463	5,752
Finance lease receivables		8,171	1,338
		633,945	**517,366**
Interest expense			
Amounts due to customers		(122,278)	(106,160)
Amounts due to credit institutions and other borrowings		(98,137)	(101,295)
Debt securities issued		(48,018)	(9,515)
		(268,433)	**(216,970)**
Deposit insurance fees		(2,573)	-
Net interest income		**362,939**	**300,396**
Fee and commission income		103,954	88,660
Fee and commission expense		(42,633)	(33,855)
Net fee and commission income	16	**61,321**	**54,805**
Net real estate (loss) revenue		(236)	2,785
Net losses on derecognition of financial assets measured at fair value through other comprehensive income		(255)	n/a
Net gain from investment securities available-for-sale		n/a	1,974
Net gains on financial assets at fair value through profit or loss		7,908	n/a
Net loss from derivative financial instruments		n/a	(2,785)
Net gain from foreign currencies:			
– dealing		38,903	31,011
– translation differences		2,417	10,658
Profit from associates		695	909
Other operating income		1,119	777
Other operating non-interest income		**50,551**	**45,329**
Revenue		**474,811**	**400,530**
Salaries and other employee benefits		(98,401)	(84,676)
General and administrative expenses		(51,421)	(41,404)
Depreciation and amortization		(21,495)	(18,453)
Other operating expenses		(1,643)	(1,377)
Operating expenses		**(172,960)**	**(145,910)**
Operating income before cost of credit risk		**301,851**	**254,620**

The accompanying notes on pages 7 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 June 2018 (Unaudited)

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2018 Unaudited	For the six months ended 30 June 2017 Unaudited
Operating income before cost of credit risk		**301,851**	**254,620**
Expected credit loss /impairment charge on loans to customers	9	(77,698)	(79,051)
Expected credit loss /impairment charge on finance lease receivables		(253)	(186)
Recovery of other expected credit loss		3,529	n/a
Impairment charge on other assets and provisions		(4,380)	(8,459)
Cost of credit risk		**(78,802)**	**(87,696)**
Net operating income before non-recurring items		**223,049**	**166,924**
Net non-recurring expense	17	(67,418)	(1,755)
Profit before income tax expense		**155,631**	**165,169**
Income tax expense	18	(36,536)	(8,919)
Profit for the period		**119,095**	**156,250**
Profit attributable to:			
– shareholders of the Bank		119,095	156,104
– non-controlling interests		-	146
		119,095	**156,250**
Basic and diluted earnings per share	15	**4.2823**	**5.6128**

The accompanying notes on pages 7 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 (Unaudited)

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2018	2017
		Unaudited	Unaudited
Profit for the period		**119,095**	**156,250**
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
– Net change in fair value on investments in debt instruments measured at FVOCI		(3,953)	n/a
– Unrealized revaluation of available-for-sale securities		n/a	247
– Realised loss on financial assets measured at FVOCI reclassified to the consolidated income statement		255	n/a
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		n/a	(1,974)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI		(702)	n/a
– Loss from currency translation differences		(6,315)	(8,480)
Income tax effect		(145)	29
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(10,860)**	**(10,178)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
– Revaluation of property and equipment reclassified to investment properties		3,038	-
– Net loss on investments in equity instruments designated at FVOCI	8	(1,226)	n/a
Income tax effect		-	2
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,812**	**2**
Other comprehensive loss for the period, net of tax		**(9,048)**	**(10,176)**
Total comprehensive income for the period		**110,047**	**146,074**
Total comprehensive income attributable to:			
– shareholders of the Bank		110,047	145,705
– non-controlling interests		-	369
		110,047	**146,074**

The accompanying notes on pages 7 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 (Unaudited)

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2016	**27,821**	**216,030**	**(9)**	**252**	**975,314**	**1,219,408**	**13,736**	**1,233,144**
Effect from early adoption of IFRS 15	-	-	-	-	(10,827)	(10,827)	-	(10,827)
1 January 2017	**27,821**	**216,030**	**(9)**	**252**	**964,487**	**1,208,581**	**13,736**	**1,222,317**
Profit for the period (unaudited)	-	-	-	-	156,104	156,104	146	156,250
Other comprehensive loss for the period	-	-	-	(7,096)	(3,303)	(10,399)	223	(10,176)
Total comprehensive income	**-**	**-**	**-**	**(7,096)**	**152,801**	**145,705**	**369**	**146,074**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(430)	430	-	-	-
Increase in share capital arising from share-based payments	-	20,694	-	-	-	20,694	-	20,694
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	14,105	-	14,105	(14,105)	-
Acquisition of an entity under common control (Note 4)	-	-	-	(4,858)	-	(4,858)	-	(4,858)
Contributions under share-based payment plan	-	(49,275)	-	-	-	(49,275)	-	(49,275)
30 June 2017 (unaudited)	**27,821**	**187,449**	**(9)**	**1,973**	**1,117,718**	**1,334,952**	**-**	**1,334,952**
31 December 2017	**27,821**	**141,154**	**(9)**	**10,212**	**1,302,741**	**1,481,919**	**-**	**1,481,919**
Effect from adoption of IFRS 9 (Note 3)	-	-	-	3,267	(32,607)	(29,340)	-	(29,340)
1 January 2018	**27,821**	**141,154**	**(9)**	**13,479**	**1,270,134**	**1,452,579**	**-**	**1,452,579**
Profit for the period	-	-	-	-	119,095	119,095	-	119,095
Other comprehensive loss for the period	-	-	-	(6,848)	(2,200)	(9,048)	-	(9,048)
Total comprehensive income	**-**	**-**	**-**	**(6,848)**	**116,895**	**110,047**	**-**	**110,047**
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(310)	310	-	-	-
Increase in share capital arising from share-based payments	-	54,532	-	-	-	54,532	-	54,532
Vesting of investment business shares to employees as a result of demerger (Note 8)	-	2,649	-	-	-	2,649	-	2,649
Contributions under share-based payment plan	-	(79,129)	(1)	-	-	(79,130)	-	(79,130)
30 June 2018 (unaudited)	**27,821**	**119,206**	**(10)**	**6,321**	**1,387,339**	**1,540,677**	**-**	**1,540,677**

The accompanying notes on pages 7 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018 (Unaudited)

