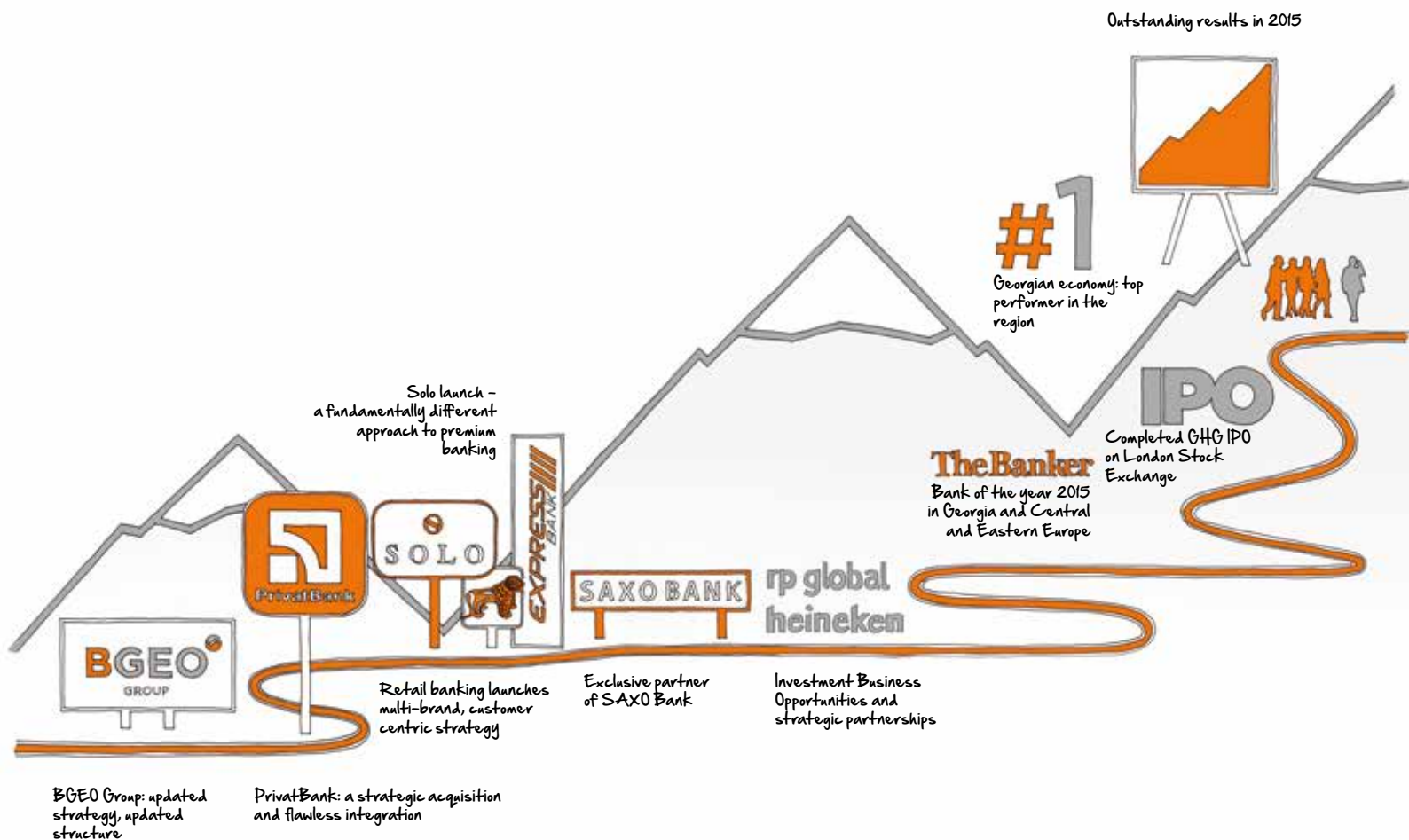


BGEO^o

GROUP

Capturing growth opportunities
A platform to develop talent



About us

BGEO Group PLC

BGEO Group PLC (BGEO or the Company) is a UK incorporated holding company of a Georgia-based banking group with an investment arm (BGEO and its subsidiaries, the Group). It aims to deliver on a 4x20 strategy: at least 20% ROAE and at least 20% growth of retail loan book in banking business, and at least 20% IRR and up to 20% of the Group's profit from investment business.



See page 28 for our business model and page 30 for our strategy

Banking Business

Our Banking Business comprises at least 80% of the Group's profit and consists of Retail Banking, Corporate Banking and Investment Management businesses at its core and other banking businesses such as P&C Insurance, Leasing, Payment Services and Banking operations in Belarus (BNB). The Group strives to benefit from the underpenetrated banking sector in Georgia especially through its Retail Banking services.

Investment Business

Our Investment Business comprises up to 20% of the Group's profit and consists of Georgia Healthcare Group (Healthcare Business) – an LSE (London Stock Exchange PLC) premium segment listed company, m² Real Estate (Real Estate Business), Georgia Global Utilities (Utility Business or GGU) and Teliani Valley (Beverage Business). Georgia's fast-growing economy provides opportunities in a number of underdeveloped markets and the Group is well positioned to capture growth opportunities in the Georgian corporate sector.



See pages 4 and 5 for the structure of our business

Renaming the Group to reflect 4x20 strategy

Platform for
efficiently allocating
cash and human
capital



- BGEO is a London-listed PLC focused on Georgian banking, with an investment arm
- BGEO aims to deliver on its 4x20 strategy by allocating capital efficiently



BANK OF GEORGIA
HOLDINGS PLC



Holding company of BANK OF GEORGIA

BGEO
GROUP



Changes in regulation in Georgia and our new strategy, both of which were announced in 2014, created the need for a new legal structure in Georgia. The National Bank of Georgia (NBG) announced its intention to regulate banks in Georgia on a stand-alone basis and thereby limit investments in non-banking subsidiaries by locally regulated banking entities.

In order to comply with the regulation to separate the banking and investment businesses as well as highlight our new strategy to grow Bank of Georgia's (BOG or the Bank) strong retail and corporate banking franchise as well as capture compelling

investment opportunities, we established a fully owned subsidiary, JSC BGEO Group, under Bank of Georgia Holdings PLC to serve as the Georgian holding company for the Group. We then grouped our subsidiaries into separate banking and investment businesses under JSC BGEO Group, which was completed in August 2015.

At the time of completion of the Georgian restructuring, we announced our intention to change the name of Bank of Georgia Holdings PLC to BGEO Group PLC to reflect the new Group structure and strategy. The name change became effective in November 2015.

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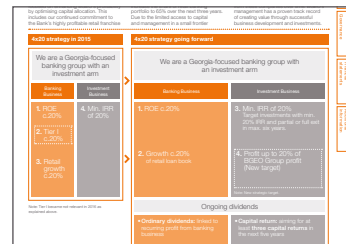
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A platform to develop talent



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Financial statements

	2020	2019	2018
Operating activities			
Net cash generated from operating activities	1,000	1,000	1,000
Investing activities			
Net cash used in investing activities	(1,000)	(1,000)	(1,000)
Financing activities			
Net cash generated from financing activities	1,000	1,000	1,000
Net change in cash and cash equivalents	0	0	0
Cash and cash equivalents at the start of the period	1,000	1,000	1,000
Cash and cash equivalents at the end of the period	1,000	1,000	1,000

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Find the digital version of this report
on our corporate website at:
www.bggeo.com



Please note that long forms of abbreviated terms can be found in the abbreviations section on p.214

Financial highlights

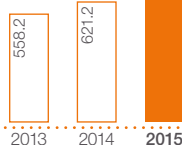
The effectiveness of our strategy is reflected in the record 2015 financial results highlighted below.

Revenue (GEL million)

BGE0

861.6

+38.7% y-o-y

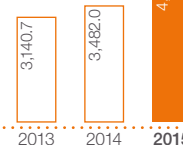


Client deposits (GEL million)

Banking Business

4,993.7

+43.4% y-o-y

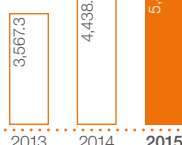


Net loans (GEL million)

Banking Business

5,366.8

+20.9% y-o-y

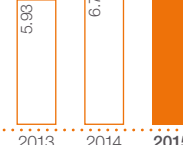


Earnings per share (GEL)

BGE0

7.93

+18.0% y-o-y

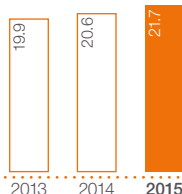


Return on Equity

Banking Business

21.7%

+1.1ppts y-o-y

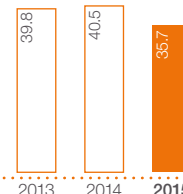


Cost to Income ratio

Banking Business

35.7%

-4.8ppts y-o-y

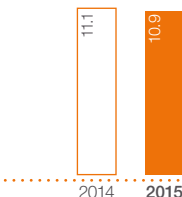


Tier 1 Capital ratio (Basel 2/3)

Bank of Georgia

10.9%

-0.2ppts y-o-y

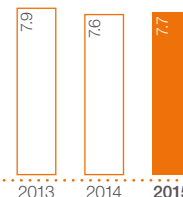


Net Interest Margin

Banking Business

7.7%

+10bps y-o-y

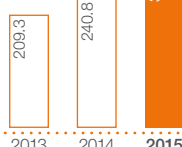


Profit (GEL million)

BGE0

310.9

+29.1% y-o-y



Investment Business profit (GEL million)

36.7

+81.1% y-o-y



Operating highlights

2015 operating highlights reflect the expanding footprint of our banking and investment businesses in Georgia.

Number of Retail Banking clients

1,999,869

+548,092 (over 2014)



Banking branches

266

+47 (over 2014)



Number of cards

1,958,377

+801,746 (over 2014)



Express Pay terminals

2,589

+350 (over 2014)



POS terminals

8,102

+1,782 (over 2014)



ATMs

746

+223 (over 2014)



Healthcare business: Number of hospital beds

2,670

+530 (over 2014)



Real estate business: Number of apartments sold

347

-226 (over 2014)



BGEO Group at a glance

The structure of our business

We are a Georgia - focused banking group with an investment arm, aiming to deliver on 4x20 strategy. We are uniquely positioned to capture growth opportunities in the underpenetrated banking sector and wider corporate landscape in Georgia.

Banking Business



Retail Banking

Client-centric, multi-brand strategy for our c.2 million clients

We are the largest retail banking player in Georgia, serving c.2.0 million customers through the widest network of 266 branches, 746 ATMs and 2,589 Express Pay (self-service) terminals, a salesforce of more than 3,000 people, along with our diverse products and services. Our Retail Banking business, the prominent ingredient of our business, runs a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers through three well-established and recognised brands:

- 1) **Express** – designed to magnetise emerging retail customers with minimal incremental operational costs through cost-efficient distance channels such as our Express Pay terminals, internet and mobile banking and technology-intensive Express branches;
- 2) **Bank of Georgia** – providing the long-established traditional banking services to our mass retail and MSME clients;
- 3) **Solo** – targeting mass of affluent customers and providing a unique blend of banking and lifestyle products and services.

Corporate Banking

Integrated solutions for our CB clients

Our bank is long-standing and the largest corporate lender in the country with deep sector knowledge and local expertise. Our Corporate Banking business is characterised by outstanding flexibility in meeting our corporate clients' needs and offers the most comprehensive range of products and services in the country. We are proud to accommodate more than 5,000 businesses in Georgia and play our part in developing various sectors of the economy such as trade, energy, industry and tourism, among others. Corporate Banking additionally serves as the country's leading trade finance business and provides leasing services through the Group's wholly owned subsidiary, Georgian Leasing Company (GLC).

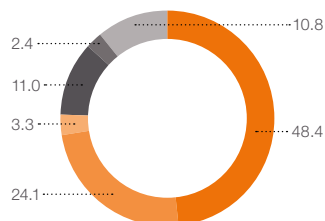
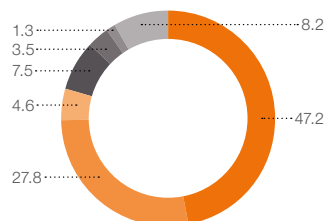
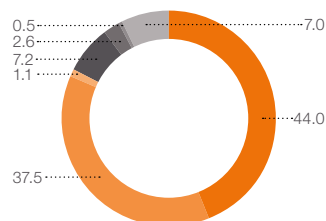
Note: In February 2016, we announced combination of our Corporate Banking and Investment Management businesses into a Corporate Investment Banking business (CIB). See page 37 for details about CIB.

Investment Management

At the forefront of capital markets development in Georgia

Our Investment Management business combines Wealth Management and our brokerage arm, a wholly owned subsidiary of Bank of Georgia, Galt & Taggart. An established leader of investment banking and investment management services in Georgia, Galt & Taggart is at the forefront of capital markets development in the country, bringing corporate advisory, private equity and brokerage services under one brand. Accommodating international clients from more than 70 countries, our Wealth Management business provides private banking services to our high-net-worth individual clients and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. These businesses leverage our superior knowledge and capabilities in the Georgian and neighbouring markets both in terms of reach and our expertise. Galt & Taggart Research currently covers the Georgian and Azeri economies and publishes Georgian sector research (subscription to the research on www.galtandtaggart.com).



Share in Group's revenue 2015
(%)Share in Group's profit 2015
(%)Share in Group's assets 2015
(%)

■ Retail Banking
 ■ Corporate Banking
 ■ Investment Management
 ■ GHG
 ■ m²
 ■ GGU
 ■ Teliani Valley

Note: Excludes inter-segment eliminations

Investment Business



Georgia Healthcare Group (GHG)

A long-term, high-growth investment story

GHG is the largest healthcare services and medical insurance provider operating in the fast-growing, predominantly privately owned, Georgian healthcare market, which is characterised by low utilisation and high fragmentation, leaving significant room for medium to long-term growth. Our healthcare services business had a 26.6% market share as of 31 December 2015, with 2,670 hospital beds and it has the widest geographic coverage among its peers with facilities located in six regions that contain three-quarters of the population of Georgia. GHG is also the largest medical insurer in Georgia with a 38.4% market share as of 31 December 2015, based on revenue and with approximately 234,000 people holding GHG's medical insurance policies as of 31 December 2015. In November 2015, GHG completed an initial public offering on the premium segment of the London Stock Exchange (GHG:LN). BGEO holds a 65% stake in GHG as of the date of this report.



m² Real Estate (m²)

A fast-growing, leading real estate developer in Georgia

Our real estate business, the Group's wholly owned subsidiary, m² Real Estate, develops residential property in Georgia. For the past couple of years it has established itself as one of the most recognisable and trustworthy residential housing brands in the country. m² Real Estate outsources the construction and architecture works while focusing on project management and sales. The Group's real estate business was founded to meet the unsatisfied demand for housing through our well-established branch network and salesforce, while stimulating our mortgage lending business. m² Real Estate completed sales of 1,660 apartments worth US\$ 142.3 million since 2011 with 85% of apartments sold in six successfully completed projects and 36% pre-sales in two ongoing projects. The number of apartments financed with our mortgages in all m² Real Estate projects as of the date of this announcement totalled 788, with an aggregate amount of GEL 86.7 million.



Georgian Global Utilities (GGU)

Major utility and energy company, with more efficiency and clear growth opportunities

GGU, in which we acquired a 25% minority interest in December 2014, has two main business lines - water utility and electric power generation—and is a major player on both markets. In its water utility business, GGU is a natural monopoly that supplies water and provides a wastewater service to 1.4 million people (approximately one-third of Georgia's population) in three cities: Tbilisi, Mtskheta and Rustavi. In electric power business, GGU owns and operates three hydropower generation facilities with a total capacity of 143MW. Generated power is primarily used by GGU's water business, with the excess amount of generated capacity sold to third parties. GGU posted EBITDA of GEL 63.2 million in 2015. Since 2014, BGEO Group put in place a strong management team and streamlined operations, however we see room for further improvement.



Teliani Valley

Creating a leading beverages producer and distributor in Caucasus

We operate the largest wine business in Georgia, Teliani, where we have a 71% shareholding. Teliani has a strong existing franchise, being a leading wine producer with a wide distribution platform. Teliani sells 3 million bottles of wine annually, with 60% of sales coming from exports. Building on its existing franchise of distribution, Teliani is currently expanding into a new business line of beer and soft beverage production, with ten-year exclusivity from Heineken to sell in three countries: Georgia, Armenia and Azerbaijan – a total population of 17 million people. With strong management team and a proven track record, Teliani aims to become a leading beverages producer and distributor in the Caucasus.



Chairman's statement



Neil Janin
Chairman

"I am proud to announce that BGEO performed very well, reporting GEL 310.9 million in profit, which demonstrates year over year growth of 29.1%. This is particularly impressive considering the challenges we have faced in 2015, including weak oil prices, foreign exchange fluctuations, and a complex political context. The Group's results are presented in our CEO's letter and in various sections of this report."

Through this letter, I would like to cover four important points:

1. the current economic and political situation in Georgia is solid and its outlook promising;
2. the strategy announced last year is more relevant than ever;
3. the role of corporate governance is a keystone of our way of doing business; and
4. talent management and incentives drive our performance.

I will elaborate on each of these messages below.

Politics and the economy

Last year we witnessed a democratic, peaceful change of government. The political situation in Georgia is still complicated, but a helpful way to look at it is across two levels: firstly, on a domestic basis, and secondly, on an international one, with a particular emphasis on its relationship with Russia.

Let me start by going over a few facts about the situation within the country. The recent appointment of a strong prime minister has brought about a number of initiatives, including a four-point plan to speed up economic growth. Highlights include a reform of the education system, which aims to create professional higher education systems in line with the demands of the labour market, tax code amendments aimed at further liberalizing tax and customs procedures, policies to speed up the implementation of infrastructure projects, and governance reform to allow legal entities to receive services based on a single window principle, similarly to how individuals currently receive services at public service halls in Georgia.

In addition, governance of the country has progressed. Firstly, the judiciary system has been reformed, and the courts in Georgia are now independent. Secondly, the President has created an institutionally distinct office for the Presidency, which reinforces checks and balances. Thirdly, the Central Bank now has a respected new governor with an IMF background and an independent board has been named to

check its power. Finally, the country enjoys independent TV stations and newspapers, representing many points of views.

We will have the next Parliamentary elections in October 2016, which could either lead to a more pluralistic political situation or a reelection of the current government. It is difficult to predict the outcome, but on the whole the country has been moving in the right direction with a peaceful and democratic change of government. The new government favours competence over loyalty, and a reaffirmation of its pro-Western position with the signing and implementation of an EU association agreement. Finally, the assets of the country are being developed, principally tourism and water. This points to a promising path ahead, although not necessarily a predictable one.

On the international front, relations with Russia have improved and Russia has been focusing on other fronts. The majority of the population, 70% to be precise, would not trade today for yesterday. Georgia will continue its quest for NATO membership, ensuring close cooperation but probably not accession.

Most promising for Georgia is the entry of Iran into the community of nations. On the Iranian New Year in 2016, numerous tourists could be seen in Tbilisi. One can hope that investments might follow and that Georgia could become an important trade partner to this nation.

In fact, Georgia could do extremely well. The country's success will be built on tourism, rich ecology and casinos. It will require a service infrastructure of hotels, banks and eventually hospitals. It will also bring investment in transportation, pipelines, railroads, and ports to connect to its neighbours. The industrial strategy of this country is right. It is pragmatic and, if anything, it is too prudent. Most importantly, BGEO plays a crucial role in it. One could say that what is good for Georgia is good for BGEO.

Our new strategy is promising

Last year we adopted a two-pronged strategy. Firstly, we would continue to make the Bank of Georgia a cost and

innovation leader. The Bank is our most precious asset and it continues to perform well and deliver as you will read later in this report. Secondly, we aim to buy assets in Georgia cheaply, grow them, and sell them to investors at a higher price. This way we will make money for our shareholders, bring money in the local economy, and provide foreign investors with an opportunity to own high-yielding assets.

Let me start with the Bank. We appointed a new CEO for Bank of Georgia, Murtaz Kikoria, and promoted Irakli Gilauri to Chairman of the Bank. We wanted to have one person concentrate on minding the day to day affairs of the Bank, allowing Irakli Gilauri to focus on our new ventures. Murtaz is the orchestra conductor we need to lead and support the very strong cast of top executives of the Bank. With the support of Irakli Gilauri, his mission is to make sure that the Bank continues to perform and transform itself. The Bank's agenda is full. In the retail bank, we are preparing to change the approach of our main branches from a product to a client one. This means that we will focus on client needs in order to propose suitable products, rather than push products to all clients in an indiscriminate manner. It involves a major cultural change and a transformation of our processes, the configuration of our branches and most importantly the mindset of our employees. We have also decided to merge the areas of corporate banking, investment banking, and wealth management. We are well regarded in this domain, and have accumulated a wealth of knowledge and capital markets capabilities in the Georgian and neighbouring markets during the past several years through our corporate advisory, research and brokerage practices united under Galt & Taggart. Galt & Taggart research aims to help decision makers – policymakers, International financial institutions, businesses and foreign investors – appreciate the opportunities of investing in Georgia and the South Caucasus. In this context, our wealth management/investment banking business has plenty of room to grow.

Our 2015 highlight was the successful IPO of Georgia Healthcare Group PLC on the London Stock Exchange.

We were able to float c.35% of GHG and raise US\$ 100 million that we will invest to grow GHG further. What we are doing in health care is a good illustration of the uniqueness of our strategy, which has three components. Firstly, we can buy assets cheaper than others. Why? Assets in Georgia are small and owned by individuals who need a lot of hand-holding in Georgian – something that foreign buyers have neither the ability nor the time to do. We may have bought more than 40 hospitals, but they were bought one by one, often from local doctors who made their own decisions, and would not just sell to anyone with money.

Secondly, we provided our health care subsidiary with very capable managers, starting with its CEO Nikoloz Gamkrelidze. Nick is a good example of a manager who developed his skills over the course of his career at the Bank of Georgia. We grow this talent within the Bank, as it is difficult to find local managers capable of executing sophisticated strategies. Otherwise, we sometimes attract Georgian talent from Europe or the US. These people will only return if they are offered a sizeable challenge, a promise of personal development, attractive incentives, and an overall feeling that they are contributing to the well-being of the country. Small, family owned companies cannot do that, nor can foreign investors. We are putting a special emphasis on talent in this annual report.

Thirdly, we have implemented world class governance systems including a robust Board. If you look at the Board of GHG, you will see a mixture of members who have experience in Georgia, as well as new independent members chosen for their competence and judgment. In this specific case: insurance, medicine, medical supply, and hospital management. We intend to replicate this set up in all areas that we are committed to developing.

GHG is not our only investment. Irakli Gilauri will give you a short description of our portfolio investments, which include real estate, utilities, power generation, and consumer goods. We look at our portfolio of investments as trees in a forest: some are mature and solid, others are promising saplings. When we see an opportunity to

create value, we will not hesitate to bet on it. Similarly, if we cannot see potential, we will hold back. Unlike a private equity firm, we are under no pressure or obligation to invest any of our reserves, and if we cannot find interesting opportunities, we will return the money to shareholders, either through dividends or stock buybacks.

Corporate governance and talent development

The Board plays an important role in our companies. The BGEO board is composed of an array of highly competent individuals with complementary skill sets needed to run our businesses. The board works collectively with management to set the strategy and review operations. In fact, we set aside days every year to review asset allocation and investments. We encourage dialogue and discussion before taking any decision.

Additionally, each member is encouraged to interact with management members as advisors. The nature of contribution varies, from providing expertise and judgement to coaching and development. Allow me to introduce them to you: Hanna Loikkanen is very experienced investor in Russia and the CJS. She brings her wisdom and judgment as an investment manager to evaluating our investments. David Morrison, the Board's vice chairman, is our guardian. He is aware of our fiduciary responsibilities and regulatory obligations, making sure we do the right things the right way. His long tenure at Sullivan and Cromwell in New York, Paris and Frankfurt serves him well in this regard. Al Breach is an outstanding macro-economic investor. His point of view is invaluable in making funding decisions and advising the Bank on its asset and liability management. Kaha Kiknavelidze is also a macro investor who, as a Georgian, gives us an insight into the local economy which we would not otherwise have. Tamaz Georgadze is the second Georgian on our Board with a specialty in digital and retail banking. He heads his own very successful FinTech company based in Berlin, and was one of the foremost retail banking experts at McKinsey. Kim Bradley is our real estate guru, with 25 years' experience behind him in multiple markets. One of the contributions he made to m², our

Chairman's statement continued

real estate subsidiary, was helping them build their risk management system and manage their liquidity risk. Last but not least, Bozidar Djelic, with an extensive experience in government, as a banker, and as advisor to a number of countries, helps us with government relations, capital markets, and provides the group with a rich perspective and judgment in this region.

My job is to manage the Board, ensure that we have the right people on the board and in leadership positions in the key areas of the Bank, and facilitate and frame discussions on all areas, but especially on strategy and execution. It is worth mentioning that the board meets without the CEO at every board meeting and that we run regular third party evaluations of our effectiveness and continue to rank very highly. We still lack the diversity that we would like to see, but we are working on it. We had promised to onboard two women, but have only invited one so far. We are actively searching.

Finally, the Board of course fulfils its fiduciary duties. We have meaningful discussions in the committees, as you will see in the reports of the Chairmen of each committee below.

Succession planning and Talent management

This is a young company and the top managers of the organization are the ones who built it. The Board is aware and concerned by the necessity of preparing a new generation of leaders for the long term. It is our highest priority today. We have encouraged the bank to change the scope of its human resources strategy and to develop a pipeline of leaders at an early stage. Promising employees should be tracked and developed by giving them appropriate opportunities and timely leadership and technical training.

For those already at the top, the incentive system is as follows: our partners, 15 in total, take home the minimum they need to live well, with the rest being stock vesting in five years. If they make the shareholders rich in the long term, they too will be rich. There are no ways

for executives to finesse the system and play the short term. Above all, no cash, just stock vesting in five years. It is not an appropriate incentive system for every company. For ours, a young growing company, it works and keeps everyone's mind focused on making money for shareholders. Beyond top management, we are committed to building a culture where personal growth and development are encouraged. We are making a point to show you our top 100 executives in this report. We have made changes to our human resources management and we intend to reinforce our capacity to attract, develop and promote talent in all areas of the group. We have named one of our most creative executives as head of HR, with a precise mandate.

Regarding succession, the Board has a definite plan of what we would do in the case that our current CEO is no longer able to continue. He has been key to our success. However, we are building the bench behind Irakli Gilauri by promoting more people to positions that cover duties he was doing directly. We cannot replace Irakli Gilauri, but we can build talent around him and introduce a way of doing business that will become BGEO's trademark and culture. Irakli is keen to see that happen and is showing the way to all his team.

I hope this letter has helped inform our shareholders of the current situation of BGEO and its promising outlook. While the strategy and future of group is solid and the political context promising, investing in operations in countries such as Georgia can still feel daunting. Therefore as a final point, I wanted to highlight our liquidity situation which will allow us to weather whatever storm may come in our path and enable us to achieve long term success. Irakli Gilauri elaborates on this below.

At the 2016 Annual General Meeting, the Board intends to recommend an annual dividend of GEL 2.4 per share payable in British Pound Sterling at the prevailing rate. This is in the range of our payout ratio target of 25-40% and represents a 14% increase over the 2014 dividend.

I feel very fortunate and proud to be part of the remarkable journey of this institution and this country. I am proud of the work accomplished by CEO Irakli Gilauri and his entire management team. I am touched by their desire to not only build a great company, but also do well for the country. Finally, I am grateful for the investors who trust them with their money. I think they too can be proud and take comfort in the returns on their investment.

Neil Janin

Chairman

7 March 2016

Chief Executive Officer's Statement



Irakli Gilauri,
Chief Executive Officer

“As a leitmotif to this letter I would like to draw your attention to people working for your company and long term vision we have for each of our business lines.”

Dear Shareholders,

A key challenge for any company is how it performs in a difficult macro-economic environment. This challenge has been successfully met by BGEO Group as your Company managed to deliver a record high profit in US Dollar terms despite the backdrop of the Lari weakening by more than 35% versus US dollar compared to pre-depreciation levels and the uncertain macro-economic environment in the region throughout 2015. This success was mainly driven by two major factors:

- People working for the Group; and
- Strategic decisions made by the Board in the past 5-7 years.

These two factors – the people working for your company and the long term vision we have for each of our business lines – will be a leitmotif to this letter, in which I focus on: strategy – for our Banking and Investment Businesses as well as for the Group in terms of capital returns and allocations; and talent development.

Banking Business:

Two key metrics we measure our Banking Business performance against are Return on Average Equity (ROAE) and retail loan book growth, each targeted at the 20% level. As outlined in detail later in this report, both targets were achieved by a considerable margin; we grew the retail loan book by 35% and delivered c. 22% ROAE. To further improve profitability we set a 3-year target to increase the share of Retail Banking lending in the overall loan book, from the current 56% to a targeted 65% level. Bank of Georgia is also well positioned in terms of both capital and liquidity to deliver on its growth strategy.

Let me outline the background as well as the strategy going forward for each of the banking segments:

Retail Banking:

Retail Banking delivered a stellar performance by reaching c. 2 million clients, delivering loan book growth and

ROAE targets. The acquisition and successful integration of PrivatBank Georgia played a major role.

To further improve profitability we set a 3-year target to increase the share of Retail Banking lending in the overall loan book, from the current 56% to a targeted 65% level. Bank of Georgia is also well positioned in terms of both capital and liquidity to deliver on its growth strategy.

In order to better connect with the various segments of the retail client base, we operate a multi-brand strategy:

- Our **Express Bank** brand is aimed at the emerging bankable population. Express serves as a platform for bringing the currently under-banked population into banking and its main focus is to enable its client base to transact in a fast and easy way. We also sell only a limited number of banking products to our Express banking clients. Currently, 77 out of a total of 114 Express branches are located in Tbilisi and going forward we would like to roll out Express branches in regions to reach a wider population. The all-in cost of opening a new Express branch is just US\$ 50,000.
- Under the **Bank of Georgia** brand, we are serving mass retail clients. We have historically been very much a product-driven organisation, which helped us in acquiring new clients. However, we now have a relationship with c. 2 million clients and our challenge for the next three years is to increase the product to client ratio from a current low of 1.7 to 3.0. To this end, we intend to shift our business model from product to client centric. In 2016, we would like to move to a focused service model in 10 branches, where clients have a single touch-point to acquire products and receive consultation. In the medium-term, we intend to convert the Bank of Georgia brand into a single touch-point front office organisation.

Chief Executive Officer's Statement continued

- Our new **Solo** model was introduced in 2015 and the major part of our planned lounge roll-out has now been completed. The Solo brand is used for servicing the emerging mass affluent segment. To qualify for Solo services one needs to have an income of GEL 3,000 per month. At Solo lounges, clients are served by personal bankers and, in addition to banking products, are offered luxury goods at cost and other lifestyle offers including a travel magazine and entertainment. Recently, Solo presented a Sting concert to its clients at a concert that was limited to Solo clients only, which created further interest in the Solo franchise. We intend to grow the number of Solo clients to 40,000 by the end of 2018, from the current 12,000 level. Net profit per Solo client stood at GEL 1,350 in 2015, over 20 times of what we have in the mass retail segment under the Bank of Georgia brand.

Another big project targeted for 2016 in retail banking will be to plan and begin to implement a new strategy for the digitalization of banking services. Digitalization will play a major part in making our services more competitive and at the same time more efficient.

Retail Banking is headed by Mikheil Gomarteli, who joined the Bank 19 years ago and his first job was to sell debit cards door-to-door. Before heading Retail Banking, Mikheil worked in almost every position in the bank: teller, credit analyst, and headed our reporting and budgeting, marketing, and branch management departments. Mikheil is leading a group of excellent Retail Bankers and their inside-out knowledge of Retail Banking and detailed understanding of business are invaluable for the further success of the business line.

Corporate and Investment Banking:

Our Corporate Bank has increased its ROAE from 12% in 2014 to 16% in 2015. We believe the current risk return profile of corporate business is not as attractive as the Bank runs a relatively concentrated loan book, with the top 10 exposures accounting for 12.4% of total loan book. Therefore, our major strategic goal is to de-concentrate the corporate loan book, while stepping up our investment Banking Business by issuing corporate bonds in the local market. We have already made progress in this regard in 2015; we have

decreased concentration from 15.7% in 2014 to 12.4% in 2015, and at the same time issued bonds worth US\$ 63 million in the local market. Going forward, we are also targeting to syndicate out our large exposures to local and international players.

Georgia is becoming the service hub of the region and we expect to grow our business on the back of it. Further growing our wealth management platform is essential in order for us to issue local corporate bonds. This strategy should result in further de-concentrating the loan book, enhancing the fee-based business, increasing ROAE and improving the overall risk return profile of the segment.

In order to further capture synergies between the corporate banking and investment management (investment banking and wealth management franchises) and expedite the process of developing the local capital market, we have decided to merge these two business lines.

We have appointed Archil Gachechiladze to head the merged entity. Archil joined the Bank in 2009, and he has headed both the corporate banking and the investment management businesses. Archil has delivered great results in both corporate banking and investment management and his obviously successful track record was the key reason for the Board's decision to appoint Archil as head of Corporate and Investment Banking. Archil is a Cornell MBA and worked at Lehman Brothers' Private Equity arm prior to returning to Georgia. He has built an excellent team around him. Archil's superb strategic vision, insights on both corporate banking and the investment management businesses, as well as his great execution skills will be the key to deliver on the merged CIB strategy.

The Bank's cost discipline:

Identifying and eliminating unnecessary costs is part of our DNA. We have been running positive operating leverage for quite some time. We also have a strong history of successfully acquiring and integrating other financial institutions and delivering substantial cost synergies. The

most recent opportunity was the successful integration of PrivatBank Georgia in 2015, where we fully integrated a bank with 400,000 active clients within 4 months while eliminating unnecessary costs and delivering on annualised pre-tax synergies of GEL 30 million, GEL 5 million more than initially announced.

Our three-year target is to maintain a 35% cost to income ratio. Effective implementation of the client-centric model in Retail Banking as well as digitalisation will have a positive contribution to the low Cost to Income ratio going forward.

Tornike Gogichaishvili heads our operations overseeing operating and capital expenditures and his contribution to the 36% cost to income ratio is tremendous. Tornike joined the Group in 2006 and soon became CEO of our insurance business. Tornike also played a crucial role in capturing efficiencies in our Ukrainian banking subsidiary. Tornike has been heading the Bank's operations business since 2010. His deep understanding of business and processes is the key to successfully capturing further cost efficiencies going forward.

The Bank's risk management:

In the year of a major depreciation against the US Dollar, I would like to focus on credit risk as it is by far the largest risk category that any bank is exposed to.

Our risk department is best in class. They have passed the test of prudence and control both in 2008 during the global financial crisis, when cost of risk stayed within the Bank's net interest margin, as well as in 2015, when the currency lost more than 35% of its value against US dollar compared to pre-depreciation levels.

Investors often ask me how we retained such a low cost of risk (2.7%), in a year of sharp depreciation in consideration that 72% of our loan book is denominated in foreign currency, mostly US Dollars. The simple answer to this question is that Georgian bank balance sheets have been mainly in US Dollars for the past 20 years

or so and we manage currency risk, just as banks with local currency balance sheets manage the interest rate risk. (We have limited interest rate risk in our balance sheet.)

How do we manage the foreign exchange risk? Currency-wise, our balance sheet is matched on both sides. Our clients who have local currency income and loan in US Dollars are exposed to currency risk, which makes us consider carefully how to manage their risk. We manage our clients' risk in two ways: first, we issue these clients 20% less loan compared to issuing a Georgian Lari loan, in doing so we are creating a depreciation buffer. Secondly, we issue shorter-term loans than we would have issued in the first place and at the same time we keep a positive liquidity gap in our balance sheet, so if there is a need to prolong a loan to our client we have the capability to do so. Under the above credit conditions not many qualify for US Dollar borrowing. One of the reasons for the low penetration of loans compared to GDP is due to this conservative underwriting policy used by Georgian banks.

90% of our corporate loan book is denominated in foreign currency, mainly US Dollars - of which 50% have US Dollar income and the rest do not. Because the Georgian economy is dollarised and a US Dollar proxy economy, when the Georgian Lari weakens all corporate players behave in a similar way: they adjust prices, capture efficiencies and adjust to the new reality. As Georgia is an oil-importing country, Georgian corporates had a big saving from lower oil prices, but the adjustment of prices on their final goods was not as dramatic as it could have been. Hence inflation in the country was recorded below 5% in 2015. Weak corporates, whose businesses were struggling even before depreciation, go out of the business, healthier companies will need some sort of prolongation, but their business continues to generate the cash and service the debt on a monthly basis as they used to do, and strong companies do not even need prolongation. This is exactly what happened during the recent depreciation.

On the retail side of the balance sheet we have 54% of loans in foreign currency, mostly US Dollar and the remaining in Georgian Lari. Georgian Lari-denominated loans are mainly issued as consumer loans and credit cards to 400,000 customers. So the mass population are not exposed to

currency risk. c. 21% of the retail loan book is in foreign currency, mainly US Dollar loans to SMEs and Micros and the situation with these customers is very similar to corporate clients, as described above. C. 26% of the loan book is in mortgages and the remaining c. 7% is consumer loan and credit cards. When underwriting the mortgages we use a 20% buffer and issue shorter-term. So, the maximum term of the mortgage in Georgia is generally 10 years. With this pre-condition not many qualify, and actually only the best quality borrowers we have are our mortgage borrowers. In total there are only c. 38,000 mortgages outstanding in the whole country. We announced the automatic re-profiling of the mortgage loans. Basically, we offered automatic prolongation of the mortgage loans in such a way that Georgian Lari monthly payment stayed at a similar level as it was before the depreciation. As we have top quality mortgage borrowers, out of our 13,000 mortgage borrowers only 1,100 took the offer.

Giorgi Chiladze is Chief Risk Officer of the Bank. Giorgi earned his PhD in physics from Johns Hopkins University. He has excellent judgement and a strong understanding of the big picture that serves all of our shareholders well. In Giorgi's hands we are much safer.

Leadership transition in Banking Business:

One of our major challenges for 2015 was to make sure that banking continued to perform well as I was handing over the leadership of Banking Business to Murtaz Kikoria.

Murtaz is a seasoned banker with more than 25 years' experience in this sector. Murtaz served as a banking regulator, who institutionalised banking regulation from the early 2000s and made the Georgian banking sector extremely resilient. He has occupied top positions in leading Georgian banks as well as a Senior Banker position at EBRD.

Murtaz joined the Bank in 2008, his major achievement was the successful turnaround of our Ukrainian banking subsidiary and its subsequent divestment. Murtaz also served as CEO of our

healthcare business where he acquired a number of different hospitals, contributing in a major way to the successful GHG IPO. Murtaz's deep knowledge of banking, as well as his great people skills, will be key to the success of our Banking Business going forward.

Investment Business:

In last year's letter to shareholders, I outlined in detail the way we invest in and manage companies. In brief, I would say that the strategy of our Investment Business is very simple: we buy companies or assets cheaply, institutionalising them by allocating and developing top talent in Georgia, eliminating unnecessary costs, growing the companies as market leaders in order to achieve scale-driven cost advantage, and crystallising the value of the them within six years. We invest in small ticket sizes; usually we would not invest more than US\$ 25 million in any new opportunity. We also like to stage investments to limit the risks. Once we make sure that an appropriate level of institutionalisation has been achieved in the portfolio company, we may invest in bigger ticket sizes. To this end, we like bolt-on acquisitions to expedite the market leadership and scale-driven cost advantage. Bolt-on acquisitions also enable us to capture cost synergies and eliminate unnecessary costs. The GHG case study in this Annual Report outlines our strategy of doing investments.

In pursuing this strategy, we aim to achieve at least a 20% IRR. The limited access to capital in this small frontier economy is one of the reasons we are able to buy cheaply. So, the availability of cash at all times at the Group level is critical to seize opportunities quickly.

Overall, the performance of the Investment Business was exceptional in 2015. We have delivered consolidated profit growth of 81%. The growth was mainly driven by GHG's superb performance and m² Real Estate completing its projects ahead of deadline and within budget. The IPO of GHG was the key milestone in the Investment Business as we managed to crystallise the value of our investment and achieve a triple-digit IRR.

Chief Executive Officer's Statement continued

Let me speak to our portfolio companies one by one:

Georgia Healthcare Group: GHG's main goal is to double its 2015 healthcare revenue in 2018 while producing c. 30% EBITDA margin.

The Company targets to achieve this revenue growth by growing its market share by number of beds in the hospital business from the current 27% level to c.30% by the end of 2018. The Company is also in the process of rolling out a national chain of ambulatory clinics where its market share by revenue is currently just 1% and GHG is targeting to grow this to 5% by the end of 2018.

At the beginning of 2016, GHG made a strategic move to expand into pharmaceuticals. Subject to regulatory approvals, GHG has agreed to acquire GPC, the third-largest retail and wholesale pharmacy chain in Georgia. This acquisition will enable GHG to become the largest drug purchaser in the country and be present in the entire healthcare eco-system which amounts to GEL 3.4 billion. The pharmacy business is expected to be highly synergistic both to reduce the cost of drugs for our hospitals as well as to cross-sell through GPC's loyalty programme to ambulatories. GPC has c. 12 million customer interactions per annum. It is expected GHG will open pharmacies on the premises of approximately 40 hospitals and large ambulatory clinics owned by GHG to boost the revenue of GPC. The acquisition price of GPC implies 5.7 times EV/EBITDA before eliminating unnecessary costs and capturing further cost and revenue synergies. The post-synergy multiple is 3.3.

GHG is led by Nick Gamkrelidze, who joined the Group's insurance subsidiary business in 2006, soon becoming its CEO, and embarked on the healthcare strategy in 2011. As part of our talent management policy we have rotated Nick as CFO of the Group in order to get him familiarised with the working of a public company. Nick had demonstrated outstanding performance both running the healthcare business and

being CFO of the Group. Nick is a good example of how one can become public company CEO in our Group by constantly learning and developing. Nick's cost discipline and strategic vision is the key to the success of GHG and its IPO. Nick is leading a highly capable team and I strongly believe that under Nick's leadership, the GHG team will deliver on its strategy.

**You can find out more about GHG by
visiting its IR website at www.ghg.com.ge**

m² Real Estate:

After launching the Real Estate Business in 2011, m² has developed, or is in the process of developing 2,500 units, of which over 1,600 have already been sold. In a very short period of time m² has become the largest residential developer in the country, enjoying scale advantage to be a lowest cost producer. To this end, in the past four-year period, m² has managed to make housing more affordable in Georgia, bring the price of a one-bedroom apartment from US\$ 40,000 to US\$ 29,000 in Tbilisi, while producing an average 65% IRR on its housing projects. The m² housing business also complements our Retail Banking and helps to generate mortgages.

If you want to buy an apartment starting at US\$ 29,000 in Tbilisi and have it rented out by m², please email us: 29000@m2.ge.

m² has a strong franchise, excellent track record and solid balance sheet to accelerate its growth. Currently, m² has a land bank with an estimated value of US\$ 34 million, where we can develop more than 5,200 apartments. Demand for apartments is expected to grow further as the country is becoming service hub of the region and urbanisation is expected to continue. At the same time due to a shortage of housing during Soviet-times and the Georgian tradition of multi-generations living in one apartment resulted in 3.7 people living in one apartment in Tbilisi. On top of this, c. 70% of apartments are amortised in Tbilisi, as they were built in the Soviet times.

The good news is that, alongside the housing development, we can develop

commercial real estate, such as hotels and retail real estate. Our intention is to develop these projects over the next 4-5 years and retain yielding assets on m² books. The number of visitors in Georgia grew from 560,000 in 2007 to nearly 6 million in 2015, while branded hotel rooms had a marginal growth to only 1,200 rooms in Tbilisi. Hotel room growth was mainly attributed to four-star hotels, while family-run small hotels are servicing the rest of the visitors. For the budget hotel segment, we observe increasing prices and high utilisation levels. We think with our m² franchise we can add value in this sector and, therefore, we have signed a 7-year exclusivity with Wyndham for the Ramada Encore brand to develop three-star hotels. Due to the limited supply of three star hotels, we see a significant opportunity in this segment, especially against the background of expected further growth in the number of foreign visitors. Georgia is truly becoming the major destination in the region.

At the same time, we are starting the development of third party land to earn fees. Our customer-driven franchise, sales channels and being a low-cost producer puts us in a unique position to generate fees, while not taking balance sheet risk from re-investing m² profit into the development of the land bank. To this end, on the back of performance between now and 2019, m² is targeting to pay US\$ 20-25 million in dividends to BGEO Group.

Over the next 4-5 years, our intention is to grow m² into a Real Estate Investment Trust with an asset manager attached to it – in addition to generating rental income, m² will be targeting to generate fees from third party land development.

Irakli Burdiladze heads our Real Estate Business. Irakli joined Bank of Georgia as CFO in 2006. In 2010, when we decided to develop land which the Bank had repossessed after the 2008/09 crises, Irakli was assigned to spearhead our Real Estate Business. I have met no one more passionate about the Real Estate Business

in Georgia than Irakli. Irakli's strategic thinking, and his excellent people, sales and execution skills enabled him to build a strong cash flow generating institution and I am confident in his ability, with the help of his excellent team, to deliver on our strategy.

Georgia Renewable Power Company (the hydro business – GRPC):

Our investment so far in our hydropower station business has been very small, but its prospects are tremendous. We decided to develop hydros in Georgia due to the simple fact that the cost of developing one MW of hydro is at least two times cheaper than in neighbouring countries. At the same time, domestic electricity consumption in Georgia has grown by 3.6% CAGR from 2007 through 2015. As we did not know how to develop hydros ourselves, we have entered into a joint venture with RP Global, an experienced Austrian hydro development company. BGEO Group owns 65% in the joint venture and RP Global owns the remaining equity interest.