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2018	2017
		Unaudited	Unaudited
Cash flows from operating activities			
Interest received		622,883	514,130
Interest paid		(262,028)	(206,501)
Fees and commissions received		112,967	93,661
Fees and commissions paid		(42,633)	(33,855)
Net cash inflow from real estate		(520)	1,804
Net realised gains from foreign currencies		38,903	31,011
Recoveries of loans to customers previously written off		21,793	21,196
Other (expenses paid) income received		(9,713)	551
Salaries and other employee benefits paid		(84,959)	(73,422)
General and administrative and operating expenses paid		(61,559)	(16,811)
Cash flows from operating activities before changes in operating assets and liabilities		**335,134**	**331,764**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		168,678	(133,545)
Loans to customers		(906,502)	(540,271)
Finance lease receivables		(12,012)	952
Prepayments and other assets		(32,307)	(23,090)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions and other borrowings		(465,176)	(359,932)
Debt securities issued		838,962	562,391
Amounts due to customers		339,321	306,573
Other liabilities		(7,908)	(31,988)
Net cash flows from operating activities before income tax		**258,190**	**112,854**
Income tax paid		(32,326)	(1,758)
Net cash flows from operating activities		**225,864**	**111,096**
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired		-	(8,133)
Net proceeds from purchase of investment securities		(113,171)	(112,086)
Proceeds from sale of investment properties	10	34,999	7,449
Proceeds from sale of property and equipment and intangible assets		2,803	495
Purchase of property and equipment and intangible assets		(17,146)	(34,217)
Net cash flows used in investing activities		**(92,515)**	**(146,492)**
Cash flows used in financing activities			
Dividends paid		-	(126)
Contributions under share-based payment plan		(79,130)	(49,275)
Purchase of additional interests in existing subsidiaries		-	(16,279)
Net cash used in financing activities		**(79,130)**	**(65,680)**
Effect of exchange rates changes on cash and cash equivalents		(11,376)	10,658
Effect of change in expected credit loss for cash and cash equivalents		(103)	-
Net increase (decrease) in cash and cash equivalents		**42,740**	**(90,418)**
Cash and cash equivalents, beginning	6	**1,501,654**	**1,487,170**
Cash and cash equivalents, ending	6	**1,544,394**	**1,396,752**

The accompanying notes on pages 7 to 37 are an integral part of these interim condensed consolidated financial statements.

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2018 the Bank had 284 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 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 30 June 2018 Bank of Georgia Group PLC represented the ultimate parent company of the Bank.

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

As at 30 June 2018 and 31 December 2017 JSC BGEO was the principal shareholder of the Bank:

Shareholder	*30 June 2018 (unaudited)*	*31 December 2017*
JSC BGEO Group	79.65%	99.55%
Bank of Georgia Group PLC	19.90%	-
Others*	0.45%	0.45%
Total	**100.00%**	**100.00%**

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

2. Basis of Preparation

General

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

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

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2017, signed and authorized for release on 27 April 2018.

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

The interim condensed consolidated financial statements are unaudited but have been reviewed by the independent auditor and respective review conclusion is included in this report.

2. Basis of Preparation (continued)

Going concern

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

3. Summary of Significant Accounting Policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2017 except for the adoption of new standards effective as of 1 January 2018.

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

- **Adoption of new or revised standards and interpretations**

Adoption of IFRS 9 financial instruments

IFRS 9 replaces IAS 39 for annual periods commencing on or after 1 January 2018. The Group 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 half year 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.

a) Changes to classification and measurement

IFRS 9 requires all financial assets, except for equity instruments and derivatives, to be assessed based on a combination of the Group'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 are 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.

b) Changes to the impairment estimation

The adoption of IFRS 9 has fundamentally changed the Group'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 Group 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 Group's impairment method and quantitative impact of applying IFRS 9 as at 1 January 2018 are disclosed below.

3. Summary of Significant Accounting Policies (continued)

- **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

c) Classification and measurement implementation

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

- *Financial instruments measured at amortised cost*

From 1 January 2018 the Group measures amounts 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 payments 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 Group 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 a Hold to Collect or a Hold to Collect and Sell business model, then the 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 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 Group 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 criteria.

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

Based on the assessment of contractual cash flows at initial recognition of financial assets outstanding at transition that were previously classified as loans and receivables, the Group did not identify any financial instruments that would fail SPPI test.

3. Summary of Significant Accounting Policies (continued)

➢ **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

c) Classification and measurement implementation (continued)

❖ *Debt instruments at FVOCI*

From 1 January 2018 the Group 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.

Debt investment securities at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized 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 Group 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*

Group of financial assets for which 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 Group 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 Group'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 Significant Accounting Policies (continued)

- **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

d) Impairment implementation

From 1 January 2018 the Group 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 Group applies simplified approach for trade, lease and other receivables and contract assets and records lifetime expected credit 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 Group evaluates individually whether an objective evidence of impairment exists for loans to recognise lifetime expected credit losses for significant increases in credit risk since initial recognition. Where an evidence of such a significant increases in credit risk at the individual instrument level is not available, assessment is performed on a collective basis by considering information that is indicative of significant increase in credit risk for a group of financial instruments with similar characteristics.

- *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 Group recognizes a credit loss allowance at an amount equal to 12-months 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;
- Stage 2: The Group 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;
- Stage 3: The Group 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 usually 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. The Group recognises a credit loss allowance at an amount equal to 12 months expected credit losses for financial instruments in stage 1. Once financial instruments are transferred to stage 2, ECL is recognised at an amount equal to lifetime expected credit losses. Assets which have defaulted or are otherwise considered to be credit-impaired are allocated to Stage 3. When determining the staging of an asset, consideration is given to both the period over which the Group will be exposed to credit risk and the effect on the level of credit risk of a range of possible future economic conditions.

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 losses.

3. Summary of Significant Accounting Policies (continued)

➢ **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

d) Impairment implementation (continued)

❖ *Key judgments and estimates*

The implementation of IFRS 9 required the management to make a number of judgments, assumptions and estimates. A summary of the key judgments made by the management is set out below.

▪ *Definition of default, credit-impaired and cure*

The Group's definition of default is based on quantitative and qualitative criteria. It 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, insolvency proceedings of enforced liquidation have commenced or there is other evidence that payment obligations will not be fully met.

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 payments is applied as exit criteria to financial assets restructured due to credit risk, other than corporate loan portfolio and debt 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.

Once 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.

Once a financial asset is recognized as POCI, it retains this status until derecognized.

▪ *Significant increase in credit risk*

To identify significant increase in credit risk since initial recognition of the financial asset at individual financial instrument level, the Group is 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 quantitative test based on movements linked to internal and external credit rating grades available for particular financial asset or sub-portfolio. Downgrade is considered to be significant based on relative and/or absolute change in PD as compared to PD at initial recognition;
- The days past due on individual contract level having breached the threshold of 30 days;
- Other qualitative indicators such as external market indicators of credit risk or general economic conditions.

▪ *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 assessment of significant increase in credit risk and consequently whether a financial asset should be transferred from stage 1 to stage 2 is a relative measure, where the risk at the reporting date is compared to the risk at initial recognition. PDs have been used as part of this process. As the standard has been applied retrospectively at the initial application date, it has been necessary to source PDs at initial recognition and other risk information at 1 January 2018. The Group estimates PD based on migration matrices which is further adjusted for macroeconomic expectations to represent the forward-looking estimators of the PD parameters. 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 system. Since stage 3 financial instruments are defaulted, the probability of default is equal to 100%.

3. Summary of Significant Accounting Policies (continued)

- **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

d) Impairment implementation (continued)

- *Key judgments and estimates*
  - *Measurement of expected credit losses (continued)*

Loss given default (LGD): LGD is defined as the likely loss arising 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 LGD is expressed as a percentage of the EAD.

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 stage 1 financial instruments, the Group 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 Group determines EAD differently for products with the repayment schedules and those without repayment schedules. For financial instruments with repayment schedules, the Group estimates forward looking EAD using the contractual cash flow approach with further corrections for expected prepayments and add-on overdue. For products without the repayment schedules, the Group estimates the forward looking EAD using the limit utilisation approach.

- *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 Group's allowance for credit losses, the Group uses the macroeconomic forecasts provided by the National Bank of Georgia. Macroeconomic variables covered by these forecasts are GDP and foreign exchange rate.

The determination of the probability weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Group 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 respective portfolio. A weight is computed for each scenario by using an economic model that considers recent information as well as historical data provided by the National Bank of Georgia.

- *Aggregation of financial instruments for collective assessment*

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools on the basis of credit risk characteristics such as asset type, industry, 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.

3. Summary of Significant Accounting Policies (continued)

- **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

e) De-recognition and modification

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial instruments. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms based on qualitative and quantitative criteria. If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" POCI asset at fair value, if SPPI test is met. If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Group 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.

Financial assets are derecognised when the contractual rights to receive the cash flows from the assets have expired or when they have been transferred. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

f) Write offs

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovery, which is materially unchanged compared to IAS 39. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amounts. Any subsequent recoveries are credited to credit loss expense.

g) Interest income recognition

For financial instruments in stage 1 and stage 2, the Group 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" (IAS 1) following IFRS 9, the Group will present interest revenue calculated using the EIR method separately in the income statement.

h) 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 Group has not applied hedge accounting.

3. Summary of Significant Accounting Policies (continued)

➢ **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

i) Transition disclosures

The following table summarises 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*	*Remeasurement*		*New carrying amount under IFRS 9*	*New classification under IFRS 9*
			ECL	*Other*		
Cash and cash equivalents	Loans and receivables	1,501,654	(80)	-	1,501,574	Amortised cost
Amounts due from credit institutions	Loans and receivables	1,216,343	(598)	-	1,215,745	Amortised cost
Investment securities		1,613,759	-	-	1,613,759	
Debt securities	*Available for sale*	*1,613,558*	-	-	*1,613,558*	*FVOCI - debt*
Corporate shares	*Available for sale*	*201*	-	-	*201*	*FVOCI - equity*
Loans to customers	Loans and receivables	7,445,578	(30,017)	-	7,415,561	Amortised cost
Loans to customers	Loans and receivables	-	-	-	-	FVTPL
Other assets - accounts receivable and other loans	Loans and receivables	26,080	2	-	26,082	Amortised cost
Other assets - derivative financial assets	FVTPL	13,484	-	-	13,484	FVTPL
Deferred income tax assets	-	130	-	-	130	-
Other assets (excluding finance lease receivables)	-	738,382	-	-	738,382	-
Total assets (excluding finance lease receivables)		**12,555,410**	**(30,693)**	**-**	**12,524,717**	
Finance lease receivables	-	65,306	92	-	65,398	-
Total assets		**12,620,716**	**(30,601)**	**-**	**12,590,115**	
Provisions [loan commitments and financial guarantee contracts]	-	(2,815)	(868)	-	(3,683)	-
Deferred income tax liabilities	-	(11,342)	-	2,129	(9,213)	-
Other liabilities	-	(11,124,640)	-	-	(11,124,640)	-
Total liabilities		**(11,138,797)**	**(868)**	**2,129**	**(11,137,536)**	
Net impact on equity due to adopting IFRS 9 at 1 January 2018			**(31,469)**	**2,129**		

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

❖ *Loans to customers*

As of 1 January 2018 the Group assessed its business model for loans to customers, as a result of which it was concluded that all of the Group's loans to customers are held to collect contractual cash flows, meet SPPI criteria and therefore are measured at amortised cost.

❖ *Securities*

▪ *Investment securities other than equity instruments*

As at 1 January 2018 the Group has assessed its liquidity portfolio, which had previously been classified as available-for-sale debt instruments. The Group 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 Group has classified these investments as debt instruments measured at FVOCI.

▪ *Equity instruments*

The Group has elected to irrevocably designate investment securities of GEL 201 in 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 will no longer be reclassified to profit or loss when they are disposed of.

3. Summary of Significant Accounting Policies (continued)

- **Adoption of new or revised standards and interpretations (continued)**

Adoption of IFRS 9 financial instruments (continued)

i) Transition disclosures (continued)

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)	10,212
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	3,350
Deferred tax in relation to the above	(83)
Opening balance under IFRS 9 (1 January 2018)	13,479
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	1,302,741
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(34,819)
Deferred tax in relation to the above	2,212
Opening balance under IFRS 9 (1 January 2018)	1,270,134
Total change in equity due to adopting IFRS 9	**(29,340)**

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 at 31 December	*Remeasurement*	*EIR adjustment on stage 3 category*	*ECLs under IFRS 9 at 1 January 2018*
Loans and receivables (IAS 39) / Financial assets at amortized cost (IFRS 9)				
Cash and cash equivalents	-	80	-	80
Amounts due from credit institutions	-	598	-	598
Loans to customers	274,540	30,017	17,273	321,830
Other assets - accounts receivable and other loans	40,591	(2)	-	40,589
	315,131	**30,693**	**17,273**	**363,097**
Available for sale financial instruments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities	-	3,350	-	3,350
	-	**3,350**	**-**	**3,350**
Finance lease receivables	**2,380**	**(92)**	**-**	**2,288**
Provisions [loan commitments and financial guarantee contracts]	**2,815**	**868**	**-**	**3,683**

Remeasurement in the above table is netted off with the effect of ECL recognition on contractually accrued interest income ("ECL gross-up"). ECL gross-up did not affect net value of the Group's loan portfolio under IFRS 9.

3. Summary of Significant Accounting Policies (continued)

- **Amendments effective from 1 January 2018**

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

The IASB issued amendments to IFRS 2 Share-based payments 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 amendments are effective for annual periods beginning on or after 1 January 2018. The amendment did not have material effect on the Group's interim condensed consolidated financial statements.

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

The amendments clarify that:

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

The amendments are applied retrospectively and are effective from 1 January 2018. The amendment did not have any material effect on the Group's interim condensed consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

4. Business Combinations

Acquisition of Georgian Leasing Company LLC

On 30 June 2017 the Group acquired 100% of interest in Georgian Leasing Company ("GLC") for total consideration of GEL 10,066. The Group views the acquisition as a transaction between entities under common control and therefore, has elected to apply the pooling of interest method for accounting purposes. The difference between the cost of the transaction and the carrying value of the net assets is recorded in other reserves.

The carrying value of identifiable assets and liabilities of the acquiree as at the date of acquisition was:

	Provisional fair value recognized on acquisition
Cash and cash equivalents	1,933
Finance lease receivables	33,618
Property and equipment	2,479
Other assets	18,943
	56,973
Amounts due to credit institutions	22,107
Debt securities issued	24,630
Accruals for employee compensation	3,795
Other liabilities	1,233
	51,765
Total identifiable net assets	**5,208**
Other reserves	4,858
Consideration given	**10,066**

The net cash inflow on acquisition was as follows:

	2017
Cash paid	(10,066)
Cash acquired with the subsidiary	1,933
Net cash outflow	**(8,133)**

Had the acquisition occurred as of the beginning of the reporting period, the Group's revenue and profit would not have been affected significantly.