Our intention is to build 4 hydro stations by the end of 2019 with total capacity of 105 MW. In addition, we plan to do detailed feasibility studies (ready to build) of additional hydros with a total capacity of 150 MW. We have earmarked US\$ 25 million in equity investment over the next 3 years to build the first four 105 MW hydros. After launching the hydros in 2019, we expect to produce a ROAE of 20%+.

One can build hydros cheaply in Georgia for two main reasons: 1. Georgia has a lot of hydro resources due to the Caucasus mountains and climate; and 2. these resources have not been tapped as access to capital has been limited.

On the demand side, domestic energy consumption will increase to match the requirements of Georgia's growing economy, as well as increased external demand from our neighbours such as Turkey, Russia and Iran. Now that Iran is opening-up, it needs energy to develop its

economy. The way our hydro licence is structured is that we are obliged to sell electricity during four months in autumn and winter in Georgia, when hydro generation (78% of energy produced in Georgia is hydro) is at a low level in Georgia, while we are free to sell energy during 8 months in spring, summer and autumn, when energy consumption is high in Turkey and Iran, due to the heavy usage of air conditioning. This way, throughout the year, we should be able to capture the most optimal sales price.

GRPC is led by Avto Namicheishvili, who is also Group General Legal Counsel. Avto joined the Group in 2007 and executed all major M&A and IPO transactions for our Group. While Avto acted as the Group's legal counsel, he has accumulated tremendous business experience and we would like to leverage his knowledge in developing our hydro business. Avto's execution skills, excellent people skills and out-of-the-box thinking will be critical in institutionalising our hydro development capabilities, which I believe will create a lot of value for our shareholders going forward. Through ongoing Board participation, Avto also helps me to manage our other Investment Businesses. He is one of the key players in executing our Investment Business strategy.

Georgian Global Utilities (water utility and hydro business – GGU):

After the acquisition of our 25% stake in GGU in December 2014, we initiated senior management changes, which triggered substantial improvements in the operating business.

As GGU is an infrastructure company we closely follow cash flow generation capabilities and want to make sure that by eliminating water losses, which currently stand at c. 50%, GGU delivers sustainable cash flow growth. As GGU consumes its own energy, generated by 135 MW hydro stations, efficiency improvements will have a double effect as freed-up energy can be sold to third parties.

We are also developing hydro resources using the existing infrastructure of the Company. In 2015 we identified two

stations with a total capacity of 16 MW. Building run-on hydros using the GGU infrastructure decreases the cost of development by 20-30%.

We aim to deliver GEL 80 million EBITDA in 2018 by reducing water losses and building new hydros. GGU is expected to pay dividends on the back of its 2016 performance and step up the dividends to at least GEL 20 million per annum from 2018.

GGU is headed by Giorgi Tskhadadze, formerly CFO of Borjomi, a leading beverage company in Georgia. Giorgi has demonstrated an excellent track record in capturing efficiencies and streamlining operations. Giorgi Vakhtangishvili is CFO of GGU. He joined the Company in April 2015, previously serving as the #2 person in m² Real Estate. His contribution to the success of the GGU turnaround is equally important.

Teliani Valley (beverage business):

Teliani Valley is one of the largest wine producers in the country, selling c. 3 million bottles a year. Its 2015 EBITDA was GEL 3.9 million, a decrease compared to 2014 as currencies lost values sharply, leading to decreased demand in Teliani's major export markets, such as Ukraine and Kazakhstan. Teliani also operates a leading distribution company, distributing its own as well as third party goods. Teliani is also the distributor of imported Heineken beer.

In 2016, Teliani is launching a beer and soft drinks production line, which will be a major source for its growth. Because of Teliani's distribution capabilities, Heineken granted Teliani with a 10-year licence to bottle beer for Georgia, Azerbaijan and Armenia.

BGEO Group owns 71% of Teliani and intends to invest US\$ 10 million in equity to build the Heineken brewery in Georgia. The brewery will also produce other Heineken brands, mainstream beer and local lemonades. Teliani is targeting to launch beer production by the end of 2016. The

Chief Executive Officer's Statement continued

brewery will have a capacity of c. 300,000 hectolitres and will be scalable to 500,000 hectolitres. The total project cost is US\$ 37 million. The beer market in Georgia is highly concentrated; Efes Group owns 57% of the market share and 35% is owned by a local producer. Going forward, Teliani may become a diversified beverage producer in Georgia.

Shota Kobelia heads Teliani Valley. Shota joined Teliani in 2009. Prior to joining Teliani, Shota was an executive in the Pernod Ricard Group. Shota managed to capture more than 30% market share in bottled wine in Georgia, where competition is much greater than in the beer market. Shota's leadership and sales skills will be the key for the success of our new investment. The Teliani team is very excited and engaged with the project, together with the Heineken team, to make it successful.

Group strategy: capital returns and allocations

The simple way to look at our strategy is how much capital return we deliver to our shareholders in relation to the cash investment our shareholders make in the Group. Therefore, our aim going forward is not to issue new shares, rather deliver capital returns in order to generate a high return for already invested cash capital by our shareholders.

Obviously sustainability of capital returns over long period of time is essential for the success of our strategy. As you all know, we run two forms of capital return: Ordinary Dividends paid by the Banking Business and Special Capital Returns (SCR), generated by our Investment Business. Let me discuss each form of capital return separately.

Ordinary Dividends:

Our Banking Business can be viewed as the provider of Ordinary Dividends. On the back of its 2015 financial performance we will be paying GEL 2.4 per share, which

represents growth of 14% over 2014 dividends and a payout ratio of 34% compared to 34% in 2014. Bank of Georgia is by far the largest and most valuable asset in our Group, which provides a high quality, stable dividend flow to our shareholders. Implementing the strategy outlined earlier in this letter should improve the quality of ordinary dividend generation capabilities of Bank of Georgia and make it more sustainable over a long period of time.

Special Capital Returns:

We updated our strategy in December 2014 and introduced the Investment Business and the concept of Special Capital Returns. The Investment Business aims to deliver CSRs from divestments of our portfolio of companies. Our aim over a five-year period is to deliver CSRs of at least 50% in aggregate of the ordinary dividends delivered by the Banking Business over 2015-2019 period. We view CSRs in three different forms: cash dividends, BGEO share buy-backs and the potential distribution of shares in our listed portfolio company. We are also aiming to buy-back shares for our management trust, rather than issue new ones – as we historically used to do. The aim is not to increase the Group's outstanding number of shares from the current 39.5 million level.

As a result of the successful IPO of GHG and the high cash flow generation of our Real Estate Business, we have clear visibility of SCR flow through 2019. The good news is that our existing investments can generate SCRs beyond 2019.

However, we will need to improve the quality of SCR flow over the longer period of time. Therefore, holding a supply of cash to invest in opportunities and wisely re-allocating capital are important to increase the quality and certainty of SCRs over the longer run. That is why our plans regarding our cash buffer and our capital allocation strategy going forward are important.

Cash buffer and capital allocations:

Currently we hold c. US\$ 52 million cash at the BGEO Group level, of which US\$ 35 million is allocated to our hydro and beverage businesses. Over the medium-term, we aim to increase the unallocated cash buffer from the current US\$ 17 million level to a higher one of US\$ 50 million, or 3.5% of market capitalisation of the Group.

We believe this large cash buffer will be an important component to the successful implementation of our strategy and de-risking the Group in case of unexpected crisis. The unallocated cash buffer will be used to seek opportunities either for new ones or opportunities that capitalise on our existing companies for new projects or bolt-on acquisitions. The buffer will also enable us to buy back BGEO shares cheaply during any global capital markets or emerging market turmoil. As we use cash from the buffer, we will be disciplined to replenish it in a short period of time.

As we will be increasing cash levels at the Group level, we will be running a Group-wide treasury management. Therefore, we are in the process of setting up risk management guidelines at the Group level. The basic idea is to run an extremely conservative liquidity management policy. Allocated cash will be invested in Georgian government treasuries and short-term local bonds, while unallocated cash (e.g. US\$ 50 million) will be used to invest in short-term US treasuries or EU government bonds.

Growing the intrinsic value of our portfolio companies will be one of my key performance indicators going forward. To this end, internally we are running valuation models for each of the portfolio companies. Valuation of the portfolio companies will also be used when deciding on BGEO share buybacks as well.

The way we manage the Group:

We run a lean management structure at the Group level. We have five senior people working at the Group level, including me, and all of us have multiple functions. I split my time between helping the Bank executives in strategic projects and overlooking portfolio companies in Investment Business by helping top executives with strategic decisions. Levan Kulijanishvili, a long-time veteran at the Bank of Georgia, is a CFO of the Group and Bank of Georgia. Levan's ability to constantly learn and develop, as well as understand detail has no boundaries. Avto Namicheishvili and Eka Shavgulidze help me to overlook our portfolio companies by active Board participations, monitoring performance of the Group companies and assessing new opportunities. As mentioned above, Avto is also heading our hydro business and helps the Group company lawyers in case they need advice. In addition to her Group role, Eka handles production of all our investor relation communication materials. Eka also handles the Group's debt capital funding needs. Eka's exceptional analytical and strategic thinking skills are invaluable for the Group. Michael Oliver is helping me with investor relations. Mike has 25+ years of experience in UK banking and served as Director of IR of Lloyds Banking Group. Mike attends the Group's strategic meetings and has a deep understanding of Georgia and the BGEO Group, which helps us to communicate the story effectively. Mike's understanding of our investors' way of thinking is very important for us in setting up the strategy. He is very passionate with great people skills.

Talent development:

Attracting the very best talent to our Group has always been a top priority. This is how the success of our Group has been built. Good judgement, flawless execution and excellent team spirit is part of our culture. Bank of Georgia serves as a great platform for developing talent within the Group and the Board's role in this development is tremendous. In addition to their fiduciary duties, Board members act as advisors/

coaches for all of our top executives. We have a diverse Board with sector specialists and we would like to further enlarge it by bringing more sector specialists to help our heads of businesses to grow further.

As our businesses grow and the market evolves, we are in constant need for top talent to deliver on our strategy. We have much more talent available in-house than 11 years ago, when I joined the Bank of Georgia. To this end, we would like to further institutionalise the talent development and formalise our organisation culture. We would like to use the Bank of Georgia University, internal and external talent pools as platforms to develop future leaders by providing leadership, training and coaching, and mentoring by senior executives and the Board members. We also want to attract young talent through our Leadership Programs to develop future leaders for this organisation.

“Helping each other to succeed by learning and providing feedback” is our leadership culture articulated in one sentence. Indeed, we see constant learning and development of management and employees as key to the success of your organisation and we will be investing time and money in it.

Sasha Katsman heads the HR and Branding of the Bank. He has a Group-wide responsibility to institutionalise our talent development programme as well as roll out our leadership culture throughout the organisation. Sasha joined the Bank in 2010 to head the Bank's marketing department. His exceptional creativity, execution skills and ability to develop has already created substantial value for our organisation. Sasha built our brand and campaign machine. We decided to promote Sasha to deputy CEO of Bank of Georgia to head the Bank's HR efforts in addition to his branding responsibilities.



See page 16 for the overview of our management platform.

Summary:

To summarise – at the Group level we want to increase the unallocated cash buffer to US\$ 50 million to seize the opportunities in our Investment Businesses as they arise, potentially buy-back BGEO stock if it is cheap, and de-risk the Group in case of unexpected crisis. To improve efficiency in Retail Banking, we will be focusing on rolling out the client-centric model and further digitalising our banking services. To improve the risk-return profile of the Corporate and Investment Banking we want to de-concentrate the loan by issuing local bonds and simultaneously stepping up the wealth management business to leverage Georgia becoming the service hub of the region. In Investment Business, our key goal is to institutionalise our businesses by developing our talented management teams, cutting unnecessary costs, and scaling up the businesses through bolt-on acquisitions to expedite scale-driven cost advantage.

In order to succeed in the outlined strategy, we need three things:

1. your continuous support, for which we all at BGEO Group are very grateful
2. our continuous effort to develop and grow talent
3. Georgia to continue on its successful growth path, about which I am more optimistic than ever

Irakli Gilauri

Chief Executive Officer
7 April 2016

This Strategic Report as set out on pages 2 to 85 was approved by the Board of Directors on 7 April 2016 and signed on its behalf by

Irakli Gilauri

Chief Executive Officer
7 April 2016

A platform to develop talent

Similarly to the limited access to capital in Georgia, the availability of management is limited and our platform is designed to help our people develop, and by producing top business talent in the country, we can add value for our shareholders. We understand that great management teams make great companies, and investing time in growing people continues to be critical for the success of our strategy.

At BGEO Group we have spent a lot of time building a top-class management team and we have a deep bench of people who have grown and are ready to take on bigger responsibilities. One of the reasons we are confident in our strategy is that we have human capital available both on the top and mid-management levels. We spend a lot of time coaching and mentoring our talent.

We are growing fast in our banking businesses and our strategy for our investment businesses implies selling the companies that we develop. Therefore we fully understand that our talent producing machine must continue its work. For our top talent we have introduced a self-development programme by hiring coaches to help them to better understand their strengths and weaknesses. According to our policy, no matter how good the performance of our top executive is, they may get limited bonuses if we do not see progress in the executive's self-development and growing their successor(s).

You have observed rotations in our top management every two to three years. We would like our top talent to receive experience in different roles and learn and grow. Rotations will continue in the future.





01. Avtandil (Avto) Namicheishvili
Group General Counsel (B GEO Group)

With the Group since 2007. Joined as a General Counsel at the Bank, and has since played a key role in all of the Group's equity and debt raises on the capital markets, and over 25 mergers and acquisitions. Prior, was a Partner at a leading Georgian law firm. Holds LL.M. in international business law from Central European University, Hungary.

02. Michael Oliver
Advisor to the Group CEO (B GEO Group)

With the Group since 2012. Prior, worked for over 25 years in a number of management and senior executive positions in the UK banking industry, in particular at Lloyds Banking Group plc and its predecessor companies. Has been extensively involved in the IPOs and investor communication of both B GEO and Georgia Healthcare Group.

03. Ekaterina (Eka) Shavgulidze
Head of Investor Relations and Funding (B GEO Group)

With the Group since 2011. Joined as a CEO of healthcare services business. Most recently Eka played a key role in the GHG IPO as Head of IR. Prior, she was an Associate Finance Director at AstraZeneca, UK. Holds an MBA from Wharton Business School.

04. Nikoloz (Nick) Gamkrelidze
CEO (Georgia Healthcare Group)

With the Group since 2005. Our healthcare business story starts with Nick, who started it in 2006, and has successfully led it through outstanding growth and most recently the IPO on the London Stock Exchange. Holds an MA in international healthcare management from the Tanaka Business School of Imperial College London.

05. Irakli Gilauri
CEO (B GEO Group)

With the Group since 2004. Formerly an EBRD (European Bank for Reconstruction and Development) banker, joined the Bank as CFO. Over the last decade, Irakli's leadership has been instrumental in creating major players in a number of Georgian industries, including banking, healthcare, real estate, insurance and wine. Holds an MS in banking from CASS Business School.

06. Murtaz Kikoria
CEO (BOG)

With the Group since 2008. Joined as a Deputy CEO in charge of compliance at the Bank. He also led our banking operations in Ukraine and led several key acquisitions, when he served as a CEO of our healthcare business from 2012 until 2014. Prior, was Head of Banking Supervision and Regulation at the NBG (National Bank of Georgia). He is a former EBRD banker.

07. Giorgi Vakhtangishvili
Chief Financial Officer (GGU)

With the Group since 2007. Joined as a CFO of BG Bank, Ukrainian subsidiary of the Bank, later to become a Chief Risk Officer and play a key role in restructuring large corporate loans and eventual disposal of the Ukrainian Bank. Also, served as a CEO of m² Real Estate, the leading real estate development company in Georgia – a real estate business of the Group. Prior, Giorgi was a Senior Auditor at EY and worked for several European offices. Holds a BBA from European School of Management.

08. Natalia (Nato) Beridze
Head of HR (BOG)

With the Group since 2005. Joined from the similar position at Tbiluniversalbank, when it was acquired by the Bank. Developed and implemented the Bank's HR policies and systems. Holds a Master's in Social Psychology from Tbilisi State University.

09. George Baratashvili
CEO (Insurance Company Aldagi)

With the Group since 2004. Joined as Junior Sales Manager of pension insurance at Aldagi, selling insurance at the time when the clients had little or no awareness of insurance. Having held various managerial positions, in 2009 was promoted to Head of Group Sales and Pension Fund at Aldagi. Has successfully led Aldagi as a CEO since 2014. Holds a Master's in International law.

10. Lasha Khakhutaishvili
CFO (Insurance Company Aldagi)

With the Group since 2008. Joined as a Financial Analyst at Aldagi. Was promoted to the Head of Budgeting and Financial Controlling and later to Finance Manager. Since August 2014, he has been CFO of Aldagi.

A platform to develop talent continued



11. Ilia Tamarashvili Head of Internal Trainings, Retail Banking (BOG)

With the Group since 2007. Joined as a Deputy Head of micro and small enterprise lending at the Bank, having previously advised the Bank as part of EBRD's Small Enterprise Lending Program. Promoted to his current role in 2009 and has led the Bank's internal trainings programmes for seven years now. Enrolled in MBA of Grenoble Ecole De Management.

12. Eteri (Etuna) Iremadze Head of Solo, Retail Banking (BOG)

With the Group since 2006. Joined as a Corporate Banker at the Bank from Intellectbank, which was acquired by the Bank in 2004. Prior to assuming her current role, was Head of Blue Chip Corporate Banking Unit covering structured lending, M&As, significant buyouts in the country, and project financing. Total of 18 years' experience in banking. Holds Dual MBA from Granoble Graduate School of Business & Caucasus University.

13. Merab Akhvlediani Head of Mass Retail Banking (BOG)

With the Group since 1995. Joined as a Teller-Operator at the Bank, progressed to Branch Manager and then to Head of Mortgage and Consumer Lending department. Assumed his current role in 2015.

14. Irakli Gvaramadze Head of Credit Risk, Retail Banking (BOG)

With the Group since 2002. Joined as a Credit Portfolio Analyst at the Bank and then focused on retail lending. In 2006 he implemented the first automated credit application processing and scoring system in Georgia. Assumed his current role in 2008, leading credit underwriting, soft collection, credit systems and analysis divisions in Retail Banking.

15. Mikheil (Mikhako) Gomarteli Deputy CEO, Retail Banking (BOG)

With the Group since 1997. Mikhako is a textbook professional growth story made possible in our Group – he developed his way from selling debit cards door-to-door to successfully leading our Retail Banking franchise for over ten years now.

16. Nino Khorguani Head of Express Banking, Retail Banking (BOG)

With the Group since 2006. Joined as a Consumer Loan Officer at the Bank. She was promoted and rotated a number of times in product development, retail banking credit risk management and since 2011 worked as Deputy Head of Retail Banking Credit Risk Management until assuming her current role in 2016. Graduated from Leadership and Management Development Programme at Manchester Business School, UK.

17. Zurab Masurashvili Head of MSME Banking, Retail Banking (BOG)

With the Group since 2001. Started his career in banking at BOG, as a Micro Lending Officer under the EBRD Small Enterprise Lending Programme. Played a key role in the development of MSME lending in several Georgian banks. Most recently Zurab was Deputy CEO at PrivatBank (Georgia) and following PrivatBank's acquisition, rejoined the Group as a Head of Express Banking, later promoted to his current role.

18. Annie Kapanadze Head of Product Development, Retail Banking (BOG)

With the Group since 2006. Joined as a Cashier at the Bank when she was 19. Assumed various front-office roles from a Teller to the Manager of the Service Centre. She assumed her current role in 2012.

19. Mikheil (Misha) Gaprindashvili Head of Merchants Network Development, Retail Banking (BOG)

With the Group since 2005. Joined as Head of Merchants Network Development at the Bank, following its merger with Tbiluniversakbank, where he worked as a Head of Business Development. During his ten years at the Bank, Misha led our efforts in creating the country's largest merchant partners network.

20. Ekaterine (Eka) Duchidze Head of SOLO Lifestyle (BOG)

With the Group since 2005. Joined as a Corporate Secretary. During the past ten years she has carried out number of crucial roles, including Executive Assistant to CEO and Head of Internal Branding. Recently, oversaw the development of SOLO Banking and SOLO Lifestyle. Prior, served eight years at the World Bank Group of which two years were at the World Bank HQ in Washington DC as a Programme Assistant at OPIC Department.

21. David Bezhiashvili Head of Cards and Payments (BOG)

With the Group since 1994. Joined as an IT developer at the Bank. Was promoted and rotated a number of times. Played a key role in developing our cards and payments business – there were only a handful of cards issued when he joined our card business, now the Bank is the leader in card business and payment technologies in Georgia.



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22. Ekaterina (Eka) Bekaure

Head of Call Centre (BOG)

With the Group since 2007. Joined as a manager of inbound calls. Later was promoted to the Head of Call Centre and leads the sales of banking products through the call centre as well as customer service. Started her career in banking as a teller in TBC Bank in 2005. Holds an MBA from the European School of Management.

23. Tinatin Kutaladze

Deputy Head of HR (BOG)

With the Group since 2005. Supervises the consistency of HR activities at our subsidiaries in line with the Group's HR policies. Prior, was Head of HR at TBC Bank. Holds Master's degree in Work and Organisational Psychology from Tbilisi State University.

24. Vakhtang Bobokhidze

Chief Information Officer (BOG)

With the Group since 2005. Joined as an IT Quality Assurance Engineer at the Bank. Since, he assumed various roles in the IT department and contributed to all major projects undertaken by the Bank. Holds a Master's in Applied Mathematics and IT.

25. Levan Jikia

Deputy Chief Information Officer (BOG)

With the Group since 2007. Joined as an IT Helpdesk Specialist at the Bank. The owner of a green badge ITIL CEO EXIN in IT Service Management. BSc in Statistics and Probability Theory.

26. Vigen Bagdasarov

Deputy Chief Information Officer (BOG)

With the Group since 1999. Joined as an IT Specialist at the Bank. Was promoted and rotated a number of times, most recently assumed the role of Deputy CIO in charge of Business Analysis. Played key roles in implementing BOG's core banking system, architectural design and implementation of Trade Finance, AML, Custody platforms, as well as successful integration of four commercial banks, including PrivatBank.

27. Ilia Revia

Deputy Chief Information Officer (BOG)

With the Group since 2009. Joined as a Strategic Projects Manager at the Bank. Most recently played a key role in integration of PrivatBank. Prior, worked as IT Project Manager for TBC Bank and IT Management Consultant for Tetra Tech. Holds dual MSc degree in IT and Business from Jonkoping University (Sweden) and MSc in Project Management from George Washington University (US).

28. Teona Chanturia

Head of Retail Communications (BOG)

With the Group since 2010. Joined as a Retail Banking Brand Manager at the Bank. Has eight years of experience working as an Account Manager and Consultant for local and international projects at leading advertising agencies of Georgia – Sarke and JWT Metro.

29. Alexander (Sasha) Katsman

Deputy CEO, HRM and Branding (BOG)

With the Group since 2010. As Partner at the largest communications group in Georgia, Sarke, Sasha was actively involved in marketing of Georgia's greatest reforms. Sasha joined the Bank in 2010 after graduating from the Berlin School of Creative Leadership EMBA Programme to transform conventional marketing communication and PR into a brand value creating branding department. Sasha led the development of a new brand platform with the eminent slogan Feel the Future and is now on another journey of transformation involving HR and brand management.

30. David Birman

Chief Digital Officer (BOG)

With the Group since 2010. Is a leading professional in marketing in Georgia. Was in charge of several branding and rebranding projects within the Group, including BGEO, GHG, Galt & Taggart, Aldagi, Imedi L and Evex. Currently leads the digital team, responsible for the digital banking initiatives in mobile banking, internet banking, remote devices, websites and social media. Prior, spent more than ten years leading marketing and branding activities for several local and international banks, cellular operator, water utility company and private consulting group.

31. Sophio (Sopo) Balavadze

Brand Relations Director (BOG)

With the Group since 2005. A manager by education, Sopo was at the heart of creating the Bank's internal communications system when she joined the Bank in 2005. Today, she is supervising both external and internal communications units, organisational culture development and CSR.

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32. Vasil Khodeli Head of Corporate Banking (BOG)

With the Group since 2004. He has 20 years' experience in banking (working in various positions). Actively involved in shaping BOG's Corporate Banking business platform from the very beginning. Holds an MBA from Grenoble Business School.

33. Otari Sharikadze Head of Investment Banking (Galt & Taggart)

With the Group since 2014. Joined as Head of Corporate Advisory at Galt & Taggart. Most recently managed corporate bond issuances and assisted BGEO Group in acquiring 25% stake in Georgian Global Utilities. Prior, was an Associate at Altium Capital in Paris and a Chief Investment Officer at Partnership Fund in Georgia. Holds Master's from Paris Graduate School of Management and from Pantheon-Sorbonne University.

34. Eva Bochorishvili Head of Macroeconomic Research (Galt & Taggart)

With the Group since 2014. Prior, worked at Georgia's Finance Ministry on EU-sponsored reforms based budget support programmes and oversaw the implementation of the US\$ 4.5 billion donor-pledged funds. Eva is a guest lecturer in public finance at University of Georgia. Holds an MA in economics from Bowling

Green State University in the US and Tbilisi State University.

35. Goga Melikidze Head of Brokerage (Galt & Taggart)

With the Group since 2005. Joined as Senior Financial Analyst at Galt & Taggart, and was promoted to DCM Managing Director in 2009. Left the Group in 2010 and rejoined in 2015 as Head of Brokerage. Prior to rejoining the Group, Goga worked in the Prime Minister's Office of the Government of Georgia, serving as Senior Economic Advisor to two successive Prime Ministers of Georgia. Completed executive education programmes in Private Equity from Harvard Business School and in M&A from London Business School.

36. Tamara (Tato) Khisanishvili Deputy Head of Corporate Banking, Trade Finance (BOG)

With the Group since 1998. Joined as Correspondent Banking Officer at the Bank, and promoted to Head of Trade Finance in 2002. Left the Group in 2009 and rejoined in 2011 as Deputy Corporate Banking Director. Prior to rejoining the Group, Tato was Head of Trade at HSBC Bank Georgia. Holds PhD in Economics from Tbilisi State University.

37. Archil Gachechiladze Deputy CEO, Corporate Investment Banking (BOG)

With the Group since 2009.

Joined as a Deputy CEO in charge of corporate banking. He launched the Bank's industry and macro research, brokerage, and advisory businesses, as well as leading our investments in GGU and launched Hydro Investments. Prior, he was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital Partners) in London, and also worked at Salford Equity Partners, EBRD, KPMG Barents, and the World Bank. Holds MBA with distinction from Cornell University and is CFA charterholder

38. Tamar (Tamuna) Janiashvili Deputy Head of Corporate Banking, Sectoral Lending (BOG)

With the Group since 1999. Joined as a Corporate Banker at the Service Centre of the Bank. She was promoted and rotated a number of times, and since 2009 manages sectoral lending in the Corporate Banking. Holds degrees in Economics and Law.

39. Zurab Kokosadze Head of FMCG Sector, Corporate Banking (BOG)

With the Group since 2004. Joined as an Account Manager at the central branch of the Bank. In 2005, after creation of the Corporate Banking department, moved to SME division as Corporate Banker. Since 2009 holds position of a FMCG Sector Head in Corporate Banking department.

40. Nino Papava Head of Industry Research (Galt & Taggart)

With the Group since 2014. Joined as Head of Investor Relations at Galt & Taggart. Prior, was a Finance Manager at AdGooroo, a Chicago-based technology start-up. Holds a BA from the University of Indianapolis and is enrolled in the Executive MBA programme at the University of Chicago Booth School of Business.

41. Meri Vashakidze Head of Personnel Planning and Recruitment (BOG)

With the Group since 2005. Joined as a Recruitment Assistant at the Bank. She has 13 years' broad range of experience in the areas of recruiting, staffing, and talent acquisition. Holds a Master's in Medical Psychology from Institute of Anthropology and Political Science.

42. David Matsaberidze Head of Private Banking (BOG)

With the Group since 2011. Prior, was Head of Corporate Banking at Bank Republic (part of the Société Générale Group) and also held leading positions in Georgian insurance companies. Holds a Master's degree in International Law from Tbilisi State University and has completed the Programme for Leadership Development from Harvard Business School.



43. Ekaterine Liluashvili
Head of International Business, Wealth Management (BOG)

With the Group since 2008. Prior to assuming her current role in 2015, served as a Senior Private Banker at the Bank. Before that, was a Private Banker at Bank Republic (part of the Société Générale Group). Holds a degree in Banking from Berufsakademie Mosbach, Germany and a bachelor's degree in Business Administration from the European School of Management.

44. Ana Kavtaradze
Head of Trade Finance, Corporate Banking (BOG)

With the Group since 2003. Joined as an Associate at the Bank's Funding Department and worked her way up to become Head of Trade Finance in 2009. Prior, worked at National Bank of Georgia USAID/BANKWORLD Bank Supervision and Enforcement Project.

45. Constantine Tsereteli
CEO (BNB)

With the Group since 2006. Since 2009, has led the operations of the Bank's subsidiary, Belarusky Narodny Bank, in Minsk (Belarus). Prior to his current mission to Minsk, he worked as Head of Strategic Development and later as Co-Head of Retail Banking at the Bank in Tbilisi, Georgia. Before joining the Group, worked in microfinance and development sectors.

46. George Chiladze
Deputy CEO, Chief Risk Officer (BOG)

With the Group since 2008. Joined as a Deputy CEO in charge of finance at the Bank. Left the Group in 2011 and rejoined in 2013 as Deputy CEO, Chief Risk Officer. Prior to rejoining the Group, was Deputy CEO at the Partnership Fund. Prior to returning to Georgia in 2003, worked at the programme trading desk at Bear Stearns in New York City. Holds a PhD in physics from Johns Hopkins University in Baltimore, Maryland.

47. Tinatin Kotorashvili
Head of Personnel Administration and Compensation (BOG)

With the Group since 2001. Joined as an Intern in the HR Department of the Bank. She has 15 years' extensive hands-on experience in leading HR administration, compensation, benefits and reporting. Holds a Master's in Economics from Tbilisi State University.

48. George Kukuladze
Head of Credit Risk Analysis (BOG)

With the Group since 2003. Joined as a Credit Risk Officer at the Bank and since contributed to the implementation of the Bank's loan provisioning, risk rating and social & environmental risk management systems. Prior, worked at the Ministry of Finance of Georgia. Holds BBA from Caucasus University and Georgia State University (USA).

49. Vano Chachua
Head of Problem Assets Management (BOG)

With the Group since 2012. Joined as an attorney of the Group, having previously worked as a Prosecutor at the Prosecutor's Office of Georgia, and an Investigator at the Investigation Unit of The Ministry of Finance. Assumed his current role in 2015.

50. Nino Okruashvili
Head of Operational Risk Management and Controls (BOG)

With the Group since 1997. Nino designed the Bank's operational risk management framework and led development of the Bank's risk management culture. Holds an Undergraduate Degree in applied mathematics from Tbilisi State University.

51. Vasil Verulashvili
Head of Credit Risk Management (BOG)

With the Group since 2000. Joined as a Micro Loan Officer at the Bank and has been involved in credit risk management function for over 11 years. Was part of the working team that executed two IPOs in LSE and played a key role in the Bank's recovery after war and financial crisis in 2008. Holds Master's in Applied Mathematics from Tbilisi State University.

52. Irakli Khomasuridze
Head of Quantitative Risk Management and Risk Analytics (BOG)

With the Group since 2013. Joined as a Financial Risk Manager at the Bank. Worked for All Options (Netherlands) and ABN AMRO Bank specialising in the field of Quantitative Risk Management and Risk Modelling. Master's in Financial Mathematics from Twente University, Netherlands and PhD in Theoretical Physics (youngest PhD) from Tbilisi State University.

53. Akaki Kheladze, PhD
Rector (BOG University)

With the Group since 2013, when BOG University was established. Has more than 12 years of management experience. As a Professor of Management, delivers lectures at London School of Business and Finance, London, UK and Grenoble Graduate School of Business, Grenoble, France.

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54. Levan Kulijanishvili Group CFO (JSC BGEO Group) and Deputy CEO, Finance (BOG)

With the Group since 1997. Joined as a Junior Financial Analyst at the Bank. Held various senior positions, including Head of Internal Audit, Head of Financial Monitoring, Head of Strategy and Planning, and Head of the Financial Analysis. Holds an MBA from Grenoble Graduate School of Business.

55. Lasha Nadareishvili Head of Group Finance (BOG)

With the Group since 2009. Joined as Head of Group Reporting, Budgeting & Analysis, leading consolidated reporting works through the Bank's Premium Listing and Eurobond offerings. Most recently took part in due diligence and subsequent merger of PrivatBank Georgia. Prior, worked as Senior Auditor at EY. Holds a BBA from European School of Management.

56. Tato Tomashvili Head of Financial Accounting, Reporting and Budgeting (BOG)

With the Group since 2003. Joined as a Junior Reporting Specialist at the Bank, right after graduating from college. Developed his way from Junior Reporting Specialist to the Head of

the Department, currently overseeing the Bank's management reporting and budgeting, as well as regulatory reporting units.

57. Tamar Pkhakadze Head of Information, Corporate and Infrastructure Security (BOG)

With the Group since 2011. Joined as a Fraud Risk Analyst at the Bank. Established Know Your Employee and anti-fraud management frameworks of the Bank. Prior, worked at Société Générale as a Compliance Officer in Risk Management division, in Paris, France. Tamar is a Certified Fraud Examiner (CFE) and a member of ACFE (Association of Certified Fraud Examiners). Holds Master's from Grenoble Graduate School of Business.

58. Kakhaber (Kakha) Davitaia Head of Treasury (BOG)

With the Group since 1995. Joined as a Trainee in the Cash-in-Transit department. He paved his way to become a Deputy Head of Treasury in 1999. In 2003 he was promoted to Head of Treasury and has held this position since then. Holds Master's in Applied Mathematics from Tbilisi State University and MBA degree from Grenoble Graduate School of Business.

59. Nino Mishvelia Head of Tax Reporting and Tax Risk Management (BOG)

With the Group since 2007. After joining the Bank, was in charge of the Group's tax reporting and tax risk management. Prior, Nino was a Senior Tax Advisor at EY and Deloitte from 2004. Holds Undergraduate Degree in Business Administration from European School of Management.

60. Tamar Goderdzishvili Deputy Head of AML Compliance (BOG)

With the Group since 2014. Joined as a Deputy Head of AML Compliance Department. Prior, worked as a Deputy Head of Legal Department at NBG (National Bank of Georgia) and served as a financial expert in the evaluation of ML/TF measures of Montenegro conducted by MONEYVAL and a Consultant on Payment System and Services issues for the National Bank of Tajikistan in the WB funded project. Holds LL.M degree from the University of Groningen.

61. Levan Dadiani Group Senior Counsel (BOG)

With the Group since 2012. Prior was a partner at a first tier Georgian law firm. Holds LL.M degree from the University of Texas at Austin.

62. Aleksandre (Sandro) Gamkrelidze Head of Legal (BOG)

With the Group since 2007. Joined as a Senior Lawyer and in six months became the Head of Legal Department at the Bank. Prior, worked as a Lawyer at our insurance subsidiary, Aldagi. MBA candidate from Grenoble Graduate School of Business.

63. Nino Meskhi Head of Business Process Management and Procedure Development (BOG)

With the Group since 1993. Joined as an assistant to Chief Accountant at the Bank. Prior to taking her current role, she was promoted a number of times and served as a Head of Service Centre and as a Head of Procedure Standardization Unit. Played a key role in re-engineering of the Bank's processes in 2004.

64. Davit Davitashvili Head of Internal Audit (CAE) (BOG)

With the Group since 2006. Joined as an Auditor and moved up to the Bank's CAE role. Has extensive experience of leading and managing internal audit to provide assurance on controls and risk management and propose business process improvement, cost saving and change ideas. Holds EMBA from CASS Business School.



65. Tamar Venetski
Head of AML Compliance
(BOG)

With the Group since 2010. Joined as the Head of AML Compliance Department at the Bank. More than 14 years of experience in the banking industry with ten years of managerial positions. Member of Certified Anti-Money Laundering Specialists (ACAMS). Holds MBA from Caucasus School of Business.

66. Tornike Gogichaishvili
Deputy CEO, Operations
(BOG)

With the Group since 2006. Joined as a CEO of our insurance business. Prior to his current position, was Head of International Banking, coordinating the activities of the Group's Ukraine and Belarus subsidiaries. Holds executive MBA from Said Business School, Oxford.

67. Elene Tskhadaia
Head of Custody and
Securities Settlement
(BOG)

With the Group since 2006. Joined as a Senior Back Office Specialist at Galt & Taggart. Played a key role in developing and implementing local and foreign custody models at the Bank, advancing issuer services, and enabling foreign investors to access the local market through the Bank's global custodian and ICSD channels.

68. George (Gia) Pochkhua
Head of Settlements
(BOG)

With the Group since 1996. Joined the Bank as a Money Transfer System Operator and since has worked in various roles, including Economist, Head Account Manager, Senior Dealer, Head of International Settlements. Currently, manages the back-office of the Bank.

69. Irakli Burdiladze
CEO (m² Real Estate)

With the Group since 2006. Joined as a CFO at the Bank. Before taking leadership of our real estate business in 2010, he also served as the COO of the Bank. Prior, was a CFO at a leading real estate developer and operator in Georgia. Holds a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies.

70. Emzar Otkhзорia
Head of Finance and
Operations (m² Real
Estate)

With the Group since 2007. Joined as a Chief Accountant at m² Real Estate and assumed his current role in 2015. In 2007, he was awarded with the Order of Honour by the president of Georgia for his teaching accomplishments, following the success of Georgian team in the international Mathematics olympic. He received a Master's degree in Mathematics from Tbilisi State University.

71. Shorena Darchiashvili
Head of Sales and
Marketing (m² Real Estate)

With the Group since 2010. Joined as a Head of Internal Brand Management Unit at the Bank. Has over ten years of experience in real estate development. Holds a graduate degree in Marketing and International Business at the BA Mosbach, Germany.

72. Shota Kobelia
CEO (Teliani Valley)

With the Group since 2009. Having previously worked at Pernod Ricard in the USA and Eastern Europe, joined Teliani to build up Ukrainian distribution. In 2010, became CEO for Teliani Valley and developed it from a small and loss-making winery into a major beverage group with own distribution channels on the main markets. Most recently secured exclusive trademark licence from Brau Union for such well-known beer brands as Heineken, Amstel and Krušovice. Holds MS in Sales & Marketing from Bordeaux Business School.

73. Koba Chanturia
Deputy CEO, Finance and
Operations (Teliani Valley)

With the Group since 2007. Joined as the Deputy CFO at Liberty Consumer JSC – Group's subsidiary overseeing non-banking investments. Currently, he plays key role in launching Heineken brewery in Georgia. Holds MBA from Ivane Javakhishvili State University of Tbilisi.

74. Shota Milorava
Head of Distribution
(Teliani Valley)

With the Group since 2005. More than ten years of extensive work experience in sales and distribution. Joined as Sales Manager at Teliani and later laid the foundation for Teliani distribution efforts and developed it into a leading beverage distribution business in Georgia. Prior, he worked as a Brand Manager at Borjomi (renowned Georgian mineral water), where he started his career as an Assistant Distributor. Holds a Master's in Philosophy.

75. Elene Jimsheleishvili
Deputy Head of HR -
Personnel Development
(BOG)

With the Group since 2005. Has 10+ years of human resources management experience including young talents acquisition, personnel development and training, HRIS (360, PM). Member of SHRM (Society for Human Resources Management), holds MPA (Master of Public Administration) from GIPA (Georgian Institute of Public Affairs).

Market review

A fast-growing economy

Georgia – an open, diversified and easy emerging market in which to do business, committed to further progress. One of the top performers globally in fighting corruption and business-enhancing reforms, enabling the country to attract foreign investors to boost productivity and accelerate growth.

Ease of Doing Business ranked Georgia in 2016

3rd

in registering property

6th

in starting a business

24th

Overall ranking

Up from 115 in 2005, ahead of France, Netherlands and UAE

Source: World Bank-IFC Doing Business

Deepening economic integration with the EU, prospects related to the silk road route and Iranian market re-opening create new investment opportunities, while pursuing prudent monetary and fiscal policies ensures macroeconomic stability and enables the economy to adapt to any changes in external environment.

Georgia's key economic drivers

Reforms driven success. Georgia scored higher in most of the indicators in the latest Worldwide Governance Indicators report by the World Bank, which captures six key dimensions of governance – voice and accountability, political stability and lack of violence, government effectiveness, and regulatory quality, rule of law and control of corruption. In three out of these six indicators Georgia is ahead of some EU members and all five EU candidate countries. Importantly, efforts to eliminate corruption are widely acknowledged, bringing Georgia ahead of 13 EU member countries and all five candidate countries in the control of corruption indicator.

The country is ranked 24th out of 189 economies in the World Bank's 2016 Ease of Doing Business, 23rd out of 178 countries by Index of Economic Freedom measured by Heritage Foundation in 2016, 11th out of 197 countries in the Trace International's 2014 Matrix of Business Bribery Risk and only 4% of people, less than in the UK and the US, admitted having paid a bribe according to the 2013 Global Corruption Barometer study by Transparency International. Georgia underscored its commitment to European values by securing a democratic transfer of political power in successive parliamentary (October 2012), presidential (October 2013), and local elections (June 2014) and showed that democratic institutions are working effectively. Reforms continue to maintain and boost Georgia's competitive advantage and enhance business-supportive environment. New prime-minister put forth a so called 4-pillar of reform initiatives to speed up economic growth and to support business climate. Namely, the proposed measures include tax code amendments aimed at further liberalizing tax and customs procedures, Governance reform to allow legal entities to receive services based on a single window principle, speeding up the implementation of infrastructure projects and tailoring the education system offerings to labour market demands.

While remaining committed to European values, Georgia has also managed to stabilise relations with Russia as the latter lifted its embargo on Georgian products in 2013. The Georgian Government continues low-regulation, low-tax, free market policies, strengthening its anti-trust policy, and amending the labour code (while still remaining flexible and providing comfort for private sector participants) to comply with International Labour Standards. The economic Liberty Act, effective since January 2014, ensures continuation of a credible fiscal and monetary framework for Georgia, by capping consolidated Government expenditures at 30% of GDP, fiscal deficit at 3% of GDP and public debt at 60% of GDP. The Liberty Act also requires electorates' approval through a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions. Georgia slashed the number of taxes from 21 in 2004 to just six now, becoming one of the world's most friendly tax regimes according to Forbes Misery Tax Index.

Endorsement from the international community. Imminent visa-free travel to the EU is another major success in Georgia's foreign policy, following the signing of the Association Agreement and the related DCFTA with the EU in 2014. A progress report by the European Commission released on 18 December 2015 praised Georgia's achievement of reform targets to become eligible for a visa-free regime in the Schengen area. The Russian side also made a move in the direction of easing visa procedures for Georgian citizens effective 23 December 2015, following the Russian President's statement at his annual press conference on 17 December 2015. Rewards of the DCFTA are already tangible – Georgian exports to the EU posted growth in 2015. Georgia is also benefiting from increased Russian arrivals, as relations between the two countries have improved. Visa-free access to the EU and to Russia will further improve business opportunities for small and medium-sized entrepreneurs through intensified direct contacts, affecting positively on investors' interest in Georgia, the country already known for its business friendly environment. The Government continues maintaining strong relations with international development partners, focusing in the first place on infrastructure development priorities. In 2015, Georgia hosted the EBRD's Annual Meeting and

Economic Freedom Index ranked Georgia in 2016

23rd

Ahead of Hungary, France and Italy

Source: Heritage Foundation

Global Corruption Barometer

(% admitting having paid a bribe in 2013)

4%

Ahead of UK, US and Czech Republic

Source: Transparency International

Impressive GDP growth

Broad-based structural reforms, liberalised trade, and enhanced trade and tourism infrastructure have fed into robust – 5.1% annual average real GDP growth over 2006-2015 despite challenging external environment; potential to generate annual average real growth of 5% over the next decade.

Business Forum, yet another sign of the country's strong international relations and acknowledgment of its achievements.

A natural transport and logistics hub, connecting important regions and a market of 900 million customers without customs duties. Georgia's favourable geographic location (between land-locked energy-rich countries in the East and European markets in the West) and well-developed air, land and sea transport networks position the country to reap the benefits in transport, logistics, and tourism. Continued public spending on roads, energy, tourism and municipal infrastructure is helping strengthen a platform for businesses willing to trade with and work in Georgia. Georgia is a regional energy corridor that accounts for approximately 1.6% of the world's oil and gas supply transit volumes. Travel inflows are a significant source of foreign currency for Georgia. The number of visitors to Georgia increased at a 26.6% CAGR over 2005-2015 and tourism inflows stood at US\$ 1.9 billion (14% of GDP) in 2015.