The business combinations under common control are accounted for using pooling of interest method. On the date of acquisition, the assets and liabilities acquired are recognized at carrying amounts and no adjustments are made to reflect fair values at the date of combination. The difference between consideration transferred and net assets acquired is recorded as an adjustment to the equity. No goodwill is recognized as a result of business combination under common control.

5. Segment Information

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

Retail Banking	- Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling of customers' deposits for both, individuals and legal entities, encompassing the mass affluent segment, retail mass markets, small and medium enterprises and micro businesses;
Corporate Banking	- Principally providing loans and other credit facilities to high net worth individuals as well as legal entities who are, larger in size than SME and Micro, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling of 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, holding of 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;
BNB	- Representing JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.
Other	- Comprising various small corporate and social responsibility companies.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in the six months ended 30 June 2018 or 30 June 2017.

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2018 (unaudited):

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	64,850	273,454	10,785	13,392	451	7	362,939
Net fees and commission income (expense)	10,816	45,352	378	4,780	(5)	-	61,321
Real estate income (loss)	116	(379)	(4)	129	-	(98)	(236)
Net gains (losses) from foreign currencies	16,707	16,630	772	7,230	(19)	-	41,320
Other revenues (expenses)	4,052	6,175	66	(285)	668	(1,209)	9,467
Revenue	**96,541**	**341,232**	**11,997**	**25,246**	**1,095**	**(1,300)**	**474,811**
Operating income (expenses)	(30,127)	(123,387)	(5,109)	(14,511)	84	90	(172,960)
Operating income before cost of credit risk	**66,414**	**217,845**	**6,888**	**10,735**	**1,179**	**(1,210)**	**301,851**
Cost of credit risk	(11,225)	(64,533)	(22)	(3,022)	-	-	(78,802)
Net operating income before non-recurring items	**55,189**	**153,312**	**6,866**	**7,713**	**1,179**	**(1,210)**	**223,049**
Net non-recurring expense	(12,475)	(44,118)	(1,577)	(705)	(8,543)	-	(67,418)
Profit (Loss) before income tax expense	**42,714**	**109,194**	**5,289**	**7,008**	**(7,364)**	**(1,210)**	**155,631**
Income tax expense	(9,246)	(24,476)	(1,316)	(1,498)	-	-	(36,536)
Profit (Loss) for the period	**33,468**	**84,718**	**3,973**	**5,510**	**(7,364)**	**(1,210)**	**119,095**
Assets and liabilities as at 30 June 2018							
Total assets	4,061,374	8,321,286	69,323	571,801	13,984	(11,824)	13,025,944
Total liabilities	3,541,540	7,404,227	56,010	495,264	50	(11,824)	11,485,267
Other segment information							
Property and equipment	1,842	14,403	126	808	-	-	17,179
Intangible assets	920	8,146	82	458	50	-	9,656
Capital expenditure	**2,762**	**22,549**	**208**	**1,266**	**50**	**-**	**26,835**
Depreciation	(1,874)	(14,605)	(158)	(435)	-	-	(17,072)
Amortization	(445)	(3,760)	(38)	(181)	-	-	(4,423)

5. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2017 (unaudited):

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	51,245	222,478	10,024	16,647	2	-	300,396
Net fees and commission income	10,697	39,187	294	4,627	-	-	54,805
Real estate income (loss)	1,912	821	(107)	257	-	(98)	2,785
Net gains from foreign currencies	23,060	12,583	1,438	4,586	2	-	41,669
Other revenues (expenses)	844	(151)	87	40	55	-	875
Revenue	**87,758**	**274,918**	**11,736**	**26,157**	**59**	**(98)**	**400,530**
Operating income (expenses)	(26,581)	(102,521)	(4,682)	(12,456)	232	98	(145,910)
Operating income before cost of credit risk	**61,177**	**172,397**	**7,054**	**13,701**	**291**	**-**	**254,620**
Cost of credit risk	(13,385)	(65,431)	(6)	(8,874)	-	-	(87,696)
Net operating income before non-recurring items	**47,792**	**106,966**	**7,048**	**4,827**	**291**	**-**	**166,924**
Net non-recurring expense	(367)	(1,205)	(127)	(56)	-	-	(1,755)
Profit before income tax expense	**47,425**	**105,761**	**6,921**	**4,771**	**291**	**-**	**165,169**
Income tax expense	(2,270)	(5,605)	(390)	(654)	-	-	(8,919)
Profit for the period	**45,155**	**100,156**	**6,531**	**4,117**	**291**	**-**	**156,250**
Assets and liabilities as at 31 December 2017							
Total assets	4,246,985	7,707,139	36,398	624,835	22,465	(17,106)	12,620,716
Total liabilities	3,709,073	6,877,763	23,547	545,315	205	(17,106)	11,138,797
Other segment information							
Property and equipment	2,076	15,316	215	684	49	-	18,340
Intangible assets	1,855	13,530	161	331	-	-	15,877
Capital expenditure	**3,931**	**28,846**	**376**	**1,015**	**49**	**-**	**34,217**
Depreciation	(1,712)	(12,614)	(210)	(499)	-	-	(15,035)
Amortization	(395)	(2,881)	(34)	(108)	-	-	(3,418)

6. Cash and Cash Equivalents

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Cash on hand	445,537	464,877
Current accounts with central banks, excluding obligatory reserves	205,721	91,692
Current accounts with other credit institutions	158,338	181,131
Time deposits with credit institutions with maturity of up to 90 days	734,901	763,954
Cash and cash equivalents, gross	**1,544,497**	**1,501,654**
Less – Allowance for impairment	(103)	-
Cash and cash equivalents, net	**1,544,394**	**1,501,654**

As at 30 June 2018, GEL 870,940 (31 December 2017: GEL 929,676) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.50% interest per annum on these deposits (31 December 2017: up to 2.00%).

Expected credit loss for the six months ended 30 June 2018 was GEL 23 (30 June 2017: n/a).

7. Amounts Due from Credit Institutions

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Obligatory reserves with central banks	925,107	1,000,565
Time deposits with maturity of more than 90 days*	62,833	209,227
Inter-bank loan receivables	6,382	6,551
Amounts due from credit institutions	**994,322**	**1,216,343**
Less – Allowance for impairment	(473)	-
Amounts due from credit institutions	**993,849**	**1,216,343**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the regulation. The Group earned up to 1.00% interest on obligatory reserves with NBG and NBRB for the six months ended 30 June 2018 (31 December 2017: up to 1.00%).

As at 30 June 2018 inter-bank loan receivables include GEL 6,382 (31 December 2017: GEL 6,551) placed with non-OECD banks.

Recovery of expected credit loss for the six months ended 30 June 2018 was GEL 125 (30 June 2017: n/a).

8. Investment Securities

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Georgian Ministry of Finance treasury bonds*	964,669	847,839
Georgian Ministry of Finance treasury bills	54,741	77,460
Certificates of deposit of central banks	54,078	73,415
Other debt instruments**	649,824	614,844
Corporate shares	1,890	201
Investment securities available-for-sale	**1,725,202**	**1,613,759**

**** GEL 687,677 was pledged for short-term loans from the NBG (31 December 2017: GEL 448,558);***
***** GEL 272,000 was pledged for short-term loans from the NBG (31 December 2017: GEL 475,735).***

Recovery of expected credit loss for the six months ended 30 June 2018 was GEL 702 (30 June 2017: n/a).

8. Investment Securities (continued)

Other debt instruments as at 30 June 2018 include mostly bonds issued by European Bank for Reconstruction and Development of GEL 248,995 (31 December 2017: GEL 268,057), GEL denominated bonds issued by Black Sea Trade and Development Bank of GEL 136,520 (31 December 2017: GEL 60,625), GEL denominated bonds issued by International Finance Corporation of GEL 110,447 (31 December 2017: GEL 110,862), GEL denominated bonds issued by Asian Development Bank of GEL 65,337 (31 December 2017: GEL 65,245), EUR denominated bonds issued by Energo PRO AS of GEL 13,833 (31 December 2017: nil), and USD denominated bonds issued by an internationally recognized investment bank of nil (31 December 2017: GEL 26,666).

In June 2018, upon the above-mentioned demerger (Note 1), the Bank acquired corporate shares in Georgia Capital PLC as a result of investment business shares vested to some employees who were compensated in cash, instead of the shares originally contributed under share-based payment plan.

9. Loans to Customers

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Commercial loans	2,418,774	2,412,513
Residential mortgage loans	1,930,512	1,712,515
Micro and SME loans	1,880,515	1,776,044
Consumer loans	1,836,685	1,751,106
Gold – pawn loans	77,567	67,940
Loans to customers, gross	**8,144,053**	**7,720,118**
Less – Allowance for loan impairment	(283,848)	(274,540)
Loans to customers, net	**7,860,205**	**7,445,578**

As at 30 June 2018 loans to customers carried at GEL 370,470 (31 December 2017: GEL 333,944) was pledged for short-term loans from the NBG.

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and period-end stage classification.

	30 June 2018 (unaudited)				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased or credit impaired*	*Total*
Commercial loans	1,529,226	662,522	227,026	-	2,418,774
Residential mortgage loans	1,781,288	83,783	62,435	3,006	1,930,512
Micro and SME loans	1,710,316	71,303	98,896	-	1,880,515
Consumer loans	1,568,922	160,450	106,640	673	1,836,685
Gold – pawn loans	73,854	903	2,810	-	77,567
Loans to customers, gross	**6,663,606**	**978,961**	**497,807**	**3,679**	**8,144,053**

	30 June 2018 (unaudited)				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased or credit impaired*	*Total*
Commercial loans	(3,074)	(3,073)	(119,777)	-	(125,924)
Residential mortgage loans	(223)	(31)	(3,458)	(60)	(3,772)
Micro and SME loans	(6,358)	(3,115)	(30,572)	-	(40,045)
Consumer loans	(33,107)	(20,125)	(60,834)	(41)	(114,107)
Allowance for loan impairment	**(42,762)**	**(26,344)**	**(214,641)**	**(101)**	**(283,848)**

9. Loans to Customers (continued)

Expected credit loss / impairment charge on loans to customers for the period is as follows:

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Commercial loans	13,379	8,729
Residential mortgage loans	1,937	2,583
Micro and SME loans	10,902	19,865
Consumer loans	51,480	47,874
Expected credit loss / impairment charge on loans to customers	**77,698**	**79,051**

Concentration of loans to customers

As at 30 June 2018, the concentration of loans granted by the Group to the ten largest third-party borrowers was GEL 721,384, accounting for 9% of the gross loan portfolio of the Group (31 December 2017: GEL 671,120 and 9%, respectively). An allowance of GEL 21,036 (31 December 2017: GEL 41,207) was established against these loans.

As at 30 June 2018, the concentration of loans granted by the Group to the ten largest third-party group of borrowers comprised GEL 973,290, accounting for 12% of the gross loan portfolio of the Group (31 December 2017: GEL 860,946 and 11%, respectively). An allowance of GEL 36,634 (31 December 2017: GEL 73,269) was established against these loans.

As at 30 June 2018 and 31 December 2017 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Individuals	4,730,948	4,297,115
Trade	822,093	808,335
Manufacturing	761,554	699,574
Real estate	403,321	432,352
Construction	324,671	368,509
Hospitality	319,494	283,527
Service	136,595	192,202
Transport & Communication	121,126	114,926
Mining and quarrying	113,440	104,799
Electricity, gas and water supply	69,603	84,727
Financial intermediation	62,184	51,597
Other	279,024	282,455
Loans to customers, gross	**8,144,053**	**7,720,118**
Less – allowance for loan impairment	(283,848)	(274,540)
Loans to customers, net	**7,860,205**	**7,445,578**

Loans have been extended to the following types of customers:

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Individuals	4,730,948	4,297,115
Corporate enterprises	3,400,570	3,423,003
State-owned entities	12,535	-
Loans to customers, gross	**8,144,053**	**7,720,118**
Less – allowance for loan impairment	(283,848)	(274,540)
Loans to customers, net	**7,860,205**	**7,445,578**

10. Investment Properties

	2018	*2017*
At 1 January	**202,534**	**152,596**
Additions*	35,046	69,330
Disposals	(34,999)	(11,067)
Net gains from revaluation of investment property	-	7,336
Transfers from (to) property and equipment and other assets	20,377	(15,939)
Currency translation differences	(998)	278
At 30 June	**221,960**	**202,534**

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

Investment properties are stated at their fair value. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2017 and it was carried out by professional valuers.

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

11. Amounts Due to Customers

The amounts due to customers include the following:

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Time deposits	3,852,887	3,352,379
Current accounts	3,355,069	3,697,021
Promissory notes issued	21,955	74,466
Amounts due to customers	**7,229,911**	**7,123,866**
Held as security against letter s of cre dit and guarantees (Note 14)	**86,635**	**98,399**

As at 30 June 2018 and 31 December 2017, promissory notes issued by the Group comprise notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 5 months (31 December 2017: 23 months).

At 30 June 2018, amounts due to customers of GEL 1,227,479 (17%) were due to the ten largest customers (31 December 2017: GEL 1,066,616 (15%)).