Stable energy supply and electricity transit hub potential. Georgia has a developed, stable and competitively priced energy sector. The country has overcome the chronic energy shortages of electricity and gas supply interruptions of a decade ago by renovating and building new hydropower plants, improving transmission infrastructure

and increasingly relying on natural gas imports from Azerbaijan instead of Russia. Georgia became a net electricity exporter in 2007-2011 (a net importer in 2012-2015 due to low precipitation and increased domestic demand), after being a net importer for more than a decade before 2007. Currently, only an estimated 20% of Georgia's hydro potential is utilised. The pipeline of investment projects in the energy sector is estimated at about US\$ 3.2 billion in next 5-7 years, including the US\$ 1 billion Nenskra HPP. Currently, 53 hydropower plants are in various stages of construction or development (feasibility study with construction rights, obtaining construction permit), with 66 more in feasibility study stage. A total installed capacity of 157MW was added to the grid in 2013-2015 with a total investment value of US\$ 265 million. Georgia's transmission capacity is poised to increase and accommodate an additional installed capacity of 4,000MW by 2025 to meet the export and domestic demand growth.

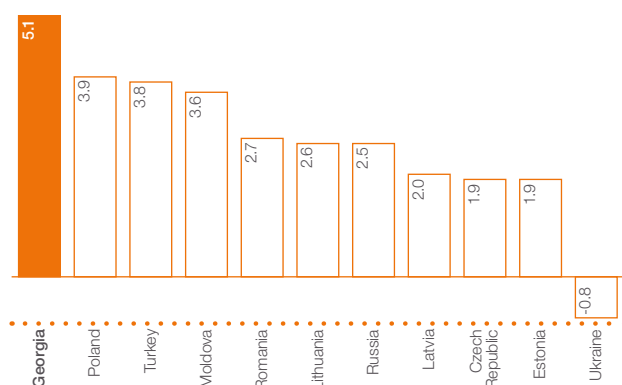
An influx of foreign investors on the back of the economic reforms. Georgia's business-friendly environment coupled with its sustainable growth prospects continues to attract foreign investment. On the downside, the massive FDI and other capital inflows supported capital goods imports growth. On the upside, FDI inflows boosted productivity – according to the World Bank, productivity

gains accounted for 66% of the average 5.6% growth over 1999-2012. Despite the gains, low relative levels of productivity suggest further potential.

Robust GDP growth. Broad-based structural reforms, liberalised trade, sound public finances, and enhanced trade and tourism infrastructure have fed into robust GDP growth rates. Annual GDP growth averaged 5.1% from 2006 to 2015, despite the multiple hurdles Georgia has faced – domestic and global crises, the conflict with Russia in 2008, and recent regional economic uncertainties. Moreover, a diversified growth structure and economic base, affords economic flexibility in the face of headwinds. With the necessary institutions largely in place, favourable geographic location and well-developed air, land, and sea transport networks, and Georgia's real potential to transform itself as a regional service hub, Georgia is poised to generate 5% annual average real growth over the next decade, based on IMF's 5-year growth forecast.

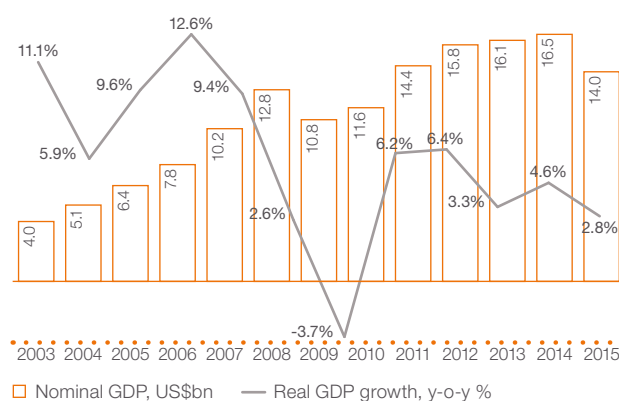
Georgia's diversified export markets and commodities are minimising potential impact of turbulence in any particular trading partner economy. Georgia has active free trade agreements with its neighbours and the EU. These agreements grant Georgia import duty-free access to a market of 900 million consumers, including the EU and Turkey. Exports more than

Comparative real GDP growth rates (%), 2006-2015



Source: IMF, national statistics office

Gross domestic product (%)



Source: GeoStat

Market review continued

Georgia maintained macroeconomic stability despite the challenging external environment. In 2015, the growth slowed to 2.8% y-o-y from 4.6% in 2014 due to weaker external demand. The economic slowdown and currency depreciations experienced by its main trading partners have lowered Georgia's exports and remittances in 2015.

doubled over 2006-2015, but there is still significant upside potential. Despite nominal growth, exports share of GDP has remained stable. On the other hand, the services exports' share of GDP has almost doubled, driven by growth in tourism and transport receipts. The pending reforms related to the EU DCFTA have the potential to enhance trade and expand Georgia's export potential. One of the most significant changes in exports was a shift away from the Russian market after Russia's 2006 embargo. The share of exports to Russia in total exports fell sharply from 18% in 2005 to 8% in 2006 and 2% in 2008-2012. The embargo forced Georgian producers to redirect exports to other countries. Exports to Russia picked up in 2013, as Russia opened its borders to Georgian products, but accounted for only 6ppts out of the 22% total export growth in 2013. With the recent economic turbulence in Russia, exposure to the Russian market (wine, mineral water, and agricultural products) is once again receding. In 2015, Russia's share in total Georgian exports declined 2.2ppts y-o-y to 7.4%. Overall, in 2015, Georgian exports decreased 23% y-o-y due to turbulence in CIS markets, while exports to the EU increased 3.6%, accounting for 29% of total. As no single market and commodity accounts for a significant share in total exports, this

minimises the potential negative impact of the turbulence on any particular market on Georgia's trade balance.

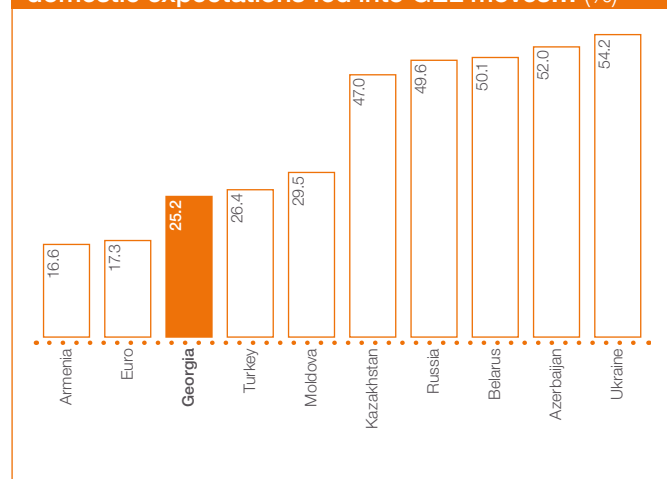
Georgian economy – top performer in the region in 2015

Georgia maintained macroeconomic stability in 2015 despite the challenging external environment. The growth slowed to 2.8% y-o-y in 2015 from 4.6% in 2014 due to challenging external environment. The economic slowdown and currency depreciations experienced by its main trading partners have lowered Georgia's exports and remittances in 2015. The resulting shortfall in foreign earnings, combined with the worldwide strengthening of the US Dollars and related pickup in deposit dollarisation, caused the Georgian Lari to depreciate by more than 20% against the US Dollars in 2015. As the National Bank of Georgia (NBG) allowed the Georgian Lari to float, this depreciation helped to absorb the external shock by reducing imports (-15.2% y-o-y in 2015, excluding one-offs), preserving FX reserves. Importantly, adjustment in imports was on the back of reduced demand on consumer goods, as investments were driving the growth with FDI hitting US\$ 1.4 billion (9.7% of GDP). The current account deficit stood at 11.8% of GDP in 2015, with FDI being one of the major sources of its funding

(and at the same time the major factor behind the deficit creation). Construction posted strong double-digit growth (15.2%) on the back of BP gas pipeline expansion and increased government capital expenditures, while manufacturing (-4.9%) and trade (-0.3%) were the only sectors posting declines. The tourism industry recorded another year of improvement, with arrivals up 6.9% y-o-y to 5.9 million in 2015. Despite highly dollarised economy, NPLs remained low at 2.7%, helped in part by strong job creation in the private sector. While depreciation spurred inflationary expectations, annual inflation was 4.9% at the end of 2015, slightly below the NBG's target of 5.0%, helped by lower fuel prices as well as gradual monetary tightening. Public debt stock increased to 41.5% of GDP in 2015, up from 35.5% in 2014, as Georgian Lari depreciation pushed the external public debt to GDP ratio to 32.6%, up 5.8ppts y-o-y. Notably, the bulk of the external public debt is owed to IFIs, carrying very low interest rate and long-term maturity profile, making public debt service sustainable.

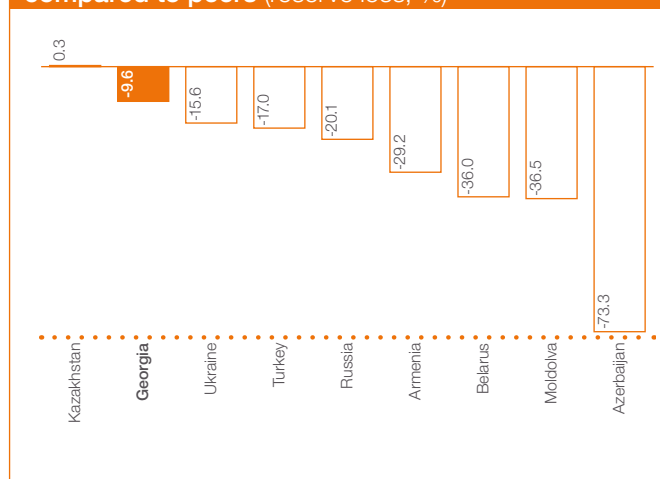
Growth outlook in 2016 remains positive with expected strong rebound thereafter. Sustained macro stability, continuation of pro-business measures and the EU DCFTA – related expected

Stronger Dollar, regional economic problems and domestic expectations fed into GEL moves... (%)



Source: Bloomberg
Note: US Dollars per unit of national currency; 1 Aug 2014–15 Mar 2016

... while Georgia used less reserve to support GEL compared to peers (reserve loss, %)



Source: IMF
Note: From Aug-2014 to Jan-2016, (Kazakhstan as of Dec-2015); Armenia's reserves exclude a US\$ 500 million Eurobond issued in March 2015

Looking at Georgia's growth in 2016 and beyond, we believe external challenges can be mitigated by coherent economic policies

Today's Georgia – largely corruption-free, open, and flexible, with a clear political vector and signs that democratic institutions are working – is well-placed to serve regional markets.

surge in FDI provide a solid base for the robust growth potential in Georgia in coming years. Importantly, the newly elected NBG governor feeds trust in the continuation of prudent monetary policy-making, strengthening business confidence. Fresh reforms from the government are another upside, adding stimulus to growth and attracting foreign investors. Part of the deal includes the introduction of the Estonian model, which envisages applying corporate income tax (a regular rate is 15% currently) to only distributed profit; undistributed profits, reinvested or retained, will not be subject to corporate income taxation. Proposed amendments to the tax code, upon approval by the Parliament, will go into force from 1 January 2017, adding an estimated GEL 1.5 billion to private sector investments, inclusive of bank credit, in the medium term. Along with public infrastructure spending, ongoing and new large scale private investment projects: BP gas pipeline expansion (US\$ 2 billion), Nenskra HPP (US\$ 1 billion), and Anaklia deep sea port project (US\$ 2.5 billion), create a solid base for improved economic prospects. The economy started 2016 sluggishly, however starting from February it appears to have turned the corner: tax revenues exceeded the 1Q16 plan, despite a slight dip in Jan-16, while tourism arrivals

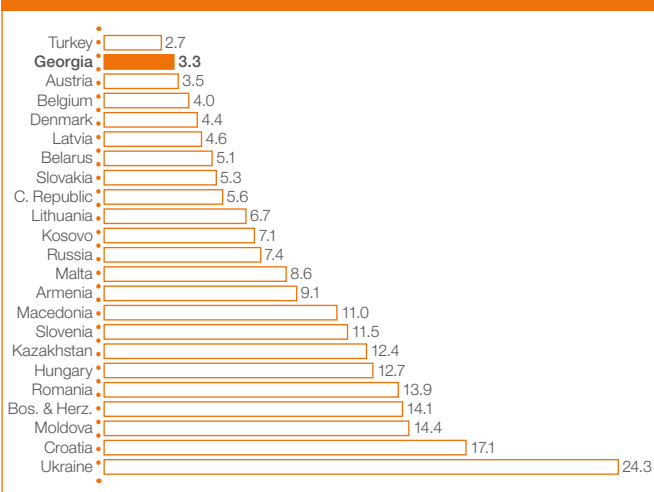
delivered a stellar performance, increasing 15% y/y to 1.1mn visitors in 1Q, with particularly upward trend since February. Tourist arrivals are expected to increase significantly in 2016, as Georgia is the most viable alternative for tourists (mostly Russians) who used to travel to countries like Egypt, Turkey, and other destinations in this region. Additionally, Georgia is benefitting from an uptick in goods transit from Ukraine and Turkey to Central Asia and beyond, given the restrictions imposed on these countries by Russia. The IMF expects growth to be 3.0% y-o-y in 2016, and to average 5.0% in 2017-2020. The persistence of low fuel prices should also help Georgia to improve its external accounts, firm the exchange rate, and ease inflation. Georgia's increasing economic integration with the EU, a bottoming out of the recession in Russia and moderate recovery in partner countries' economies, as well as new opportunities related to the Iranian market and pick-up in transit services as well as an anticipated surge in tourism, should support Georgia's positive growth outlook in 2016-2018.

Well capitalised banking sector with low NPLs

The Georgian banking sector has been one of the faster growing sectors of the Georgian economy, yet still has one of the lowest penetration ratios

among peer countries, particularly in retail. Amidst multiple downgrades across the region, the Georgian banking sector has remained profitable and maintained credit ratings with a stable outlook. The banking sector assets' growth rate of 28% (ten-year CAGR) has far outstripped the nominal GDP growth rate for the same period. Although Lari depreciation spurred loan and deposit ratios to GDP, penetration rates still remain low (50% of GDP and 45% of GDP, respectively) and only c.50% of the population have bank accounts, partly due to high interest rates and the population's low earnings, which is evidenced by the lower penetration of the retail segment compared to the corporate segment. Penetration is also low as the NBG requires banks to apply a 175% risk-weighting to FX loans (except for export oriented borrower exposures). As a result of the Central Bank's conservative regulations, banking sector liquidity and capitalisation rates have been historically high. Despite high levels of liquidity and capitalisation, banking sector profitability has remained robust at 17% ROE over the past three years. The banking sector is entirely privately owned and quite concentrated with the two largest banks accounting for 60% of total assets.

NPL's 2015



Source: World Bank

Our business model

Our business model is simple and purpose-built to capture growth opportunities in Georgia. We are a Georgia – focused banking group with an investment arm. We have a successful track record of delivering profitable growth for more than a decade, growing our market capitalisation by more than 50 times to over US\$ 1.0 billion.

Our banking business includes Retail Banking, Corporate Banking and Investment Management and comprises at least 80% of our profit. Our investment business includes Healthcare, Real Estate, Utility and Wine companies and comprises up to 20% of our profit. We are the number one player on the market in all our business lines.



At the core of our success, both in banking and investment businesses, lie our strengths and capabilities that we have built over the last decade to create superior value for our shareholders as we follow – and in many ways lead – Georgia's path to prosperity.

Our strengths and capabilities:

1. Unrivalled strength of the franchise	We are market leaders in all of our businesses offering the most comprehensive range of products and services in Georgia	- No.1 bank by market share in total assets – 33.4% - No.1 bank by market share in client deposits – 33.0% - No.1 bank by market share in total loans – 32.0% - No.1 in healthcare services sector – 26.6% by beds - No.1 insurance business – 38.4% (Health), 37.8% (P&C and Life) - Largest real estate business - Largest utilities business - Largest wine business - Undisputed leader in retail banking with the widest segment offering through our three well-established and trusted brands with distinctive culture and values 1,999,869 total retail banking clients, of which: 376,700 Express clients (emerging retail segment) 1,611,300 Bank of Georgia clients (mass retail and MSME segment) 11,869 Solo clients (mass affluent segment)
See page 34 for more information on Retail Banking segments		
2. Unmatched scale and distribution	Extensive reach through the largest distribution network in the country translating into superior cross-selling ability, significant economies of scale and efficiency gains	- c.2.0 million Retail Banking customers 1,390 wealth management clients from 68 different countries 266 bank branches, 746 ATMs, 8,102 POS terminals, 2,589 Express Pay terminals, 3,335 sales force 45 healthcare facilities and 2,670 hospital beds, located in six regions that contain two-thirds of the population of Georgia 87 points of sale and more than 200 account managers servicing over 250,000 P&C insurance clients - m² Real Estate developed 1,669 apartments in six completed projects and 838 apartments in two ongoing projects - Supplying water to over 1.2 million population in Georgia - Selling 3 million bottles of wine in over 26 countries annually
3. Leader in banking technologies	Established leader in payment systems such as internet banking, mobile banking and Express Pay terminals complementing our Express Banking strategy	89,000 active internet banking users, up 22.6% y-o-y 48,000 mobile banking users, up 63.9% y-o-y - Transactions executed through remote channels increased nearly twofold vs only 13.8% increase through tellers
See page 34 for more information on Express Banking		
	Capturing more than half of the merchant-acquiring network in the country	8,102 POS terminals
4. Comprehensive local knowledge	Deep insight into the Georgian market through trusted relationships with our extensive client base and coverage across all sectors of the economy	- c.5,000 Corporate Banking customers - c.90,000 SME and micro customers - Georgian macroeconomic research - Azerbaijan macroeconomic research - Georgian sector research including: Energy, Real Estate, Agriculture, Tourism, Wine, Healthcare - Fixed income corporate research including: Georgian Railway and Georgian Oil and Gas Corporation - Weekly news coverage, including market data and economic updates
See page 37 for more information on Galt & Taggart		
	Loan collection systems and an in-house developed and maintained credit scoring system, translates into deep insight into bankable population and customer behaviour – a distinctive competitive advantage of the Bank	531,350 individuals scored in 2015
5. Access to capital markets and superiority in liability management	Superior access to both equity and debt capital, provides flexibility with liability management and is our key competitive advantage in realising our ambition to capture attractive investment opportunities in Georgia	- IPO on the LSE in 2006 (first from Georgia and second from the CIS) - US\$ 200 million bond issue in 2007 (first from Georgia) - Premium listing on the LSE in 2012 (first from Georgia) - US\$ 114 million capital raised in 2014 - US\$ 363 million Eurobond outstanding (only private issue from the Caucasus) - US\$ 100 million IPO of GHG, our healthcare subsidiary, on the premium segment of the London Stock Exchange (first non-financial company to list from the region) - Undisputed leader in the local capital market industry through Galt & Taggart, and Bank of Georgia custody - c.GEL 100 million local corporate bonds placed by Galt & Taggart in 2015 - The only international sub-custodian in the region through State Street, Citi and Deutsche Bank - Exclusive partner of Saxo Bank since 2015 - The strength of our franchise and brand name translates into pricing power driving down Cost of Deposits. The ability to replace more costly borrowings with cheaper funding also leads to improved funding costs - Lower deposit rates than offered on the market - Cost of Client Deposits 4.3% in 2015, down from 7.5% in 2010 - Cost of Funds 5.1% in 2015, down from 8.2% in 2010
6. Robust governance aligned with the UK Corporate Governance Code	Culture of transparency and adherence to robust governance	- Premium listed company on the LSE - Component of FTSE 250 Index - Fully independent Non-Executive Directors on the Board
See page 92 for Governance Report		
	Primarily deferred share-based compensation for top executives of the Group, aligning long-term shareholder interests with management reward	- More than 80% of total compensation for each Management Board member comprises shares with a vesting period - No cash bonuses for senior management since 2011
See page 107 for Remuneration Report		
7. Strong management skills with proven track record	As an employer of choice, attracts top talent both at senior and middle management levels	- Western educated professionals with work experience at leading financial institutions such as Lehman Brothers, Bear Stearns, etc - Proven track record in creating superior value for its shareholders through banking and investment businesses - Market valuation at US\$ 1.0 billion, up x50 since 2004 - As a result of GHG IPO, we achieved 121% IRR on our investment in GHG - IRR of >30% in completed real estate projects

Our strategy

Delivering on our 4x20 strategy

4x20 strategy – Georgia-focused banking group with an investment arm – reflects our competitive strengths and opportunities in the market.

During 2015, our 4x20 strategy entailed a 20% metric for our ROAE, Tier I CAR, retail loan growth and IRR for investment business. This strategy is built to allow us to capture compelling investment opportunities in Georgia's corporate sector, on top of our continued commitment to growing our strong banking business.

Over the last few years we have made strong progress in delivering growth in our core Retail Banking, Corporate Banking and Investment Management businesses. This growth has been combined with maintaining a solid capital and liquidity

position and consistently high returns on shareholder equity, delivering dividends that have increased by more than five-times over the last three years and an excellent total return to shareholders. In addition, we have made great progress in developing, profitably growing our non-banking operations and delivering a successful IPO of our healthcare business.

Throughout 2015, Georgia's economic development has remained robust and was particularly resilient in the context of the economic turbulence in the region. The Company expects

this progress to be maintained in the future. The banking sector in Georgia remains relatively underpenetrated and we expect our recent strong customer lending growth, particularly in the Retail Bank, to continue. Georgia's capital markets development, which remains in its infancy, will create significant opportunities over the next few years to develop more capital efficient growth opportunities throughout the business and we expect to be at the forefront of that capital market development in the country, thereby producing value creation opportunities for our shareholders.

Performance against strategy in 2015

Business	Strategic target	2015 performance
Banking Business	c.20% Return on Equity in the Banking Business	Record profitability: - Revenue up 39.6% y-o-y to GEL 751.3 million in 2015 - Profit up 24.4% y-o-y to GEL 274.3 million in 2015 - Non-interest income up 31.8% y-o-y to GEL 238.4 million in 2015 - NIM stood at 7.7% - ROAE stood at 21.7% in 2015 Operational efficiency and scale: - Cost to Income ratio at 35.7% in 2015 - Positive operating leverage at 16.6 ppts in 2015 Prudent risk management: - Cost of Risk of 2.7% in 2015
	c.20% Retail loan book growth	- Net retail banking loan book grew 35.3% y-o-y to GEL 2,796.5 million, while client deposits increased 39.3% y-o-y to GEL 1,880.0 million. Growth on constant currency basis was 19.0% and 15.5% for retail net loan book and retail deposits, respectively - Retail Banking Loan Yield increased to 17.6% in 2015 vs 17.4% in 2014, Retail Banking Cost of Client Deposits increased to 3.9% in 2015 from 3.8% in 2014
	c.20% Tier I capital adequacy ratio	Strong internal cash generation to support loan growth without compromising capital ratios: - BIS Tier I Capital Adequacy ratio (CAR) of 17.9% and BIS Total CAR of 24.9% as of 31 December 2015 - NBG (Basel 2/3) Tier I CAR and Total CAR stood at 10.9% and 16.7% as of 31 December 2015 Tier I c.20% became non-relevant, as regulation moved to Basel 2/3. Additionally, in the context of excess capital of c.GEL 600 million at BGEO Group, we aim to have efficient capital management at bank. To reflect this, at the end of 2015, we have updated our 4x20 strategy, which is laid out later on in this section. Conservative regulation of National Bank of Georgia (NBG): - Risk weighting of FX assets at 175% - Bank's leverage stood at 6.0x as of 31 December 2015
Investment Business	Internal rate of return of minimum 20% for each of the individual future investments of the Company	- GHG achieved 121% IRR and 3.9x-money on our investment in GHG at IPO 65% IRR from m² Real Estate projects
Dividend payout	Dividend payout ratio of 25-40% from banking business	At the 2016 AGM the Board intends to recommend an annual dividend of GEL 2.40 per share payable in British Sterling at the prevailing rate, representing 30.3% payout ratio. This represents an increase of 14%, compared to the annual dividend of GEL 2.1 per share last year.
	Capital return from investment	- In addition, at least three capital returns over the next five years will be targeted in the light of potential divestments, with the objective of ensuring that these three capital returns total at least 50% of the regular dividends from the banking business. These capital returns could take the form of either special dividends, share buybacks and/or stock dividends - As of January 2016/During 2015, we completed GEL 23.7/19.2 million worth of market purchases of BGEO shares for Employee Benefit Trust. At the beginning of 2016, we announced additional US\$ 10 million worth of market purchase of shares for Employee Benefit Trust

4x20 strategy going forward

Going forward we plan to increase the relative size of our highly profitable Retail Banking business and to generate additional non-interest income from advisory and other fee-generating businesses. In addition, we plan to make further equity investments in areas outside our core banking operations.

At the end of 2015, the Board updated our strategy with the aim of making it more relevant. While we are committed to growing our business while maintaining our existing strong capitalisation, Tier I c.20% became non-relevant, as regulation moved to Basel 2/3. Additionally, in the context of excess capital of c.GEL 600 million at BGEO Group, we aim to have efficient capital management at the Bank. To reflect this, at the end of 2015, we have updated our 4x20 strategy, which is focused on enhancing BGEO's profitability by optimising capital allocation. This includes our continued commitment to the Bank's highly profitable retail franchise

and augmenting the Group returns through carefully targeted direct equity investments, with a clear exit strategy and targeted IRR above 20%, to contribute up to 20% of the Group's profits.

Our key goal is to continue producing high returns in the long run for our shareholders. Currently, we see that Retail Banking is producing over 30% ROAE while Corporate Banking is producing c.15% ROAE. Therefore, we want to increase the share of retail banking portfolio to 65% over the next three years. Due to the limited access to capital and management in a small frontier

economy such as Georgia, we continue to see a much better risk return profile when investing in Georgian companies than when lending to those same corporates. We also believe that the Group can add value for our shareholders by investing in opportunities, which currently are not accessible to our shareholders, changing management and governance, institutionalising and scaling up the companies, and most importantly, unlocking value by exiting from these companies over time. BGEO's management has a proven track record of creating value through successful business development and investments.

4x20 strategy in 2015

We are a Georgia-focused banking group with an investment arm

Banking
Business

Investment
Business

1. ROE
c.20%

2. Tier I
c.20%

3. Retail
growth
c.20%

4. Min. IRR
of 20%

Note: Tier I became not-relevant in 2016 as explained above.

4x20 strategy going forward

We are a Georgia-focused banking group with an investment arm

Banking Business

Investment Business

1. ROE c.20%

2. Growth c.20%
of retail loan book

3. Min. IRR of 20%
Target investments with min.
20% IRR and partial or full exit
in max. six years.

4. Profit up to 20% of
BGEO Group profit
(New target)

Note: New strategic target.

Ongoing dividends

• **Ordinary dividends:** linked to recurring profit from banking business

• Aiming 25%-40% dividend payout ratio

• **Capital return:** aiming for at least **three capital returns** in the next five years

• Aiming for capital return to represent at least 50% of regular dividend from Banking Business

Our strategy continued

4x20 strategy going forward

1. At least 20% Return on Equity in the Banking Business

Profitability is expected to be driven by further growth in both the retail and corporate banking businesses with an increased focus on the significantly more profitable retail franchise, as we aim to increase our share in retail loans.

2. At least 20% retail loan book growth

Our net loan book has grown at a CAGR of 23.6% from 2010 to 2015 and we remain committed to at least 20% growth in our retail customer lending. Our focus is on increasing retail loan portfolio to 65%, from its current 55%, over the next three years. Specifically, we are looking to further grow our Express (self-service) Banking network as well as our payments business, transform our retail mass market operations, through the Bank of Georgia brand, into a customer-centric bank and significantly increase our market share in the mass affluent segment, with our premium brand Solo.

3. Internal rate of return of minimum 20% for each of the individual future investments of the Company

We will target investments with a minimum of 20% IRR and partial or full exit in a maximum of six years. We will acquire only businesses that we believe have a well-defined exit path, to which end we will target companies with potential EBITDA of at least US\$ 30 million within three to four years post acquisition with a view to potential future exits, including by way of stock market listings or trade sale.

4. A maximum 20% profit contribution, of the Group's profits, from our investments in non-banking businesses

We aim to remain primarily a banking group, with an investment arm. No matter how well our non-banking companies do in terms of operating results, we want to see their exit to unlock the value and with the generated profit return capital to our shareholders

and pursue new opportunities – in the event that we see one.

Dividends: Our future dividend policy is expected to comprise recurring dividend payments linked to recurring profits from the banking group, with a targeted dividend payout ratio of 25–40%. In addition, we will aim to provide capital return upon the realisation of our financial investments and are targeting at least three capital returns in the next five years. Some of the profits may be reinvested if further attractive investment opportunities arise.

The way we invest and manage the companies

Due to the limited access to capital and management in a small frontier economy such as Georgia, we see a much better risk return profile when investing in Georgian companies than when lending to those same corporates. We also believe that the Group will be adding value for our shareholders by investing in opportunities, which currently are not accessible to our shareholders, changing management and governance, institutionalising and scaling up the companies, and most importantly, unlocking value by exiting from these companies over time. Our Plan A in exit is to take the company public. This way, as far as possible, it is our firm intention to create an opportunity for our shareholders to participate in such offerings.

Our key principles around investing and managing the companies at BGEO:

1. Be opportunistic and disciplined

Georgia was born ten years ago and different sectors and businesses are in the process of formation, access to capital

and management is limited, owners of businesses are cash poor and therefore good opportunities can be captured cheaply. At the same time, we are under no pressure to make new investments and we are extremely selective and opportunistic and will not commit more than US\$ 25 million in a single investment in a sector where we are not already present. Our dividend policy is the natural self-discipline mechanism for our investment business.

2. In scale we trust

Achieving superior economies of scale in a small frontier economy is an essential part of the success. It actually significantly diminishes the risk of failure.

3. Get our hands dirty

Similarly to limited access to capital in this country, the availability of management is limited and by being a machine of producing top talent in the country we can add value for our shareholders. We understand that great management teams make great companies, and investing

time in growing people continues to be critical for the success of our strategy.

4. Good governance makes good returns

We are big believers that robust governance is the source of value creation for our shareholders. The natural and simple alignment of interest between shareholders and management by awarding long-term stock works well for value creation and, finally, we want to have good balance by having separate people as the Chairman and CEO of the Company.

5. Liquidity is king

In order for our strategy to work we need to be disciplined in unlocking the value of companies in which we invest and manage. Taking companies public is our preferred option for exit, as it is our intention to give our shareholders an opportunity to participate.

How we are going to achieve our targets over the next two to three years

Banking Business – crown jewel in our Group and the key driver of profitability

We have three segments in the banking business, of which Retail Banking will drive most of our Banking Business growth, Corporate Banking and Investment Management will improve our ROAE, with the latter also contributing an increasing share of our fee and commission income.

Strategic goal

Bank of Georgia aims to shift the mix of its customer lending to become 65% retail and 35% corporate with the product per client ratio in the Retail Bank targeted to increase to 3.0 products, from a current 1.7 products.

How we are doing this

- Expand our product offering through continuous innovation to remain at the forefront of meeting the growing funding and investment needs of our extensive retail customer and corporate client base.
- Expand our Express Banking strategy to increase our number of customers by attracting the currently unbanked population and by means of a shift towards transactional banking.
- Expand on our market-leading payments business in Georgia through our Express Banking strategy.
- Leverage our superior distribution network and local expertise across various business lines to step up our cross-selling strategies.
- Shift from current segment approach to client-centric approach with an aim to capture growth opportunities and increase penetration through cross-selling, to be measured primarily by an improvement in product/client ratio.
- With Solo strategy, we aim to significantly increase our market share in the mass affluent segment over the next three to four years.
- Continued investment in our IT and payment business.

The Bank will continue to reduce concentration risk in the corporate lending portfolio, with the support of the Investment Management business, to target the top ten borrowers to represent less than 10% of the total loan portfolio.

- In February 2016, we announced combination of the Bank's Corporate Banking and Investment Management businesses into a Corporate Investment Banking business (CIB). The merged business will leverage our superior knowledge and capital markets capabilities in the Georgian and neighbouring markets both in terms of reach and the expertise that we have accumulated during the past several years through our corporate advisory, research and brokerage practices united under Galt & Taggart – a wholly owned subsidiary of Bank of Georgia at the forefront of capital markets development in the country.
- As a result, we expect to grow our fee income, improve the Bank's ROAE and reduce concentration risk in the corporate lending portfolio. Reflecting this change, the Group will report CIB business results separately starting in the first quarter 2016.

The net interest margin is expected to be c.7.25% – 7.75%.

- Leverage the Bank's pricing power stemming from its market leadership to maintain strong loan yield levels and continue optimising its Cost of Deposits without compromising deposit growth.
- Access international capital markets to attract cheaper international funding.

The Bank aims to manage to a Cost/Income ratio of around 35% over the medium term.

- Continued cost control measures and implementation of technologies aimed at improving workflow efficiency.
- Leverage the strength of our scope and franchise to increase the cost-efficiency benefit for the underlying businesses and the Group as whole.
- Expansion of Express Banking strategy and investing in express technologies to enable us to further scale up the business with minimal incremental operating costs.
- Education platform to contribute further to lowering operating costs over the medium and long term.

The Bank will continue to enhance its already prudent risk management practice, and the Bank's cost of risk ratio is expected to be in the 1.5%-2.0% range.

- Risk management system is based on the principle of continually assessing risk throughout the life of any operation.
- Ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made.
- Determination of an acceptable risk level.
- Continuous analysis of efficiency of the risk management system.

Investment Business

The planned capital allocations in the Investment Businesses during the 2015-2018 period are expected to total approximately US\$ 35 million.

Investment Business

Healthcare business – Georgia Healthcare Group

Strategic goal

- At least double 2015 revenues in 2018.
- Achieve a 20% return on average equity and start paying dividends by 2019.
- Launch two hospitals with a total of 700 hospital beds by 2017, and achieve a market share of hospital revenue in excess of 30% in the medium to long term.
- Roll out a network of ambulatory clinics to achieve a 17% market share by revenues in the medium to long term.

Real Estate business – m² Real Estate

- To target an internal rate of return of c.40%+, while delivering a capital return to the Group of US\$ 20-25 million over the next five years.

Utility business – Georgia Global Utilities

- To achieve EBITDA of GEL 80 million in 2018, from GEL 51 million in 2014.

Hydro business – Georgian Renewable Power Company

- We aim to establish a renewable energy platform, targeting 100MW+ in four medium-sized hydro power plants by 2019, while targeting an IRR in excess of 25%.

Beverages business – Teliani Valley

- To launch beer production, within a budget of US\$ 37 million, by the end of 2016.

Our strategy continued

Retail banking – client-centric, multi-brand strategy

We began implementing our Express Banking strategy in 2012 by rolling out small-format, Express branches offering predominantly transactional banking services to clients through ATMs and Express Pay Terminals.

The aim was to make banking relationships simple, faster, cheaper and convenient for both our existing customers and for the emerging bankable population.

A Self-Service Terminal can be described as a small bank by itself as it allows a wide array of payment services ranging from current account top-ups and loan repayments to utility bill payments and metro ticket purchases. In 2015, we had installed 350 new Express Pay Terminals, resulting in 2,589 total Express Pay Terminals as of the end of the year. We are now leaders in Georgia in the payment systems market. We have combined our travel card for the Tbilisi bus and metro (of which we are the sole provider) and our contactless card with a loyalty programme linked to the customer's current account to create an "Express Card" and have issued over 469,919 such cards in 2015. At the end of the year we had more than 1,191,828 Express cards outstanding.

Nowadays, express is the major growth driver in our fee and commission income from Retail Banking segment and a strong franchise attracting the unbanked population to the Bank, eventually growing them into a mass retail customers.

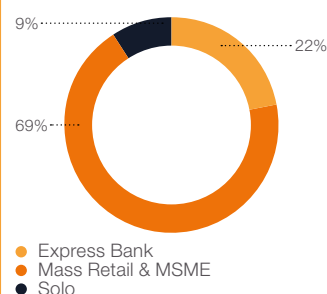
Brands
& target
segments

EXPRESS
BANK

Emerging Retail

Selected
Financial &
Operating
Data
(FY2015)

Net Fee & Commission Income
GEL 64 million



P/C ratio: **2.1**
Number of branches: **114**
Profit/client: **GEL 71**

Focus

Grow transactions

Express – capturing emerging retail banking clients



Under the Bank of Georgia brand we target the mass retail segment. This is our flagship brand and most significant profit contributor.

With 2.0 million individual clients and 100,000 SME and Micro clients, this segment is very much product driven and our biggest challenge is to change the business model to become more client-centric and therefore increase the 1.9 current product to client ratio over time. We are currently working on three main areas to achieve our goal of higher product to client ratio in this segment.

- **Client-centric physical environment:** we recognise that our current branches (pictured below) are built around products and they are not convenient to our clients. We have separate corners for various products and clients need to navigate the branch space to get all the services they need – the client now comes to the product, rather than vice versa. To address this, we have worked with McKinsey to redesign the branches to build them around the client and make their experience comfortable. We will be launching our first client-centric branch in September 2016 and aim to complete the redesign of most branches by the end of 2017.
- **Client-centric service:** we train our front-office personnel to sell and service across the product range. We also free up their time from processes that do not involve client interaction, by moving those processes to the back-office.
- **Client-centric digital channels:** our clients extensively use digital channels. This includes both personal computer and mobile applications. And the digital channel utilisation has grown strongly for the past couple of years. We recognise that developing client-centric digital channels is no less important than redesigning our branches. We have established a digital banking division, with a team of marketing and IT professionals to lead our online transformation. We aim to launch the new digital channels by the end of 2016.

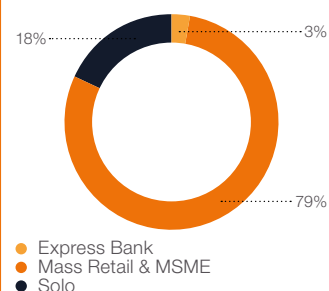
Brands
& target
segments



Mass Retail and MSME

Selected
Financial &
Operating
Data
(FY2015)

Total loans
GEL 2,854 million



P/C ratio: 1.9
Number of branches: 139
Profit/client: GEL 56

Focus

Product/client ratio growth

Bank of Georgia – unparalleled mass retail banking franchise



Our strategy continued

Retail banking – client-centric, multi-brand strategy continued

In April 2015, we launched Solo - a fundamentally different approach to premium banking. As part of the new strategy, the Bank's Solo clients are given access to exclusive products and the finest concierge-style environment at our newly designed Solo lounges and are provided with new lifestyle opportunities, such as exclusive events and handpicked lifestyle products.

In our Solo lounges, Solo clients are offered, at a cost, a selection of luxury products and accessories that are currently not available in the country. Solo clients enjoy tailor-made solutions including new financial products such as bonds, which pay a significantly higher yield compared to deposits, and other securities developed by Galt & Taggart, the Bank's Investment Banking arm.

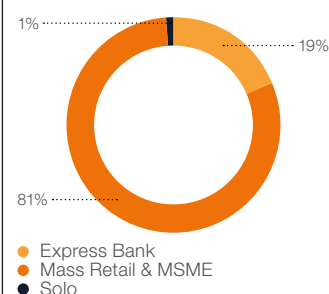
With Solo we are targeting the mass affluent retail segment and aim to build brand loyalty through exclusive experiences offered through the new Solo. We currently have only 11,869 Solo clients and an estimated market share of less than 13% in this segment. We have already opened two new Solo lounges and will increase the number of lounges in line with the increasing number of clients. Our goal with the new strategy is to significantly increase our market share in this segment over the next three to four years.

Brands
& target
segments

SOLO
Mass affluent

Selected
Financial &
Operating
Data
(FY2015)

Clients
11,869



P/C ratio: **7.5**
Number of branches: **8**
Profit/client: **GEL 1,374**

Focus

Client growth

Solo – a fundamentally different approach to premium banking



Corporate Investment Banking – unrivalled platform for profitable growth

In February 2016, we announced the combination of our Corporate Banking and Investment Management businesses into a Corporate Investment Banking business (CIB). The merged Corporate Banking and Investment Management business will leverage our superior knowledge and capital markets capabilities in the Georgian and neighbouring markets both in terms of reach and the expertise that we have accumulated during the past several years through our corporate advisory, research and brokerage practices united under Galt & Taggart – a wholly owned subsidiary of Bank of Georgia, which is at the forefront of capital markets development in the country.

Reflecting this change, the Group will report CIB business results separately starting in the first quarter 2016.

One critical goal in the Corporate Banking business is to increase ROAE and we plan to do this by de-concentrating our loan book and decreasing the cost of risk through:

- Syndicating loans out.
- Selling risk.
- Helping our large corporate clients to access capital by issuing debt securities on the local capital market.

We will focus on further building our fee business through the trade finance franchise, which we believe is the strongest in the region.

As Georgia has a pay-as-you-go pension system, we believe that our international wealth management franchise can benefit by focusing on the distribution of local debt. So far we see that c.70% of the demand in local paper issuances comes from our international wealth management clients. Further enlargement of the footprint of our international wealth management franchise will be critical for the success of our strategy to build local capital markets. Therefore, we will be investing more in this area.

As a result, we expect to grow our fee income, improve the Bank's ROAE and reduce concentration risk in the corporate lending portfolio.

1. Wealth management

- Strong international presence:** Israel (since 2008), UK (2010), Hungary (2012) and Turkey (2013). Planned expansion – Cyprus, Singapore, USA.
- AUM of GEL 1,373 million,** up 34% y-o-y
- Diversified funding sources:**
 - Georgia 44%
 - Israel & MENA 12%
 - UK 4%
 - Germany 3%
 - Other 35%

4. Brokerage

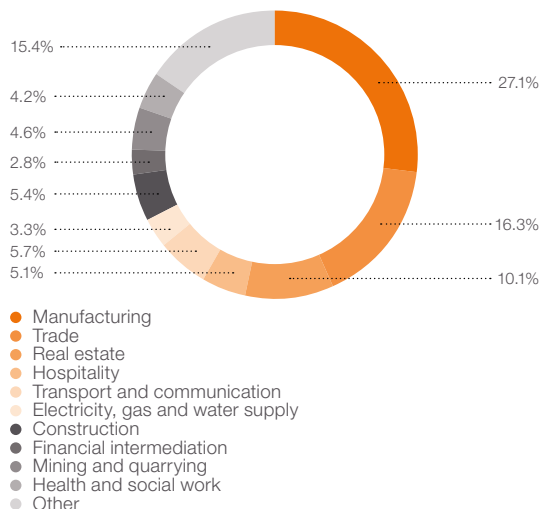
- Wide product coverage**



- Exclusive partner of SAXO Bank** via White Label structure, that provides highly adaptive trading platform with professional tools, insights and world-class execution

5. Wealth management

Breakdown by category



2. Research

- Sector, macro and fixed income coverage**
- International distribution**



3. Corporate advisory

- Bond placement**
GEL 63.6 million and US\$ 35 million bonds placement at year-to-date. c.US\$ 15 million bonds placement planned until the end of this year
- Corporate advisory platform**
 - Team with sector expertise and international M&A experience
 - Proven track record of more than 15 completed transactions over the past eight years with an accumulated transaction value of more than GEL 200 million

Our strategy continued

Investment business strategies

GHG – a long-term, high-growth story (GHG:LN)

GHG is the largest healthcare services and medical insurance provider operating in the fast-growing, predominantly privately-owned, Georgian healthcare market, which is characterised by low utilisation and high fragmentation, leaving significant room for medium to long-term growth.

The healthcare services market (including hospitals and ambulatory clinics) is estimated at GEL 2.1 billion for 2015, with a strong compound growth momentum of 13.5% between 2011 and 2014, which is expected to continue growing at 13.3% during the period 2014-2018. Healthcare services spending per capita is currently at a very low base of only US\$ 217, with annual outpatient encounters of only 3.5 per capita and hospital bed utilisation of only 50%, all significantly lower than many comparable countries. Supportive government reforms and the engagement of private players in the sector have resulted in significant improvements in the overall standard of infrastructure and greatly boosted demand for quality healthcare services. With GHG's scale, efficient operations, breadth and quality of service offering and proven management team, the management of GHG believes that GHG is ideally positioned to take advantage of the expected long-term macroeconomic and structural growth drivers favourably influencing the Georgian healthcare services market. Reflecting these long-term growth prospects, the management of GHG is targeting at least doubling of 2015 revenues by 2018 through a combination of:

- **Expanding through the further development of both existing and recently acquired hospitals, focusing**

predominantly on the higher revenue referral hospital segments in Tbilisi.

The addressable hospital market is GEL 1.2 billion in 2015 and is forecasted to grow at a compound annual growth rate of 11.3% during the period 2014 to 2018. GHG's market share was 14.0% and 22.1% by revenue and bed capacity, respectively, at 30 June 2015. Following the acquisition of High Technology Medical Centre University Clinic in August 2015, GHG's market share by beds grew to 26.6%, and (on a pro forma basis) market share by revenue increased to 17.6%.

- **Launching of a network of new ambulatory clinics across Tbilisi and in other major cities in Georgia.**

The addressable ambulatory clinic market is GEL 0.9 billion in 2015 and is forecasted to grow at a compound annual growth rate of 15.9% during the period 2014 to 2018. GHG's market share was under 1% at 30 June 2015, with the rest of the market similarly fragmented, with no single player having more than 1% market share and no other player having comparable access to capital and management, allowing GHG a unique first mover advantage in this highly fragmented and underpenetrated outpatient segment.

- **Continuing to grow over the medium term by developing new services and investing in medical technology to fill**

existing medical service gaps in the country and improve efficiencies.

Currently service gaps exist in a number of basic diagnostics areas and treatments, such as MRI, laparoscopic surgeries, oncology, pediatrics, neonatology, intensive care, cardiology, and rehabilitation services.

- **Continued focus on improving operational efficiency and utilisation to further improve margins.**

GHG's healthcare services EBITDA margin was 27.4% at 31 December 2015, improving compared to 24.3% for the same period last year toward a target of approximately 30%. GHG is in the process of integrating its newly acquired hospital facilities, and is targeting a second wave of integration which among other things will include the centralisation of engineering, archiving, and ERP roll-out.

In March 2016, GHG signed a binding memorandum of understanding, subject to relevant regulatory approvals, to acquire a 100% equity stake in JSC GPC, one of the top three pharmaceutical retailers and wholesalers in Georgia. This move clearly fits GHG's strategy to be the leading integrated player in the Georgian healthcare ecosystem

GHG – long-term, high-growth story

GHG is targeting to double 2015 healthcare revenue by 2018 with 30% EBITDA margin

2015-2018 Georgia 2014 or most recent year	Medium-term target (5-10 year horizon) Georgia medium term	Long-term target (Beyond 10-year horizon) EM 2014 or most recent year
Spending per capita (US\$) 217 (Georgia)	502	1,076
Price inflation (heart surgery, US\$) 6,500 (GHG)	9,000	25,000
GHG revenue per bed (US\$) 32,000 (GHG)	99,000	280,000
Outpatient encounters per capita 3.5 (Georgia)	5.4	8.9
Nurse to doctor ratio 1:1.3 (Georgia)	4:1 (Georgia, WHO recommendation)	3.4:1
Pharmaceuticals' share in total healthcare spending 38% (Georgia)	25%	15.4%

Sources: Bed utilisation for referral hospitals; World Bank; GHG internal reporting;

Management Estimates; Ministry of Finance of Georgia; Frost & Sullivan 2015 WHO: Average of countries: Chile, Costa Rica, Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Russian Federation, Slovak Republic; BAML Global Hospital Benchmark, August 2014.

Opportunity: Georgian healthcare market and GHG market share evolution

GHG strategy



Hospitals

Maintain dominant market share in hospitals by capacity and revenue

Ambulatories

GHG replicating hospital consolidation experience in outpatient segment, with a first mover advantage in a fragmented market

Pharmaceuticals

Margin enhancement and growth alongside with nominal GDP

GHG market shares



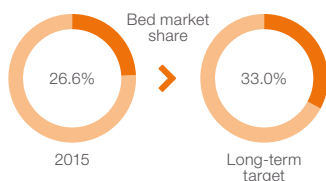
Revenue

Capacity



2015

Long-term target



2015

Long-term target

GEL 1.2 billion¹

2015

Long-term target

GEL 0.9 billion¹

2015

Long-term target

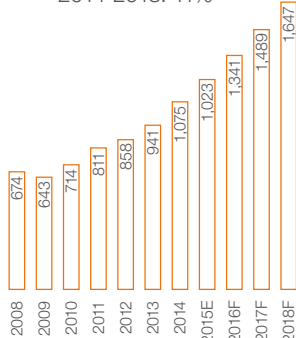
GEL 1.3 billion¹

Market



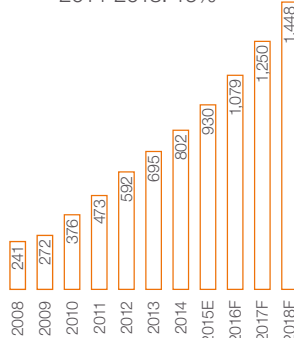
Hospitals (GEL million)

CAGR 2003-2014: 13.7%
2014-2018: 11%



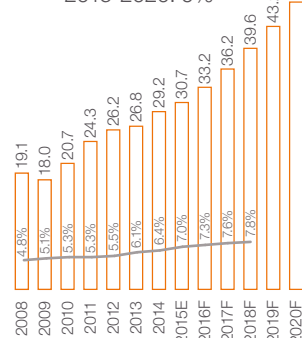
Ambulatories (GEL million)

CAGR 2003-2014: 17.9%
2014-2018: 16%



GDP nominal (GEL billion)

CAGR 2003-2014: 1.8%
2015-2020: 9%



Growth drivers



- Low utilisation (50-60%)
- Low equipment penetration
- Fragmented market
- System inefficiency (e.g. low nurse-to-doctor ratio)
- GHG: accelerated revenue market share growth on the back of well-invested asset base

- Low outpatient encounters
- Fragmented market
- New prescription policy
- GHG: replicating hospital cluster model and consolidation experience in highly fragmented ambulatory sector

Growth opportunities:

- Growing wholesale revenue
- Enhancing retail margin
- Expanding pharmacy footprint

GHG:

- Decreasing cost of goods sold/services
- Enhancing retail margin
- Expanding pharmacy footprint

1. Frost & Sullivan analysis, 2015

Our strategy continued

Investment business strategies

m² Real Estate – a fast-growing, leading real estate developer in Georgia

Over the past several years, m² Real Estate has established itself as one of the most recognisable and trustworthy residential housing brands in the country.

For the next three years, the main priority for m² is to deliver capital return of US\$ 20-25 million by 2019 by:

- **Continuing residential developments** – continuing to unlock land value by developing housing projects and liquidating existing land plots, as well as to start development of third-party lands. Currently, m² owns land bank of US\$ 43.4 million*,

with a capacity of c.5,200 apartments (in addition to 2,510 apartments in existing eight projects, both completed and ongoing).

- **the Growing yielding asset portfolio** – m² will enhance its yielding asset portfolio through two sources:
 - Commercial space: accumulating yielding assets, by mainly retaining commercial real estate in residential developments and acquiring opportunistically and/or developing high street retail, commercial and office space, with capital gain upside and c.10-12% annual yield.
 - 3-star hotel development: m² has

Ramada Encore exclusivity for seven years and aims to develop three hotels (3-star, select service mixed-use hotels) in the next seven years in Tbilisi and Kutaisi with minimum room-count of 370 in total, catering to budget travellers. As hotels are mixed-use, m² finances equity needs of the hotel from the profits and land value unlocked through sale of the apartments in the same development.

* Excludes hotel lands.

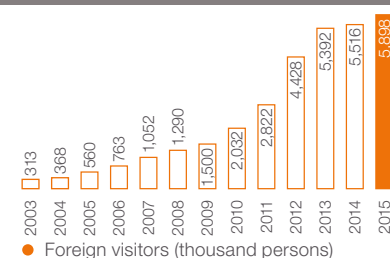
3-star hotel opportunity in Tbilisi

Develop three hotels in next seven years in Tbilisi catering to budget travellers



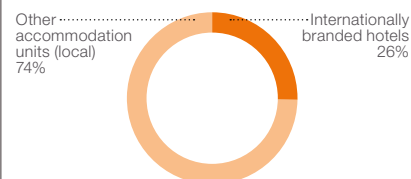
- Wyndham Ramada Anchor exclusivity for seven years
- Equity investment US\$ 7 million
- Number of rooms – 370
- Investment per room – US\$ 70k
- Occupancy rate – 65% (third-year stabilised)
- ADR – US\$ 100
- ROE – 20%

Visitors in Georgia
25% CAGR 2003-2015



Limited supply
Last branded hotel opening in Tbilisi in 2012

Distribution of rooms in Tbilisi by accommodation type, 2011



Hydro business – complete 100MW, 4 HPPs with cost per MW not more than US\$ 1.5 million by 2019

We aim to tap the renewable energy opportunity that exists in Georgia by investing in hydro power plant development. The industry is highly underpenetrated, with only 20-25% of Georgia's hydro resources being utilised. It is relatively cheap to develop hydro power stations in Georgia, at approximately US\$ 1.5 million, compared to at least US\$ 3.0 in central Europe.

For the past two years we have been actively engaged in planning and due

diligence, but so far have actually spent only about US\$ 1 million. In the process, we have established a strategic partnership with industry specialists – RP Global (Austria), who have more than 25 years of experience in the development, financing and operation of Small Hydro Power Plants in an international context. BGEO has 65% share in the business, with the remaining 35% owned by RP Global.

Our goal for the next five years is to complete development of 100MW capacity

and identify additional 100MW development capacity. We currently have four hydropower plant projects, two of which will start in the beginning of 2017, with the launch scheduled in 2018. Construction of the other two hydropower plants will start later in 2017 and complete in 2019. Exit opportunities include sale in parts or scaling up (through second stage) and doing public listing or strategic sale. We expect to realise IRR of at least 25%.

Renewable Energy – five-year roadmap

Pipeline



2 ongoing projects – 105MW, 4 HPPs

Projects	Mestiachala 1 & 2	Zoti 1 & 2
Estimated Capacity 100MW	50MW	55MW
Estimated Project Timeline	2017-2018	2017-2019

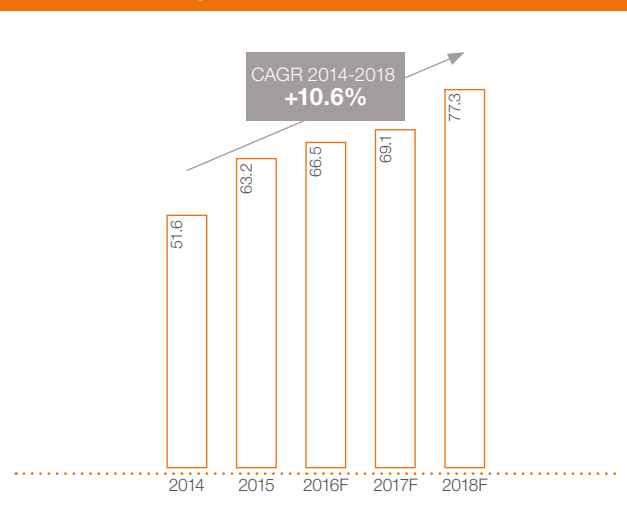
Note: Project timeline includes only construction period. In general, construction period is preceded by a one to two-year pre-construction period. On average 5% of total project cost is spent during this period on due diligence.

Utility business – achieve EBITDA of GEL c.80 million in 2018 (from GEL 51 million in 2014)

Our utility business, GGU, where we acquired a minority 25% stake in 2014, has ample room for efficiency improvements and opportunities to grow. The primary source for the growth is cost saving from reduction in water delivery losses to 40%, from current 50%; and double effect from water delivery loss reduction – selling freed-up energy.



GGU EBITDA Dynamics (GEL millions)



Beverages business – to launch beer production, within budget of US\$ 37 million, by end of 2016

Teliani Valley is a leading wine producer in Georgia, selling over three million bottles of wine in 26 countries globally per annum, with about 60% of its revenue coming from exports. Teliani has a strong production and distribution franchise, and we aim to leverage this expertise in launching beer production in

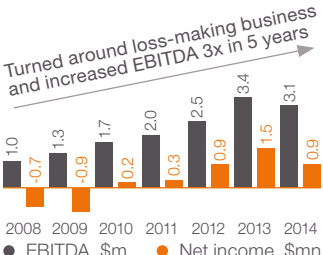
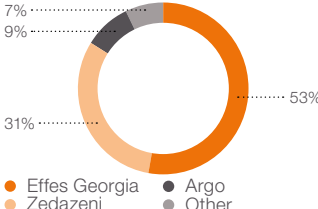
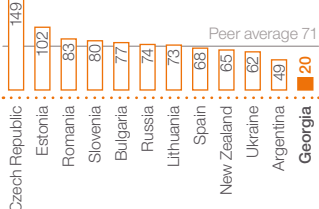
partnership with Heineken. Teliani will produce beer in Georgia and sell throughout the Caucasus (c.20 million population). Note that Heineken does not produce in either Caucasus or Turkey. Of the c. US\$ 38 million investment in beer project, US\$ 15 million is equity of which US\$ 11 million is BGEO's share. We project that our post

investment equity value in the entire business of c. US\$ 14 million will grow 5x in seven years, targeting 25%+ IRR in five to seven years' time. We expect EBITDA to grow to US\$ 12.3 million in 2020, up from current US\$ 1.9 million, with growth primarily driven by the expansion into beer segment. A trade sale seems the most likely exit.

Goal: Become leading beverages producer and distributor in Caucasus

Teliani business	Strong existing franchise		New business line	
	Leading wine producer	With wide distribution platform	Launch beer production	
➔	 3 million bottles sold annually - US\$ 8 million revenue in 2015 - US\$ 1.7 million EBITDA in 2015 60% of sales from export	 4,400 sales points - Exporting to 26 countries, including all FSU, Poland, Sweden, Finland, USA, Canada, Brazil, China, Thailand, Singapore	 - Launch beer production facility in Georgia 10-year exclusivity with Heineken to sell in Georgia, Armenia and Azerbaijan (17 million population)	

Exclusive Heineken producer in Caucasus

Investment Rationale	Strong management with proven track record	Highly concentrated market	Low consumption per capita compared to peers
	Turned around loss-making business and increased EBITDA 3x in 5 years  2008 2009 2010 2011 2012 2013 2014 ● EBITDA, \$m ● Net income, \$m	Domestic market segmentation (Q1 2015)  ● Efes Georgia ● Argo ● Zedazeni ● Other	Beer consumption in peer countries 2014 (l/capita)  Peer average 71

About the GHG IPO

BGEO listed its healthcare subsidiary on the premium segment of the London Stock Exchange (GHG:LN) in November 2015

GHG IPO was an important transaction for BGEO, as it represented the first realisation of BGEO's investment in non-banking businesses, and demonstrated the potential to unlock the significant value described when the Group announced its new corporate strategy in December 2014. Following the GHG IPO, BGEO holds a 65% stake in the company.

GHG story: creating single largest healthcare player in Georgia

GHG is an exemplary story about how we seize opportunities and unlock the value in the Georgian corporate sector. In five years, we created the single largest healthcare player in Georgia and established a clear exit path through its IPO on the premium segment of the London Stock Exchange in November 2015, achieving 121% IRR and 3.9x money on our investment at IPO.

GHG's story really started in 2011, when the government reforms in the healthcare sector created real opportunity for private players. Until 2011, we primarily focused on the medical insurance market and also owned several ambulatory clinics, which would service our insured clients. In 2007, the government launched the first stage of its targeted healthcare financing reform, by purchasing medical insurance from private insurance companies on behalf of c.0.8 million economically vulnerable

citizens, giving boost to the medical insurance industry. However, despite growth in spending, the vast majority of healthcare facilities in the country were in very poor condition, seeing little to no investment since the Soviet-era. We had invested less than GEL 0.5 million in the healthcare business at this stage.

GHG roadmap – creating single largest healthcare player

	Year	Milestone	EV/EBITDA Investment per bed	BGH investment GEL million	Facilities and beds
Decision to invest ➔	2011	State infrastructure reform starts			 6  145
		Started investing in hospitals			
		Merged with Block Georgia (non cash)	3.1x, GEL 74k	0	 9  530
	2012	Imedi L acquisition	4.9x, GEL 47k	9.6	 8  206
		Investment to support organic growth	GEL 56k	22.9	 10  409
	2013	State Universal Healthcare Programme starts			
		Acquired Caraps	6.0x, GEL 142k	0	 1  60
Accelerate growth ➔				32.5	
	2014	Acquired Avante	3.7x, GEL 73k	82.4	 4  578
		Acquired Sunstone	GEL 99k		 1  152
		Acquired Traumatology	3.9x, GEL 134k		 1  60
		Acquired Block minority			
		Acquired HTMC	6.4x, GEL 206k	27.5	 1  450
	2015	Acquired Deka	GEL 183k		 1  80
		Launched ambulatory expansion strategy			 3
		IPO-ed			
				110.0	
	Total (as of December 2015)			142.4	 45  2,670

In 2011, the government launched its healthcare infrastructure reform, introducing incentives for private companies to invest in renovation or greenfield development of healthcare facilities. At that time, having been on both sides, in insurance and in healthcare services, we already had valuable insights into the industry and were well-positioned and fast to take advantage of the growth opportunity.

Hence, in 2011, the Board made a decision to scale-up our healthcare operations, with a synergistic business model of three types of healthcare facilities (referral hospitals, community hospitals and ambulatory clinics) and medical insurance under one umbrella, capturing patient flow along the treatment pathway. In the next five years, we grew our business through greenfield developments, acquisitions and renovations, investing a total of GEL 142.4 million. Most importantly, we were very disciplined in our investments, investing small at the beginning and always buying cheap. We invested only GEL 32.5 million during the first three years. Our first major acquisition, Block Georgia was a non-cash transaction at 3.1x-EBITDA valuation, followed by the Imedi L acquisition for GEL 9.6 million at 4.9x-EBITDA valuation, achieving unparalleled scope relative to our competition by the end of 2012. During the first three years of investment, we tested the concept and worked on our long-term business development strategy; spent time on launching newly built or renovated healthcare facilities, restructured and integrated the acquired healthcare facilities and researched other acquisition targets.

In 2012 and then in 2013, the government launched two other stages of its financing reform, eventually settling on the Universal Healthcare Programme, which covers the basic healthcare needs for the entire population of Georgia. Enhanced financing from the government gave a further boost to the healthcare industry and as GHG was already an established and major player in the industry, we accelerated investments and executed several key transactions, investing another GEL 110.0 million between 2014 and 2015.

Since 2011, we have established a core senior management team, hiring from leading healthcare institutions in Georgia and abroad, as well as promoting internally and rotating key employees within the Group to accomplish a robust and diverse senior management team at GHG. Furthermore, to create a natural and long-term alignment of interest between management and shareholders, we replicated BGEO's management compensation structure at GHG level. We award long-term vesting shares (up to five years) to GHG's management and make compensation in shares a large proportion of total annual compensation (e.g. 85-90%). By putting strong management in place, with the right incentives and providing capital to fund growth, we further widened the gap between GHG and its competition. By the end of 2015, GHG operated 2,670 hospital beds, with a market share of 26.6% based on number of beds, and insured 234,000 clients, with 38.4% market share based on net insurance premium revenue.

In 2014, we started working on the GHG IPO, in line with our strategy to fully or partially exit from our investments in non-banking businesses, with ultimate goal to return the capital to our shareholders. We replicated BGEO's governance structure at GHG, by putting a first class Board in place, with diverse skill-sets and expertise of the industry and the region. Our experience of similar transactions at BGEO, as well as constant engagement with the investor community proved essential in executing the GHG IPO – an important milestone in the realisation of BGEO's investment business strategy. Raising money for further development of GHG's business and crystallising the value of GHG were our main goals, both of which were successfully achieved through GHG's IPO in November 2015.

In November 2015, GHG successfully priced its IPO and completed the premium listing, raising a total of approximately US\$ 100 million in primary proceeds and valuing GHG at a market capitalisation of £218 million at the admission, with a 35% free float, following the exercise of

over-allotment option that represented approximately 10% shareholding.

GHG received strong support from a diversified and extremely high-quality institutional investor base and welcomed more than 100 new investors, as it embarked on the next phase of development. Following completion of the IPO, the company was included in the FTSE All-Share Index in 1Q 2016.

A public listing enhances GHG's ability to take advantage of the significant market growth prospects of the Georgian healthcare sector. Most of the primary proceeds of approximately US\$ 100 million are being used to fund GHG's immediate growth plans, aimed at helping it to achieve at least a doubling of 2015 revenue by 2018. GHG's clear growth vision, combined with hospital expansion potential and first mover advantage in the highly fragmented and relatively underpenetrated ambulatory segment, creates a highly attractive investment opportunity in the Georgian healthcare services industry.

BGEO has been a strong and committed shareholder to the development of the healthcare business for many years and we intend to maintain this support over the next few years, as GHG will be working on delivering on its goal to more than double 2015 healthcare services revenue by 2018, while achieving 30% EBITDA margin and capturing ample growth opportunities beyond 2018.



GHG IPO project name was "iBolyt"

Doctor "iBolyt" is a fictional character from the Soviet children's poems. The name may be translated as "Ouch, [it] hurts!"

The Group achieved 121% IRR at GHG IPO



Key performance indicators

A strong performance

Our KPIs for 2015 reflect a continuing strong performance in each of our Banking and Investment Businesses, demonstrating excellent customer lending growth with improving margins, balance sheet strength and strong profitability, together with substantial further progress in our Investment Businesses.



For more information on our financial results, see page 70

Returns KPIs

Diversified revenue sources, a growing loan book and efficient cost performance were the main drivers of the exceptional results in terms of profitability against the backdrop of a weaker external environment in 2015.

The resilience of NIM is a function of our distribution capabilities and pricing power. The substantial growth of the loan book during 2015 enabled our NIM to withstand downward pressures and high excess liquidity levels than in 2014. The resulting robust growth in

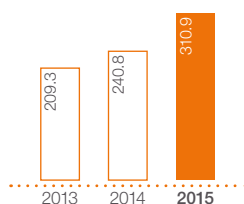
interest income, the further increased contribution of non-interest income to our revenue, strong margins and improving cost efficiency translated into 29.1% growth in profit.

In 2016 and beyond, we will continue to focus on profitable earnings growth, to be driven by good levels of customer lending growth without compromising asset quality, an increase in the share of income from fee-generating operations and an expansion of our investment businesses.

Profit (BGE0) (GEL million)

310.9

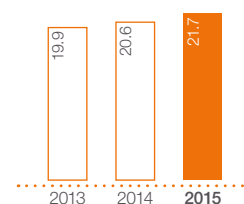
Profit is calculated in accordance with IFRS and represents revenue less operating expenses, cost of credit risk, net non-recurring expenses and tax expense.



Return on Average Equity (Banking Business) (%)

21.7%

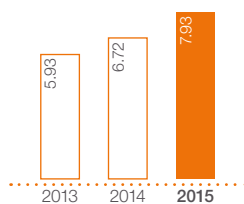
Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders is made up of share capital, additional paid-in capital, treasury shares, retained earnings and other reserves.



Earnings per share (BGE0) (GEL)

7.93

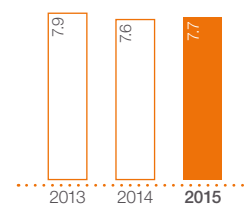
Profit attributable to shareholders divided by weighted average number of outstanding shares.



Net Interest Margin (Banking Business) (%)

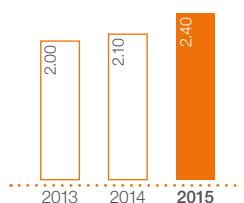
7.7%

Net interest income of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by average interest-earning assets for the same period



Dividend per share (BGE0) (GEL)

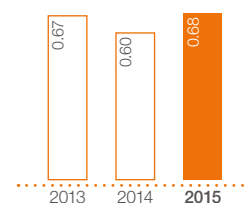
2.40



Dividend per share (BGE0) (GBP)*

0.68

* The following GEL/GBP exchange rates are used for presenting GBP amounts: 2015: 3.5492 as of 31 December 2015 (the actual currency conversion date: 11 July 2016), 2015 dividends to be approved by shareholders at the 2016 AGM; 2014: 3.5110/GBP as of 8 June 2015, the currency conversion date for the year 2014; 2013: 2.9815/GBP as of 9 June 2014, the currency conversion date for the year 2013.



Efficiency KPIs

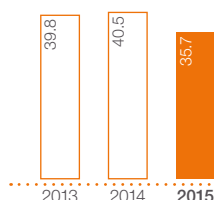
The shift to Express Banking, a technology-intensive remote channel banking, together with integration of PrivatBank, is the main driver of efficiency strategy for our Banking Business. Other measures such as various investments in IT aimed at optimisation

of workflow processes and the introduction of cost centre reporting procedures represent the cost control measures we continue to deploy across the board in order to keep a tight grip on costs.

Cost to Income ratio (Banking Business) (%)

35.7%

Operating expenses divided by revenue.



Operating leverage (Banking Business) (%)

16.6%

Operating leverage is measured as the percentage change in revenue less the percentage change in operating expenses.



Growth KPIs

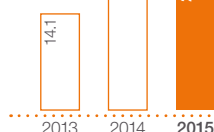
The 20.9% loan book growth was mainly driven by our Retail Banking business, which posted a 35.3% growth in the loan book

in 2015. Corporate Banking loan book decreased slightly at -1.4% in 2015. We are targeting at least 20% growth of our Retail Banking loan book over the medium term.

Net loan book (Banking Business) (% growth, y-o-y)

20.9%

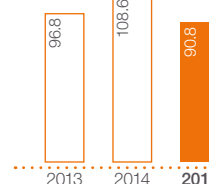
Net loans to customers and net finance leases receivables at the end of the year compared to the last year.



Net loans to customer funds and DFIs (Banking Business) (%)

90.8%

Net loans to customers and net finance leases receivables divided by amounts due to customers and DFIs.



Asset quality KPIs

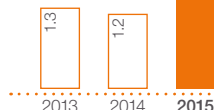
Our asset quality worsened in 2015 as a result of the local currency devaluation and overall economic turbulence in the region, however retail loan book quality was resilient, as a result of

our continued prudent risk management policies. Cost of risk stood at 2.7%. NPL coverage ratio adjusted for the discounted value of collateral stood at a comfortable level of 120.6%.

Cost of Risk (Banking Business) (%)

2.7%

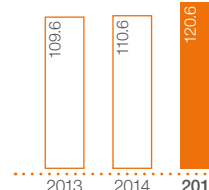
Cost of Risk equals impairment charge for loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period.



NPL Coverage Ratio adjusted for discounted value of collateral (Banking Business) (%)

120.6%

NPL Coverage Ratio adjusted for discounted value of collateral equals allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment).



Capital KPIs

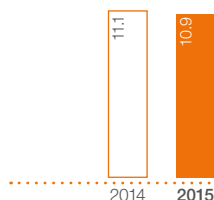
In 2015, our Tier I Capital Adequacy ratio (Basel 2/3) stood at 10.9%, above the minimum 8% requirement. The risk weighted

assets increased by 16.1%, reflecting the 24.7% increase in interest earning assets during the year. In 2016 and beyond, we intend to maintain strong capital ratios, above the regulatory requirements.

Tier I Capital Adequacy ratio, Basel 2/3 (%)

10.9%

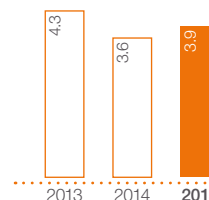
Basel 2/3 Tier I Capital Adequacy ratio: Tier I Capital divided by risk weighted assets.



Leverage (BGE0) (times)

3.9

Leverage is calculated as total liabilities divided by total equity.



BGEO risk management

We are exposed to risk and uncertainty which could have a material adverse effect on our business, financial position, operational results and reputation as well as the value and liquidity of our shares. We are committed to safeguarding the interests of our shareholders and understand that in order to do this, a robust system of risk management and internal control is essential.

Overview

We identify, evaluate, manage and monitor the risks that we face through an integrated control framework consisting of formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our framework has been in place throughout the year under review and to the date of approval of this Annual Report and Accounts and is integrated into both our business planning and viability assessment processes.

Our Board, supported by our Audit and Risk Committees and senior management, is ultimately responsible for the Group's risk management and internal controls.

We believe that in order to have an effective risk management framework there needs to be a strong risk management culture within the Group. We have worked to ensure that managing risk is engrained in our everyday business activities. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks and where business managers are accountable for the risk management and internal control processes associated with their activities. Our culture also seeks to ensure that risk management is responsive, forward-looking and consistent.

Our framework

The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. We develop risk management strategies which address the full spectrum of risks that the Group faces. We are accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit and Risk Committees assisting in the discharge of this responsibility. We also focus on the resolution of any internal control failures that may arise, although no significant failures occurred during 2015 and the period up to the date of this Annual Report.

The Group's risk appetite is the amount and type of risk that we are prepared to seek, accept or tolerate. Our risk appetite evolves over time to reflect new risks and changes in external market developments and circumstances.

Our control framework is the foundation for the delivery of effective risk management. At the Board, Committee and senior management levels, we develop formal policies and procedures which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored. We clearly delegate authority levels and reporting lines throughout the management hierarchy. Each business participates in the risk management process by identifying the key risks applicable to its business. Through senior management, we ensure that our employees are given the appropriate training and knowledge to perform their roles in line with the framework we have developed.

On a day-to-day basis, management is responsible for the implementation of the Group's risk management and other internal control policies and procedures. Based on our risk culture, managers "own" the risks relevant to their respective function. For each risk identified at any level of the business, the risk is measured, mitigated (if possible) in accordance with our policies and procedures and monitored. Managers are required to report on identified risks and responses to such risks on a consistent basis. Senior management regularly review the output from the bottom-up process by providing independent challenge and assessing the implementation of the risk management and internal control policies and procedures.

Comprehensive reporting forms an integral part of our framework. Our reporting process enables key risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary on an ad hoc basis if outside of the regular reporting process) by the Audit and Risk Committees, as appropriate, and the Board. The principal risks and uncertainties faced by the Group are identified through this process.

Since the Bank is the Group's largest business and operates in the complex financial services sector, its risk management and internal control framework is key to that of the Group.



A detailed description of the Bank's risk management and internal control framework can be found on page 99.

Internal control

As mentioned above, our Board is responsible for reviewing and approving the Group's system of internal control and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, operational and compliance risk issues. Certain matters, such as the approval of major capital expenditure, significant acquisitions or disposals and major contracts, among others, are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website, at <http://bgeo.com/page/id/67/schedule-of-matters-reserved-for-the-board>. With respect to other matters, the Board is often assisted by both the Audit and Risk Committees.

With respect to internal control over financial reporting, including over the Group's consolidation process, our financial procedures include a range of system, transactional and management oversight controls. Our businesses prepare detailed monthly management reports that include analyses of their results along with comparisons to relevant strategic plans, budgets, forecasts and prior results. These are presented to and reviewed by senior management. Each quarter, the CFO of JSC BGEO Group and the Bank as well as the finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews the quarterly, half-year and full-year financial statements and corresponding press releases and provides feedback to the Board. The external and internal auditors attend each Audit Committee meeting and the Audit Committee meets regularly both with and without management present.

Our Audit and Risk Committees monitor internal control over operating and compliance risk through discussions



A description of these principal risks and uncertainties in addition to recent trends and outlook as well as mitigation efforts can be found on pages 48 to 51.

with the Chief Risk Officer and Head of Compliance and other senior management on a quarterly basis. Any key issues identified are escalated to the Board. The Board also receives regular presentations directly from the head of each business. Important risk and internal control issues are addressed in such presentations.

The Group's internal audit function reviews a number of areas of risk pursuant to a programme approved by the Audit Committee. Any issues or risks arising from an internal audit review are reviewed by the Audit Committee and appropriate actions are undertaken to ensure satisfactory resolution. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

Our systems of internal control are also supported by our Whistleblowing Policy, which allows employees to report concerns on an anonymous basis. The Audit Committee approves the Whistleblowing Policy on an annual basis and receives quarterly reports from the Head of Compliance on any significant issues raised.

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year to 31 December 2015 and the period to the approval of this Annual Report and Accounts.

We obtained assurance from management, Internal Audit, our external auditors and other external specialists.

The Board is able to conclude with reasonable assurance that the appropriate internal control and risk management systems were maintained throughout the year and operated effectively. The review did not identify any significant weaknesses or failings in the systems. We are satisfied that our risk management processes and internal control systems processes comply with the UK Corporate Governance Code 2014 (the Code) and the FRC's (Financial Reporting Council) guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Although we did not identify any significant weaknesses or failings, we continuously strive to improve our framework as circumstances change and new risks emerge. With the assistance of the Audit Committee, external consultants were engaged in 2015 to perform an audit of the Group's IT and IS systems, which included a review of our cyber-security controls. The report concluded that our IT and IS controls overall are strong. We discussed the results and recommendations of the audit report with the Audit Committee and management, who subsequently developed a plan to address the main recommendations. With the assistance of the Audit Committee, we will continue to monitor management's implementation of this plan.

Committee reports

As noted throughout this discussion, both the Audit and Risk Committees play an essential role in implementing effective risk management and internal control. Each Committee has described this work in their Committee report.



The Audit and Risk Committee Reports can be found on pages 100 to 103 and pages 104 to 105, respectively.

Going concern statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 2 to 85. After making enquiries, the Directors confirm that they have a reasonable expectation that BGEO and the Group, as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accompanying consolidated financial statements.

Viability statement

In accordance with provision C.2.2 of the Code, the Directors have assessed the viability of the Group over a three-year period beginning 1 January 2016, being the first day after the end of the financial year to which this report relates.

This assessment has taken into account the:

- Group's current financial and operational condition, including capital allocation;

- Group's future prospects;
- Board's risk appetite;
- Group's strategy as set out on pages 30 to 41;
- Group's principal risks and uncertainties, principally those related to the devaluation of the Lari and dollarisation of our loan book, and how they are managed, as set out on pages 48 to 51;
- effectiveness of our risk management framework and internal control process; and
- downside stress testing performed for the assessment period, which involved modelling the impact of a combination of severe and plausible adverse scenarios as well as the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed.

The Directors have determined that a three-year period to 31 December 2018 is an appropriate period over which to provide its viability statement as the Board considers its strategic plan, financial budgets and forecasts annually and on a rolling three-year basis.

Based on the analysis described above, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period from 1 January 2016 to 31 December 2018.

Principal risks and uncertainties

The risks identified below are those that the Board considers to be the most relevant to the Group in relation to their potential impact on achievement of its strategic objectives.

All of the risks set out below could materially affect the Group, its businesses, future operations and financial condition and could cause actual results to differ materially from expected or historical results. The risks below are not the only ones that the Group will face. Some risks are not yet known and some currently not deemed to be material could later become so. In accordance with the provisions of the Code, the Board has taken into consideration the principal risks in the context of determining whether to adopt the going concern basis of accounting and when assessing the prospects of the Group for the purposes of the Viability Statement.



The Viability Statement can be found on page 47 of this Strategic Report.

Risks and uncertainties	Trend and outlook	Mitigation
We may be adversely affected by continued devaluation of the Lari in addition to general deterioration of global, regional and Georgian economic conditions. In 2015, the Lari depreciated against the US Dollar by 22%. Our Banking Business NPLs to gross loans increased to 4.3% as of 31 December 2015, compared to 3.4% as of 31 December 2014, and our cost of risk ratio increased to 2.7% in 2015 compared to 1.2% in 2014. There is a risk that any future devaluation of the Lari against the US Dollar may adversely affect the quality of our loan portfolio, as our corporate loan book and mortgage portfolio is heavily US Dollar-denominated and many of our customers earn Lari. We are also affected by other macroeconomic and market conditions globally, regionally and in Georgia. Global markets conditions remain volatile and growth has recently slowed in many emerging economies, including Georgia. In addition to currency exchange rates, other macroeconomic factors relating to Georgia, such as GDP, inflation and interest rates, may have a material impact on loan losses, our margins and customer demand for our products and services.	In the last quarter of 2015, the GEL/US\$ exchange rate stabilised. Since 1 January 2016, the Lari has appreciated against the US Dollar. We are, however, unable to predict future changes in the GEL/US\$ exchange rate. Global and regional economic conditions remain volatile and there is significant economic uncertainty. Real GDP growth in Georgia decreased to 2.8% in 2015 from 4.6% in 2014, according to Geostat. This decrease was due to a weaker external economic environment, which was reflected in weaker remittances, lower net exports from Georgia and lower FDI. Despite lower GDP growth in Georgia in 2015, we believe that Georgia was particularly resilient in the context of the economic turbulences in the region. The IMF has predicted that GDP growth in the region is expected to be 0.5% in 2016, increasing to approximately 2.0% in 2017. With respect to Georgia alone, the IMF has predicted that GDP growth is expected to be 3.0% in 2016 and to average 5.0% in 2017-2020. We believe that real GDP growth in Georgia will be in the range of 3.0% to 4.5% in 2016 as a result of healthy market fundamentals, new investment opportunities, increased tourism and government reform aimed at tax and customs liberalisation. Average annual inflation was 4.0% in 2015 and is expected to improve in 2016.	We continuously monitor market conditions and review market changes. We also perform stress and scenario testing to test our financial position in adverse economic conditions, which includes a GEL/US\$ exchange rate of 2.7/1. We also establish limits on possible losses for each type of operation and monitor compliance with such limits. Given our strong liquidity position, we believe that we will be able to manage risk related to our US Dollar-denominated loan book. In addition, the NBG requires banks to hold additional capital to mitigate potential risk associated with foreign currency loans to customers that earn Lari.

Risks and uncertainties

Our loan book is heavily US Dollar-denominated, the quality of which may deteriorate as a result of slower economic growth and Lari devaluation.

As at 31 December 2015, approximately 90% and 54% of our corporate loan book and retail loan book, respectively, was denominated in foreign currency (predominantly US Dollars), while US Dollar income covered approximately 50% of the total loan book.

The quality of our loan book is affected by changes in the creditworthiness of our customers, the ability of our customers to repay their loans on time, the statutory priority of claims against customers, our ability to enforce our security interests on customers' collateral and the value of such collateral should such customers fail to repay their loans, as well as factors beyond our control such as economic instability. Depreciation of the Lari against the US Dollar may result in customers having difficulty repaying their loans.

Our impairment charges and, in turn, our cost of credit risk, may increase if a single large borrower defaults or a material concentration of smaller borrowers default.

Trend and outlook

In 2015, we saw an increase in foreign currency (predominantly US Dollar) NPLs in both our retail and corporate loan portfolios, principally as a result of slower economic growth opposed to the Lari devaluation. During the same period, we also saw a 47.9% and 15.1% increase in foreign currency denominated deposits on a nominal basis and constant currency basis, respectively.

Foreign currency NPLs as a % of gross loans in retail banking and corporate banking increased by 0.3% and 2.2%, respectively, as of 31 December 2015 compared to 31 December 2014.

In 2015, we saw significant retail loan growth of 35.3%, as a result of the success of our Express Banking strategy and the acquisition of PrivatBank. The acquisition of PrivatBank increased the number of retail banking NPLs, but we do not view this as significant when compared to loan book growth. Retail banking default rates remain relatively low as our retail banking clients prefer to save in US Dollars and also receive remittances in US Dollars, which constitute a principal source of income for our clients.

The increase in foreign currency NPLs in our corporate banking business resulted from slower economic growth and our strategic decision in the second half of 2015 to decrease corporate banking lending in order to reduce our exposure and improve our ROAE, which we successfully did.

In 2015, we also significantly increased our NPL coverage ratio (83.4% as of 31 December 2015 compared to 67.5% as of 31 December 2014). The quality of our loan book and our future cost of risk is dependent on macroeconomic conditions and may deteriorate if conditions worsen. Devaluation of the Lari against the US Dollars may cause our customers to face difficulty in meeting their payment obligations.

Mitigation

We have credit policies and procedures in place which incorporate prudent lending criteria aligned with our risk appetite to effectively manage risk. These policies and procedures are reviewed frequently and amended as necessary to account for changes in the economic environment or other factors.

Our Credit Committees set counterparty limits by the use of a credit risk classification and scoring system and approve individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, potential losses and corrective actions needed to reduce risk.

We also stress test our loan book to estimate the size of the portfolio that may be impaired. In light of the Lari to US Dollar devaluation, we will continue to stress test using a GEL/US\$ exchange rate of 2.7/1. We allocate 75% more capital to the foreign currency loans of clients who earn income in Lari and discount real estate collateral values by 20%.

Given our strong liquidity position, we believe that we will be able to manage risk related to our US Dollar-denominated loan book by reprofiling such loans. Potential reprofiling may include extending maturities and/or converting US Dollar-denominated loans into Euro-denominated loans.

We will also continue to expand our Lari and Euro-denominated loan book in order to offset risk associated with our US Dollar-denominated loan book. In particular, we actively work with IFIs to raise long-term Lari funding to increase our Lari-denominated loans.

Principal risks and uncertainties continued

Risks and uncertainties	Trend and outlook	Mitigation
The local economy and our business may be adversely affected by regional tensions. Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia. These disputes have led to sporadic violence and breaches of peacekeeping operations. Regional tensions could have an adverse effect on the local economy and our business.	Despite tensions in the breakaway territories, Russia has opened its market to Georgian exports. Russia and Ukraine's relationship has continued to deteriorate. As a result, there is significant uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. During 2015, Georgia delivered real GDP growth of 2.8%, whilst inflation was maintained below the 5% target range. Foreign Direct Investment continued to be strong, tourist numbers – a significant driver of US Dollar inflows for the country – continue to rise and, as a result, the Georgian Government's fiscal position continues to be strong.	One of the most significant changes in exports was a shift away from the Russian market after Russia's 2006 embargo. In 2014, Georgia and the EU signed an association agreement introducing the deep and comprehensive free trade agreement (DCFTA), effective since 1 September 2014, which is intended to simplify Georgia's access to the EU market. The Government continues to maintain strong relationships with international development partners. An ongoing IMF programme, introduced in July 2014, is intended to help implement the government's economic reform programme and aims to reduce macroeconomic vulnerabilities, increase policy buffers and support growth, while making the economy more resilient to external shocks.
Risks and uncertainties	Trend and outlook	Mitigation
We face regulatory risk. Our businesses are highly regulated. Our banking operations must comply with capital adequacy and other regulatory ratios set by our regulator, the NBG, including reserve requirements and mandatory financial ratios. Our ability to comply with these regulations may be affected by a number of factors, including but not limited to increases in minimum capital adequacy ratios imposed by the NBG, our ability to raise capital, losses resulting from a deterioration in our asset quality, an increase in expenses and a decline in the values of our securities portfolio. We also provide other regulated financial services and offer financing products, including brokerage and pension fund operations, insurance and services such as asset management, all of which are subject to governmental supervision and regulation. With respect to our healthcare operations, there have been a number of reforms in the Georgian healthcare services market, including but not limited to the introduction of a Universal Healthcare Programme (UHC). It is possible that the Government may amend the UHC to enhance coverage and it may introduce new licensing or accreditation requirements, which may adversely affect our healthcare services and health insurance businesses.	Our businesses are currently in compliance with all applicable laws and regulations. Compliance with changes in capital adequacy requirements and other regulatory ratios may be affected by factors outside of our control, including but not limited to a weakening of the global and Georgian economies. In October 2014, an anti-monopoly agency was established and anti-monopoly legislation was implemented in respect of certain non-banking operations. We expect that such legislation may have an impact on our non-banking operations acquisitions as we will be required to seek permission to proceed with certain future acquisitions. As healthcare legislation is continuously evolving, we expect that additional regulations will be adopted. We, however, cannot predict what additional regulatory changes will be introduced in the future or their effect.	Continued investment in our people and processes is enabling us to meet our regulatory requirements and places us well to respond to changes in regulation. In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as required to fulfil our compliance obligations. Our compliance framework, at all levels, is subject to regular review by internal audit and external assurance providers.

Risks and uncertainties

We are subject to operational risk.

The proper functioning of our systems, risk management, internal controls, accounting, customer service and other information technology systems, are critical to our operations. We are highly dependent on our information technology systems. Cyber threats show an increasing trend. We are also subject to the risk of incurring losses or undue costs due to human error, criminal activities (including fraud and electronic crimes), unauthorised transactions, robbery and damage to assets.

Trend and outlook

Over the past few years, as our operations have expanded, we have seen an increase in external fraud, although losses from such frauds have not increased significantly.

Cyber-security threats have also increased year on year, but have not affected our operations. It is expected that such threats will continue to increase, which will require us to closely monitor such threats.

Money laundering has also increased globally and will be continuously monitored by our AML compliance department.

Mitigation

We have an integrated control framework encompassing operational risk management and control, information technology and information security, AML compliance and physical security, each of which is managed by a separate department.

We identify and assess operational risk categories within our risk management framework and internal control processes, identifying critical risk areas or groups of operations with an increased risk level. In response to these risks, we develop and implement policies and security procedures.

We carry out regular IT and IS checks internally and with the assistance of external consultants. We have sophisticated anti-virus and firewalls, regularly conduct penetration testing and have back-up disaster recovery and business continuity plans in place across the Group. Access control and password protections are also in place.

Our internal audit function provides assurance on the adequacy and effectiveness of our risk management internal controls. Operational risk is a regular agenda for the Audit Committee.

Bank risk management

Overview

The banking business is the principal driver of the Group's revenue and operates in the complex financial services sector – its risk management and internal control framework is fundamental to that of the Group.

The BGEO Board, supported by our BGEO Audit and Risk Committees and senior management, is ultimately responsible for the Group's risk management and internal controls.

Formal policies and procedures have been developed at the BGEO level, with the help of senior management, which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored.

Clearly delegated authority levels and reporting lines have been established and comprehensive reporting forms an integral part of the BGEO risk management framework and internal control processes.

Each business participates in the risk management process by identifying the key risks applicable to its business.



A detailed description of the BGEO risk management control framework can be found on pages 46 to 47 of the Strategic Report.

The work undertaken by the Bank's risk management bodies feeds back directly to BGEO and certain banking related risks have been identified in the Group's Principal Risks and Uncertainties, which can be found on pages 48 to 51 of the Strategic Report.

Given the significance of the banking business, the risk management and internal control framework in place at the Bank is described in this section.

The role of the Bank in the overall risk management structure

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect to those risks. Business risks such as changes in the environment, technology and industry are monitored through the Group's strategic planning process.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of authority limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

Bank risk management bodies

The principal risk management bodies of the Bank are the: Supervisory Board, Audit Committee, Management Board, Risk Committee, Internal Audit, Treasury Committee, Credit Committee, Asset and Liability Management Committee (the ALCO), Compliance and the Bank's Legal Department. Each of the Supervisory Board, Audit Committee and Risk Committee perform similar roles as the BGEO Board, BGEO Audit Committee and BGEO Risk Committee, but on the Bank level.