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

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Individuals	4,046,601	3,866,404
Corporate enterprises	2,299,880	2,793,175
State and state-owned entities	883,430	464,287
Amounts due to customers	**7,229,911**	**7,123,866**

11. Amounts Due to Customers (continued)

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

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Individuals	4,046,601	3,866,404
Government services	866,586	438,492
Trade	486,673	593,752
Financial intermediation	364,336	659,464
Service	312,494	306,061
Transport and communication	272,935	257,818
Construction	267,870	279,623
Manufacturing	194,031	225,336
Real estate	99,350	105,030
Electricity, gas and water supply	62,359	109,780
Hospitality	45,545	44,241
Health and social work	40,460	70,535
Other	170,671	167,330
Amounts due to customers	**7,229,911**	**7,123,866**

12. Amounts Owed to Credit Institutions and Other Borrowings

Amounts due to credit institutions and other borrowings comprise:

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Borrowings from international credit institutions	957,045	1,087,897
Time deposits and inter-bank loans	560,935	261,173
Short-term loans from the National Bank of Georgia	556,861	793,528
Correspondent accounts	137,193	204,512
Other borrowings*	-	386,426
Subtotal	**2,212,034**	**2,733,536**
Non-convertible subordinated debt	406,520	428,673
Amounts due to credit institutions and other borrowings	**2,618,554**	**3,162,209**

* Other borrowings represent USD-denominated borrowing from JSC BGEO originally maturing in 2023, which has been covered in advance in March 2018.

As at 30 June 2018, the Group paid up to 5.80% on USD borrowings from international credit institutions (30 June 2017: up to 6.27%). As at 30 June 2018 the Group paid up to 8.92% on USD subordinated debt (30 June 2017: up to 8.92%).

Certain long-term borrowings from international credit institutions include certain conditions (the "Lender Covenants") that require the Group to maintain different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and etc. At 30 June 2018 and 31 December 2017, the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

13. Debt Securities Issued

Debt securities issued comprise:

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Eurobonds and notes issued	1,289,248	454,953
Certificates of deposit	205,363	268,552
Georgian local bonds	33,303	26,150
Debt securities issued	**1,527,914**	**749,655**

In June 2017 the Group issued 3-year bonds denominated in GEL in amount of GEL 500 thousand and 11% fixed interest rate.

As a result of demerger, in March 2018, the Group substituted JSC BGEO Group as a new obligator in relation to the 5-year bonds denominated in USD in amount of GEL 853 thousand and 6% interest rate.

14. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As at 30 June 2018 and 31 December 2017 the Group's financial commitments and contingencies comprised the following:

	As at	
	30 June 2018 (unaudited)	*31 December 2017*
Credit-related commitments		
Guarantees issued	645,941	630,413
Undrawn loan facilities	272,028	261,397
Letters of credit	35,617	43,423
	953,586	**935,233**
Operating lease commitments		
Not later than 1 year	18,624	20,115
Later than 1 year but not later than 5 years	40,583	47,558
Later than 5 years	23,253	18,486
	82,460	**86,159**
Capital expenditure commitments	**3,328**	**2,538**
Less – Cash held as security against letters of credit and guarantees (Note 11)	(86,635)	(98,399)
Less – Provisions	(2,815)	(2,815)
Financial commitments and contingencies, net	**949,924**	**922,716**

As at 30 June 2018 capital expenditure represented the commitment for the purchase of property and capital repairs of GEL 3,311 and software and other intangible assets of GEL 17.

As at 31 December 2017 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 2017 and software and other intangible assets of GEL 2,095.

Recovery of expected credit loss on financial guarantees and letter of credits for the six months ended 30 June 2018 was GEL 2,725 (impairment charge for the six months ended 30 June 2017 was GEL 1,646).

15. Equity

Share capital

As at 30 June 2018 and 31 December 2017, authorized common capital comprised 43,308,125, issued share capital comprised 27,821,150 common shares, of which 27,821,150 were fully paid. Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 30 June 2018 and 30 June 2017 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2016	**27,821,150**	**27,821**
30 June 2017 (Unaudited)	**27,821,150**	**27,821**
31 December 2017	**27,821,150**	**27,821**
30 June 2018 (Unaudited)	**27,821,150**	**27,821**

Treasury shares

The number of treasury shares held by the Group as at 30 June 2018 comprised 10,130 (31 December 2017: 8,995).

Nominal amount of treasury shares of GEL 10 as at 30 June 2018 comprise the Group's shares owned by the Group (31 December 2017: GEL 9).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

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.

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

Movements in other reserves during the six months ended 30 June 2018 and the year ended 31 December 2017 are presented in the statements of other comprehensive income.

Earnings per share

	For the six months ended	
Basic and diluted earnings per share	*30 June 2018 (unaudited)*	*30 June 2017 (unaudited)*
Profit for the period attributable to ordinary shareholders of the Bank	119,095	156,104
Weighted average number of ordinary shares outstanding during the period	27,811,247	27,812,155
Earnings per share	4.2823	5.6128

16. Net Fee and Commission Income

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Settlements operations	85,366	70,463
Guarantees and letters of credit	8,586	8,069
Cash operations	7,254	7,325
Currency conversion operations	185	240
Other	2,563	2,563
Fee and commission income	**103,954**	**88,660**
Settlements operations	(38,759)	(29,101)
Cash operations	(2,230)	(2,682)
Guarantees and letters of credit	(731)	(1,168)
Insurance brokerage service fees	(134)	(113)
Currency conversion operations	(8)	(11)
Other	(771)	(780)
Fee and commission expense	**(42,633)**	**(33,855)**
Net fee and commission income	**61,321**	**54,805**

17. Net non-recurring expense

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Demerger related expenses*	(34,984)	-
Corporate social responsibility expense**	(11,478)	-
Write-offs***	(8,560)	-
Borrowing prepayment penalty****	(10,432)	-
Termination / sign-up compensation expenses	-	(785)
Other	(1,964)	(970)
Net non-recurring expense/loss	**(67,418)**	**(1,755)**

** 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 consolidated 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.*
**** The Group had a loan granted to BGEO Group LLC that was written off in March 2018.*
***** The Group had USD-denominated borrowing from JSC BGEO originally maturing in 2023, which has been covered in advance in March 2018 (Note 12) and respective penalty has been paid, accordingly.*

18. Income tax expense

The corporate income tax expense comprises:

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Current income expense	(3,339)	(17,721)
Deferred income tax (expense) benefit	(33,197)	8,802
Income tax expense	**(36,536)**	**(8,919)**

18. Income tax expense (continued)

Deferred tax related to items charged or credited to other comprehensive income comprises:

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Currency translation differences	(62)	29
Net results of investment securities available-for-sale	(83)	-
Revaluation of buildings	-	2
Income tax (expense) benefit in other comprehensive income	**(145)**	**31**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 25% (2017: from 15% to 25%).

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 a new date for the change to be implemented. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2023 for financial businesses and has recognized respective portion of deferred tax assets and liabilities. During the transitional period the Group 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.