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

Internal Audit Department. The Internal Audit Department is responsible for the annual audit of the Bank's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Bank's internal control systems, and detecting any infringements or errors on the part of the Bank's departments and divisions. It examines both the adequacy

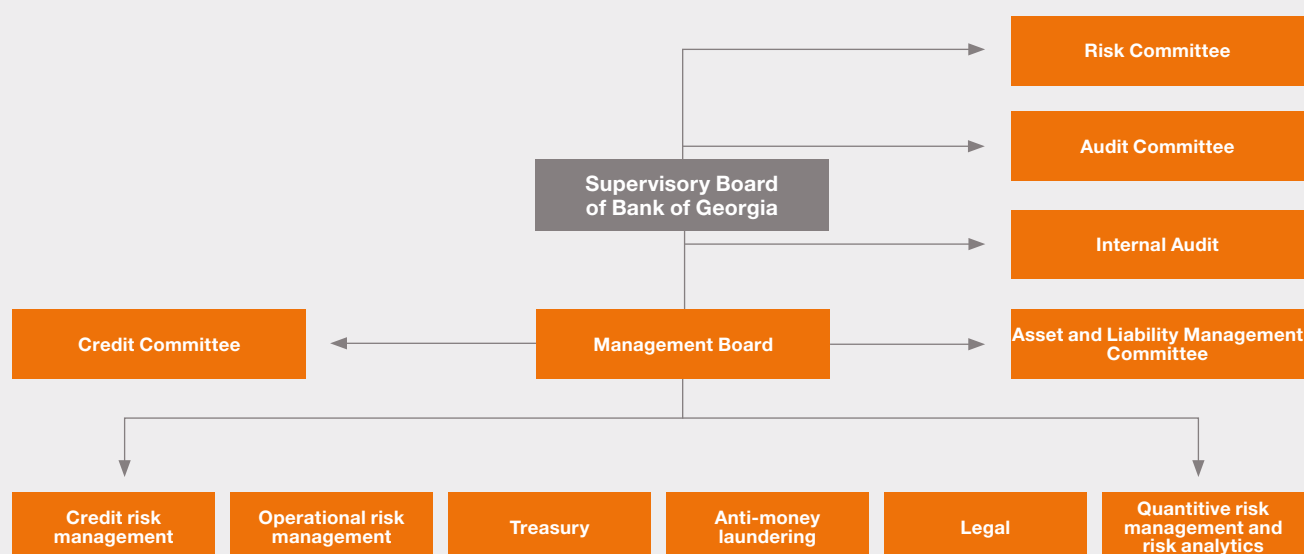
of and the Bank's compliance with those procedures. The Bank's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Audit Committee.

The Bank's Internal Audit Department is independent of the Bank's Management Board. The Head of the Bank's Internal Audit Department is appointed by the Bank's Supervisory Board and reports directly to the Bank's Audit Committee. The Bank's Internal Audit Department has 13 employees. The Bank's Internal Audit Department audits all of the Bank's subsidiaries, apart from BNB, which has its own internal audit department.

As part of its auditing procedures, the Bank's Internal Audit Department is responsible for the following:

- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives, as well as to current legislation and regulation and professional norms and ethics;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- reviewing the reliability of the Bank's information technology systems in accordance with a predetermined schedule;
- assessing the reliability and security of financial information;
- monitoring the Bank's internal controls and reporting procedures;
- participating in external audits and inspections by the NBG;
- making recommendations to management and the Audit Committee on the basis of external and internal audits to improve internal controls;
- monitoring the compliance of the Bank with the NBG regulations; and
- monitoring the implementation of auditors' recommendations.

Risk management bodies of Bank of Georgia



Treasury. Treasury is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

Credit Committee. The Bank has three credit committees (together, the Credit Committees), each one supervising and managing the Bank's credit risks in respect of retail and investment management loans, corporate loans and counterparty loans. These three committees are: the Retail Banking Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee (FGCRMC), established in April 2014. FGCRMC manages, monitors and controls counterparty risk of financial and governmental counterparties of Bank of Georgia. Each Credit Committee approves individual loan transactions.

Each Credit Committee is comprised of tiers of subcommittees. The FGCRMC comprises two tiers of subcommittees. The Committee consists of five members – Chief Risk Officer, Chief Financial Officer, Head of Quantitative Risk Management, Head of Treasury and Head of Trade Finance, and a majority of votes is enough for approval. If the potential exposure exceeds US\$ 10.0 million, then the decision is deferred to the Asset and Liability Management

Committee (ALCO). The Credit Committee for retail loans comprises four tiers of subcommittees. (For risk management purposes, investment management loans are classified as retail loans.) The Credit Committee for corporate loans comprises three tiers of subcommittees. Participation of the CEO is required for exposures exceeding US\$ 8.0 million. All exposures to single group borrowers over US\$ 25.0 million require approval by the Supervisory Board. Lower tier subcommittees meet on a daily basis, whereas higher tier ones typically meet three to four times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its respective members.

Furthermore, the Credit Committee for Micro and SME loans comprises three tiers of subcommittees, and falls under the Credit Committee for retail loans. The first tier Micro and SME Credit Committee is chaired by the Head of the Group of the Micro and SME Lending Department and approves loans resulting in the Bank's overall exposure to a borrower of up to US\$ 15,000. A loan officer, who submits a loan application/project to the Credit Committee, does not have right to vote for the approval of the loan. The second tier Micro and SME Credit Committee is chaired by the Micro and SME Department representative (Head of the Micro and SME Department, Deputy Head of department, coordinator) and approves loans resulting

in the Bank's overall exposure to a borrower up to US\$ 100,000. The third tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower in the range of US\$ 100,000 to US\$ 1,200,000. The Committee is chaired by the Risk Manager, with mandatory participation from either the Head of the Credit Risk Analysis Unit or the Head of the Credit Risk Management Department (or his or her deputy) for exposures exceeding US\$ 500,000.

Bank risk management continued

Credit Committee tiers of subcommittees for Retail and Corporate Banking loans

	Subcommittee Chair	Approval limit for Corporate Banking loans (US\$)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US\$ 500,000 for existing and new borrowers
Tier II	Head of the Credit Risk Analysis unit	Between US\$ 500,000 and US\$ 1.5 million for existing and new borrowers
Tier III	CEO/CRO	Greater than US\$ 1.5 million for existing and new borrowers
	Subcommittee Chair	Approval limit for Retail Banking loans (US\$)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US\$ 150,000
Tier II	Deputy Head of Credit Risk Management department	Between US\$ 150,000 and US\$ 300,000 for retail loans
Tier III	Director of the Credit Risk Management department	Between US\$ 300,000 and US\$ 2.0 million
Tier IV	CEO/CRO	Greater than US\$ 2.0 million

The Problem Assets Committee is chaired by one of the following: (1st level) the Head of the Problem Loan Management Department; (2nd and 3rd level) the Deputy CEO (Chief Risk Officer). The Problem Loan Management Department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Risk Officer).

The Litigation Team Committee is chaired by one of the following: (1st level) Deputy Head of the Legal Department/Head of the Litigation Team; (2nd level) Head of the Legal Department; (3rd level) Head of the Credit Risk Management Department; (4th level) Deputy CEO (Chief Risk Officer). This Committee is responsible to take decisions on the cases which are managed by the Litigation Team and are subject of litigation.

The Corporate Recovery Committee is chaired by the Deputy CEO (Chief Risk Officer) and is responsible for monitoring all of the Bank's exposures to loans that are being managed by the Corporate Recovery Department. The Corporate Recovery Department reports to the Deputy CEO (Corporate Banking).

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

- sets money-market credit exposure/lending limits;
- sets open currency position

limits with respect to overnight and intraday positions;

- establishes stop-loss limits for foreign currency operations and securities;
- monitors compliance with the established risk management models for foreign exchange risk, interest rate risk and funding liquidity risk;
- sets ranges of interest rates for different maturities at which the Bank may place its liquid assets and attracts funding; and
- reviews different stress tests and capital adequacy models prepared by the Finance Department.

The ALCO is chaired by the CEO and sits at any time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the CEO, Deputy CEO Finance, Deputy CEO, Chief Risk Officer, Deputy CEO Corporate and Investment Banking, Deputy CEO, Retail Banking, the Head of the Finance Department, the Head of the Treasury Department and the Head of the Funding Department. The ALCO reviews financial reports and indices including the Bank's limits/ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, total cash flow analyses, customer cash flow analysis, and concentration risk analysis, for the past periods as well as future projections and forecasts, other financial analysis and further growth projections on a monthly basis.

Regulatory capital requirements in Georgia are set by NBG and are applied to the Bank on a stand-alone basis. NBG requires the Bank to maintain a minimum Total Capital Adequacy ratio of 10.5% of risk-weighted assets and a minimum Tier I Capital Adequacy ratio of 8.5% of risk-weighted assets, both computed based on the Bank's stand-alone special purpose financial statements prepared

in accordance with NBG regulations and pronouncements. On 30 June 2014, the NBG introduced new regulation aimed at replacing its old regulation, which was developed independently from international committees and organisations and was not based on the Basel Accord. The new capital regulation is based on the Basel Accord 2/3, with material regulatory discretions applied by the NBG. Pillar 1 requirements of the new regulation came into force on 30 June 2014. The period starting 30 June 2014 through 31 December 2017 was declared as a transition period. During the transition period the Bank will be required to comply with both old and new capital regulations of the NBG. Pillar II of the Basel Accord 2/3, which entails implementation of the Internal Capital Adequacy Process (ICAAP), is planned to be introduced in 2016. The old regulation will be completely phased out by 1 January 2018.

ALCO is the key governing body for the capital adequacy management as well as for the respective risks identification and management. ALCO establishes limits and reviews actual performance over those limits for both NBG as well as Basel I capital adequacy regulations. The Finance Department is in charge of regular monthly monitoring and reporting over NBG and Basel I capital adequacy compliance with original pronouncements as well as with ALCO policies. Capital adequacy management is an integral part of the Bank's actual monthly reporting as well as the Bank's annual and semi-annual budget approval and budget review processes. The Finance Department prepares NBG and Basel I and Basel II – III capital adequacy actual reports as well as their forecasts and budgets, as well as different stress scenarios for both regulations, while ALCO and the Management Board regularly review them, identify risks, issue recommendations or propose amendment measures.

Legal Department. The Legal Department's principal purposes are to ensure that the Bank's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and the investigation of possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal Department is also responsible for providing legal support to structural units of the Bank and/or its subsidiaries.

Anti-Money Laundering (AML)

Compliance. The Bank's AML Compliance Department is responsible for the implementation of the Bank's AML programme (including the development of AML policies and procedures, transaction monitoring and reporting and employee training) throughout the Bank and its subsidiaries. The AML programme is based on recommendations and requirements of international organisations including FATF and OFAC, as well as local regulations. The Bank's Internal Audit Department makes annual assessments of the Bank's AML systems and provides independent assurance of internal controls.

The Bank has adopted risk-based approach in its policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Financial Monitoring Service of Georgia (FMS), a legal entity of public law. The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular customers are engaged in money laundering or financing terrorism.

The Bank is obliged to notify the FMS of all transactions that are subject to monitoring. These reports are currently filed in electronic form in an offline mode by the AML Compliance Department, the reporting process is fully automated, and is supported by the special software application.

Bodies implementing the risk management system

The Bank's risk management system is implemented by the Finance Department, Quantitative Risk Management and Risk Analytics Department, Treasury, Credit Risk Management, Operational Risk Management and Control, Legal, AML Compliance and Security departments and other departments. The Reporting and Analysis Unit reports to the Head of the Finance Department. The Finance Department and the Treasury Department, as well as AML Compliance Department report to the Deputy CEO (Finance). The Credit Risk Management (CB Portfolio Analysis), Quantitative Risk Management and Risk Analytics Department and Operational Risk Management and Control departments also Legal Department report to the Deputy CEO (Chief Risk Officer) and the Credit Risk Management (Retail Banking Portfolio Analysis) Department reports to the Deputy CEO (Retail Banking).

The Quantitative Risk Management and Risk Analytics Department, in coordination with the Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO.

The Treasury Department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury Department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies, management of the quality of the Bank's loan portfolio and filing and loan administration.

The Operational Risk Management and Control Department identifies and assesses operational risk categories within the Bank's processes and operations. It also detects critical risk areas or groups of operations with an increased risk level and develops internal control procedures to address these risks, through (among other things) business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal Department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Compliance Unit of the Finance Department focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Bank Management Board and/or the Bank Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, Retail Banking operations procedures, the deposit policy and the Credit Policies.

Risk measurement and reporting

The Bank measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in the event that extreme events, however unlikely, do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control, allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Bank risk management continued

The Group maintains a management reporting system which requires the Credit Risk Management, Finance and Funding Departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and treasury report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Bank Supervisory Board quarterly report containing analysis of the Bank's performance against its budget are provided.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank Management Board and Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Bank Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation and excessive risk concentration

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

The Bank actively uses collateral to reduce its credit risks.

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Definition: Credit risk is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities.

Mitigation: The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently if necessary. As a result of these reviews, new loan restructuring tools were introduced. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of the adequacy of the allowance for the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to financial institutions is managed by limits covering on and off-balance sheet exposures and by settlement limits with respect to trading transactions such as foreign exchange contracts, etc.

The Credit Committees approve individual transactions and the Credit Risk Management Department establish their credit risk categories and provisioning rates, which are set as per provisioning methodology. The Deputy CEO (Chief Risk Officer) and the Credit Risk Management Department reviews the credit quality of the portfolio and sets provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regular collateral revaluations. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Bank makes available to its customers guarantees/ letters of credit which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Loan approval procedures

The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's Credit Policies that are approved by the Supervisory Board of the Bank and/or the Management Board of the Bank. The Credit Committees approve individual transactions. The Bank evaluates Corporate Banking clients on the basis of their financial condition, credit history, business operations, market position, management, level of shareholder support, proposed business and financing plan and on the quality of the collateral offered. The appropriate level of the relevant Credit Committee is responsible for making the decision for loan approval based on credit memorandum, and where appropriate, Credit Risk Manager's report. The loan approval procedures for Retail Banking loans depend on the type of retail lending product.

Applications for consumer loans, including credit cards and auto loans, are treated under the "scoring" approval procedure. While certain loans of up to GEL 6,000 are approved by the scoring system, the appropriate Credit Committee will determine the amount, terms and

conditions of other loans. Applications for mortgage loans by Retail Banking clients are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount, terms and conditions of the loan, which must be approved at the appropriate Credit Committee level. In the case of micro financing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate Credit Committee which makes the final decision. Credit Committee members have equal voting authority and decisions are approved by a simple majority of votes.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 December 2015, 84.4% of the Group's loans to clients were collateralised. An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal Department and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Measurement

Exposure and limits are subject to annual or more frequent review. The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management Department on a continuous basis. The Bank establishes provisions for impairment losses of financial assets on collective basis and on individual basis when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial condition and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the

decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgement of the Bank's management, is adequate to provide for losses incurred.

Provisions are made against gross loan amounts and accrued interest. Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of US\$ 150,000 or more and non-significant loans are defined as loans less than US\$ 150,000. The Credit Risk Management Department makes an individual assessment of all defaulted significant loans. Non-defaulted significant loans are given a collective assessment rate. All loans are divided into different groups (for example mortgage, consumer, microfinancing loans).

Since 2004, the Bank, jointly with certain other Georgian banks and with the Credit Information Group, a provider of credit information solutions, established JSC Credit Info Georgia (CIG) that serves a centralised credit bureau in Georgia. Since 2009, all the participating banks, insurance companies and microfinance organisations share and contribute positive and negative customer credit information with CIG.

As of 1 January 2014, the Bank implemented a new loan loss provisioning methodology. The new provisioning methodology is based on statistical assessment of Probability of Default (PD) and Loss Given Default (LGD) for each of the loan type. The management believes that the new methodology is a refinement of the existing methodology and will allow better allocation of Cost of Risk between different products. The new methodology was developed in consultation with Deloitte. Deloitte was a provider of IT solution – fineVare.

Non-corporate loans which are overdue for more than 150 days are written off automatically, except for mortgage loans which, since June 2009, are written-off once overdue for more than 365 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management Department, in consultation with the Bank's CEO and Deputy CEO, Finance.

Liquidity risk

Definition: Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Monitoring: Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/liabilities management process. The Finance Department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to meet its payment obligations under both normal conditions and during a crisis situation. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank Management Board.

The Finance Department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury Departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Bank risk management continued

This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury Departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Mitigation: The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 December 2015, in line with the NBG's requirements, 15% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customers' deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 5% for borrowings with a remaining maturity of one to two years and 10% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year.

Funding: In the Georgian marketplace, the majority of working capital loans are short term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis

presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

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

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

As of 31 December 2015, the Group's total consolidated amounts due to customers was GEL 4,751.4 million (US\$ 1,984.0 million) (as compared to GEL 3,338.7 million and GEL 3,117.7 million as of 31 December 2014 and 2013, respectively) and represented 59.0% (as compared to 56.2% and 59.0% as of 31 December 2014 and 2013, respectively) of the Group's total liabilities. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In the case of early withdrawal, the interest on the deposit is foregone or reduced. As of 31 December 2015, total amounts due to credit institutions and debt securities issued were GEL 2,828.9 million (US\$ 1,181.2 million) (as compared to GEL 2,265.9 million and GEL 1,886.1 million as of 31 December 2014 and 2013, respectively) and represented 35.1% (as compared to 38.1% and 35.7% as of 31 December 2014 and 2013, respectively) of the Group's total liabilities. Amounts due to credit institutions and debt securities are taken from a wide range of counterparties.

The Bank Management Board believes that both the Group's and the Bank's liquidity is sufficient to meet each of their present requirements. For information on the Group's liquid assets, liabilities and maturity profile of the Group's financial liabilities as well as further information on the liquidity risk of the Group see Note 30 of the Notes to the consolidated financial statements of this Annual Report.

Market risk

Definition: The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from mismatches of maturity and currencies between the assets and liabilities, all of which are exposed to market fluctuations.

Mitigation: The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using different sensitivity analyses. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Quantitative Risk Management and Risk Analytics monitors compliance with such limits.

Currency exchange rate risk: Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on 400-business-day statistical data. Its open currency positions are managed by the Treasury Department on a day-to-day basis and are monitored by the Quantitative Risk Management and Risk Analytics Department. The ALCO sets open currency position limits with respect to both overnight and intra-day

Borrowed funds maturity breakdown (Business Banking)

31 December 2015
Repayment schedule,
US\$ million

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Eurobonds	–	363.5	–	–	–	–	–	–	–	–
Senior loans	65.3	68.5	40.4	23.4	2.3	2.1	2.1	–	–	–
Subordinated loans	–	–	10.0	–	–	–	–	65.0	–	90.0
Total	65.3	432.0	50.4	23.4	2.3	2.1	2.1	65.0	–	90.0
% of total assets	1.7%	11.3%	1.3%	0.6%	0.1%	0.1%	0.1%	1.7%	–	2.3

positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 15.0% of the Bank's NBG total regulatory capital. The open currency position is also limited by ALCO to a VAR of seven basis points of its NBG regulatory capital for a one-day trading period with a 95.0% "tolerance threshold". The ALCO limits are more conservative than NBG's requirements, which allow banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than US Dollar and Lari to 1% of the regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate potential negative impact on its net assets and earnings.

Interest rate risk: The Bank has exposure to interest rate risk as a result of lending at fixed and floating interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (repricing) gap and maintains an interest rate margin (net interest income before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the Quantitative Risk Management and Risk Analytics Department.

As of 31 December 2015, the Group's floating rate borrowings accounted for 10.5% of the Group's total liabilities.

The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Group reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.



For further information on the Group's market risk see Note 30 of the Notes to consolidated financial statements of this Annual Report.

Operational risk

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

Mitigation: The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department.

The Operational Risk Management and Control Department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to mitigate identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Operational Risk Management and Control Department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Operational Risk Management Department, who reports to the Deputy CEO (Chief Risk Officer), is responsible for the oversight of the Bank's operational risks.

Resources and responsibilities

Sustainability lies at the heart of our business

As a leading financial institution in Georgia, we understand our responsibility not only to shareholders but to society at large.

The concept of sustainability lies at the heart of our business and reflects our contribution to sustainable development – development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

We consider sustainability to be integral to the growth of our business. Our sustainability agenda allows us to be profitable as well as environmentally and socially responsible at the same time. By implementing a sustainability approach in our activities, we foster long-term relationships with our main stakeholders by providing high return on investment for shareholders, satisfying the financial needs of customers, developing employees and contributing to the economic and social welfare of local communities, while taking into account our environmental footprint.

In order to effectively manage the Group's direct and indirect impact on society and the environment, the Board of Directors adopted an Environmental and Social Policy in 2012. This policy defines the Group's strategy to develop solid management controls which will conserve natural resources, minimise health and safety risks, and provide employees with equal development opportunities, fair compensation and benefits. We are pioneering sustainability practices in our operations and are constantly seeking new ways to improve our performance.

Social matters

The Group considers the interests of its main stakeholders, which include customers, shareholders, employees, lenders, and society, in the development of strategy and operations improvement processes. We strive to positively contribute to society through the entire scope of our business activities by developing socially oriented products and services, implementing responsible approaches to our business operations, and carrying out sponsorship and charity activities.

Socially oriented products and services

Corporate Banking. In order to efficiently manage its indirect environmental and social impact, the Bank prioritised the integration of sustainable finance principles into its credit risk management procedures. In 2013, the Bank updated its Environmental and Social Risk Management Procedures in order to ensure the proper application of appropriate, risk-based and sector-specific environmental and social risk assessment practices to its commercial lending activities. In 2014, the Bank actively started to put the procedures into practice, which have been carried on in 2015. The Bank defined priority targets and promotes environmental and social risk management activities accordingly. Since then the Bank ensures it has a consistent approach to evaluating and managing environmental, human health and safety risks of the financed projects. These procedures are now being integrated into the Bank's credit risk management process and will soon be routinely applied to all commercial transactions. In all that the Bank does, it strives to find sustainable solutions that make good business sense to clients and minimise their impact on the social and natural environment.

The main objective of the Environmental and Social Policy is to increase the environmental and social benefits for our clients. Through Environmental and Social Risk Management Procedure, the Bank enhances the clients' opportunities to be in compliance with national environmental and social regulations and to adopt best international practices in this area. The Environmental and Social Policy and Risk Management Procedures, along with other tools necessary for their implementation, comprise the core components of the Bank's Environmental and Social Risk Management System (ESMS). Under this concept, the Bank endeavours to become an environmentally friendly financial institution.

The Bank has appointed an Environmental and Social Coordinator, responsible for ensuring the proper operation and maintenance of the ESMS, and will appoint an Environmental and a Social Risk Manager, responsible for the practical, day-to-day implementation of the Bank's ESMS.

We implement the following procedures to ensure the operation and maintenance of the ESMS:

- We refrain from financing environmentally or socially sensitive business activities mentioned in the exclusion lists of such Development Finance Institutions as EBRD, IFC, DEG, FMO, ADB and others.
- We aim at assessing the relative level of environmental and social risk associated with clients' businesses. We require certain customers to implement specific environmental or social action plans to avoid or mitigate their environmental and social impact and adhere to specific monitoring and reporting requirements that we set in order to minimise environmental and social risk. These requirements are included as covenants in agreements between certain of our customers and the Bank.
- We aim at regular monitoring of environmental and social risks associated with the Bank's activities, and assessing clients' compliance with the terms of respective agreements.

Through ensuring comprehensive environmental and social assessment and action plans, as part of the stable due diligence, the Bank encourages the customers in fulfilment of their environmental and social obligations and has established a framework for them to achieve good environmental and social standards. In many cases, the Bank's proper and timely management of the customers' environmental and social risks facilitate them to avoid financial and legal sanctions during inspections conducted by the state enforcement agency.

Environmental and social issues are tracked at the project site in cooperation with the facility staff, providing ongoing advice and guidance on good practice and standards and monitoring compliance with the requirements. For environmental and social due diligence of certain high-risk and A category projects, the Bank has contracted independent external experts. As part of monitoring, the Bank requires each of its high-risk clients to provide the Bank with the annual report on their environmental and social performance and the implementation of applicable Environmental and Social Action Plans or each client is visited by the Bank staff on a regular basis. During 2015, the Bank held extensive ESDD (Environmental and Social Due Diligence), monitored the clients and developed action plans for non-compliant clients. It has to be noted that due to the Bank's efforts, a few clients conducted environmental audit and obtained the environmental impact permits to continue implementation of their business activity legally. They have started taking measures to mitigate the impact on natural and social environment as has been required by the permitting body.

According to Association Agreement between the European Union and Georgia, Georgia has commitment to progressively approximating its legislation in the relevant sectors with that of the EU and to implementing it effectively. Through this approximation process, Georgia is very actively developing and amending its national legislation in the relevant sectors. Therefore, the Bank regularly checks legal developments and updates with regard to environmental, health and safety and labour issues and places great emphasis on improvement of ESDD opportunities. It should be noted that with the aim to strengthen the clients' knowledge and capacity in the area of environmental and social protection the Bank staff very intensively introduces the information about existing and new regulations and laws to the clients during the ESDD.

Training activities are also an important element for enhancing capacity for policy implementation. In 2015, the Bank provided full opportunities for the development and enhancement of the Environmental and Social Risk Coordinator's capacity. The Coordinator participated in the 9th Annual Community of Learning which was organised by IFC and took place in Washington DC on 22-23 October 2015. The Community of Learning is a knowledge-sharing forum aimed at strengthening the implementation of environmental and social standards by financial institutions in emerging markets. The event provided an opportunity to exchange experiences, learn from investment case studies, and engage in dialogue among environmental and social risk management specialists from all over the globe. More generally, the Bank has delivered several trainings in this area and more than 100 employees were trained during the last two years. Leading experts and state inspectors were invited as trainers. It is envisaged to continue training activities.

Other highlights of the year included a review of the ESMS. The purpose of the review was to ensure that policy remains fit for purpose, taking into account lessons learned from experience and changes in the relevant legislation. The review process began at the end of 2014 and the revised policy document has been adopted and approved by the Board of Directors in 2015. In particular, the change in categorisation of the transactions took place, assessment procedures of low, medium and high-risk projects were renewed, monitoring procedures of projects were refined, and also capacity building and staff training activities were defined.

As for direct impact on the environment, JSC Bank of Georgia carried out the inventarisation of the air pollution sources of heating systems and pollutants emitted from these sources. The objective of the inventarisation was identification of the exhaustion and emission sources of pollutants, evaluation of quantitative indices and constituent of emitted pollutants as well as identification of other emission parameters. The main pollutants of heating systems working on the diesel and natural gas are hydrocarbons, nitrogen dioxide, sulphur dioxide, carbon monoxide, soot and carbon acid. The inventarisation reports were submitted to the Ministry of Environment and Natural Resources Protection of Georgia and approved. In 2015, the Bank also obtained mining licence for obtaining fresh water in one of the regional branches. As for efficient waste management, the Bank is regularly taking measures for waste minimisation and reduction in the environmental impact of waste. Concerning new initiative, green boxes were placed for separate collection of everyday paper waste. Paper waste is taken to the relevant facilities with the aim of recycling.

The Bank is committed to respecting the principles of sustainable development, to protecting the environment, and willing to improve the level of public health and safety and protection of human health as an essential element for sustainable development and economic growth.

The Bank continues to make progress towards its objective and to ensure efficient implementation of the Environmental and Social Management System. The Bank will continue to conduct business with due consideration to environmental protection and contribute to the creation of a sustainable society. The Bank will help increase clients' benefits through proper and highly active implementation of the Environmental and Social Policy.

The Bank also continues to support Georgia's emerging economy by financing industries that are strategically important for the development of the entire nation.

Resources and responsibilities continued

Infrastructure development.

Infrastructure development continued to be a key financing and guarantee granting theme for the Bank, with almost US\$ 36.15 million committed to the construction and rehabilitation of the land-reclamation system, the rehabilitation of water supply and wastewater systems, the construction of refugee settlements, the construction and rehabilitation of highways, local municipal roads and bridges, the construction of a new multipurpose shopping centre, and the construction and rehabilitation of recreational/sport facilities and historical buildings.

From US\$ 36.15 million, US\$ 12.5 million was committed to construction and rehabilitation of roads with the aim to provide easy access to one of the biggest hydro plant in Georgia and to construction of permanent operators' village.

US\$ 5.55 million was committed to rehabilitation and reconstruction of Vere highway and Mziuri Park after disastrous flood in June 2015. Another significant financed project was renovation and construction of water systems throughout the whole country of Georgia in amount of US\$ 10.0 million.

With regard to construction of apartment complex for refugees, refugees who lost their own houses in Samachablo and Apkhazia will soon have their own apartments in Gori. The Bank financed construction of 450 apartments in amount of US\$ 4.0 million.

The tourism sector has become a vital part of the Georgian economy as demonstrated by its significant growth since 2000. The Bank continues to finance the hospitality sector of Georgia by providing loans for hotel construction. Besides the above-mentioned US\$ 36.15 million, the bank financed construction of hotels in amount of US\$ 28.5 million. In particular, US\$ 24.0 million Loan Agreement was signed between the client and the Bank regarding financing more than 200 room internationally branded hotel in Tbilisi. It is co-financed with European Bank for Reconstruction and Development out of which the Bank financed US\$ 12.0 million. Also US\$ 3.5 million Loan was approved for construction of 272 bed hostel and 57 room local brand hotel. The place is going to be a combination of inclusive bars, sound and art studios, co-working space, inner courtyard for events and exhibitions. It is believed to be the space for socialising, inspiration and collaboration, where you can implement new ideas, meet the artists and their art, have interesting conversations with foreign travellers and connect with free and rebellious

minded people. Construction of a five star worldwide brand hotel was also financed by the Bank in amount of US\$ 13.0 million.

The Bank endeavours to finance the projects that provide millions of people with access to safe drinking water, sanitary waste water disposal services, well-maintained urban roads and other types of projects that provide important sustainable development benefits to households and enterprises across the country.

Hydropower sector. Georgia's hydropower sector holds significant development potential. The Bank is committed to enhancing the security of energy supply, including the development of energy sector, promoting the development of appropriate projects in Georgia facilitating the development of relevant infrastructure and promoting energy efficient and the use of renewable energy sources.

In 2015, the bank financed construction of HPPs and equipment purchase in the total amount of US\$ 3.8 million. In particular, the Bank financed construction of small-scale HPP with installed capacity of 1.5MW using the water and infrastructure of an existing irrigation system outside the irrigation period. The annual power generation is estimated to amount to 6.77GWh with a good upside potential in case the water supply is higher than the minimum flow as stipulated in the supply contract with Georgian melioration. Small-scale hydro power plants are of paramount importance, as it is a renewable and clean energy option and improves the sustainability of decentralised electricity.

Another financed project was construction of small run-of-river HPP. This is a hydro power plant with an installed capacity of 3.07MW and an expected yearly generation of 20GWh. The total budget of the project is US\$ 4.1 million, out of which US\$ 2.88 million was financed by the bank, with a long-term credit facility and the letters of credit to purchase the equipment. The project was financed through the KfW credit line for renewable energy.

Healthcare and education support.

Continuous improvement in medical services in Georgia remains a top priority for the country's strategic development. In 2015, JSC Bank of Georgia financed construction of a multifunctional high-tech medical centre and purchase of equipment in amount of US\$ 5.5 million. The clinic's main areas of work include neurosurgery, gynecology, traumatology and general surgery. The clinic has 7,000 square metres of space and is equipped with the latest medical technology. It

has eight operational blocks, 30 bed reanimation and a 70 spot hospital. The clinic also has a high-tech diagnostic centre. This project is very important step forward in Georgian healthcare industry, as it gives Georgian citizens more access to high-quality service and creates more than 300 working places.

Information and communications technology.

In 2015, the Bank continued financing the leading fixed-line telecommunication service provider in Georgia. The Company invested about US\$ 3 million for LTE infrastructure development, out of which US\$ 1.2 million was LC financing from the Bank to increase its internet penetration in low density populated areas.

Other. In 2015, Bank of Georgia financed the construction of a data centre, specialised in Bitcoin mining, BFDC Georgia (Bitcoin Mining Data Centre). A free industrial zone was created in Tbilisi, which hosts the data centre and provides a tax-free zone for the entities working in the information technology industry. The data centre was founded by Bitfury, a world leader in Bitcoin mining. The construction was concluded in 2015 and the data centre started its operations in December 2015. Total financing need was US\$ 32.0 million, out of which Bank of Georgia financed US\$ 5.0 million.

Retail banking

Bank of Georgia continues to innovate and come up with a wide range of socially oriented financial products and services that bring added value to individuals and small and medium-sized businesses (SMEs) and meet their respective needs.

Express Banking. The Georgian banking sector still experiences difficulties in overcoming economic and geographical barriers on its way to expanding financial services in remote regions and among low-income parts of the population. Our Express Banking service plays an important role in addressing this issue:

- As at 31 December 2015, a network of 2,589 Express Pay terminals, 90 Express and 24 Metro branches which are located all over the country including in remote mountain regions.
- Express financial products such as Express card, Express deposit and Express loan. These financial products are uncomplicated, easily accessible and affordable to a segment of the population that would not have access to banking products and services otherwise. Since the beginning of the Express Banking service in December 2011, the Bank has attracted 425,350

clients by 31 December 2015, of which 58,669 were attracted in 2015 alone.

As part of the Express Banking service, we prioritise development of self-service skills to our clients. We plan to expand services in Express Pay terminals, develop web-based application processing tools and implement a new instalment credit product. All these changes will provide more accessible banking service to our client.

Youth support. We have developed a wide range of financial products to support young people in Georgia. For example, through the special conditions of the Child Deposit we provide parents with an opportunity to secure the future of their children. Starting from a minimal amount of GEL 10, a deposit can be opened for two years minimum at any time from a child's birth until the age of 18. The annual interest rate (12.00% for Georgian Lari and 2.25-4.25% for foreign currency) is added to the initial deposit. In 2015, we opened approximately 3,505 Child Deposit accounts.

The Bank also offers special products that allow the youth to receive secondary and higher education. Examples of such products are school and student loans with favourable terms that do not require any financial guarantees and collateral. The total amount of school and student loans granted in 2015 was GEL 130,148 and GEL 176,578 respectively.

Another example of a product supporting youth is a student card which provides special benefits for students of Georgian universities. The benefits include discounts for public transportation, a 2% interest rate for savings on the card Georgian Lari accounts and 1% for foreign currency, free distance banking services and others. In 2015, the Bank issued 82,722 of these cards. In addition, every three months, the Bank awards 20 holders of student cards with three-month scholarships to encourage the student population to use financial instruments and support them financially during their study.

One more example of supporting youth is a project called sCool Card – a multifunctional card for school children. The project is in its starting process. The main objective of this social-educational project is to make children get accustomed to a financial culture and improve their financial literacy. sCool Card is available for free and all of the transactions and card services are also free of charge. sCool Card provides special benefits for school children in Georgian schools. The benefits include public transportation (in Tbilisi), discounts for educational and

entertaining centres popular among children, bookstores, cafes, as well as the accumulation of bonuses (sCoola) for each transaction. To accustom children to use the card and motivate school canteens in non-cash payments, there is a discount for POS terminals set up in schools. As a result, more and more children use the card for payments and children/bartenders' contact with cash is limited.

SME support. We continue to provide financing to SMEs, a backbone of the Georgian economy that ensures sustainable development of our country. Apart from our own micro-financing and SME loan programmes, we also participate in various programmes that support entrepreneurs. In 2015, the Bank partnered with a non-profit Agricultural Projects Management Agency which supports agricultural SMEs. Together, we co-financed agricultural loans at fixed annual interest rates which were significantly lower than previous loans SMEs received by other institutions. In 2015, the total amount of Bank loans issued to SMEs was GEL 934.1 million, of which GEL 257.1 million was issued to female entrepreneurs.

Combined with supporting SMEs financially, the Bank also plans to organise educational events and provide financial and business knowledge related advice to entrepreneurs in order to enhance their finance management skills and ensure the sustainable development of their businesses. For example, the planned events in flagship service centres mentioned above will provide entrepreneurs with knowledge and skills in accounting, the drafting of legal documents, business development, sales and marketing.

Also the environmental and social risk management process of SME clients is embedded throughout the Bank's activities. Through ensuring comprehensive environmental and social risk assessment and action plans, we encourage the SME clients to be in compliance with national environmental and social legislation and achieve good environmental and social standards. During site visits, we provide advice and guidance on good practice and standards in this area, update the clients with regard to environmental, health and safety and labour issues and monitor compliance with the E&S legislation. In many cases of non-compliance, our proper and timely management of the SME clients' environmental and social risks facilitate avoidance of financial and legal sanctions during inspections conducted by the state enforcement agency.

Energocredit loans were provided to SME clients. The aim of such loans is to help companies reduce their energy intensity and increase their competitiveness through the following means:

- reduction of operating costs for energy;
- increased production with the same cost for energy; and
- increased awareness among business operators and management staff/employees.

By the use of Energocredit the company has the chance to receive a 10-15% subsidy and get an energy audit for free (if required). The total amount of Energocredit SME loans was US\$ 43,642.

Mass retail. Energocredit residential loans were also provided to various groups of retail customers, the aim of which is to help households reduce their energy costs by purchasing energy efficient products, such as boilers and central heating, double glazing, insulation for walls, roofs and floors, solar water heating, solar photovoltaic systems, air-conditioning systems, home appliances (electric ovens, refrigerators, washing machines). A client applying for energy efficient loan is entitled to receive a 10% subsidy, calculated on the sub-loan amount disbursed to the client. The project started in November 2013 and the total amount of Energocredit residential loans was US\$ 4.3 million.

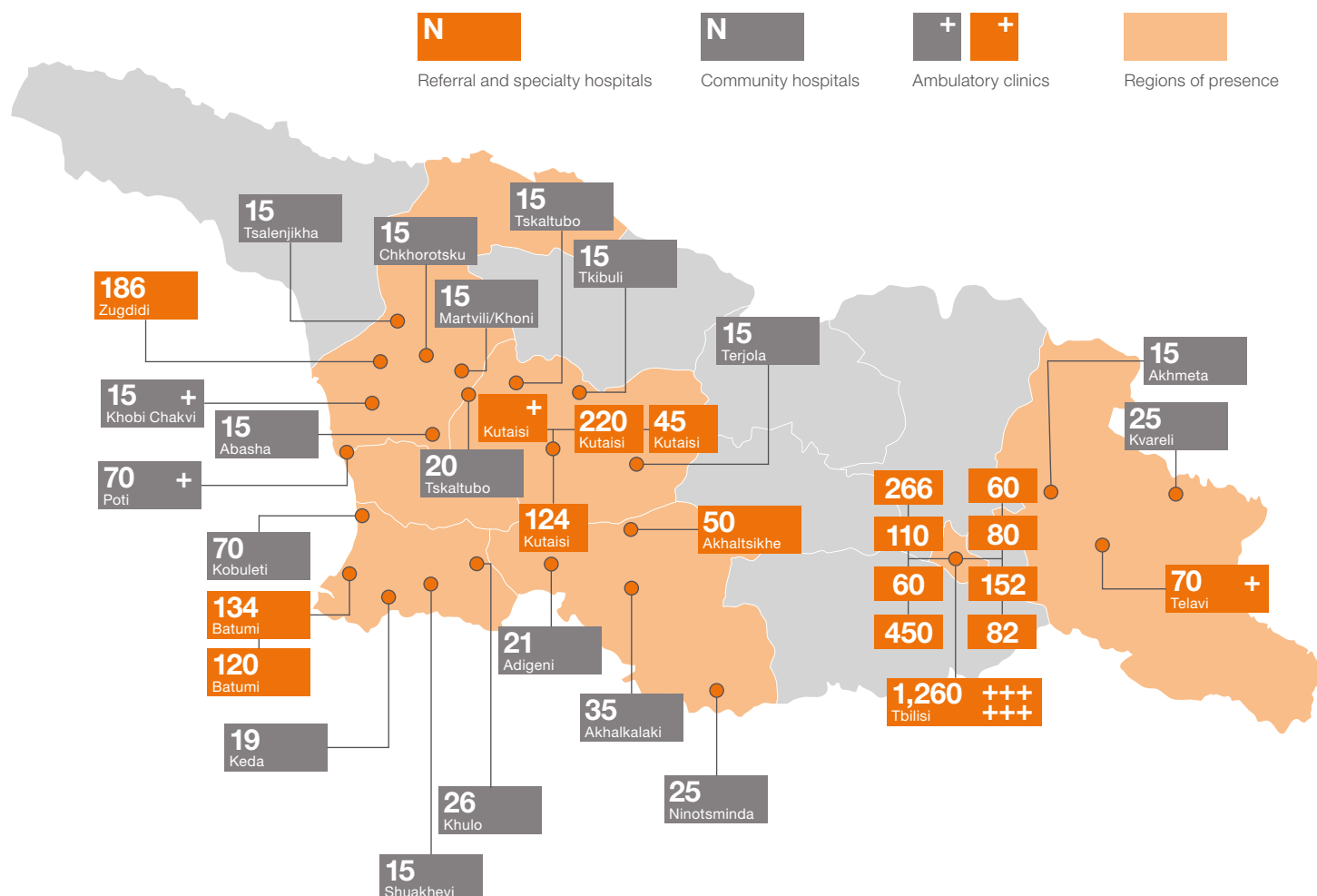
Affordable housing

Currently, the Georgian real estate market is vulnerable to various economic and financial uncertainties. Numerous construction projects remain unfinished for long periods of time while there is a strong growing demand for housing from the Georgian population. In response to this increasing demand, the Group's real estate development business, m² Real Estate was established in order to offer affordable housing to the emerging middle class in Georgia, especially young families. Currently, m² Real Estate has completed its third successful project for the development and sale of affordable residential apartments.

The company uses an innovative approach to design and construction processes so that each square metre is distributed efficiently and fits customers' needs and wishes. As few customers can afford to buy large flats with an area exceeding 100 square metres, the company continuously works to optimise the size of the apartments to meet the current demand of its customers without compromising the apartments' convenience and

Resources and responsibilities continued

Extensive Geographic Coverage Network of healthcare facilities



usability. A large segment of the Group's customers is represented by young Georgian families. We believe that by continuing to offer affordable housing products, we are helping to significantly enhance the quality of their lives.

Georgia Healthcare Group PLC (GHG) is the largest private healthcare services provider in the Georgian market. The Group operates a network of medical centres and hospitals through healthcare services business. It covers more than 67% of the Georgian population with clinics located across the country and provides access to high-quality medical services to the population including those living in remote mountain regions. The accessibility of medical services is ensured by scheduling regular visits by specialists to small towns and villages and by providing patients with transportation to larger clinics in urgent cases and in cases when more sophisticated treatment is required.

The healthcare services business of GHG also provides free regular medical examinations at various locations across the country including Batumi, Khulo, Keda, Shuakhevi, Poti, Kvareli, Telavi and others. In addition, GHG's specialists deliver free medical services, including examinations and treatments for socially and economically disadvantaged parts of the population. In cooperation with other healthcare institutions, Georgia Healthcare Group arranges free blood transportation and donations for its patients.

Apart from healthcare services business, the Group operates a medical insurance business, which participated in the state insurance programme in 2015. Through this programme, it served more than 400,000 policyholders represented by people below the poverty level, the elderly, children below five years of age, students, teachers and refugees.

Sponsorship and charity

Within its sponsorship and charity activities, the Group continues to focus on promoting and enhancing access to education, conserving nature and supporting children with disabilities. The Group's Sponsorship and Charity Policy implies partnering with Foundations and NGOs to deliver sustainable results and bring about positive change. Our priority is to help solve a cause, not the symptom. The Group chose to focus on the three areas bearing utmost importance for Georgian society. Sponsorship and charity funds are channelled through the Tree of Life Foundation that in its turn distributes funding via means of grants competitions thus assuring a transparent and fair way of financing.

Promoting and enhancing access to education.

Bank of Georgia University, established in 2014, welcomed its second intake of MBA in Finance students in autumn 2015. Cost of studies in 2015 were again in big part subsidised by the Bank, GEL 244,500 in total giving a possibility to up to 10 top students to study free of charge while the next 20 can enjoy a 0% loan and start repaying one year after graduation. Besides providing high-quality education, Bank of Georgia University offers its students hands-on experience by offering them a possibility to observe various business processes at the Group's companies.

In summer 2014, Bank of Georgia's start-up incubator, Vegalab, started to operate. In total GEL 300,467 was spent on setting up and running the Lab which allows its incumbents to use a centrally located office and its facilities, training and mentoring free of charge. Since then, authors (individuals and groups) of 12 business ideas were selected to join the incubator out of which three projects were nominated for the next stage – capital financing.

In 2013, the Bank became the first Georgian company to cooperate with one of the most prestigious scholarship programmes in the world, the Chevening scholarship, in order to provide Georgian students with an opportunity to pursue education in the UK. The Group provided GEL 293,555 in total and funded three students in 2015. The partnership with Chevening has been extended for the next year and the Group is looking forward selecting students who will continue their Master's studies in the UK.

In 2014, the Bank signed a partnership agreement with the prestigious US Fulbright scholarship scheme. Thanks to Bank of Georgia's contribution two students from Georgia were able to enrol in a two-year Master's degree programme at a US University in 2015. Funding provided to the students for their first year of studies amounts to GEL 225,450.

For the past three years the Bank has been supporting a Public Speaking competition organised by the English Speaking Union, Georgia. The competition allows top students who are in their senior year at a high school, or freshmen year at a university, to prepare a speech

on a predetermined topic and present in front of a competent jury. The winner is granted a fully paid trip to London, to attend the global Public Speaking competition. We aim to be part of this competition during 2016 as well.