19. Fair Value Measurements

Fair value hierarchy

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

30 June 2018 (unaudited)	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment properties:	-	-	221,960	221,960
Land	-	-	*29,458*	*29,458*
Residential properties	-	-	*94,071*	*94,071*
Non-residential properties	-	-	*98,431*	*98,431*
Investment securities	-	1,724,736	466	1,725,202
Other assets – derivative financial assets	-	31,603	-	31,603
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,544,394	-	1,544,394
Amounts due from credit institutions	-	993,849	-	993,849
Loans to customers	-	0	7,979,250	7,979,250
Finance lease receivables	-	-	82,612	82,612
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	8,252	-	8,252
Liabilities for which fair values are disclosed				
Amounts due to customers	-	7,236,318	-	7,236,318
Amounts due to credit institutions and other borrowings	-	2,405,622	212,932	2,618,554
Debt securities issued	-	1,311,622	238,666	1,550,288

19. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment properties:	-	-	202,534	202,534
Land	-	-	*38,378*	*38,378*
Residential properties	-	-	*64,038*	*64,038*
Non-residential properties	-	-	*100,118*	*100,118*
Investment securities	-	1,613,558	201	1,613,759
Other assets – derivative financial assets	-	13,484	-	13,484
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,501,654	-	1,501,654
Amounts due from credit institutions	-	1,216,343	-	1,216,343
Loans to customers	-	-	7,559,124	7,559,124
Finance lease receivables	-	-	65,306	65,306
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	3,948	-	3,948
Liabilities for which fair values are disclosed				
Amounts due to customers	-	7,128,147	-	7,128,147
Amounts due to credit institutions and other borrowings	-	2,518,086	644,123	3,162,209
Debt securities issued	-	468,536	294,702	763,238

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

Derivative financial instruments

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

Investment securities

A certain part of investment securities are quoted 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 table shows a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	At 31 December 2016	*Disposals*	*At 31 December 2017*	*Additions*	*At 30 June 2018*
Level 3 financial assets					
Equity investment securities	295	(94)	201	265	466

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

19. Fair Value Measurements (continued)

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

	Carrying value as at 30 June 2018	*Fair value as at 30 June 2018*	*Unrecognised gain (loss) as at 30 June 2018*
	Unaudited	*Unaudited*	*Unaudited*
Financial assets			
Cash and cash equivalents	1,544,394	1,544,394	-
Amounts due from credit institutions	993,849	993,849	-
Loans to customers	7,860,205	7,979,250	119,045
Finance lease receivables	82,612	82,612	-
Financial liabilities			
Amounts due to customers	7,229,911	7,236,318	(6,407)
Amounts due to credit institutions and other borrowings	2,618,554	2,618,554	-
Debt securities issued	1,527,914	1,550,288	(22,374)
Total unrecognised change in unrealised fair value			**90,264**

	Carrying value as at 31 December 2017	*Fair value as at 31 December 2017*	*Unrecognised gain (loss) as at 31 December 2017*
Financial assets			
Cash and cash equivalents	1,501,654	1,501,654	-
Amounts due from credit institutions	1,216,343	1,216,343	-
Loans to customers	7,445,578	7,559,124	113,546
Finance lease receivables	65,306	65,306	-
Financial liabilities			
Amounts due to customers	7,123,866	7,128,147	(4,281)
Amounts due to credit institutions and other borrowings	3,162,209	3,162,209	-
Debt securities issued	749,655	763,238	(13,583)
Total unrecognised change in unrealised fair value			**95,682**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

20. Maturity Analysis of Financial Assets and Liabilities

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

	30 June 2018 (unaudited)							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	815,681	728,713	-	-	-	-	-	1,544,394
Amounts due from credit institutions	920,358	62,772	-	-	-	-	10,719	993,849
Investment securities	972,274	528,787	8,462	39,103	32,925	101,992	41,659	1,725,202
Loans to customers	-	1,353,714	684,942	1,239,642	2,083,093	1,108,197	1,390,617	7,860,205
Finance lease receivables	-	15,056	11,120	15,083	29,504	10,429	1,420	82,612
Total	**2,708,313**	**2,689,042**	**704,524**	**1,293,828**	**2,145,522**	**1,220,618**	**1,444,415**	**12,206,262**
Financial liabilities								
Amounts due to customers	1,307,252	1,714,444	626,263	3,001,633	504,838	41,322	34,159	7,229,911
Amounts due to credit institutions and other borrowings	137,273	1,260,091	104,610	138,499	454,151	269,419	254,511	2,618,554
Debt securities issued	-	47,538	33,703	48,174	695,906	78,612	623,981	1,527,914
Total	**1,444,525**	**3,022,073**	**764,576**	**3,188,306**	**1,654,895**	**389,353**	**912,651**	**11,376,379**
Net	**1,263,788**	**(333,031)**	**(60,052)**	**(1,894,478)**	**490,627**	**831,265**	**531,764**	**829,883**
Accumulated gap	**1,263,788**	**930,757**	**870,705**	**(1,023,773)**	**(533,146)**	**298,119**	**829,883**	

	31 December 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	743,848	757,806	-	-	-	-	-	1,501,654
Amounts due from credit institutions	1,005,631	182,699	5,006	12,508	-	-	10,499	1,216,343
Investment securities	837,933	641,380	2,910	49,962	20,812	58,916	1,846	1,613,759
Loans to customers	-	1,229,603	603,533	1,380,173	1,930,946	1,024,674	1,276,649	7,445,578
Finance lease receivables	-	12,157	8,531	12,471	21,617	5,007	5,523	65,306
Total	**2,587,412**	**2,823,645**	**619,980**	**1,455,114**	**1,973,375**	**1,088,597**	**1,294,517**	**11,842,640**
Financial liabilities								
Amounts due to customers	1,678,608	1,262,626	617,035	2,955,253	538,844	39,351	32,149	7,123,866
Amounts due to credit institutions and other borrowings	204,511	1,110,011	146,966	336,673	501,056	303,325	559,667	3,162,209
Debt securities issued	-	14,911	96,995	35,241	602,508	-	-	749,655
Total	**1,883,119**	**2,387,548**	**860,996**	**3,327,167**	**1,642,408**	**342,676**	**591,816**	**11,035,730**
Net	**704,293**	**436,097**	**(241,016)**	**(1,872,053)**	**330,967**	**745,921**	**702,701**	**806,910**
Accumulated gap	**704,293**	**1,140,390**	**899,374**	**(972,679)**	**(641,712)**	**104,209**	**806,910**	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 1 year category in the table above. The remaining current accounts are included in the on demand category. Obligatory reserves with central banks do not have contractual maturity and are allocated in the on demand category.

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

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

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

As at 30 June 2018 amounts due to customers amounted to GEL 7,229,911 (31 December 2017: GEL 7,123,866) and represented 63% (31 December 2017: 64%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds.

As at 30 June 2018 amounts owed to credit institutions and other borrowings amounted to GEL 2,618,554 (31 December 2017: GEL 3,162,209) and represented 23% (31 December 2017: 28%) of total liabilities.

As at 30 June 2018 debt securities issued amounted to GEL 1,527,914 (31 December 2017: GEL 749,655) and represented 13% (31 December 2017: 7%) of total liabilities.