The Bank has been supporting every single TEDxTbilisi conference from when it was first organised, in 2012. A TEDx conference is a locally organised TED format event, where communities, organisations and individuals join to initiate a conversation and connect with each other on different matters which are important for the society. In 2015, Bank of Georgia provided funding in the amount of GEL 40,646 to a local NGO (Non-governmental Organisation), Educate Georgia to translate into Georgian one of the most widespread and popular free online educational platforms in the world, the Khan Academy. The project will allow some 200,000 Georgian pupils with internet access, 65% of who live outside Tbilisi to read and listen to the highest quality education materials.

Conserving nature. Another priority of the Group's charity activities is the preservation of wildlife diversity. Since 2010, the Bank has granted US\$ 300,000 to the Caucasus Nature Fund (CNF) to cover the maintenance costs of Borjomi-Kharagauli National Park (BKNP), one of the most treasured national parks in Georgia.

Supporting children. Since 2014, the Bank has been focusing its efforts on supporting children with disabilities – one of the most vulnerable social groups in Georgia. In 2015, the Bank donated GEL 103,904 to the Tree of Life Foundation which distributed the funds through two grants competition for relevant NGOs. In order to qualify for the competition, proposals had to focus on sustainable results and causing change in one of the following areas: providing education, developing infrastructure for disabled children, or fostering integration into the society.

Some of the projects financed through the grants' competition entailed: providing 119 wheelchairs to children with disabilities or special needs, creation of a paraorchestra, setting up of a social taxi service for the disabled, organising adapted playground in one of the largest districts in Tbilisi.

On 13 June 2015, Tbilisi experienced one of the worst floods in its recent history. With one of the highways and several homes destroyed, casualties and loss caused by the disaster amounted to around GEL 200 million. The Group was one of the first to come up with an initiative to raise funds to help the flood victims. The Group donated GEL 1 million in total to fund provision of new housing for those who were left without one. In addition, GEL 300,000 was donated by corporate and individual clients of the Bank to an account swiftly opened and promoted by Bank of Georgia within days of the flood.

Healthcare services business of GHG runs a wide range of charitable activities on a permanent basis for children with leukaemia. It also regularly gifts personal computers to children from socially and economically disadvantaged large families. Additionally, on religious holidays business delivers presents to the newborns across the patient network.

Employee matters

A key factor to our success is a cohesive and professional team, capable of accomplishing the Group's objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment.

The HR department and the management system it implements play a vital role in managing our most valuable resources - our employees. The HR department develops HR policies and procedures which determine key principles, areas, approaches and methods that are crucial for building HR management systems for all our businesses.

Examples of some of our HR policies and procedures include, but are not limited to:

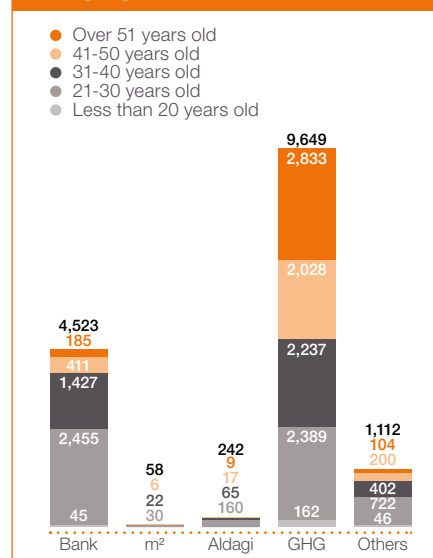
- employee planning and recruiting;
- staff administration;
- compensation and benefits;
- code of conduct;
- employee development and training;
- human rights;
- grievances;
- whistleblowing;
- retrenchment; and
- anti-nepotism.

Resources and responsibilities continued

Total headcount per employee category broken down by gender

	Directors	Senior managers	Employees	Total
2013				
Female	6	53	8,448	8,507
Male	23	72	3,109	3,204
Total	29	125	11,557	11,711
2014				
Female	7	57	9,722	9,786
Male	41	81	3,487	3,609
Total	48	138	13,209	13,395
2015				
Female	16	75	11,623	11,714
Male	47	111	4,083	4,241
Total	63	186	15,706	15,955

Total headcount by age category



The Bank's HR management department works closely with HR managers and executives from our subsidiaries in order to ensure proper implementation of the main principles and provision of necessary support in all HR-related matters.

We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent discrimination or harassment on any grounds, including disability. Our Human Rights Policy applies to all employees (including the disabled) and includes procedures related to employment processes (including continued employment for employees who have become disabled while employed by us), training and development.

We are committed to employee engagement. We believe that knowledge of our Group is key and we strive to provide our employees with a continuous flow of information which includes but is not limited to information about our corporate culture, the Group's strategy and performance, risks relating to its performance, such as financial and economic factors, and our policies and procedures. We provide information in a number of ways, including via departmental managers, presentations, our intranet, email and regular town-hall and off-site meetings. We also value

the views of our employees. We consult with our employees regularly and have implemented feedback systems, such as frequent employee satisfaction surveys, which ensure that our employees' opinions are taken into account when making decisions which are likely to affect their interests. Employee feedback also helps to improve our customer focused orientation and client servicing approach.

Talent attraction

Sustained development of the Group's businesses requires the strengthening of the teams of our subsidiaries both by using the Group's own significant internal resources through staff development and rotation, and by attracting external candidates. Our recruitment policy and relevant control procedures ensure an unbiased hiring process that provides equal opportunities for all candidates.

According to the HR Policy, internal candidates have priority when filling vacant positions, especially in situations where there are vacancies in top and middle management. Thus, in 2015, 175 Group employees were promoted to managerial positions.

In order to attract young talent, we actively partner with leading Georgian business schools and universities, participate in job fairs and run extensive internship programmes aimed at the professional development of young professionals and their further employment. In 2012, Bank

of Georgia established a new format for its traditional internship programme. It attracts promising graduates and provides them with the opportunity to participate in a major professional training and leadership development programme. Interns are directly coached by the Bank's executives to help them on their path to gaining their first management positions in the near future. In 2015, the number of young professionals (under 30 years old) increased by 21% compared to 2014 and currently represents 36% of total headcount.

Training and development

To manage our employees in a way that best supports our business strategy, we seek to help our employees contribute to business performance through personal and professional development.

Following our aspiration to develop strong leaders, we have developed an extensive programme for leadership development. We provide a standard Induction Training course for employees appointed to managerial positions. This programme covers a wide range of topics including corporate values, strategy and objectives, organisational structure, HR management policies, history of the Group, and specific courses for development of communication, presentation, management and leadership skills, among others. Selected mid-level and senior-level employees are given the opportunity to receive external training in well-known training institutions outside of Georgia.

The Group's corporate learning system is comprised of a wide range of internal and external training sessions specifically designed to meet the needs of front and back-office employees at the Group's subsidiaries including banking, healthcare, insurance and real estate development. In 2014, Bank of Georgia launched a Leadership Development online programme for senior managers and some of our key employees. The programme was provided by a UK company and aimed to support the individual development of participants' leadership capabilities. The programme was running successfully throughout this year as well and benefited all participants with a personally tailored development experience and gave them a greater awareness of their leadership strengths and opportunities for further growth and effectiveness.

Each of the Group's businesses has developed an extensive training programme for front office employees in order to provide them with relevant skills, such as effective communication and building strong and valued client

relationships. For example, the Bank's mentoring programme is part of a front office training process. Every new employee is provided with regular advice, guidance and practical instructions from an appointed mentor who later participates in the new employee's performance appraisal. Through this programme, we aim to provide individual support to our employees in achieving their professional results and improving their personal effectiveness.

GHG's healthcare services business provides additional training to its employees that work in the specialised field of healthcare. The company remains the only healthcare institution in Georgia to have in-house training of personnel. Since the beginning of 2014, GHG has invested over GEL 3.0 million in training and has a dedicated staff of 45 trainers, largely focusing on the areas of nursing and critical care. The business recently established a unique training centre in the Kutaisi region that will enhance the professional knowledge and skills of local medical personnel.

Occupational health and safety

Ensuring the safety of the workplace and providing healthy working conditions are among the Group's fundamental HR management principles. The Group pays particular attention to preventive measures, such as conducting regular staff training and medical check-ups, certifying workplaces, and promoting a healthy lifestyle.

The Group's real estate development business is associated with high health and safety risks for contractors on sites. In order to minimise such risks, m² Real Estate established a Health and Safety Policy and management procedures ensuring implementation of the health and safety measures at all worksites. The policy contains a range of precautions that seek to prevent any accidents related to the m²'s contractors or injuries to community members, as well as property damage and incidents caused by equipment failure.

In order to enhance the awareness of employees and contractors regarding health and safety risks associated with the construction process the company conducts regular training and educational seminars. In 2015, 2014 and 2013, the number of health and safety training hours amounted to approximately 110, 1,008 and 500 respectively. In addition, the m² publishes brochures and booklets with warnings and special rules to be followed when working on sites. Respective control procedures include quarterly audits by external health and safety consultants

and internal monthly inspections of m² Real Estate worksites. In addition, m² Real Estate has a comprehensive reporting procedure for health and safety concerns. In 2015, 2014 and 2013, no work-related fatalities or injury incidents occurred at the company's construction sites.

With regard to emergency preparedness and response, m² Real Estate established an Emergency Management Plan. It outlines possible scenarios during emergency situations and determines specific strategies for the company's employees, contractors and visitors on how to react when in a crisis situation.

Environmental matters

The Group recognises that its operations have both an indirect and direct impact on the environment and therefore seeks to establish management approaches which will help it become a more environmentally friendly institution. Being the largest financial institution in Georgia, the Bank produces significant indirect environmental impact through the projects which it finances. In order to properly manage this impact, the Bank has implemented an Environmental and Social Policy and Risk Management Procedures, as described in the "Social matters" section.

As for direct environmental impact, we believe that the impact of the banking and insurance businesses is not significant. Nevertheless, we undertake a number of measures to reduce electricity, paper, water, and fuel consumption. For example, in 2013 we upgraded our lighting system in the Bank's headquarters by installing energy-saving bulbs and implemented KNX (EIB) System management, which not only helped us minimise our environmental impact but also reduced our energy costs by GEL 4,000-5,000 per month. We implemented this system in all of the Bank's branches during 2014. In addition to our energy saving efforts, in 2015 we started a project "Green Box". With this initiative the Bank continues its work towards minimising the paper waste. "Green Boxes" are placed on every floor of the Bank's headquarters and are designated to collect paper for recycling purposes. The Group is also in the process of automating its operational processes in order to reduce the volume of printed documents and consequently minimise the overall use of paper. The Bank continues to acquire new printers which offer double-sided printing by default.

We are considering replacing part of our car fleet, which runs on petrol, with electric vehicles.

Resources and responsibilities continued

We aim to reduce greenhouse gas emissions resulting from our operations. Refer to the Directors' Report for more detailed information on the issue.

The most significant direct impact on the environment within the Group is created by our real estate development business, m² Real Estate. The company addresses industry-specific environmental issues and undertakes appropriate measures to manage them.

Focusing on enhancing resource efficiency of its apartment buildings, m² Real Estate started two new development projects with financial support from

IFC. The company not only follows high environmental standards that IFC imposes on its borrowers but has also become a participant of the IFC-Canada Climate Change Programme¹ and thus meets all mandatory requirements of the programme regarding green building construction. Aiming at increasing the efficient use of energy, water and materials, m² Real Estate installs energy efficient lighting systems and uses double glazed windows and other modern insulation materials thus reducing the U-value of constructed buildings to 0.21W/m²K. It is expected that utility costs for these buildings will be reduced up to 43% compared to an average residential building in Georgia.

In order to minimise the negative impact to the environment caused by the construction process, m² Real Estate has adopted an Environmental and Social Management Plan which helps identify the environmental impacts of its activities and define measures to prevent them as outlined below.

GHG's direct environmental impact is mainly characterised by medical waste which needs special treatment and safe disposal. GHG implemented procedures that are in line with the Georgian legislation which defines risk categories of medical waste and establishes appropriate procedures for its treatment, storage

Environmental aspect	Preventive measures
Dust	• Introducing speed limits on unmade roads • Damping down using water bowsers with spray bars • Sheeting of construction materials and storage piles • Using defined moving routes and reductions in vehicle speed limits where required
Spills and leaks during refuelling	• Installing a sealed drainage system at refuelling areas • Providing suitable tanks (e.g. double skinned), bunds and impermeable liners at fuel stores and refuelling points • Using drip trays for static plant (e.g. generators and pumps) • Training staff in refuelling and pump operations • Shortening the refuelling line as much as possible • Performing regular maintenance checks of hoses and valves • Conducting follow-up procedures for proper and safe refuelling by operators
Air emissions	• Ensuring that new vehicles comply with the current European Union (EU) emissions standards at the time of purchase • Implementing a regular maintenance programme to ensure all new vehicles continue to comply with relevant EU emissions standards • Ensuring that older vehicles are maintained in order to eliminate extra emissions as much as reasonably practicable • Strictly enforcing speed limits in order to optimise fuel consumption and production of exhaust fumes, and minimise dust generation on unpaved surfaces
Water contamination	• Locating fuel stores and refuelling points further away from watercourses and aquifers
Fire	• Providing a fire extinguisher adjacent to each item of mobile plant and equipment
Noise	• Fitting effective silencers at all plant and machinery, and providing ear defenders and/or plugs on sites • No idling or revving of plant engines and all vehicles • Using controlled venting, silenced equipment and absorbing screens • Working at preferred times of day (daylight hours Monday to Saturday, otherwise communicated to the local community and authorities)
Vibration	• Operating the equipment within the manufacturer specification limits and limiting any overuse
Depletion of the stratospheric ozone layer	• Ensuring that no ozone depleting substances (ODS) such as chlorofluorocarbons (CFCs) and hydro-chlorofluorocarbons (HCFCs) or products with known global warming potential are used

1. The IFC-Canada Climate Change Programme, established in 2011, is a partnership between the Government of Canada and IFC to promote private sector financing for clean energy projects, through the use of concessional funds to catalyse investments in renewable, low-carbon technologies that would not otherwise happen (www.ifc.org).

and disposal. GHG strives to improve its efficiency and thus outsources medical waste management to a company specialising in medical waste disposal. The total amount of generated medical waste in 2015 amounted to 125 tonnes compared with 159 tonnes in 2014 and 55 tonnes in 2013, an increase which correlated with the significant expansion of GHG's hospital network.

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and additionally have reported on those emissions under Scope 3 that are applicable to our business. All reported sources fall within our consolidated financial statements which can be found on pages 135 to 215 of this Annual Report. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

In preparing this emissions data, we have used the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2014.

The reported data is collected and reported for the boundaries of four of the Group's main businesses:

- Banking (represented by the Bank), which includes all of its offices and retail branches where the Bank has operational control.
- Real estate development (represented by m² Real Estate), which includes its offices and construction sites.
- P&C insurance (represented by Aldagi), which includes all of its offices and retail branches where the company has operational control.
- Georgia Healthcare Group (represented by Evex and Imedi L), which includes its main office and hospitals where the company has operational control.

Scope 1 (combustion of fuel and operation of facilities) includes emissions from:

- Combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites.
- Combustion of petrol, diesel and aviation fuel in owned transportation devices (cars and aeroplane).

Scope 2 (electricity, heat, steam and cooling purchased for own use) includes emissions from:

- Used electricity at owned and controlled sites; to calculate the emissions, we used the conversion factor for Non-

OECD Europe and Eurasia (average) conversion from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2014.

- Used heat and steam (only applies to one site of Imedi L).

Scope 3 includes emissions from:

- Air business travel (short haul and long haul); information on the class of travel is unavailable hence we used an "average passenger" conversion factor.
- Ground transportation, including taxis, coaches and car hire.

Data on emissions resulting from travel is reported for business-related travel only, and excludes commuting travel. Data from joint ventures, investments, or sub-leased properties have not been included within the reported figures.

The data is provided by on-site delegates, invoices and meter readings.

Total greenhouse gas emissions data for the period beginning 1 January 2015 and ended 31 December 2015 (tonnes of CO₂e)

	2013	2014	2015
Scope 1 (emissions from combustion of fuel and operation of facilities)	8,453	7,614	6,679
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	5,457	11,034	12,183
Scope 3 (emissions from air travel and land transportation)	2,165	3,822	4,487
Total greenhouse gas emissions	16,075	22,470	23,349
FTEs	11,711	13,395	15,955
Total greenhouse gas emissions per FTE	1.37	1.68	1.46

Overview of financial results

Executing our strategy

We have once again leveraged our distinctive capabilities and strengths, and managed to beat the 38% Lari devaluation by delivering an all-time high net profit in US Dollar terms during 2015.

Consolidated results discussion

The Group's profit of GEL 310.9 million was driven by the outstanding performance of our Banking Business, with its superior customer-driven franchise, sound bank risk management policy and double-digit positive operating leverage, combined with an excellent performance from our portfolio of companies in the Investment Business. Obviously, Georgian GDP growth of c.3% was instrumental in keeping asset quality in check and delivering strong growth and record profitability. Georgian macroeconomic growth of c.3% was particularly resilient in the context of the economic turbulence in the region. Our base case scenario for GDP growth in 2016 is c.3% in real terms with inflation of up to 5%.

Full year income statement

GEL thousands, unless otherwise noted	BGEO Consolidated		
	2015	2014	Change y-o-y
Net banking interest income	501,390	349,958	43.3%
Net fee and commission income	118,406	99,792	18.7%
Net banking foreign currency gain	76,926	52,752	45.8%
Net other banking income	18,528	9,270	99.9%
Gross insurance profit	29,907	29,430	1.6%
Gross healthcare profit	80,938	53,483	51.3%
Gross real estate profit	14,688	13,566	8.3%
Gross other investment profit	20,777	12,991	59.9%
Revenue	861,560	621,242	38.7%
Operating expenses	(314,732)	(257,031)	22.4%
Operating income before cost of credit risk/EBITDA	546,828	364,211	50.1%
Profit from associates	4,050	—	—
Depreciation and amortisation of investment business	(14,225)	(9,164)	55.2%
Net foreign currency gain/(loss) from investment business	651	(3,169)	NMF
Interest income from investment business	2,340	1,309	78.8%
Interest expense from investment business	(10,337)	(6,558)	57.6%
Cost of credit risk	(155,377)	(59,020)	163.3%
Profit	310,945	240,767	29.1%
Earnings per share basic and diluted	7.93	6.72	18.0%

Balance sheet

GEL thousands, unless otherwise noted	BGEO Consolidated		
	Dec 2015	Dec 2014	Change y-o-y
Liquid assets	3,068,166	1,898,137	61.6%
Loans to customers and finance lease receivables	5,322,117	4,347,851	22.4%
Total assets	10,115,739	7,579,145	33.5%
Client deposits and notes	4,751,387	3,338,725	42.3%
Amounts due to credit institutions	1,789,062	1,409,214	27.0%
Debt securities issued	1,039,804	856,695	21.4%
Total liabilities	8,042,101	5,945,052	35.3%
Total equity	2,073,638	1,634,093	26.9%

Discussion of Banking Business results

Our Banking Business delivered all-time high annual revenue of GEL 751.3 million (up 39.6% y-o-y). The revenue growth was driven by strong growth across all revenue lines.

Revenue

GEL thousands, unless otherwise noted

	2015	2014	Change y-o-y
Banking interest income	872,299	600,925	45.2%
Banking interest expense	(359,372)	(243,654)	47.5%
Net banking interest income	512,927	357,271	43.6%
Fee and commission income	161,891	134,488	20.4%
Fee and commission expense	(40,302)	(32,643)	23.5%
Net fee and commission income	121,589	101,845	19.4%
Net banking foreign currency gain	76,926	52,752	45.8%
Net other banking income	19,837	9,890	100.6%
Net insurance premiums earned	40,161	28,129	42.8%
Net insurance claims incurred	(20,114)	(11,707)	71.8%
Gross insurance profit	20,047	16,422	22.1%
Revenue	751,326	538,180	39.6%
Net Interest Margin	7.7%	7.6%	
Average interest earning assets	6,667,220	4,725,688	41.1%
Average interest bearing liabilities	7,069,269	5,081,994	39.1%
Average net loans, currency blended	5,200,650	3,767,973	38.0%
Average net loans, GEL	1,527,852	1,164,713	31.2%
Average net loans, FC	3,672,798	2,603,260	41.1%
Average client deposits, currency blended	4,379,707	3,173,826	38.0%
Average client deposits, GEL	1,203,167	919,857	30.8%
Average client deposits, FC	3,176,540	2,253,969	40.9%
Average liquid assets, currency blended	2,540,310	1,843,538	37.8%
Average liquid assets, GEL	1,153,425	833,854	38.3%
Average liquid assets, FC	1,386,885	1,009,684	37.4%
Excess liquidity (NBG)	789,311	177,917	343.6%
Liquid assets yield, currency blended	3.2%	2.5%	
Liquid assets yield, GEL	6.5%	5.0%	
Liquid assets yield, FC	0.5%	0.4%	
Loan yield, total	14.8%	14.3%	
Loan yield, GEL	22.6%	19.9%	
Loan yield, FC	11.4%	11.6%	
Cost of funding, total	5.1%	4.8%	
Cost of funding, GEL	5.5%	4.0%	
Cost of funding, FC	4.9%	5.1%	

Our net banking interest income increased to GEL 512.9 million in 2015, showing strong double-digit growth of 43.6% y-o-y.

This reflects the strong performance of interest income which outgrew interest expense. On a constant currency basis, growth in our full year interest income (up 32.1% y-o-y) outpaced growth in interest expense (28.7%). Our strong interest income performance was a result of robust growth in our average interest earning assets and improved Loan Yield, which was primarily driven by the PrivatBank acquisition. The y-o-y growth in interest earning assets was driven by the weakening Georgian Lari, which increased the Georgian Lari value of our foreign currency denominated interest

earning assets, the PrivatBank acquisition and a slight 1.5% y-o-y growth in the net loan book on a constant currency basis.

Our average net loans increased to GEL 5,401.9 million in 2015, up 30.5% y-o-y in nominal terms and up 1.5% y-o-y on a constant currency basis. Primarily driven by outstanding performance of our Retail Banking operations as well as the PrivatBank acquisition, which added GEL 245.6 million to our Banking Business net loan book at time of the PrivatBank integration in May 2015.

The increase in our interest expense was driven by a two-fold effect: Strong growth in our average interest bearing

liabilities and growth in cost of funding. This reflects a strong growth in average client deposits for 2015, which represent a more expensive source of funding. The growth was driven mainly by the growth in foreign currency deposits which again reflected in large part the weakening of the Georgian Lari. For the full-year, average interest bearing liabilities grew at 39.1% and cost of funding increased from 4.8% in 2014 to 5.1% this year. Average client deposits and notes grew 38.0% y-o-y for 2015 to GEL 4,379,707.

Our net fee and commission income reached GEL 121.6 million in 2015, up 19.4% y-o-y. On a constant currency basis, growth in our full year fee and

Overview of financial results continued

ROAE

21.7%

20.6% in 2014

Net Interest Margin (NIM)

7.7%

7.6% in 2014

Tier 1 Capital Ratio

(Basel 2/3)

10.9%

11.1% in 2014

Retail loan book growth

(y-o-y)

35.3%

commission income (up 16.0% y-o-y) outpaced growth in fee and commission expense (13.1%).

Growth was primarily driven by the ongoing success of our Express Banking service, which has expanded during the year partially driven by the integration of PrivatBank, whose clients were a mainly target segment for our Express products. We have added 58,669 Express Banking customers in 2015, representing 16.0% growth y-o-y in Express client base. The growth in client base has triggered a significant increase in the volume of banking transactions. The growth of transactions was achieved largely through the more cost-effective remote channels. Net gain from foreign currencies increased to GEL 76.9 million in 2015 (up 45.8% y-o-y). Growth reflected increased client activity as a result of the increased Georgian Lari volatility.

Our P&C insurance business, Aldagi, continued its strong yearly performance and posted gross insurance profit of GEL 20.0 million (up 22.1% y-o-y). This increase was mainly driven by growth in Motor insurance and Life & Disability insurance.

Our NIM stood at 7.7% (up 10bps y-o-y). NIM was adversely affected by the high liquidity levels that we purposefully maintained during 2015. Pro forma NIM, adjusted for excess liquidity levels, was 8.2% for full-year 2015. NIM reflected strong Loan Yield which stood at 14.8% for 2015 (up 50 bps y-o-y), largely driven by the addition of PrivatBank's high yielding Loan Portfolio. PrivatBank's higher margin is primarily driven by its mono-product of an all-in-one debit and credit card. Liquid Assets Yield stood at 3.2% in 2015 (up 70 bps y-o-y), largely reflecting higher yield on Government issued securities. This was partially offset by a 30 bps increase in Cost of Funds, which stood at 5.1%. The increase in Cost of Funds was primarily driven by an increase in the cost of local currency funding as the local currency financing reference rate of the National Bank of Georgia increased gradually during 2015 to 8.0% at the year end, up from 4.0% at the end of 2014. As of 1 September 2015, we decreased the interest rates on one-year Dollar deposits from 5% to 4% in the retail segment, which is expected to drive our Cost of Funds down and decrease the dollarisation of our balance sheet. On the other hand, as of 1 September 2015, we increased the interest rates on one-year local currency deposits from 9% to 11% in the retail segment, which affected the increase in our cost of funds. Our liquidity levels as a percentage of total assets increased to 32.7% by the end of 2015, compared to 26.6% a year ago as a result of an increased liquidity pool.

Our efficiency further improved in 2015, with double-digit operating leverage and an all time low cost to income ratio.

Operating leverage was positive at 16.6%. The Cost/Income ratio stood at 35.7% in 2015 (down 480 bps y-o-y). Improved efficiency was a result of the integration of PrivatBank and the resulting synergies realised during the year, and our ongoing efforts to keep a tight grip on costs. Operating expenses increased to GEL 267.9 million (up 23.0%). In 2015, y-o-y revenue growth largely outpaced growth in operating expenses, which reflected the PrivatBank acquisition and an organic growth of the business. The salaries and employee benefits increase was driven by the increased revenue base and PrivatBank acquisition. The administrative expenses increase was largely driven by expenses on rent, predominantly due to the appreciation of the US Dollar, the listing currency of rentals in Georgia, in addition to an increase in the number of leased branches following the PrivatBank acquisition, which also drove the increase in depreciation and amortisation.

For the full year 2015, Banking Business like-for-like Cost of Risk ratio (excluding devaluation effect) stood at 2.4% (1.2% in 2014) and the like-for-like cost of credit risk was GEL 133.6 million (GEL 55.7 million for the year 2014). Devaluation added 0.3% and GEL 17.9 million to Cost of Risk and cost of credit risk, respectively, for the year 2015, resulting in Cost of Risk ratio of 2.7% and cost of credit risk of GEL 151.5 million.

NPLs to gross loans increased by 30 bps to 4.3% as of 31 December 2015, compared to 4.0% as of 30 September 2015 and 90 bps from 3.4% as of 31 December 2014. The increase was mainly due to Georgian Lari devaluation against US Dollar. NPLs increased to GEL 241.1 million, up 57.0% y-o-y, reflecting the inclusion of PrivatBank's NPLs, local currency devaluation against the US Dollar and overall 20.9% growth in net loan book. The NPL coverage ratio stood at 83.4% as of 31 December 2015 compared to 68.0% as of 31 December 2014. NPL coverage ratio adjusted for the discounted value of collateral stood at 120.6% as of 31 December 2015, compared to 110.6% as of 31 December 2014. Our 15 days past due rate for retail loans stood at 0.9% as of 31 December 2015 compared to 0.8% as of 31 December 2014.

Non-recurring items increased to GEL 13.1 million from GEL 11.8 million a year ago, which was largely driven by costs associated with the PrivatBank integration.

Operating income before non-recurring items; cost of credit risk; profit for the period

GEL thousands, unless otherwise noted

	2015	2014	Change y-o-y
Salaries and other employee benefits	(155,744)	(130,060)	19.7%
Administrative expenses	(74,381)	(58,833)	26.4%
Banking depreciation and amortisation	(34,199)	(25,641)	33.4%
Other operating expenses	(3,535)	(3,230)	9.4%
Operating expenses	(267,859)	(217,764)	23.0%
Operating income before cost of credit risk	483,467	320,416	50.9%
Impairment charge on loans to customers	(142,819)	(45,088)	NMF
Impairment charge on finance lease receivables	(1,958)	(476)	NMF
Impairment charge on other assets and provisions	(6,740)	(10,168)	-33.7%
Cost of credit risk	(151,517)	(55,732)	171.9%
Net operating income before non-recurring items	331,950	264,684	25.4%
Net non-recurring items	(13,046)	(11,837)	10.2%
Profit before income tax	318,904	252,847	26.1%
Income tax expense	(44,647)	(32,343)	38.0%
Profit	274,257	220,504	24.4%

Banking Business balance sheet highlights

GEL thousands, unless otherwise noted

	31 Dec 2015	31 Dec 2014	Change y-o-y
Liquid assets	3,006,991	1,874,769	60.4%
Liquid assets, GEL	1,191,353	1,028,833	15.8%
Liquid assets, FC	1,815,638	845,936	114.6%
Net loans	5,366,764	4,438,032	20.9%
Net loans, GEL	1,502,888	1,269,613	18.4%
Net loans, FC	3,863,876	3,168,419	21.9%
Client deposits and notes	4,993,681	3,482,001	43.4%
Amounts due to credit institutions, of which:	1,692,557	1,324,609	27.8%
Borrowings from DFIs	917,087	605,480	51.5%
Short-term loans from central banks	307,200	400,771	-23.3%
Loans and deposits from commercial banks	468,270	318,358	47.1%
Debt securities issued	961,944	827,721	16.2%
Liquidity and CAR Ratios			
Net Loans/Customer Funds	107.5%	127.5%	
Net Loans/Customer Funds + DFIs	90.8%	108.6%	
Liquid assets as percent of total assets	32.8%	26.6%	
Liquid assets as percent of total liabilities	38.3%	32.3%	
NBG liquidity ratio	46.2%	35.0%	
Excess liquidity (NBG)	789,311	177,917	343.6%
Tier I Capital Adequacy Ratio (NBG Basel 2/3)	10.9%	11.1%	
Total Capital Adequacy Ratio (NBG Basel 2/3)	16.7%	14.1%	

As a result of the foregoing, the Banking Business reported record profit of GEL 274.3 million in 2015 (up 24.4% y-o-y) and achieved a ROAE of 21.7% compared to 20.6% in 2014.

The Banking Business profit was supported by its banking subsidiary in Belarus – BNB, which added GEL 17.5 million profit in 2015 (up 11.4% y-o-y). The growth was primarily driven by strong y-o-y growth in the BNB loan book to GEL 320.1 million, up 20.4% y-o-y, mostly consisting of an increase in SME loans. BNB client deposits increased to GEL 277.6 million, up 37.6% y-o-y and reflecting BNB's strong franchise in Belarus. BNB is well capitalised, with Capital Adequacy Ratios well above the requirements of its regulating Central Bank. For 2015, Total CAR was 16.5%, above the 10% minimum

requirement by the National Bank of the Republic of Belarus (NBRB) and Tier I CAR was 8.1%, above the 5% minimum requirement by NBRB. Return on Average Equity (ROAE) for BNB was 23.5%.

Our Banking Business balance sheet remained very liquid (NBG Liquidity ratio of 46.2%) and well-capitalised (Tier I Capital Adequacy ratio, NBG Basel 2/3 of 10.9%) with a well-diversified funding base (Client Deposits and Notes to Liabilities of 63.4%). The NBG Liquidity ratio stood at 46.2% as of 31 December 2015 compared to 35.0% as of 31 December 2014, against a regulatory requirement of 30.0%. Liquid assets increased to GEL 3,007.0 million, up 60.4% y-o-y. Additionally, liquid assets as a percentage of total assets increased

to 32.7% y-o-y, up from 26.6% a year ago, and liquid assets as a percentage of total liabilities also increased to 38.2% y-o-y, up from 32.3% a year ago. Our share of amounts due to credit institutions to total liabilities decreased slightly y-o-y from 22.8% to 21.5%, with the share of client deposits and notes to total liabilities increasing y-o-y from 59.9% to 63.4%. Net Loans to Customer Funds and DFIs ratio, a ratio closely observed by management, stood at 90.8%, down from 108.6% as of 31 December 2014. The decrease was mainly due to the slower growth in net loans and an increase in deposits.

Overview of financial results continued

Discussion of segment results

The segment results discussion is presented for Retail Banking (RB), Corporate Banking (CB), Investment Management, Healthcare Business (GHG), Real Estate Business (m² Real Estate).

Retail Banking (RB)

Net loan book

(GEL million)

2,796.5

+35.3% y-o-y, +19.0% y-o-y on constant currency basis

Revenue

(GEL million)

427.4

+44.0% y-o-y



Bank of Georgia is the largest Retail Banking services provider in Georgia, offering a wide range of products and services including consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and handling customer multicurrency deposits for both individuals and legal entities. In order to better serve the needs of our customers, in addition to the traditional banking services,

Retail Banking offers differentiated products and services through the well-recognised Solo Banking and Express Banking service, which aims to expand transactional banking coverage through various distance channels. Retail Banking serves c.2 million customers through 266 branches, 746 ATMs and 2,589 Express Pay terminals. Retail Banking also encompasses SMEs and micro businesses, serving approximately 90,000 small and medium-sized companies.

Income statement highlights

GEL thousands, unless otherwise noted	2015	2014	Change y-o-y
Net banking interest income	322,879	215,795	49.6%
Net fee and commission income	78,218	58,858	32.9%
Net banking foreign currency gain	17,108	18,622	-8.1%
Net other banking income	9,159	3,564	157.0%
Revenue	427,364	296,839	44.0%
Salaries and other employee benefits	(92,091)	(69,299)	32.9%
Administrative expenses	(50,398)	(37,339)	35.0%
Banking depreciation and amortisation	(27,714)	(19,525)	41.9%
Other operating expenses	(2,093)	(1,464)	43.0%
Operating expenses	(172,296)	(127,627)	35.0%
Operating income before cost of credit risk	255,068	169,212	50.7%
Cost of credit risk	(75,407)	(9,241)	NMF
Net non-recurring items	(8,945)	(5,797)	54.3%
Profit before income tax	170,716	154,174	10.7%
Income tax expense	(23,994)	(19,295)	24.4%
Profit	146,722	134,879	8.8%

Balance sheet highlights

GEL thousands, unless otherwise noted	2015	2014	Change y-o-y
Net loans, stand-alone, currency blended	2,796,479	2,066,973	35.3%
Net loans, stand-alone, GEL	1,279,286	1,023,756	25.0%
Net loans, stand-alone, FC	1,517,193	1,043,217	45.4%
Client deposits, stand-alone, currency blended	1,880,018	1,349,556	39.3%
Client deposits, stand-alone, GEL	486,806	437,712	11.2%
Client deposits, stand-alone, FC	1,393,212	911,844	52.8%
Time deposits, stand-alone, currency blended	1,156,382	789,413	46.5%
Time deposits, stand-alone, GEL	192,178	174,552	10.1%
Time deposits, stand-alone, FC	964,204	614,861	56.8%
Current accounts and demand deposits, stand-alone, currency blended	723,636	560,143	29.2%
Current accounts and demand deposits, stand-alone, GEL	294,628	263,160	12.0%
Current accounts and demand deposits, stand-alone, FC	429,008	296,983	44.5%

Key ratios

GEL thousands, unless otherwise noted	2015	2014
Net interest margin, currency blended	9.6%	9.8%
Cost of risk	2.6%	0.4%
Loan yield, currency blended	17.6%	17.4%
Loan yield, GEL	24.2%	21.5%
Loan yield, FC	10.6%	12.4%
Cost of deposits, currency blended	3.9%	3.8%
Cost of deposits, GEL	4.7%	4.2%
Cost of deposits, FC	3.5%	3.6%
Cost of time deposits, currency blended	5.5%	5.7%
Cost of time deposits, GEL	8.7%	8.2%
Cost of time deposits, FC	4.7%	4.9%
Current accounts and demand deposits, currency blended	1.2%	1.0%
Current accounts and demand deposits, GEL	1.5%	1.0%
Current accounts and demand deposits, FC	0.9%	1.0%
Cost/income ratio	40.3%	43.0%

Performance highlights

Retail Banking revenue in 2015 increased to GEL 427.4 million, up 44.0% y-o-y. Net banking interest income reached a record level of GEL 322.9 million, up 49.6%. Impressive growth in net banking interest income for Retail Banking was mostly a result of PrivatBank integration, which was primarily a credit card business, and the significant growth (partly attributable to the devaluation effect) of the Retail Banking loan book, particularly the mortgage, micro and SME loan portfolios, and a fairly stable NIM.

The Retail Banking net loan book reached a record level of GEL 2,796.5 million, up 35.3% y-o-y; with robust growth on constant currency basis of 19.0% y-o-y. The growth was a result of strong loan origination delivered across all Retail Banking segments: consumer loan originations of GEL 671.2 million in 2015 resulted in consumer loans outstanding totalling GEL 626.8 million as of 31 December 2015, up 19.2% y-o-y; micro loan originations of GEL 572.0 million in 2015 resulted in micro loans

outstanding totalling GEL 546.7 million as of 31 December 2015, up 27.2% y-o-y; SME loan originations of GEL 346.9 million in 2015 resulted in SME loans outstanding totalling GEL 357.1 million as of 31 December 2015, up 51.2% y-o-y; Mortgage loans originations of GEL 288.1 million in 2015 resulted in mortgage loans outstanding of GEL 809.0 million as of 31 December 2015, up 34.6% y-o-y; point of sale (POS) loan originations of GEL 200.3 million in 2015 resulted in POS loans outstanding of GEL 119.4 million as of 31 December 2015, up 28.2% y-o-y.

Retail Banking client deposits increased to GEL 1,880.0 million, up 39.3% y-o-y; growth on constant currency basis was 15.5% y-o-y. The growth of client deposits on a y-o-y basis was due to the increase in the number of Express Banking clients, who bring with them the cheapest source of deposits for the Bank – current accounts and demand deposits.

Our Retail Banking net fee and commission income increased to a record level of GEL 78.2 million, up 32.9% y-o-y. Net fee and commission income reflects continued growth of our Express Banking franchise, which has attracted 425,350 previously unbanked emerging mass market customers since its launch three years ago; it grew 58,669 y-o-y in 2015, alongside the addition of c.400,000 customers as a result of the PrivatBank acquisition. This has driven the number of client-related foreign currency and other banking transactions substantially higher.

Retail Banking recorded NIM of 9.6%, down 20 bps y-o-y, reflecting an increased Loan Yield of 17.6%. Increase of 20 bps y-o-y was largely a result of PrivatBank's high yielding loan portfolio which was consolidated in 2Q15 and had a loan yield of 29.3% at the moment of acquisition and Cost of Client Deposits of 3.9%, up 10 bps y-o-y, which is a resilient performance notwithstanding the increase in local currency denominated deposits.

Overview of financial results continued



Operating expenses increased to GEL 172.3 million, up 35.0% y-o-y, resulting in a Cost to Income ratio of 40.3% and positive operating leverage of 9.0 percentage points, which reflects increases in salaries and other employee benefits, principally driven by the growth in headcount that reflects the growing revenue base and increase in administrative expenses which was largely driven by expenses on rent, predominantly due to the appreciation of the US Dollar and the listing currency of rentals in Georgia. Increased number of leased branches also drove the increase in depreciation and amortisation.

The cost of credit jumped significantly to GEL 75.4 million in 2015, compared to GEL 9.2 million in 2014. The increase was a result of a combination of factors including the 35.3% growth of the Retail Banking loan book, the devaluation and the new portfolio acquired with the PrivatBank acquisition. Consequently, Retail Banking Cost of Risk was 2.6% compared to 0.4% a year ago. The following factors contribute to what we consider to be a relatively low default rate in Retail Banking: a large number of our Retail Banking borrowers (approximately 500,000 borrowers), whose loans are in local currency, are not affected by the US Dollar appreciation against Georgian Lari; although our mortgage borrowers are affected by the devaluation as most mortgages are US Dollar denominated, they represent a very small portion of our clients (approximately 13,000). Additionally, these customers are relatively high earners, with a bigger capacity to bear the effects of devaluation; our Retail Banking clients prefer to save in US Dollars as indicated by the dollarisation levels of our client deposits; thus their interest income in nominal Georgian Lari terms has increased with the Georgian Lari devaluation against the US Dollar. These also represent clients who either

have local currency or mortgage loans; US Dollar is the main currency for remittances, a major source of hard currency inflows to Georgia, which represent the main income for a large number of families in Georgia. Therefore, their income increased in nominal local currency terms with the US Dollar appreciation.

As a result, Retail Banking profit reached GEL 146.7 million in 2015, up 8.8% y-o-y and achieved a strong ROAE of 24.6% in 2015.

Operating highlights

Our Express Banking continues to deliver strong growth as we follow our mass market Retail Banking strategy. 1,191,828 Express Cards have been issued since their launch in September 2012, in essence replacing the pre-paid Metro cards which were previously used. Of this, 469,919 Express Cards have been issued in 2015. Increased number of Express Pay terminals to 2,589 from 2,239 a year ago. Express Pay terminals are an alternative to tellers, placed at bank branches as well as various other venues (groceries, shopping malls, bus stops, etc.), and are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups.

In 2015, utilisation of Express Pay terminals increased significantly, with the number of transactions growing to GEL 113.1 million, up 13.8%. Increased Point of Sale (POS) footprint to 308 desks and 3,335 contracted merchants as of 31 December 2015, up from 305 desks and 2,709 contracted merchants as of 31 December 2014. POS terminals outstanding reached 8,103 up 28.2% y-o-y, including 1,016 PrivatBank operated POS terminals. The volume of transactions through the Bank's POS terminals grew to GEL 710.6 million, up 22.7% y-o-y. This represents the number

of POS transactions of 20.6 million, up 40.7% y-o-y for full year 2015. POS loans outstanding reached GEL 119.4 million as of 31 December 2015, up 28.2% y-o-y.

Since we launched Solo – a fundamentally different approach to premium banking – in April 2015, the number of Solo clients has reached 11,869, up 48.9% y-o-y from 7,971 a year ago. With Solo we are targeting the mass affluent retail segment and aim to build brand loyalty through exclusive experiences offered through the new Solo Lifestyle. Through Solo Lifestyle, our Solo clients are given access to exclusive products and the finest lounge-style environment at our newly designed Solo lounges and are provided with new lifestyle opportunities, such as exclusive events and handpicked lifestyle products. In our Solo lounges, Solo clients are offered, at a cost, a selection of luxury products and accessories that are currently not available in the country. Solo clients enjoy tailor-made solutions including new financial products such as bonds, which pay a significantly higher yield compared to deposits, and other securities developed by Galt & Taggart, the Bank's Investment Banking arm.

The number of Retail Banking clients totalled 1,999,869, up 37.8% y-o-y. This includes PrivatBank's c.400,000 clients. The total number of cards increased significantly to 1,958,377, up 69.3% y-o-y. The total number of debit cards outstanding increased to 1,204,103, up 15.8% y-o-y. The total number of outstanding credit cards amounted to 754,274, up 6.5 times y-o-y, with PrivatBank contributing significantly to this growth. Of this, 100,515 were American Express cards, down 8.9% y-o-y. A total of 259,288 American Express cards have been issued since the launch in November 2009.

PrivatBank story: strategic acquisition and flawless integration execution

In December 2014 – the Board made the decision to acquire PrivatBank as it represented a strong strategic fit with our target to increase our share of retail loans. PrivatBank was essentially a credit card business with retail loans making up 85% of its loan book. In addition, PrivatBank with its vast branch network (43% of the Bank's network at that time) represented a particularly strong fit for the Bank's Express branch (self-service) format. This was also complemented with PrivatBank's strong payment platform.

In January 2015 – we completed the acquisition of PrivatBank for c.GEL 92 million cash consideration for 100% of PrivatBank (1.11x P/BV), of which 10% or GEL 9.2 million will be paid on the first anniversary of the closing (January 2016), subject to representations and warranties/holdback provisions. During the five months following the acquisition, our integration team focused on IT integration, optimisation of costs and number of branches, PrivatBank product development and relevant trainings. Our IT integration team spent two months in Dnepropetrovsk, Ukraine at PrivatBank headquarters to migrate PrivatBank's information systems into our banking software, which we completed with just 24 hours of downtime for PrivatBank clients. This represents an exceptionally short period of time for full IT integration in the banking industry. All of the data associated with the customers and transaction histories, including the data of c.800,000 customers (of which

c.400,000 are active customers), over 1.1 million cards with respective transaction histories, c.150,000 loans and c.75,000 deposits, have been successfully migrated onto our banking software.

During this period, we rebranded 35 PrivatBank branches into our self-service format Express Banking branches, and completed the in-house development of PrivatBank's trademark mono-product of an all-in-one debit and credit card to add the transport and payment capabilities of our Express card. PrivatBank customers continue to use PrivatBank cards, which are now serviced by our card processing platform, without the need to change them into Bank of Georgia cards. In order to optimise PrivatBank's branch network, we pilot tested utilisation of our Express Pay terminals by PrivatBank's clients. The results showed that the terminals, which act as a self-service substitute to branches, had proved very popular with PrivatBank clients. Consequently, we closed more branches than initially expected – 58 out of 93 – and reduced PrivatBank employee numbers by c.50%, which contributed to a significant reduction in PrivatBank operating costs, down 44.6% q-o-q in 2Q15 despite only having effect for last 50 days in 2Q15. Active liability optimisation measures resulted in a significantly reduced Cost of Funding to 5.3% in 2Q15 (7.5% in 1Q15). We reported PrivatBank stand-alone figures until its full integration in May 2015.

In May 2015 – we announced the completion of the full integration of PrivatBank, in under five months compared to our initial integration estimate of nine to 12 months. Integration costs totalled GEL 2.6 million as of 30 June 2015, less compared to our expectation of up to GEL 3 million. We anticipate annualised pre-tax administrative and funding cost synergies to reach c.GEL 29 million – above our pre-announced GEL 25 million – as a result of GEL 18.5 million synergy in operating expenses compared to pre-announced GEL 15 million and GEL 10.5 million synergy in cost of funds, slightly above the pre-announced GEL 10 million. PrivatBank, which at the time of acquisition was the ninth largest bank in Georgia by assets, increased our market share in retail loans by 4.3 percentage points and in retail deposits by 2.5ppts (Market data as of 31 March 2015). The acquisition added c.400,000, predominantly emerging mass market, customers. We plan to leverage the enhanced capabilities of our Express Banking franchise to capture increased revenue from cross-selling banking products to these newly acquired customers, who currently have very low product to client ratios.

PrivatBank acquisition project name was "Salo"



Salo is a traditional Ukrainian food consisting of cured slabs of fatback (rarely pork belly), with or without skin.

Strategic acquisition



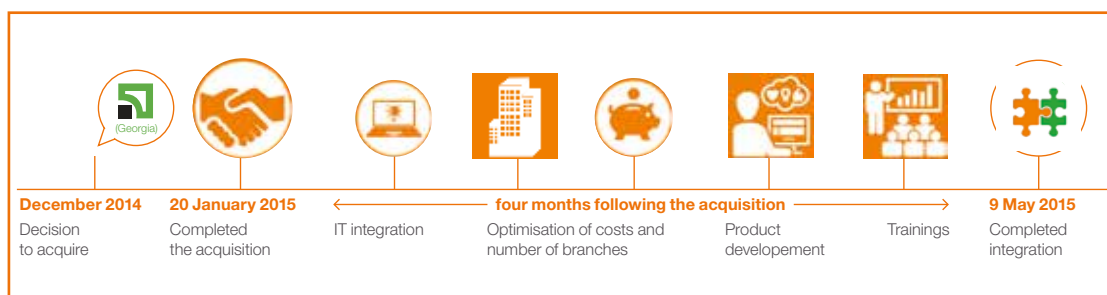
Business highlights

- Primarily a credit card business, with mono-product
- Loan book GEL 245.6 million
- Deposits GEL 266.8 million
- Total clients 400k
- NIM 20.5%
- Cost of funding 8.1%
- Cost of risk 10.1%

Transaction highlights

- A strong strategic fit with our target to increase our share of retail loans
- c.GEL 92 million cash consideration for 100% of PrivatBank (1.11x P/BV), resulting in P/E of 3.2x
- Integration costs totalled GEL 2.6 million as of 30 June 2015, less compared to our expectation of up to GEL 3 million
- Completed integration in under five months compared to our initial integration estimate of 9 to 12 months
- We anticipate annualised pre-tax administrative and funding cost synergies to reach c.GEL 29 million – above our pre-announced GEL 25 million

Flawless integration execution



Overview of financial results continued

Corporate Banking (CB)

Net loan book

(GEL million)

2,130.4

-1.4% y-o-y, -21.0% y-o-y on constant currency basis

Revenue

(GEL million)

213.3

+33.5% y-o-y



The Corporate Banking business in Georgia comprises of loans and other credit facilities to the country's large corporate clients as well as other legal entities, excluding SME and micro businesses. The services include fund transfers and settlements services, currency conversion operations, trade

finance services and documentary operations as well as handling savings and term deposits for corporate and institutional customers. The Corporate Banking Business also includes finance lease facilities provided by the Bank's leasing operations (the Georgian Leasing Company).

Income statement highlights

GEL thousands, unless otherwise noted

	2015	2014	Change y-o-y
Net banking interest income	134,883	103,158	30.8%
Net fee and commission income	31,142	24,811	25.5%
Net banking foreign currency gain	38,136	24,848	53.5%
Net other banking income	9,178	6,996	31.2%
Revenue	213,339	159,813	33.5%
Salaries and other employee benefits	(33,828)	(33,196)	1.9%
Administrative expenses	(13,207)	(10,963)	20.5%
Banking depreciation and amortisation	(4,126)	(3,812)	8.2%
Other operating expenses	(727)	(1,014)	-28.3%
Operating expenses	(51,888)	(48,985)	5.9%
Operating income before cost of credit risk	161,451	110,828	45.7%
Cost of credit risk	(55,678)	(41,750)	33.4%
Net non-recurring items	(4,539)	(2,672)	69.9%
Profit before income tax	101,234	66,406	52.4%
Income tax expense	(14,928)	(9,493)	57.3%
Profit	86,306	56,913	51.6%

Balance sheet highlights

GEL thousands, unless otherwise noted

	2015	2014	Change y-o-y
Letters of credit and guarantees, stand-alone ¹	511,399	552,661	-7.5%
Net loans, stand-alone, currency blended	2,130,362	2,160,767	-1.4%
Net loans, stand-alone, GEL	219,588	284,987	-22.9%
Net loans, stand-alone, FC	1,910,774	1,875,780	1.9%
Client deposits, stand-alone, currency blended	1,848,039	1,186,026	55.8%
Client deposits, stand-alone, GEL	777,287	575,882	35.0%
Client deposits, stand-alone, FC	1,070,752	610,144	75.5%
Time deposits, stand-alone, currency blended	461,731	391,514	17.9%
Time deposits, stand-alone, GEL	175,738	197,222	-10.9%
Time deposits, stand-alone, FC	285,993	194,292	47.2%
Current accounts and demand deposits, stand-alone, currency blended	1,386,308	794,512	74.5%
Current accounts and demand deposits, stand-alone, GEL	601,549	378,660	58.9%
Current accounts and demand deposits, stand-alone, FC	784,759	415,852	88.7%

¹ Off-balance sheet items.

Ratios

GEL thousands, unless otherwise noted	2015	2014
Net interest margin, currency blended	4.5%	4.5%
Cost of risk	2.3%	1.7%
Loan yield, currency blended	10.7%	10.6%
Loan yield, GEL	12.6%	10.5%
Loan yield, FC	10.4%	10.6%
Cost of deposits, currency blended	3.4%	2.9%
Cost of deposits, GEL	5.2%	3.4%
Cost of deposits, FC	1.8%	2.4%
Cost of time deposits, currency blended	6.3%	6.4%
Cost of time deposits, GEL	7.9%	7.9%
Cost of time deposits, FC	4.7%	5.6%
Current accounts and demand deposits, currency blended	2.1%	1.5%
Current accounts and demand deposits, GEL	4.0%	2.2%
Current accounts and demand deposits, FC	0.4%	0.8%
Cost/income ratio	24.3%	30.7%

Performance highlights

Corporate Banking revenue increased to GEL 213.3 million, up 33.5% y-o-y.

Annual growth was diversified across all revenue lines, with net banking interest income driving the majority of the increase since the same period last year.

Net banking interest income was GEL 134.9 million, up 30.8%. While the net loan book and the loan yield for CB were largely flat y-o-y, the growth in net interest income was primarily driven by the appreciation of the US Dollar, as almost 90% of corporate banking loans are foreign currency denominated, primarily in US Dollars.

The Corporate Banking net loan book was GEL 2,130.4 million, down 1.4% y-o-y. On a constant currency basis, the corporate loan book declined by 21.0% y-o-y. Foreign currency denominated loans grew slightly by 1.9% y-o-y, while local currency denominated loans decreased considerably by 22.9% y-o-y, reflecting the appreciation of the US Dollar during the year.

Corporate Banking client deposits increased significantly to GEL 1,848.0 million, up 55.8% y-o-y. Growth on a constant currency basis was 34.2% y-o-y. The mix of client deposits by currency showed the same dynamics and drivers in 2015, as for our loan book, resulting in 35.0% increase in local currency denominated deposits, reaching GEL 777.3 million, compared to 75.5% increase in foreign currency denominated deposits, reaching GEL 1,070.8 million.

Our current account balances have increased significantly during 2015, reflecting our focused efforts on maintaining high liquidity levels, particularly in local currency. This is also reflected in increased cost of current accounts and demand deposits to 2.1% in 2015, up from 1.5% a year ago. The increase was primarily driven by an increase in cost of local currency denominated current accounts and demand deposits to 4.0%, up from 2.2% a year ago, while we reduced cost on foreign currency denominated current accounts and demand deposits. As a result, at the end of 2015, total current accounts and demand deposits reached GEL 1,386.3 million, up 74.5% y-o-y, of which local currency denominated current accounts and demand deposits were GEL 601.5 million, up 58.9% y-o-y and foreign currency denominated, mostly US Dollar, current accounts and demand deposits were GEL 784.8 million, up 88.7% y-o-y.

Our Corporate Banking net fee and commission income increased to GEL 31.1 million, up 25.5% y-o-y. Our net banking foreign currency gain increased significantly in 2015, reflecting increased volatility of the GEL/US Dollar exchange rate during these periods. As a result, we recorded net banking foreign currency gain of GEL 38.1 million, up 53.5%

Corporate banking recorded NIM 4.5%, flat y-o-y. NIM reflected a growing Loan Yield, which was 10.7% in 2015, up 10 bps y-o-y. This was partially offset by the increasing Cost of Client Deposits, which was 3.4% in 2015, up 50 bps y-o-y, largely as a result of a more expensive Georgian Lari deposits as described above.

Operating expenses were well contained in 2015, increasing slightly to GEL 51.9 million, up only 5.9% y-o-y.

With the devaluation driven increase in revenue, this resulted in a very strong Cost to Income ratio of 24.3% in 2015 and positive operating leverage of 27.6 percentage points y-o-y. Slight increase in operating expenses was partially driven by salaries and other employee benefits of GEL 33.8 million in 2015, up GEL 0.6 million or 1.9% y-o-y, mainly reflecting 2.0% y-o-y decrease in cash bonuses and ESOP, related to lower loan origination during the year and administrative expenses which increased to GEL 13.2 million in 2015, up GEL 2.2 million or 20.5%, reflecting increase in occupancy and rent expenses mostly driven by US Dollar appreciation against the local currency.

Cost of credit risk was GEL 55.7 million in 2015, up 33.4%, and Corporate Banking Cost of Risk was 2.3% compared to 1.7% a year ago. As a result, Corporate Banking profit reached GEL 86.3 million in 2015, up 51.6% y-o-y. Our strategic goal for Corporate Banking in 2015 was to reduce concentration risk in the corporate lending and improve its ROAE. As a result of this strategy, concentration of top ten corporate banking clients was reduced to 12.4% in the end of 2015, down from 15.7% a year ago.

Corporate Banking achieved ROAE of 16.4% as of 31 December 2015, a significant improvement compared to 11.7% a year ago. This result reflects our continuous efforts to increase ROAE of Corporate Banking business, as well as the effect of the devaluation.

As a result of the recently announced combination of our Corporate Banking and Investment Management businesses into a Corporate Investment Banking business (CIB), we expect to grow our fee income, further improve the Bank's ROAE and reduce the concentration risk in the corporate lending portfolio. Reflecting this change, the Group will report CIB business results separately starting in the first quarter 2016.

Overview of financial results continued

Investment Management

AUM

WM client deposits, Galt & Taggart brokerage client assets, WM clients' assets held at Bank of Georgia custody and Aldagi pension scheme assets
(GEL million)

1,373.1

+33.7% y-o-y

Client deposits

(GEL million)

1,023.3

+27.1% y-o-y,

on constant currency basis -0.6% y-o-y



Investment Management consists of Bank of Georgia Wealth Management and the brokerage arm of the Bank, Galt & Taggart. Bank of Georgia Wealth Management provides private banking services to high-net-worth individuals and

offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Galt & Taggart brings under one brand corporate advisory, private equity and brokerage services.

Investment Management financial highlights (includes Galt & Taggart)

Income statement highlights

GEL thousands, unless otherwise noted	2015	2014	Change y-o-y
Net banking interest income	20,941	14,613	43.3%
Net fee and commission income	3,193	8,760	-63.6%
Net banking foreign currency gain	3,627	1,432	153.3%
Net other banking income	1,178	789	49.3%
Revenue	28,939	25,594	13.1%
Salaries and other employee benefits	(9,506)	(9,560)	-0.6%
Administrative expenses	(1,367)	(1,737)	-21.3%
Banking depreciation and amortisation	(486)	(413)	17.7%
Other operating expenses	(111)	(100)	11.0%
Operating expenses	(11,470)	(11,810)	-2.9%
Operating income before cost of credit risk	17,469	13,784	26.7%
Cost of credit risk	(480)	47	NMF
Net operating income before non-recurring items	16,989	13,831	22.8%
Net non-recurring items	(337)	(296)	13.9%
Profit before income tax	16,652	13,535	23.0%
Income tax expense	(2,328)	(2,029)	14.7%
Profit	14,324	11,506	24.5%

Wealth Management financial highlights (excludes Galt & Taggart)

Balance sheet highlights

GEL thousands, unless otherwise noted	2015	2014	Change y-o-y
Client deposits, stand-alone, currency blended	1,023,284	805,266	27.1%
Client deposits, stand-alone, GEL	19,951	22,115	-9.8%
Client deposits, stand-alone, FC	1,003,333	783,151	28.1%
Time deposits, stand-alone, currency blended	786,989	596,366	32.0%
Time deposits, stand-alone, GEL	11,699	13,882	-15.7%
Time deposits, stand-alone, FC	775,290	582,484	33.1%
Current accounts and demand deposits, stand-alone, currency blended	236,295	208,900	13.1%
Current accounts and demand deposits, stand-alone, GEL	8,252	8,233	0.2%
Current accounts and demand deposits, stand-alone, FC	228,043	200,667	13.6%
Assets under management	1,373,112	1,027,085	33.7%

Ratios

GEL thousands, unless otherwise noted	2015	2014
Cost of deposits, currency blended	5.2%	6.0%
Cost of deposits, GEL	5.7%	6.3%
Cost of deposits, FC	5.2%	6.0%
Cost of time deposits, currency blended	6.3%	7.4%
Cost of time deposits, GEL	8.6%	9.0%
Cost of time deposits, FC	6.2%	7.3%
Current accounts and demand deposits, currency blended	2.3%	2.4%
Current accounts and demand deposits, GEL	1.5%	1.3%
Current accounts and demand deposits, FC	2.3%	2.5%

Performance highlights

The AUM of the Investment Management segment increased to GEL 1,373.1 million, up 33.7% y-o-y.

This includes Wealth Management clients' deposits and assets held at Bank of Georgia Custody, Galt & Taggart brokerage client assets and Aldagi pension scheme assets. Investment Management posted GEL 14.3 million profit in 2015 compared to GEL 11.5 million in 2014. Net fee and commission income of GEL 3.2 million compared to GEL 8.8 million in 2014.

Wealth Management deposits increased to GEL 1,023.3 million, up 27.1% y-o-y, growing at a compound annual growth rate (CAGR) of 31.4% over the last five-year period. On a constant currency basis, deposits decreased by 0.6% y-o-y on the back of a 70 bps decline in the Cost of Client deposits to 4.8% in 4Q15. The decrease was partially due to Wealth Management focus switching from deposits to bonds, as a number of bond issuances, yielding higher rates than deposits by Galt & Taggart, were offered to Wealth Management clients.

As of 31 December 2015, the amount of the Bank's Certificates of Deposits issued to Investment Management clients increased to GEL 589.8 million, up 28.0% compared to 31 December 2014. We served over 1,390 Wealth Management clients from 68 countries as of 31 December 2015.

Galt & Taggart is succeeding in developing local capital markets, and acted as a placement agent for:

- GEL 25 million floating rate notes issued by the European Bank for Reconstruction and Development (EBRD) and GEL 30 million bonds issued by IFC (International Finance Corporation). Both transactions were completed in February 2015.
- US\$ 20 million two-year bonds for m² Real Estate, the largest non-IFI issue to date. The transaction was met with considerable interest, particularly from Wealth Management clients. The transaction was completed in March 2015.
- US\$ 15 million two-year bonds for the Group's wholly owned subsidiary Evex, the healthcare services company of healthcare business GHG. This was the first bond placement by our healthcare

subsidiary. The proceeds from the transaction were intended to be used by the healthcare subsidiary to invest in organic growth opportunities. The transaction was completed in May 2015.

- Galt & Taggart (G&T) acted as a Co-Leader Manager for the US\$ 100 million IPO of Georgia Healthcare Group on the London Stock Exchange (GHG:LN) in November 2015. This marks a landmark transaction for G&T in helping Georgian companies raise equity financing from local and international investors.
- Since its launch in June 2012, Galt & Taggart Research has initiated research coverage of the Georgian and Azeri economies, including a report analysing the impact of Russia-Ukraine standoff on the Georgian economy, the Georgian Retail Real Estate Market, the Georgian Wine Sector, Georgian Agricultural Sector, Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and has issued notes on the Georgian State Budget and the Tourism Sector. Galt & Taggart reports are available at www.galtandtaggart.com.

Overview of financial results continued

Healthcare business (Georgia Healthcare Group – GHG)



Revenue (GEL million)

242.7

+22.5% y-o-y

EBITDA (GEL million)

56.1

+52.3% y-o-y

Organic revenue growth

17.3%

Healthcare business (Georgia Healthcare Group – GHG)

Income statement

GEL thousands, unless otherwise noted

	2015	2014	Change y-o-y
Revenue, gross	242,673	198,148	22.5%
Corrections and rebates	(3,608)	(1,816)	98.7%
Revenue, net	239,065	196,332	21.8%
Cost of services	(145,936)	(126,066)	15.8%
Gross profit	93,129	70,266	32.5%
Total operating expenses	(40,480)	(34,387)	17.7%
Other operating income/(expenses)	3,490	983	255.0%
EBITDA	56,139	36,862	52.3%
EBITDA margin	23.1%	18.6%	
Depreciation and amortisation	(12,665)	(7,630)	66.0%
Net interest (expense)/income	(20,281)	(12,806)	58.4%
Net (losses)/gains from foreign currencies	2,097	(2,494)	NMF
Net non-recurring (expense)/income	(1,682)	578	NMF
Profit before income tax expense	23,608	14,510	62.7%
Income tax (expense)/benefit	9	(1,246)	NMF
Profit for the period	23,617	13,264	78.1%
Attributable to:			
– shareholders of GHG PLC	19,651	10,207	92.5%
– non-controlling interests	3,966	3,057	29.7%

Note: For the purposes of the results discussion, healthcare business refers to the Group's healthcare business, Georgia Healthcare Group (GHG), which includes healthcare services and medical insurance. The results are based on management accounts and refer to standalone numbers.

Performance highlights

For full year 2015, GHG reported record results and strong growth, supported both organically and as a result of a number of acquisitions completed in 2014 and 2015.

Revenue reached GEL 242.7 million, implying growth of 22.5% y-o-y. The revenue growth was primarily driven by healthcare services business, which reported revenue of GEL 195.0 million, up 32.5% y-o-y with impressive 17.3% organic growth, and the remaining 15.2% growth was contributed from recent acquisitions. The medical insurance business also contributed GEL 55.3 million to total revenue, while recording a decrease of 20.8% y-o-y which was primarily driven by an anticipated shift in the structure of State-financed healthcare programmes.

Healthcare services revenue growth of 32.5% y-o-y was primarily driven by referral hospitals, which posted GEL 168.5 million revenue in 2015, up 36.6% y-o-y and driven by strong organic growth and acquisitions. Organic revenue growth of 17.3% was largely sourced from government-funded healthcare programmes. Medical insurance claims increased as Georgian Lari devaluation against the US Dollar drove the prices of drugs up, which represent c.21% of our medical insurance claims. To address the second driver, GHG has adjusted the pricing of medical insurance products and it is expected to have positive impact gradually, with the renewal of existing contracts or new sales at adjusted prices. Additionally, GHG is renegotiating prices for drugs with pharmaceutical distributors, leveraging its combined scale from claims on drugs in its medical insurance business and purchases of drugs and other medical disposables for its healthcare services business.

GHG's margins improved as a result of the increased utilisation and scale of the business, as well as management's continued focus on efficiency and the ongoing integration of recently acquired healthcare facilities, with a 15.8% increase in COGS lagging behind 22.5% growth in revenues. In 2015 operating expenses increased only 17.7% y-o-y, resulting in a positive operating leverage of 4.8 percentage points y-o-y. GHG delivered on its EBITDA margin target three years ahead of time (GHG targeted c.30% healthcare services business EBITDA margin by 2018). Healthcare services EBITDA margin reached 27.4% for the full year. As a result, strong margin performance translated into GHG EBITDA of GEL 56.1 million in full year 2015, up 52.3% y-o-y.

The increase in depreciation and amortisation costs was primarily driven by the acquisitions completed during the past year. The increase in net interest expense was a result of increased borrowings throughout the year raised for financing acquisitions and growth projects. However, net interest expense is expected to decrease significantly, as a total of GEL 104.4 million of borrowings were prepaid at year end 2015 and beginning of 2016 from IPO proceeds, reducing borrowings to GEL 105.6 million by the end of January 2016. As a result of prepaying the borrowings, GHG's net debt to EBITDA was zero, due to cash and bank deposits exceeding borrowings.

As a result, GHG's 2015 profit reached GEL 23.6 million, up 78.1% y-o-y for the period. The adjusted profit¹ was GEL 28.0 million, which reflects currency exchange adjustment relating to the proceeds received from the capital raise and the positive impact of utilising some of the proceeds to reduce the Group's existing indebtedness by GEL 104.4 million to GEL 105.6 million as at 31 January 2016.

By the end of 2015, GHG operated 45 healthcare facilities, of which 16 were referral hospitals, 19 were community hospitals, and 10 were ambulatory clinics. This compares to 28 healthcare facilities, of which five were referral hospitals, 20 were community hospitals, and five were ambulatory clinics as of 31 December 2012 – a remarkable three-year growth story. Total beds operated were 2,670, of which 2,209 were beds at referral hospitals and 461 were beds at community hospitals and market share by number of beds was 26.6%. The number of insured clients was 234,000 and GHG's market share in medical insurance was 38.4% based on net insurance premium revenue, as at 30 September 2015.

1. Adjusted net profit excludes the effect of the IPO. The adjusted profit includes add back for a non-recurring one-off FX loss as well as an add back of one quarter interest expense released through prepayment of debt at the end of 2015 and in January 2016.

Overview of financial results continued

Real estate business (m² Real Estate)

Sales during 2015

(US\$ million)

29.7

total of 347 apartments sold

Sales in completed projects since 2011

(US\$ million)

123.2

six completed projects

Sales in ongoing projects since 2011

(US\$ million)

19.3

two ongoing projects

Our real estate business is operated through the Bank's wholly owned subsidiary m² Real Estate, which develops residential property in Georgia. m² Real Estate outsources the construction and architecture works while itself focusing on project management

and sales. The Bank's Real Estate business serves to meet the unsatisfied demand in Tbilisi for housing through its well-established branch network and sales force, while stimulating the Bank's mortgage lending business.

Income statement

GEL thousands, unless otherwise noted

	2015	2014	Change y-o-y
Real estate revenue	53,852	60,455	-10.9%
Cost of real estate	(39,721)	(46,810)	-15.1%
Gross real estate profit	14,131	13,645	3.6%
Gross other investment profit	7,502	107	NMF
Revenue	21,633	13,752	57.3%
Salaries and other employee benefits	(1,150)	(1,177)	-2.3%
Administrative expenses	(4,710)	(3,959)	19.0%
Operating expenses	(5,860)	(5,136)	14.1%
EBITDA	15,773	8,616	83.1%
Depreciation and amortisation of investment business	(191)	(332)	-42.5%
Net foreign currency loss from investment business	(1,534)	(896)	71.2%
Interest income from investment business	386	254	52.0%
Interest expense from investment business	(1,566)	(778)	101.3%
Net operating income before non-recurring items	12,868	6,798	89.3%
Net non-recurring items	(137)	18	NMF
Profit before income tax	12,731	6,816	86.8%
Income tax (expense) benefit	(1,974)	(1,022)	93.2%
Profit	10,757	5,794	85.7%

Performance highlights

Following completion of its Tamarashvili Street project with 522 apartments in 2014, m² Real Estate completed another project on Nutsbidze Street with 221 apartments, in 2015. At the beginning of 2016 m² additionally completed three projects with the total capacity of 803 apartments.

m² Real Estate recorded strong revenue growth in 2015, increasing to GEL 21.6 million, up 57.3% y-o-y, driven by strong project execution and sales performance. Gross real estate profit, which reflects residential property development and sales operations of m² Real Estate, increased to GEL 14.1 million, up 3.6% y-o-y, primarily driven by strong sales performance in relation to the Nutsbidze Street project.

m² Real Estate sold a total of 347 apartments with a sales value of US\$ 29.7 million in 2015, compared to 573 apartments sold with a sales value of US\$ 46.7 million in 2014. At its three projects which have already been completed at the end of 2015 with a total of 866 apartments, m² Real Estate had a stock of only 21 apartments unsold at the end of 2015. At the beginning of 2016 m² additionally completed three projects with the total capacity of 803 apartments, of which 603 or 75% of apartments

were already sold by the date of this report. At its two ongoing projects with a total capacity of 838 apartments, 232 apartments or 28% are already sold.

Pursuant to m² Real Estate's current revenue recognition policy (in line with IAS 18), revenue is recognised at the full completion of the project. Because of its revenue recognition policy, m² Real Estate had accumulated US\$ 57.1 million sales from its ongoing projects by the end of 2015, which will be recognised as revenue upon completion of the ongoing projects in 2016-2018 (of which c.US\$ 43 million is expected to be recognised in 2016).

m² Real Estate has completed all of its projects on or ahead of time and within budget. Additionally, m² Real Estate started construction of two new projects in 2015 with a total of 838 apartments. One of these projects is the largest ever carried out by m² Real Estate, with a total of 819 apartments in a central location in Tbilisi. Another project is also a new type of project for m² Real Estate, representing a luxury residential building in Old Tbilisi neighbourhood with few apartments (19 in total) and relatively high price tag.

In summary, m² Real Estate has started eight projects since its establishment in 2010, of which six have already been completed, and construction of two is ongoing. One of these is expected to be completed in 2016 and one more is expected to be completed in 2018. Currently, only 825 units are available for sale out of total of 2,507 apartments developed or being at different stages of development. We are unlocking a total land value of US\$ 16.6 million from the six completed projects and remaining US\$ 8.9 million is expected to be unlocked upon completion of the on-going two projects.

The number of apartments financed with BOG mortgages in all m² Real Estate projects as of 31 December 2015 totalled 788, with an aggregate amount of GEL 86.7 million.

m² Real Estate recognised significant increase in gross other investment profit to GEL 7.5 million, up from GEL 0.1 million a year ago. This is the net effect of the general property revaluation of the land-plots and buildings owned by m² Real Estate. Growth in revenue largely outpaced growth in operating expenses, resulting in 83.1% y-o-y growth in EBITDA to GEL 15.8 million in 2015, which eventually translated into GEL 10.8 million profit, up 85.7% y-o-y.

Project performance highlights

Completed projects



Chubinishvili Street

- IRR realised: 47%
- Start date: September 2010
- Completion: August 2012
- Apartments sold: 123/123, 100%
- Sales: US\$ 9.9 million
- Recognised as revenue by the end of 2015: US\$ 9.9 million
- Land value unlocked: US\$ 0.9 million



Tamarashvili Street

- IRR realised: 46%
- Start date: May 2012
- Completion: June 2014
- Apartments sold: 522/522, 100%
- Sales: US\$ 48.0 million
- Recognised as revenue by the end of 2015: US\$ 47.6 million
- Land value unlocked: US\$ 5.4 million



Nutsubidze Street

- IRR realised: 58%
- Start date: December 2013
- Completion: September 2015
- Apartments sold: 202/221, 91%
- Sales: US\$ 16.2 million
- Recognised as revenue by the end of 2015: US\$ 14.1 million
- Unlocking land value of : US\$ 2.2 million



Kazbegi Street

- Expected IRR: 165%
- Start date: December 2013
- Completion: March 2016
- Apartments sold: 266/295, 90%
- Sales: US\$ 24.4 million
- Recognised as revenue by the end of 2015: US\$ 9.4 million
- Unlocking land value of: US\$ 3.6 million

Completed projects



Tamarashvili Street II

- Expected IRR: 71%
- Start date: July 2014
- Completion: April 2016
- Apartments sold: 193/270, 71%
- Sales: US\$ 17.9 million
- Unlocking land value of: US\$ 2.7 million



Moscow Avenue

- Expected IRR: 31%
- Start date: September 2014
- Completion: March 2016
- Apartments sold: 144/238, 61%
- Sales: US\$ 6.8 million
- Unlocking land value of: US\$ 1.6 million

Ongoing projects



Kartoza Street

- Expected IRR: 31%
- Start date: November 2015
- Completion expected: September 2018
- Construction progress: 8% completed as of February 2016
- Apartments sold: 223/819, 27%
- Sales: US\$ 15.7 million
- Expected land value to be unlocked: US\$ 5.8 million



Skyline

- Expected IRR: 329%
- Start date: December 2015
- Completion expected: December 2016
- Construction progress: 5% completed as of February 2016
- Apartments sold: 9/19, 47%
- Sales: US\$ 3.7 million
- Expected land value to be unlocked: US\$ 3.1 million

Directors' Governance Statement – Leadership

Our Board of Directors

We see our Board as a team comprised of individuals each having an area of expertise, but who collectively engage in the full range of issues facing the Group.



01. Neil Janin
Non-Executive
Chairman

02. Irakli Gilauri
CEO

03. David Morrison
Senior
Independent
Non-Executive
Director

**04. Alasdair
(Al) Breach**
Independent
Non-Executive
Director

**05. Kakhaber (Kaha)
Kiknavelidze**
Independent
Non-Executive
Director

06. Kim Bradley
Independent
Non-Executive
Director

**07. Tamaz
Georgadze**
Independent
Non-Executive
Director

08. Bozidar Djelic
Independent
Non-Executive
Director

09. Hanna Loikkanen
Independent
Non-Executive
Director

01. Neil Janin

Non-Executive Chairman

Mr Janin was appointed Non-Executive Chairman on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Janin serves as Chairman of BGEO's Nomination Committee as well as a member of BGEO's Remuneration Committee. Mr Janin also serves as a member of the Supervisory Board of the Bank, having stepped down as Chairman in July 2015, a position he had held since 2010. Mr Janin continues to serve as a member of the Bank's Remuneration Committee, a position he has held since 2010. Mr Janin also serves as a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group.

Skills and experience:

Mr Janin serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. Prior to joining the Bank in 2010, Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. In 2009, while serving as a member of the French Institute of Directors, Mr Janin authored a position paper on the responsibilities of the board of directors with regard to the design and implementation of a company's strategy. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America.

Mr Janin is also a Director of Neil Janin Limited, a company through which he provides consulting services.

Education:

Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

02. Irakli Gilauri

CEO

Irakli Gilauri was appointed as an Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Gilauri has served as CEO of BGEO since his appointment in 2011, and was appointed Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Mr Gilauri also serves as CEO of JSC BGEO Group and Chairman of the Board of Georgia Healthcare Group PLC and Chairman of the Supervisory Boards of JSC Georgia Healthcare Group, insurance company Aldagi and the Tree of Life Foundation. He is also a member of the Supervisory Board of the following subsidiaries: Georgia Global Utilities, Agron Group, Belarusky Narodny Bank, Galt & Taggart Holdings and m² Real Estate.

Skills and experience:

Before his employment with the Bank, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies.

Education:

Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the CASS Business School of City University, London, where he obtained his MSc in Banking and International Finance.

03. David Morrison

Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Morrison assumed the role of Chairman of BGEO's Audit Committee in December 2013, prior to which he served as a member of the Committee. Mr Morrison is also a member of BGEO's Remuneration and Nomination Committees, and serves on the Bank's Supervisory Board and as a member of the Bank's Audit and Remuneration Committees, positions he has held since 2010. Mr Morrison is a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group.

Skills and experience:

Mr Morrison is a member of the New York bar and worked for 28 years at Sullivan & Cromwell LLP until he withdrew from the firm in 2007 to pursue other interests. At Sullivan & Cromwell, he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, including capital raisings, IPOs and mergers and acquisitions. Key clients included investment banks and a wide range of commercial and industrial companies. He advised on a number of the largest privatisations in Europe, and was advisor to Germany's development bank, Kreditanstalt für Wiederaufbau (KfW) for over 20 years (serving on the Board of Directors of KfW's finance subsidiary). Mr Morrison is the author of several publications on securities law-related topics, and has been recognised as a leading lawyer in Germany and France.

In 2008, Mr Morrison turned his attention to nature protection financing. He became the Founding CEO of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. He resigned as CEO in March 2016 and now serves on the Board of Directors of CNF. In 2015, Mr Morrison helped to create a new conservation trust fund for the Balkans, known as Prespa Ohrid Nature Trust (PONT). He now serves as PONT's CEO on an interim basis.

Education:

Mr Morrison received his undergraduate degree from Yale College, received his law degree from the University of California, Los Angeles, and was a Fulbright scholar at the University of Frankfurt.

Directors' Governance Statement – Leadership continued

04. Alasdair (Al) Breach

Independent Non-Executive Director

Al Breach was appointed as an Independent Non-Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Breach serves as Chairman of BGEO's Remuneration Committee and serves as a member of BGEO's Risk and Nomination Committees. Mr Breach also serves as a member of the Bank's Supervisory Board and Chairman of the Bank's Remuneration Committee, positions he has held since 2010, and has also been a member of the Bank's Risk Committee since December 2014.

Skills and experience:

In 2013, Mr Breach co-founded Gemsstock Limited, a UK FCA-regulated fund manager, where he also serves as an Executive Director. In 2010, Mr Breach founded Furka Advisors AG, a Swiss-based asset management firm, and served as an Executive Director until founding Gemsstock Limited, which manages the Gemsstock Fund, which was previously called the Gemsstock Growth Fund and managed by Mr Breach at Furka Advisors AG. His previous career was in research in investment banks, principally in Russia. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and FSU (Former Soviet Union) economist at Goldman Sachs, based in Moscow. Mr Breach is also the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008.

Mr Breach serves as a Director of Gemsstock Limited, the Gemsstock Fund, The Browser and Furka Holdings AG, all of which are private entities. He is also an advisor to East Capital.

Education:

Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

05. Kakhaber (Kaha) Kiknavelidze

Independent Non-Executive Director

Kaha Kiknavelidze was appointed as an Independent Non-Executive Director of BGEO on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Kiknavelidze serves as a member of BGEO's Audit, Risk and Nomination Committees. Mr Kiknavelidze also serves as a member of the Bank's Supervisory Board and Audit Committee, positions he has held since 2008, and has also been a member of the Bank's Risk Committee since December 2014.

Skills and experience:

Mr Kiknavelidze is the founder and Managing Partner of Rioni Capital Partners LLP and an Executive Director of Rioni Capital Services Ltd, an investment management company he continues to operate from London. Mr Kiknavelidze has over 15 years of experience in the equity markets, including serving as an Executive Director of UBS, where he supervised the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and, later, as Deputy Head of Research and Associate Partner, leading the oil and gas team. Mr Kiknavelidze began his career at the Bank as a Financial Manager in 1994.

Mr Kiknavelidze also serves as an Executive Director of Scholae Mundi Foundation, a charity, and as a Non-Executive Director of the Georgian Stock Exchange and OAS Zontik SICAV, a Luxembourg-based fund.

Education:

Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University in Tbilisi, Georgia, and received his MBA from Emory University.

06. Kim Bradley

Independent Non-Executive Director

Kim Bradley was appointed as an Independent Non-Executive Director of BGEO on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Bradley serves as Chairman of the BGEO Risk Committee and a member of BGEO's Audit and Nomination Committees. Mr Bradley was also appointed to the Bank's Supervisory Board in December 2013 and serves as Chairman of the Bank's Risk Committee and as a member the Bank's Audit Committee.

Skills and experience:

Mr Bradley retired from Goldman Sachs in early 2013, following 15 years as a professional in the Real Estate Principal Investments and Realty Management divisions, where he focused on investment in both European real estate and distressed debt.

In addition to his investment activities, Mr Bradley led Goldman's asset management affiliates in France, Italy and Germany, where he was involved in financial and tax audits as well as management of internal audit activities. He has also served as President of Societa Gestione Crediti, a member of the Board of Directors of Capitalia Service Joint Venture in Italy and Chairman of the Shareholders Board at Archon Capital Bank Deutschland in Germany. Prior to Goldman Sachs, he served as a Senior Executive at GE Capital for seven years in both the United States and Europe, where his activities included real estate workouts and restructuring, as well as acquisitions. Prior to GE Capital, Mr Bradley held senior executive positions at Manufacturers Hanover Trust (now part of JP Morgan) and Dollar Dry Dock Bank. He has also served as a Peace Corps volunteer and as a consultant with the US Agency for International Development in Cameroon.

Education:

Mr Bradley holds an MA in International Affairs from the Columbia University School of International Affairs and an undergraduate degree in English Literature from the University of Arizona.

07. Tamaz Georgadze

Independent Non-Executive Director

Tamaz Georgadze was appointed as an Independent Non-Executive Director of BGEO on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Georgadze serves as a member of BGEO's Risk and Nomination Committees. Mr Georgadze was also appointed to the Bank's Supervisory Board in December 2013 and serves as a member of the Bank's Risk Committee.

Skills and experience:

In 2013, Mr Georgadze founded SavingGlobal GmbH, a company which launched the first global deposit intermediation in Europe and he continues to serve as its Executive Director. Prior to founding this company, Mr Georgadze had a 10-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995.

Save for his role at SavingGlobal GmbH, Mr Georgadze does not hold any other directorships.

Education:

Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

08. Bozidar Djelic

Independent Non-Executive Director

Bozidar Djelic was appointed as an Independent Non-Executive Director of BGEO on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Djelic serves as a member of BGEO's Risk and Nomination Committees. Mr Djelic was also appointed to the Bank's Supervisory Board in December 2013 and serves as a member of the Bank's Risk Committee.

Skills and experience:

Since January 2014, Mr Djelic has served as Managing Director in the Sovereign Advisory Department of Lazard, based in Paris. Mr Djelic also currently serves as a member of EBRD's "Transition to Transition" Senior Advisory Group. Prior to this, he served as Deputy Prime Minister for European Integration and as Minister of Science and Technological Development of Serbia from 2008 to 2011. From 2007 to 2008, Bozidar served as sole Deputy Prime Minister of Serbia, and as Governor of the World Bank Group and Deputy Governor of the EBRD. From 2005 to 2007, he was Crédit Agricole Group's Director for Eastern Europe and the FSU (Former Soviet Union), leading the acquisition and management of several banks in the region. From 2001 to 2004, Mr Djelic served as Minister of Finance and Economy of Serbia, leading the country's macro and banking reform. From 1993 to 2000, he worked at McKinsey & Company in Paris and Silicon Valley, specialising in financial institutions, asset management and media. He has also held various advisory positions, including advisor to the Polish and Romanian Governments.

Mr Djelic does not hold any other directorships.

Education:

Mr Djelic holds an MBA from the Harvard Business School, an MPA from Harvard's J.F. Kennedy School of Government and an MA in Economics from the École de Hautes Études in Social Sciences.

09. Hanna Loikkanen

Independent Non-Executive Director

Hanna Loikkanen was appointed as an Independent Non-Executive Director of BGEO by the Board in June 2015 and will be proposed for election by shareholders at the upcoming AGM. Ms Loikkanen is also a member of BGEO's Nomination Committee and was appointed to BGEO's Audit Committee in March 2016. Ms Loikkanen was also appointed to the Bank's Supervisory Board in August 2015. Ms Loikkanen previously served as a Non-Executive Director of BGEO from 2011 until 2013 and as a member of the Bank's Supervisory Board from 2010 until 2013.

Skills and experience:

Ms Loikkanen has over 20 years of experience working with financial institutions in Russia and Eastern Europe. She currently serves as an advisor to East Capital Private Equity AB. Prior to this, she served from 2010 until 2012 as the Chief Representative and Head of the Private Equity team at East Capital, a Swedish asset management company in Moscow, with a special focus on financial institutions. Prior to joining East Capital, Ms Loikkanen held the position of Country Manager and Chief Executive Officer at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running FIM Group's brokerage and corporate finance operations in Russia. During her tenure at FIM Group, the company advised several large foreign companies in their M&A activities in Russia. Earlier in her career, Ms Loikkanen worked for Nordea Finance in various management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking.

In addition to her directorships at BGEO Group and the Bank, Ms Loikkanen serves as a Non-Executive Director and a member of the Audit and Risk Committee of Locko Bank, an SME focused Russian bank and as a Non-Executive Director of Locko Invest, Locko Bank's investment banking subsidiary. She is also a Non-Executive Director of AKI Bank in Tatarstan. Since 2014, she has acted as Non-Executive Chairman of the Board of T&B Capital, an independent regulated wealth management company based in Helsinki.

Education:

Ms Loikkanen holds a Master's degree in Economics and Business Administration from the Helsinki School of Economics, and was a Helsinki School of Economics scholar at the University of New South Wales.

Directors' Governance Statement – Leadership

Our Group management



01. Irakli Gilauri
CEO of BGEO and
JSC BGEO Group



02. Murtaz Kikoria
CEO of Bank of
Georgia



**03. Levan
Kulijanishvili**
CFO of JSC BGEO
Group and Deputy
CEO (Finance) of
Bank of Georgia



**04. Avto
Namicheishvili**
General Counsel of
JSC BGEO Group



05. Mikheil Gomarteli
Deputy CEO (Retail
Banking) of Bank of
Georgia

01. Irakli Gilauri **Group CEO**

See details on page 87.

02. Murtaz Kikoria **CEO of Bank of Georgia**

Mr Kikoria was appointed as CEO of the Bank in September 2015. Prior to this appointment, Mr Kikoria served as Deputy CEO (Finance) from December 2014, having previously served as the CEO of JSC Georgia Healthcare Group since August 2014, following its split from Aldagi, where Mr Kikoria had served as the CEO since October 2012. Prior to this, Mr Kikoria served as Deputy CEO (Finance) of the Bank since June 2011. Before this, Mr Kikoria served as acting CEO of BG Bank (currently Bank Pershyi) since June 2009. Mr Kikoria also serves as a member of the Supervisory Board of Bank Pershyi. Mr Kikoria joined the Bank as Deputy CEO (Compliance) in August 2008. From 2005 to 2007, Mr Kikoria served as a Senior Banker at EBRD. Prior to joining EBRD, Mr Kikoria served as Head of Banking Supervision and Regulation at the NBG from 2001 to 2005, having previously held various senior positions at United Georgian Bank and SilkRoad Bank. Mr Kikoria received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit.

03. Levan Kulijanishvili **CFO of JSC BGEO Group and Deputy CEO (Finance) of Bank of Georgia**

Mr Kulijanishvili was appointed as CFO of JSC BGEO Group in February 2016. This role is in addition to his appointment as Deputy CEO (Finance) of the Bank in September 2015, having previously served as Head of Compliance and Internal Control since 2009. Mr Kulijanishvili has been with the Bank since 1997. During his 18 years of service, Mr Kulijanishvili has held various senior positions, including Head of the Internal Audit department (from 2000 to 2009), Manager of the Financial Monitoring department (from 1999 to 2000) and Head of the Financial Analysis division (from 1997 to 1999). He has an undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

04. Avto Namicheishvili **General Counsel of JSC BGEO Group**

Avto Namicheishvili was appointed as General Counsel of JSC BGEO Group in September 2015. He previously served as Deputy CEO (Legal) of the Bank since July 2008, prior to which he served as the Bank's General Counsel from March 2007. Before joining the Bank, Mr Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as external legal advisor for Bank of Georgia from 2004. He has undergraduate degrees in Law and International Economic Relations from Tbilisi State University and a graduate degree (LLM) in International Business Law from Central European University, Hungary.

05. Mikheil Gomarteli **Deputy CEO (Retail Banking) of Bank of Georgia**

Mr Gomarteli was appointed as Deputy CEO (Retail Banking) of the Bank in February 2009. Mr Gomarteli has been with the Bank since December 1997. During his 18 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (from March 2007 to February 2009), Head of Business Development (from March 2005 to July 2005), Head of Strategy and Planning (from 2004 to 2005), Head of Branch Management and Sales Coordination (from 2003 to 2004), Head of Branch Management and Marketing (from 2002 to 2003) and Head of Banking Products and Marketing (from 2000 to 2002). Mr Gomarteli received an undergraduate degree in Economics from Tbilisi State University.

06. Archil Gachechiladze **Deputy CEO (Corporate Investment Banking) of Bank of Georgia**

Mr Gachechiladze was appointed Deputy CEO (Corporate and Investment Banking) in February 2016, following the combination of the Bank's Corporate Banking and Investment Management businesses, having previously served as CFO of JSC BGEO Group since September 2015 and Deputy CEO (Investment Management) of the Bank since May 2013. Prior to these appointments, he served as Deputy CEO (Corporate Banking) of the Bank. Prior to joining the Bank, Mr Gachechiladze served as Deputy Director in charge of Corporate Recovery at TBC Bank, Georgia, a position he held since August 2008. From 2006 to 2008, Mr Gachechiladze was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital).



06. Archil Gachechiladze
Deputy CEO
(Corporate
Investment
Banking) of Bank of
Georgia



07. Sulkhan Gvalia
Former Deputy CEO
(Corporate Banking)
of Bank of Georgia



08. Giorgi Chiladze
Deputy CEO
(Chief Risk Officer)
of Bank of Georgia



09. Nikoloz Gamkrelidze
CEO of Georgia
Healthcare Group



10. Irakli Burdiladze
CEO of m² Real
Estate

Partners) in London. From 1998 to 2004, Mr Gachechiladze served as a Senior Associate at Salford Equity Partners, a Senior Analyst at EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Mr Gachechiladze received his undergraduate degree in Economics and Law from Tbilisi State University and his MBA with distinction from Cornell University. He is also CFA Charterholder and a member of the CFA Society in the United Kingdom.