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

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

	30 June 2018 (unaudited)			*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	1,544,394	-	1,544,394	1,501,654	-	1,501,654
Amounts due from credit institutions	983,130	10,719	993,849	1,205,844	10,499	1,216,343
Investment securities	1,548,626	176,576	1,725,202	1,532,185	81,574	1,613,759
Loans to customers	3,278,298	4,581,907	7,860,205	3,213,309	4,232,269	7,445,578
Finance lease receivables	41,259	41,353	82,612	33,159	32,147	65,306
Investment properties	-	221,960	221,960	-	202,534	202,534
Prepayments	25,854	42,546	68,400	27,098	28,855	55,953
Property and equipment	-	291,508	291,508	-	305,474	305,474
Intangible assets	-	56,074	56,074	-	50,948	50,948
Investments in associates	-	11,726	11,726	-	11,031	11,031
Goodwill	-	33,453	33,453	-	33,453	33,453
Current income tax assets	21,613	-	21,613	696	-	696
Deferred income tax assets	-	122	122	-	130	130
Other assets	84,678	30,148	114,826	84,055	33,802	117,857
Total assets	**7,527,852**	**5,498,092**	**13,025,944**	**7,598,000**	**5,022,716**	**12,620,716**
Amounts due to customers	6,649,592	580,319	7,229,911	6,513,522	610,344	7,123,866
Amounts due to credit institutions and other borrowings	1,640,473	978,081	2,618,554	1,798,161	1,364,048	3,162,209
Debt securities issued	129,415	1,398,499	1,527,914	147,147	602,508	749,655
Current income tax liabilities	847	-	847	8,753	-	8,753
Deferred income tax liabilities	-	42,479	42,479	-	11,342	11,342
Provisions	2,815	-	2,815	2,815	-	2,815
Other liabilities	58,155	4,592	62,747	74,981	5,176	80,157
Total liabilities	**8,481,297**	**3,003,970**	**11,485,267**	**8,545,379**	**2,593,418**	**11,138,797**
Net	**(953,445)**	**2,494,122**	**1,540,677**	**(947,379)**	**2,429,298**	**1,481,919**

21. Related Party Disclosures

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

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

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

	2018 (Unaudited)			*2017 (Unaudited)*		
	The parent	*Entities under common control*	*Key management personnel**	*The parent*	*Entities under common control*	*Key management personnel**
Loans outstanding at 1 January, gross	**8,981**	**103,141**	**2,358**	**9,171**	**64,772**	**1,735**
Loans issued during the period	-	-	1,184	-	68,823	2,542
Loan repayments during the period	-	(333)	(1,836)	-	(37,479)	(4,147)
Other movements	(8,981)	(102,808)	(1,055)	(781)	(17,894)	1,523
Loans outstanding at 30 June, gross	**-**	**-**	**651**	**8,390**	**78,222**	**1,653**
Less: allowance for impairment at 30 June	-	-	-	-	(31)	(2)
Loans outstanding at 30 June, net	**-**	**-**	**651**	**8,390**	**78,191**	**1,651**
Interest income on loans	-	2,790	42	-	4,252	89
Loan impairment charge	-	-	-	-	(7)	1
Loss from loan write-off	(8,543)	-	-	-	-	-
Deposits at 1 January	**42,720**	**396,712**	**25,717**	**202,642**	**207,674**	**15,480**
Deposits received during the period	-	1,644	9,435	-	63,446	27,379
Deposits repaid during the period	(2,666)	(7,486)	(930)	(61,652)	(9,480)	(11,752)
Reorganization	-	-	-	-	-	-
Other movements	(39)	(360,203)	(18,680)	(14,378)	(9,105)	5,847
Deposits at 30 June	**40,015**	**30,667**	**15,542**	**126,612**	**252,535**	**36,954**
Interest expense on deposits	(573)	(1,356)	(154)	(5,448)	(1,408)	(373)
Other income	-	-	-	-	265	-
Commitments and guarantees issued	-	-	-	-	19,437	-
Borrowings at 1 January	**386,508**	**-**	**-**	**394,224**	**-**	**-**
Borrowings received during the period	-	-	-	394,224	-	-
Borrowings repaid during the period	(372,110)	-	-	-	-	-
Other movements	(14,398)	-	-	(12,542)	-	-
Borrowings at 30 June	**-**	**-**	**-**	**775,906**	**-**	**-**
Interest expense on borrowings	(5,620)	-	-	(12,767)	-	-
Loss from early repayment of borrowings	(10,432)	-	-	-	-	-
Debt securities issued at 1 January	**-**	**32,066**	**-**	**-**	**-**	**-**
Debt securities received during the period	-	-	-	-	3,244	-
Debt securities repaid during the period	-	-	-	-	-	-
Other movements	-	(31,634)	-	-	-	-
Debt securities issued at 30 June	**-**	**432**	**-**	**-**	**3,244**	**-**
Interest expense on debt securities	-	(1,481)	-	-	(167)	-

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

21. Related Party Disclosures (continued)

Compensation of key management personnel comprised the following:

	For the six months ended	
	30 June 2018 (Unaudited)	*30 June 2017 (Unaudited)*
Salaries and other employee benefits	3,718	2,473
Share-based compensation*	38,512	15,542
Social security costs	34	36
Total key management compensation	**42,264**	**18,051**

** In 2018, share-based payments compensation includes termination benefits in amount of GEL 23,946 for key management personnel, reflected within non-recurring expenses.*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based compensation. The number of key management personnel at 30 June 2018 was 15 (30 June 2017: 18).

22. Capital Adequacy

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

As at 30 June 2018, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

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

NBG (Basel 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. As at 30 June 2018 the NBG requires the Bank to maintain a minimum total capital adequacy ratio of 15.0% (31 December 2017: 12.4%) and Tier 1 Capital ratio of 9.9% (31 December 2017: 9.9%) of risk-weighted assets, computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements. As at 30 June 2018 and 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	As at	
	30 June 2018 (Unaudited)	*31 December 2017*
Tier 1 capital	1,225,122	1,141,845
Tier 2 capital	485,146	501,689
Total capital	**1,710,268**	**1,643,534**
Risk-weighted assets	**9,789,919**	**9,192,078**
Total capital ratio	**17.5%**	**17.9%**
Tier 1 capital ratio	**12.5%**	**12.4%**

22. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 30 June 2018 and 31 December 2017, was as follows:

	As at	
	30 June 2018 (Unaudited)	*31 December 2017*
Tier 1 capital	1,534,366	1,471,714
Less: Deductions - Goodwill	(33,453)	(33,453)
Tier 2 capital	538,894	560,771
Less: Deductions from capital	(10)	(9)
Total capital	**2,039,797**	**1,999,023**
Risk-weighted assets	**10,084,263**	**9,750,829**
Total capital ratio	20.2%	20.5%
Tier 1 capital ratio	14.9%	14.8%
Minimum capital adequacy ratio	**8.0%**	**8.0%**

23. Events after the Reporting Period

Dividends

As at 9 July 2018, the board of directors of the Bank's ultimate parent (Bank of Georgia Group PLC) declared an interim dividend in respect of the period ended 30 June 2018. As at that date, the dividend declaration act of the annual general meeting of shareholders' of JSC Bank of Georgia for a final dividend for 2017 of Georgian Lari 4.31 per share became effective. Payment of the total GEL 120,000 dividends was received by shareholders on 2 July 2018.