07. Sulkhan Gvalia
Former Deputy CEO (Corporate Banking) of Bank of Georgia¹

Mr Gvalia retired from his position of Deputy CEO (Corporate Banking) of the Bank in January 2016 and left the Bank on 1 February 2016 to pursue other interests. He had held this position since May 2013, prior to which he served as Deputy CEO (Chief Risk Officer) since January 2005, following the Bank's acquisition of TUB, a mid-sized bank in Georgia co-founded by him in 1995. Mr Gvalia has 22 years of banking experience, holding management positions in risk, credit finance, strategy and treasury. Mr Gvalia received his undergraduate Law degree from Tbilisi State University.

Note:

1. Please note that in February 2016, the Corporate Banking and Investment Management businesses were combined into a Corporate Investment Banking business, which is now led by Archil Gachechiladze (please see his biography on the previous page and this page).

08. Giorgi Chiladze
Deputy CEO (Chief Risk Officer) of Bank of Georgia

Mr Chiladze was appointed as Deputy CEO (Chief Risk Officer) in September 2013. He re-joined the Bank having already served as Deputy CEO (Finance) from 2008 to 2011. From 2011 to 2013, Mr Chiladze worked at the Partnership Fund in the capacity of Deputy CEO. Mr Chiladze served as General Director of BTA Bank (Georgia) from 2005 to 2011. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm, Altergroup Ltd. Mr Chiladze had previously worked in the US at the Program Trading Desk at Bear Stearns in New York City, prior to returning to Georgia in 2003. Mr Chiladze received a PhD in Physics from Johns Hopkins University in Baltimore, Maryland and an undergraduate degree in Physics from Tbilisi State University.

09. Nikoloz Gamkrelidze
Group CEO, Georgia Healthcare Group

Mr Gamkrelidze was appointed as CEO of JSC Georgia Healthcare Group on 4 December 2014 and CEO of Georgia Healthcare Group PLC in August 2015, having previously served as Deputy CEO (Finance) of the Bank since October 2012. Prior to this appointment, Mr Gamkrelidze served as CEO of Aldagi. Prior to joining Aldagi, Mr Gamkrelidze served as CEO of joint stock company My Family Clinic from October 2005 to October 2007. Before this, Mr Gamkrelidze served as a consultant at Primary Healthcare Development Project (The World Bank Project) and worked on the development of pharmaceutical policy and regulation in Georgia. Prior to joining Primary Healthcare Development Project, he served at BCI Insurance Company as Head of the Personal Risks Insurance Department from 2002 to 2003. Mr Gamkrelidze started his career at the State Medical Insurance Company in 1998, where he worked for two years. He graduated from the Faculty of General Medicine of Tbilisi with distinctions, and holds an MA in International Healthcare Management from the Tanaka Business School of Imperial College London.

10. Irakli Burdiladze
CEO, m² Real Estate

Mr Burdiladze was appointed as CEO of JSC m² Real Estate in 2010. He previously served as Chief Operating Officer of the Bank from March 2007 to June 2010, after spending a year as CFO of the Bank. Prior to joining the Bank, Mr Burdiladze served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the Group's capital-raising efforts and transaction structuring. Mr Burdiladze received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from Tbilisi State University.

Directors' Governance Statement



Neil Janin
Non-Executive Chairman



David Morrison
Senior Independent
Non-Executive Director

Dear Shareholders,

Our Board is committed to excellence in corporate governance. We see robust corporate governance as fundamental to the effective management of the business and a principal contributor to the long-term success of the Group, creating trust and engagement between the Group and our stakeholders.

The Board provides leadership of the Group within a framework of controls which enables risks to be assessed which allows us to put the human and financial resources in place that we believe will optimise the Group's ability to meet its strategic objectives and increase shareholder value. We seek to create an environment in which transparency, honesty, integrity and fairness are valued and practised by our employees every day. This inclusive environment helps us attract, retain and develop the best talent. The Group is committed to its customers and clients and works hard to act ethically and responsibly in all of its business dealings.

In this part of the Annual Report, we explain our governance policies and practices and the measures that we have taken to ensure that the Group continues to apply high standards of corporate governance.

The key themes of the UK Corporate Governance Code 2014 form the framework for discussing our corporate governance structure. As such, our approaches to Leadership and Effectiveness are outlined on pages 93 to 96, Accountability on page 99 of this Governance Report, Shareholder engagement on page 106 and Remuneration on pages 107 to 123. Given the importance of the work of the Nomination, Audit, Risk and Remuneration Committees, each Committee presents a separate report, which can be found within this section.

Our governance framework is reviewed and benchmarked against recent Code developments, FRC guidance and best practice each year.

Among the key corporate governance actions taken during the year, we would like to highlight the following:

- We continued our focus on Board succession planning and strengthened our Board with the appointment of a new Independent Non-Executive Director, Hanna Loikkanen, in June 2015 in line with our Board Diversity Policy. We see our Board as a team comprised of individuals each having an area of expertise, but who collectively engage in the full range of issues facing the Group.
- We successfully completed our Group restructuring and implemented our executive management development plan, which has been a principal focus for us over the past several years. Succession planning is developing talent that can succeed.
- We continued our focus on our systems of risk management

and internal control, assisted by our Audit and Risk Committees.

- We retained Lintstock Ltd. (Lintstock) to conduct a formal evaluation of each Director's skills and contribution and that of the Board as a whole and its Committees. We used the independent review to compare last year's results to this year's in order to ensure that the priorities set last year were followed through in 2015.
- Our Board and management continued to engage extensively with our investors, reflecting our commitment to transparent reporting and dialogue.

We see maintaining good governance and improving it as an ongoing process, and plan to continue to adapt our governance framework as our business, strategy and the environment in which we operate evolves. We view new regulations and guidance as an opportunity for our Board and Committees to upskill and expand their capabilities.

Neil Janin
Non-Executive Chairman
7 April 2016

David Morrison
Senior Independent Non-Executive Director
7 April 2016

Compliance Statement

Responsibility for good governance lies with the Board.

Throughout the year ended 31 December 2015 and to the date of this Annual Report, we applied the Main Principles and complied with the Provisions of the UK Corporate Governance Code 2014 save for Section D.1.1, which recommends a three-year vesting period for all shares granted as part of remuneration. As described in the Directors' Remuneration Report and Directors' Remuneration Policy on pages 107 to 123, shares granted as discretionary compensation vest over a two-year period following the work year for which the discretionary compensation was earned. However, our overall remuneration package is weighted heavily to deferred share compensation and includes deferred salary shares which vest over a five-year period following the work year. As a result, the average vesting period for deferred share compensation exceeds the Code's recommended minimum of three years.

The Code and associated guidance is published by the Financial Reporting Council and is available at www.frc.org.uk.

Set out on our website at <http://bgeo.com/page/id/72/compliance-with-the-main-principles-of-the-corporate-governance-code> is the Board's assessment of its application of the Main Principles of the Code, as required by LR 9.8.6.

Our governance structure

Board of Directors

The Board is responsible for the long-term success of the Group. It sets the Group's core values and strategy and oversees its implementation by management. It ensures that there is a strong risk management and internal control framework in place that allows risk to be assessed and managed effectively. It provides leadership and direction and is responsible for the corporate governance and financial performance of the Group.

The Board is comprised of nine Directors, eight of whom are Independent Non-Executive Directors.



Details of the individual Directors and their biographies are set out on pages 86 to 89.

Audit Committee

It assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and supervises both the internal and external audit processes, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and IS (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.



See pages 100 to 103 for the Audit Committee Report

Risk Committee

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



See pages 104 to 105 for the Risk Committee Report

Nomination Committee

It assists the Board to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance, the strategic direction of the Group and the diversity aspirations of the Board. It is also responsible for both Director and executive management succession planning.



See pages 97 to 98 for the Nomination Committee Report

Remuneration Committee

It reviews and recommends to the Board the executive remuneration policy to ensure that remuneration is designed to promote the long-term success of BGEO. It determines the remuneration packages of the Executive Directors, Chairman and executive management.



See pages 107 to 123 for the Remuneration Committee Report

Leadership and Effectiveness continued

The role of the Board

Our principal duty, collectively, is to promote the long-term success of the Group by directing management in creating and delivering sustainable shareholder value. We do this by setting the Group's core values and strategy and overseeing its implementation by management. We also set the Group's key policies and review management and financial performance. The framework of controls and procedures that we have established allow risk to be assessed and managed effectively. While our ultimate focus is long-term growth, the Group also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.

We are mindful of our wider obligations and consider the impact our decisions will have on the Group's various stakeholders, such as our employees, our shareholders, our customers and clients, the environment and our community as a whole.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board. A full formal schedule of matters specifically reserved for the Board can be found on our website, at <http://bgeo.com/page/id/67/schedule-of-matters-reserved-for-the-board>.

Clearly defined roles of the Chairman, CEO and Non-Executive Directors

Each of the Chairman, CEO and Non-Executive Directors has clearly defined roles within our Board structure.

A description of these roles can be found on our website, at <http://bgeo.com/page/id/66/roles-and-responsibilities>.

Operation of the Board

We schedule in person Board meetings at least four times a year in Georgia, for a period of two to three days each time. We also hold meetings at our London offices, with Directors either attending in person or via teleconference. Matters which require decisions outside the scheduled meetings are dealt with through additional ad hoc meetings and conference calls. In addition, in 2015, all Directors attended our annual investor day. In total, we met formally as a Board 12 times during the year. The Board also passed written resolutions on five separate occasions.

At each regularly scheduled meeting, we receive reports from the Group Chairman, BGEO CEO, CFO of JSC BGEO Group and the Bank, Bank CEO on the performance and results of the Group. The CEOs of our principal subsidiaries and the Deputy CEOs of the Bank regularly update the Board on the performance, strategic developments and initiatives in their respective segment throughout the year. The Bank's Chief Risk Officer, Group General Counsel and Group Head of Investor Relations also regularly present to the full Board. The Board also receives updates from Group operating functions on internal control and risk management, compliance, internal audit, human resources and corporate responsibility matters.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle, although this is flexible to enable pressing matters, when they arise, to be dealt with in a timely manner.

The Chairman and BGEO CEO seek input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any particular matters raised by Non-Executive Directors are on the agenda to be discussed at the meeting. In addition, the Chairman meets with the CEO after each meeting to agree the actions to be followed up and to discuss how effective the meeting was.

The Chairman and CEO also maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

Board Committees

To assist the Board in carrying out its functions and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration as well as oversight and review of Board and executive succession planning, the Board has delegated certain responsibilities to Board Committees.

In 2015, the Board had four Committees, comprised solely of Independent Non-Executive Directors: the Nomination Committee, the Audit Committee, the Risk Committee and the Remuneration Committee. Each Board Committee has agreed Terms of Reference, which are approved by each Committee and the Board and reviewed annually. Each Committee's Terms of Reference can be found on our website at <http://bgeo.com/page/id/70/terms-of-reference>.

The Chairman of each Board Committee reports to the Board on the matters discussed at Board Committee meetings. You will find later in this section reports from the Chairman of each Board Committee on the Committee's activities in 2015 and priorities for 2016.

In addition, each Board Committee provides a standing invitation for any Non-Executive Director to attend Committee meetings (rather than just limiting attendance to Committee members).

2015 Committee membership

	Audit Committee	Risk Committee	Nomination Committee	Remuneration Committee
Neil Janin			Chairman	Member
David Morrison	Chairman		Member	Member
Alasdair Breach		Member	Member	Chairman
Kim Bradley	Member	Chairman	Member	
Kaha Kiknavelidze	Member	Member	Member	
Tamaz Georgadze		Member	Member	
Bozidar Djelic		Member	Member	
Hanna Loikkanen ¹			Member	

Note:

¹ Ms Loikkanen was appointed to the Audit Committee in March 2016.

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2015 are as follows:

Board attendance	Board meetings eligible to attend/attended	Audit Committee meetings eligible to attend/attended	Risk Committee meetings eligible to attend/attended	Nomination Committee meetings eligible to attend/attended	Remuneration Committee meetings eligible to attend/attended
Neil Janin (Chairman) ¹	10/12			3/3	4/4
Irakli Gilauri (Executive Director)	12/12				
Non-Executive Directors					
David Morrison	12/12	9/9		3/3	4/4
Alasdair Breach	11/12		4/4	3/3	4/4
Kim Bradley	12/12	9/9	4/4	3/3	
Kaha Kiknavelidze	12/12	9/9	4/4	3/3	
Tamaz Georgadze ²	7/12		3/4	3/3	
Bozidar Djelic	9/12		3/4	3/3	
Hanna Loikkanen	7/12			2/3	

1. When Mr Janin was unable to attend the meetings, he discussed all matters on the agenda with the Senior Independent Director and the CEO and provided feedback on materials, as required, in advance of the meetings.
2. Although Mr Georgadze was unable to attend several Board meetings, he conducted two in person full-day workshops with the Deputy CEO of Retail Banking in relation to the development of our retail strategy and participated in several subsequent teleconferences to discuss the same.

Please further note that the Non-Executive Members of the Board of BGEO are identical to the Members of the Supervisory Board of the Bank.

Board size, composition, tenure and independence

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business.

The Board and its Nomination Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

During 2015, our Board comprised nine members: the Chairman, the CEO and seven Independent Non-Executive Directors. We believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors as well as the key technical expertise and skills in banking, risk, finance, technology and international business the Directors bring to their duties. No individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual. The average tenure of our Non-Executive Directors is 3½ years. We value diversity and are committed to increasing the proportion of female representation on our Board in accordance with our Board Diversity Policy, adopted last year. In 2015, when we refreshed our Board, we appointed Hanna Loikkanen as an Independent Non-Executive Director and we continue to interview female candidates for independent Non-Executive Board appointments.

We have assessed the independence of each of the seven Non-Executive Directors and are of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement. Each Non-Executive Director has an ongoing obligation to inform the Board of any circumstances which could impair his or her independence.



Details of the individual Directors and their biographies are set out on pages 86 and 89.

Evaluation of Board performance

The Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. As mentioned in the Governance Statement, in 2015, we engaged Lintstock, an external effectiveness evaluation specialist, for the second year in a row to conduct an evaluation of the Board, each of our Committees, our Chairman and our CEO. In 2015, we added a dedicated succession planning questionnaire.

The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary to set the context for the evaluation and to tailor the content of the surveys distributed to the Board. All Directors were requested to complete an online survey. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

Leadership and Effectiveness continued

Lintstock subsequently produced a report which was shared with all members of the Board, addressing the following areas of Board performance:

- the composition of the Board, taking into account the Group's strategic goals and diversity priorities;
- the relationships between the members of the Board and between the Board and management, as well as the atmosphere in the boardroom;
- the management of time of the Board, including the annual number of meetings, work cycle, the Board's agenda, as well as the content, format and timeliness of the Board packs;
- the support and training needs of the Directors;
- the clarity of the Group's strategy, the Board's testing and development of the strategy and the effectiveness with which the opinions of stakeholders are considered when drawing up the strategic plan;
- the risk appetite of the Board, the information provided to the Board to support its oversight of risk, and performance of the Board in identifying and managing the main risks facing the Group;
- the structure of the Group at senior level, the succession planning for the CEO and key management positions beneath the Board;
- the Board's exposure to management and the ability of the Board to evaluate senior management; and
- the composition and performance of the Committees, the performance of the Chairman and CEO.

Lintstock also provided the Chairman with feedback received in respect of the performance of other Directors. Mr Janin subsequently met individually with each of the Directors to discuss the results and set strategic goals for improvement where necessary. The performance of Mr Janin was also reviewed, with the results discussed openly with the Board.

The results of the evaluation confirmed that the Board and the Committees were operating effectively, promote open and challenging debate and is well supported by information flow. Progress had been made in improving gender diversity on the Board, executing the Group's strategy and succession planning for executive management, enhancing our systems of risk management and internal control and successfully integrating the Risk Committee. No significant changes to the commitments of the Chairman or Non-Executive Directors were identified.

As a result of Lintstock's report and subsequent Board discussion of the findings, we have set the following objectives for 2016: continued monitoring of the execution of our Investment Business strategy, development of a longer-term strategy, the appointment of one additional female member to our Board and continued oversight of risk management and internal controls.

We have found the external evaluation process to be helpful in improving the performance of our Board and it is envisaged that Lintstock will conduct a follow-up review next year, in order to build upon the issues raised in this year's process in greater depth. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented and that y-o-y progress is measured.

The CEO also has his performance individually reviewed by the Remuneration Committee against KPIs which are set annually (further details of the KPIs can be found on pages 44 to 45).

Succession planning and Board appointments

We believe that effective succession planning mitigates the risks associated with the departure or absence of well-qualified and experienced individuals. We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that continued tenure brings a depth of Group-specific knowledge that is important to retain.

The Board Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. More detail on the role and performance of the Nomination Committee is on pages 97 and 98.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are given a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25 to 35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. We are confident that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board. The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

Board induction, ongoing training, professional development and independent advice

On appointment, each Director takes part in an induction programme, during which he meets members of senior management below the Board level, receives information about the role of the Board and individual Directors, each Board Committee and the powers delegated to these Committees. He is also advised of the legal and other duties and obligations of a Director of a premium listed company.

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever-more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2015, which included briefings, site visits, development sessions and presentations by our Company Secretary, members of management, external speakers and our professional advisors.

We also ensure that all of our Directors have access to independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

Re-election of Directors

All of our Directors seek re-election every year and accordingly all Directors will stand for re-election in 2016 (with the exception of Hanna Loikkanen, who is standing for election, as she was appointed in June 2015). The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for re-election and election, as applicable.

Nomination Committee Report



Neil Janin
Chairman of the
Nomination Committee

Dear Shareholders,

Succession planning for the Board, taking into account gender diversity; succession planning for senior management; and the facilitation of an external valuation of the effectiveness of our Board as a whole, our Committees and individual Directors were again the key areas of focus of the work of the Nomination Committee during 2015.

In 2015, we made significant progress in implementing our senior management succession plan in line with our revised strategy. We also appointed a female Independent Non-Executive Director to the Board in line with the Board Diversity Policy we adopted in 2014, making good on our commitment to increase female representation on our Board. Details of these changes are discussed below.

As discussed on pages 95 and 96, we appointed Lintstock as our external evaluator for the second year in a row. This appointment assisted us to measure our performance y-o-y and set priorities for continued improvement.

Neil Janin
Chairman of the Nomination Committee
7 April 2016

The role of the Nomination Committee

The role of the Nomination Committee is to assist in ensuring that the Board comprises individuals who are best able to discharge the responsibilities of Directors, having regard to the highest standards of governance, the strategic direction of the Group and diversity aspirations of the Board. We also help to ensure that the Group appoints excellent senior managers capable of successfully executing the Group's strategic objectives.

In summary, the Nomination Committee is responsible for:

- reviewing the composition of the Board and Board Committees to ensure they are appropriately constituted and balanced in terms of size, skills, experience, independence and knowledge;
- identifying suitable candidates for appointment to the Board based on clearly set criteria which takes into account the skills, experience and diversity required by the Board, and the attributes required of Directors;
- developing succession plans for the Chairman, CEO, Non-Executive Directors and key senior managerial roles;
- evaluating the suitability of Directors standing for election and re-election at the AGM;
- evaluating the independence of the Non-Executive Directors and time required from Non-Executive Directors;
- organising the process for the annual Board and Committee effectiveness reviews and implementing any plan required to address issues identified; and
- preparing the report by the Nomination Committee to be included in the Annual Report.

The Nomination Committee's full Terms of Reference are available on our website, <http://bgeo.com/uploads/pages/nomination-committee-terms-of-reference-2.pdf>.

The composition of the Committee and the members' meeting attendance during the year is listed on page 95.

Succession planning, Board Diversity Policy and Board recruitment and appointment process

Succession planning

With respect to Board succession planning, the Nomination Committee continued to search for suitable candidates for Board positions in 2015, taking into account technical expertise and our Board Diversity Policy, outlined later in this section. In June 2015, we appointed one additional Independent Non-Executive Director, Hanna Loikkanen, to the Board. Ms Loikkanen brings in a wealth of experience in banking and investment management and we are pleased to welcome her to the Board. Her biography can be found on page 89.

Upon completion of our Group restructuring in August 2015 to separate our banking and non-banking businesses, we implemented changes in our senior management structure in order to complement the new strategy announced in December 2014. As succession planning is a continuous process, in December 2015, the Committee further analysed the Group's execution of strategy and the skills of management and made additional changes, effective 1 February 2016, in order to best utilise management talent.

Nomination Committee Report continued

Directly below is a summary of the implementation of our senior management succession plan.

- Irakli Gilauri was appointed as Group CEO and resigned from his position as CEO of the Bank;
- Murtaz Kikoria resigned from his position as CFO of the Bank and assumed the position of CEO of the Bank;
- Levan Kulijanishvili was appointed as CFO of JSC BGEO Group and the Bank (in addition to his role as Head of Internal Control, Security and AML Compliance);
- Archil Gachechiladze was appointed as Deputy CEO (Corporate and Investment Banking) following the combination of the Bank's Corporate Banking and Investment Management businesses;
- Avto Namicheishvili was appointed as General Counsel of JSC BGEO Group;
- Tornike Gogichaishvili was promoted to the role of Deputy CEO (Operations), having previously served as Chief Operating Officer of the Bank; and
- Alexander (Sasha) Katsman was promoted to the role of Deputy CEO (Human Resources and Brand Management), having previously served as Head of Brand Management.

We believe our internal promotions reflect the increasing strength of our executive management team and strong results of the coaching and development programmes we have implemented over the past few years.

Board Diversity Policy

The statement and objectives of our Board Diversity Policy are as follows:

Statement

Our Board embraces diversity in all its forms. Diversity of skills, background, knowledge, technical expertise, and gender, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, any Board appointment will always be made based on merit.

Objectives

- The Board should ensure the appropriate mix of skills and experience to ensure an effective Board.
- The Board should ensure that it comprises a majority of Directors who are independent in character and judgement.
- The Board aims to increase the number of women on the Board to two within the next two years and further increase this number thereafter.

Board recruitment and appointment process

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment.

In identifying suitable candidates, we typically seek recommendations from trusted advisors but may also use open advertising or external search services to facilitate the recruitment. We carefully assess each candidate against our objectives and Board Diversity Policy, and take care that appointees have enough time available to devote to the position.

Short-listed candidates are generally seen first by the Chairman, the BGEO CEO and Senior Independent Non-Executive Director. If the selection process progresses further, each potential candidate is invited to meet other members of the Nomination Committee as well as members of management. We then decide whether to recommend an appointment to the Board and the Board decides whether to make the appointment.

Committee effectiveness review

It is the Nomination Committee's responsibility to organise the Board, Committee and individual Director performance reviews. In 2015, the Nomination Committee recommended, and the Board approved, the re-appointment of Lintstock. Details of the process, results and 2016 action plan can be found on pages 95 and 96.

Lintstock also performed the effectiveness review of the Nomination Committee in respect of 2015. The evaluation principally addressed how effectively the Nomination Committee reviews the composition of the Board and the Board Committees as well as how the Nomination Committee develops and implements succession plans for both the Board and executive management. The evaluation concluded that the Nomination Committee continues to operate and perform effectively.

For 2016, the Nomination Committee will continue its focus on Board succession planning by monitoring the needs of the Board and its Committees to ensure that both new additions and successions are managed in line with the evolving business, strategic objectives, the Board's gender diversity and regulatory requirements. In particular, we have identified accounting or IFRS experience and additional female representation as key priorities in our Board succession plan.

We will also continue to grow the talent of our management through coaching and development programmes, which we have found to enhance self-development and mentoring skills, resulting in the further development of potential future leaders within the Group. The Nomination Committee will also continue to meet with senior managers in order to gain greater understanding of the breadth and depth of management talent.

Accountability

Directors' responsibilities

Statements explaining our responsibilities as Directors for preparing the Annual Report and consolidated and stand-alone financial statements can be found on page 124. A further statement is provided on page 124 confirming that the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and BGEO's performance, business model and strategy. The statement of disclosure of information to our auditor is also set out on page 124.

Risk management and internal control

The BGEO Board is ultimately responsible for the Group's risk management and internal control framework. The BGEO Board, which is assisted by the Audit Committee and Risk Committee, confirms that it monitors the Group's risk management and internal control systems and carries out a review of their effectiveness, at least annually. The monitoring and review covers all material controls, including financial, operational and compliance controls.



A discussion of BGEO's risk management and internal control framework can be found on pages 46 to 47.

Since the Bank is the Group's largest business and operates in the complex financial services sector, its risk management framework and internal control processes are key to that of the Group.



A detailed description of the Bank's risk management framework and internal control processes can be found on pages 52 to 59.

The BGEO Board also confirms that it has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity.



The Group's principal risks and uncertainties and how we mitigate these risks and uncertainties are outlined on pages 48 to 51.

The BGEO Board has determined that having separate Audit and Risk Committees, each with specific Terms of Reference, assists it in creating an effective risk management framework and provides the challenge and review necessary across the Group. The Committees collaborate with one another, as appropriate, to ensure that matters of mutual interest raised in either of the Committees are discussed.



The Audit Committee Report and Risk Committee Report can be found on pages 100 to 105 of this section. In addition, Note 29 of the accompanying consolidated financial statements provides additional detail regarding risk management and internal control procedures.

Audit Committee Report



David Morrison
Chairman of the
Audit Committee

Dear Shareholders,

Our activities focus on the integrity of the Group's financial reporting and processes. In 2015, both our Group and the environment in which it operates continued to evolve. The devaluation of the Lari in the first half of the year required our focus on loan loss allowances and the provisioning process, the most important and significant area of judgement affecting our results.

In light of the updates to the Code in respect of risk management and internal controls, we spent time last year ensuring that additional requirements introduced by the Code were met by the Group. We improved the risk management framework and processes and systems of internal control. We worked closely with the Risk Committee to ensure that the responsibility for the oversight of our risk management processes and internal controls were appropriately covered between the two Committees. We also dedicated particular attention to our IT and information security controls and instructed EY to perform an audit of our IT and information security systems, which included a review of our cyber-security controls.

I am also pleased to announce that Hanna Loikkanen was appointed to the Committee in March 2016. She has served on audit committees of other financial institutions and will be a great asset to our Committee going forward.

I invite you to read about the results of these and the other main activities of the Committee in the report below.

David Morrison
Chairman of the Audit Committee
7 April 2016

Composition of the Audit Committee and meetings

The composition of the Audit Committee and the members' attendance during the year is listed on page 95. Our Audit Committee is solely comprised of Independent Non-Executive Directors.

With respect to the Audit Committee's qualifications and background, Mr Morrison is a trained securities lawyer who specialised in financial disclosure for over 25 years; Mr Kiknavelidze is a trained financial analyst skilled in financial statement analysis who manages his own investment fund; Mr Bradley served as a Managing Director at Goldman Sachs, where, immediately prior to joining the Company's Board and Audit Committee, he sat on various audit committees within the organisation and assessed internal audit functions and internal controls. Our Audit Committee believes that each member has recent and relevant financial experience in satisfaction of the requirements of the Code.

The biographies of the members of the Audit Committee are set out on pages 86 and 89.

The Audit Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference. Our meetings are regularly attended by the CFO of JSC BGEO Group and the Bank, head of Internal Audit, head of Internal Control, Security and AML Compliance and Risk departments, Chief Risk Officer of the Bank and occasionally by the BGEO and JSC BGEO Group CEO and Bank CEOs. The external auditor also attends the regularly scheduled Audit Committee meetings. Separately, we had regular private sessions with the heads of Internal Audit and Internal Control, Security and AML Compliance departments and the external auditor. These sessions, which are not attended by management, allow us to discuss any issues of concern in more detail and directly with the audit teams. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into key issues and developments.

Meetings of the Audit Committee take place prior to the Board meeting in order for the Audit Committee to report its activities and matters of particular relevance to the Board.

Mr Morrison attends the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

Key purpose and responsibilities

On behalf of the Board, the Audit Committee encourages and seeks to safeguard high standards of integrity and conduct in financial reporting, internal control and risk management (together with the Risk Committee), internal audit and the supervision of our external auditor. The Audit Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year.

The primary roles and responsibilities of the Audit Committee remained the same as in 2014, save for changes adopted in response to amendments to the Code. The Audit Committee's full Terms of Reference are available on our website at <http://bgeo.com/uploads/pages/audit-committee-terms-of-reference3-64.pdf>.

Financial reporting

We carried out our primary responsibilities to monitor the integrity of the financial statements of the Group and formal announcements relating to the Group's financial performance as well as review the appropriateness of the Group's accounting policies and their quality and consistency. We assessed the clarity and consistency of disclosures, including compliance with relevant financial reporting standards and other reporting requirements. We also reviewed and challenged the going concern assessment and viability statement.

In addition to analysing and discussing reports received by management throughout the year, the Audit Committee met frequently with management and the external auditors. Meetings with the external auditors often occurred without management present. In these meetings, we discussed accounting and reporting matters affecting the Group, including the new presentation of the Group's income statement, the change in functional currency and the upcoming adoption of IFRS 9.

In addition, the meetings with the external auditors involved discussions of the key risks identified by the external auditors as being significant to the 2015 audit. Taking into account the key audit risks identified by our external auditors, but also using our own independent knowledge of the Group, we reviewed and challenged where necessary, the actions, estimates and judgements of management in relation to the financial statements.

The primary areas of judgement considered by the Audit Committee in relation to the financial statements are addressed below.

Appropriateness of allowance for loan losses

In 2015, we continued to scrutinise the appropriateness of the allowance for loan losses. As mentioned in last year's Annual Report, the Bank introduced a new loan loss provisioning methodology on 1 January 2014, which was developed in consultation with Deloitte. This provisioning methodology, which the Bank continued to use in 2015, is based on a statistical assessment of probability of default and loss given default.

In 2015, slower economic growth, the devaluation of the Lari and the acquisition of PrivatBank led to deterioration in our loan book quality. These factors led to increases in our Banking Business Cost of Risk ratio and cost of credit risk. In response, provisioning levels were increased on both the corporate and retail loan books to account mainly for the increased post-devaluation risk. The main judgements in respect of the appropriateness of the allowance for loan losses involved the timing of the recognition of any given impairment and the size of the loan loss. Throughout the year, management reported on the Bank's principal borrowers as well as on the largest impaired and non-performing loans. Management also reported to us on the methodologies for identifying assets at risk, categorising the loan portfolio and determining provisioning rates, as well as the assumptions applied in calculating the provisions for loan losses. In connection with these reports, we challenged the underlying assumptions made by management with respect to individually and collectively impaired loans and the system of controls to prevent and detect errors in the estimation for loan losses.

In conclusion, we were satisfied that the impairment provisions were appropriate. The disclosures relating to impairment provisions are set out in Note 10 of the consolidated financial statements.

Valuation of own premises and investment properties

We received reports from management on the assumptions to be used in valuing the Group's premises and investment properties. The Group engaged Colliers International Georgia (Colliers), an independent external valuer, to value 52 of our properties, which covered approximately 60% of our portfolio. EY tested the Colliers valuation of our premises and investment properties and reported its findings. We discussed the results of the Colliers and EY findings. We scrutinised and challenged management assumptions and judgements and were satisfied with the assumptions and judgements applied. The disclosures relating to the valuation of own premises and investment properties are set out in Note 30 of the consolidated financial statements.

In addition to the primary judgements discussed above, we also discussed accounting and financial reporting matters relating to: our M&A/transactional activity, including valuation of options, convertible shares and goodwill; revenue recognition in our healthcare business; the new presentation of the Group's income statement; the change in functional currency; the classification of non-recurring income and expenses; GHG listing costs; and the upcoming adoption of IFRS 9.

Risk management and internal controls

The Audit Committee recognises that a strong and effective system of risk management and internal control. Although the Board assumes the ultimate responsibility for the Group's risk management and internal control framework, its work is supported by both our Committee and the Risk Committee.



Please see pages 46 to 47 for a description of the BGEO risk management framework and internal control processes.

Since the Bank is the Group's largest business and operates in the complex financial services sector, its risk management framework and internal control processes are key to that of the Group.



A detailed description of the Bank's risk management framework and internal control processes can be found on pages 52 to 59.



The Risk Committee Report is set out on pages 104 to 105.

In relation to risk management and internal control, the Audit Committee:

- ensures that there are clearly defined lines of accountability and delegation of authority;
- reviews the effectiveness of the policies and procedures and systems for risk management and internal control related to:
 - financial reporting, which includes challenge of management judgements and estimates;
 - whistleblowing;
 - conflicts of interest (including assistance to the Board with reviewing the permissibility of such conflicts; and
 - anti-bribery and anti-corruption policies and procedures.
- monitors various areas of operational risk, including investigations into control weaknesses and management's response to such findings, including:
 - IT and information security (including cyber-security);
 - corporate security and similar areas of operational risk; and
 - internal and external fraud or misconduct.

The Audit Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities, including reports from and regular discussions with the Group executives with whom it regularly meets as described earlier in this Report. We receive internal audit's reports on the control environment and, as mentioned later in this Report, we approve the internal audit plan which, for 2015, included a thorough risk management and internal control assessment. During 2015 and up to the date of this Annual Report and Accounts, internal audit did not find any significant weaknesses in risk management or internal controls. We challenged the reports by management and internal audit and requested data regarding the application of controls for various types of transactions affecting the relevant account balances in the financial statements.

With respect to external assurance, the Audit Committee reviews the external auditors' observations on risk management and internal financial controls identified as part of its audit. As the quality of the Group's financial statements are dependent on the effectiveness of our internal IT and information security control systems, we approved the engagement of EY to perform an external audit of our IT governance, IT processes and information security controls in order to obtain external assurance on the design and operating effectiveness of these systems. This audit also confirmed that our IT and information security control systems are effective. Data security and privacy procedures were found to be strong, although cyber-security was noted as (and continues to be) a significant risk.

Based on the above, we are satisfied that our overall internal control framework is effective.

Audit Committee Report continued

We have asked management to implement a plan to further improve our IT strategy and architecture in order to make sure that the data and reports produced by our IT and information security systems continue to ensure that our financial statements are prepared to a high quality. There will be ongoing focus on controls to prevent an information security breach or cyber-attack given the changing nature of potential threats. We will continue to monitor these systems in 2016.

The Audit Committee has also considered and confirmed to the Board that its work is performed in accordance with the provisions in the Code and the Financial Reporting Council's (FRC) associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Internal audit

The Audit Committee monitors the scope, extent and effectiveness of the Group's internal audit function and the internal audit programme and we seek to ensure it is adequately resourced, has the correct standing within the Group and is focused on the correct issues. Following the assessment of the internal audit function in 2014, the Audit Committee approved a larger budget for 2015, which allowed our IT audit function to be partially outsourced, staff to be hired and continued training and development to be provided for the internal audit team.

We also review and approve the internal audit policy and annual internal audit plan. The 2015 internal audit plan focused on assessed risks and internal controls and we reviewed the plan on a regular basis, including any changes proposed to the scope of work. We also discuss and approve changes to the internal audit methodology.

Although the Board retains overall responsibility for the internal control and the identification of and management of risk, the internal audit function provides independent assessment on the robustness and effectiveness of the systems and processes of risk management and control across the Group.

In 2015, 66 audit assignments were undertaken by the Internal Audit Department, covering a wide range of financial reporting and operational controls, IT and IS systems and risk management processes. We received regular reports from internal audit on its audit activities, progress of the internal audit plan, the results of any unsatisfactory audits and the action plans to address these issues and resource requirements of the Internal Audit Department. We also reviewed and monitored management's responsiveness to internal audit's findings through follow-up reports provided by internal audit. The Head of Internal Audit has direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present.

We reviewed internal audit's self-assessment of its performance and independently formed our own view of the internal audit function by considering the progress of internal audit against the agreed plan, the quality of the reporting by internal audit to the Audit Committee and the ability of internal audit to address unsatisfactory results. On this basis, we concluded that the internal audit function is effective and respected by management and conforms to the standards set by the Institute of Internal Auditors.

External audit

With respect to our responsibilities for the external audit process on behalf of the Board, we:

- approve the annual audit plan, which includes setting the areas of responsibility, scope of the audit and key risks identified;
- supervise the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement;

- review the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitor management's responsiveness to the external auditor's findings and recommendations;
- review the content of the management letter issued by the external auditor;
- review the qualifications, expertise and resources of the external auditor;
- monitor the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements;
- review audit fees and the cost effectiveness of the audit;
- monitor the rotation of key partners in accordance with applicable legislation; and
- recommend the appointment, re-appointment or removal, as applicable, of the external auditor.

We have an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditors and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular papers and communications with the external auditor to both the Committee and management;
- regular discussions with EY (without management present) and management (without EY present) in order to discuss the external audit process;
- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached;
- a review of EY's 2015 Transparency Report and the annual FRC Audit Quality Inspection Report of EY; and
- a formal questionnaire issued to all Committee members and senior management of the Group who are involved in the audit (including internal audit) which covers among other items things the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Committee and management and the auditor's independence and objectivity.

In 2015, we received an Audit Quality Inspection Report from the Audit Quality Review team of the FRC in respect of EY's 2014 audit of the Group. The FRC provided us with a copy of their report which has been reviewed and discussed by the Audit Committee and separately with the external auditor. The Audit Committee is satisfied that the matters raised do not give it concerns over the quality, objectivity or independence of the audit and believe that the matters raised in the FRC Report have been appropriately addressed by EY in the 2015 audit.

Following our assessment of the external auditor, we formed our own judgement (which was consistent with management's view) and reported to the Board that:

- the audit team was sound and reliable, providing high-quality execution and service;
- the quality of the audit work was of a high standard;
- EY's independence and objectivity were affirmed;
- EY was in a position to challenge management on its approach to key judgements; and
- appropriate discussions were held with the Audit Committee during the audit planning process.

We have sought assurance and are comfortable that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively.

Lead audit partner rotation and audit tendering

The external auditor is required to rotate the audit partner responsible for the Group every five years. The current lead audit partner, Andrew McIntyre, has been in place for four years. He has confirmed that he will not be returning as our lead auditor in respect of the 2016 audit.

We have been monitoring audit regulatory developments from the FRC, Competition Commission and EU, which require us to put our external audit contract out to tender no later than 2022. EY was appointed as our Group statutory auditor by shareholders at our 2012 AGM, following a competitive tender process. The Audit Committee and Board have recommended the re-appointment of EY each year since 2012, which has been approved by shareholders. We fully support the re-tendering requirements and will carry out a competitive tender process prior to the 2022 deadline. The Committee has complied with the relevant parts of the Competition and Market Authority Final Order on the statutory audit market for the year ended 31 December 2015.

Non-audit services

We have a long-established policy in relation to the supply of non-audit services by external auditors and, in particular, we refrain from using our external auditors to provide tax advisory services unless there is a very strong case for not seeking an alternative supplier. We engage external advisors to provide non-audit services based on the skills and experience required for the work. When engaging our external auditors under the limited circumstances detailed in our policy, prior to the engagement commencing, BGEO is required to satisfy itself that the external auditor's objectivity and independence would not be compromised in any way as a result of supplying non-audit services. All non-audit services are pre-approved by the Audit Committee and communicated to the Board. Any permissible non-audit service that exceeds £100,000 must be robustly justified and, if appropriate, tendered, before it is approved. If non-audit services are undertaken by the external auditor, the Audit Committee receives regular reports on such non-audit services so that it can monitor the types of services being provided and the fees incurred. The Group's current Non-Audit Services Policy was reviewed and approved in March 2016 and can be found on our website at <http://bgeo.com/uploads/pages/policy-on-nonaudit-services-32.pdf>.

In 2015, EY provided certain non-audit services to the BGEO Group including: assurance services in respect of our IT processes; FATCA advice; the provision of comfort letters for creditor covenants; and employee training. The value of these non-audit services was US\$ 155,000. In preparation for GHG's listing, due to EY's extensive knowledge of GHG, the GHG Board decided that EY was best placed to undertake the considerable amount of work required in the short time-frame in the preparation for listing. As a result of this, for the year ended 31 December 2015, a total of US\$ 1,295,000 non-audit fees were incurred for EY's services in relation to the listing of GHG which are not expected to re-occur in the future. Therefore, both EY and the Audit Committee do not consider that this work compromises the independence of the external auditors.

EY has expressed its willingness to continue as auditor of the Group. Separate resolutions proposing its re-appointment and determination of its remuneration by the Audit Committee will be proposed at the 2016 AGM.

Whistleblowing, conflicts of interest and anti-bribery and anti-corruption policies and procedures

The Audit Committee ensures that there are effective procedures relating to whistleblowing. In particular, we have developed a Whistleblowing Policy which allows staff to confidentially raise any concerns about business practices. We keep this policy under review and receive regular updates from management as to any issues raised by employees.

We have also developed a Conflicts Authorisation Policy through which we assess actual and potential conflicts of interest and assist the Board in its review of the permissibility of such conflicts.

The Audit Committee also keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrong-doing. There were no significant findings in 2015.

Viability statement

In accordance with the revised Code, the Directors are required to assess the viability of the Group. In collaboration with the Risk Committee, we spent time considering the timeframe over which the viability statement should be made as well as an assessment underlying the period of coverage, which we agreed should be three years, which corresponds to the Group's business planning cycle. In particular, we looked closely at the Group's current financial position, including allocated capital expenditure and funding requirements, future prospects, the principal risks and uncertainties related to financial reporting, risk management and internal control as well as the downside stress testing. We discussed our analysis with the Risk Committee, management and full Board. The viability statement is set out on page 47.

Fair, balanced and understandable reporting

Having been tasked by the Board to advise it, we examined the 2015 Annual Report and Accounts to consider whether they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

We did this by satisfying ourselves that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency. We reviewed several drafts of the 2015 Annual Report and Accounts and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness review

For the second year in a row, the performance review of the Audit Committee was externally facilitated by Lintstock. The 2014 Committee evaluation identified that Committee members would like to enhance the review of internal and external auditor effectiveness, finalise the division of responsibilities with the Risk Committee and continue to focus on loan loss provisioning and our internal controls relating to information security (including cyber-security) and IT risk. The 2015 Committee effectiveness evaluation, performed in March 2016, largely mirrored the 2014 review in order to allow a direct comparison of performance. In addition, the 2015 evaluation added quality of financial reporting, the assessment of the Group's IT and information security systems and internal financial reporting controls as well as risk management within the scope of the Audit Committee's responsibilities. The effectiveness evaluation concluded that the Audit Committee operates and performs effectively.

In 2016, we will work with the Nomination Committee and seek to appoint an individual with accounting or IFRS expertise to the Board and Audit Committee as well as continue to remain focused on the Group's IT and information security systems, in particular, cyber-security.

Risk Committee Report



Kim Bradley
Chairman of the
Risk Committee

Dear Shareholders,

I am pleased to present the Group's Risk Committee Report. As our Group continues to grow, our Risk Committee and the Group leadership recognise that the risks facing the Group need to be supported by an increasingly robust and dynamic system of risk management and internal controls.

As mentioned in the Accountability section on page 99, the Board determined in early 2014 that having separate Audit and Risk Committees, each with specific Terms of Reference, would provide additional scope and breadth necessary to better measure and address risk across the Group. In 2015, we continued to work closely with the Audit Committee. Some topics are considered by both Committees from their different perspectives, which we believe enhances our governance and risk oversight. Two of our Risk Committee members are also members of the Audit Committee.

In 2015, our focus followed our mandate. We assisted the Board in setting the Group's risk appetite and exposure in order for the Group to achieve its strategic objectives and in making any necessary modifications to the strategy given changing economic conditions and risk environment. We also monitored the Group's risk exposure and actions to address risk, which included oversight and support of our senior management risk team. We recognise that risk evolves, and since its formation, the Committee has sought to create a dynamic environment whereby Committee members, other Board members and senior management are encouraged to escalate any concerns they may have and propose issues for discussion. As you will read in the following pages, a key risk addressed directly by our Committee during the year was the decline in the value of the Lari and its effect on our loan book.

Together with the Audit Committee, we also devoted time ensuring that the new requirements introduced by the Code in respect of risk management and internal controls were met by the Group and reviewed the processes supporting the assessment of the Group's longer-term solvency and liquidity which underlie the new viability statement.

Our Committee is comprised of five Independent Non-Executive Directors. I invite you to read more about our work in the following report.

Kim Bradley
Chairman of the Risk Committee
7 April 2016

Key purpose and responsibilities

The purpose of the Risk Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk and to provide advice in relation to current and potential future risk exposures. This includes reviewing the Group's risk appetite and risk profile and assessing the effectiveness of the risk management framework.

The key responsibilities of the Risk Committee are to:

- support the Board to ensure that risk appetite and exposure are addressed as part of strategy;
- oversee the risk management infrastructure and process and its effectiveness;
- support the Board in monitoring risk exposure and the implementation of our strategy to address risk;
- oversee, support and evaluate the risk management roles of our senior management risk team;
- encourage and ensure open and broad discussion on perceived risk concerns and responsive efforts to mitigate when necessary; and
- assess the adequacy and quality of the risk management function in conjunction with the Audit Committee and the effectiveness of risk reporting within the Group.

The principal risk categories overseen by the Risk Committee include reputational, geopolitical, macro-economic and market, liquidity and capital, credit and certain operational risks (other than those overseen by the Audit Committee) within the Group. As to credit risk, our focus is principally on forward-looking matters.

The Risk Committee's full Terms of Reference are available on our website at <http://bgeo.com/uploads/pages/risk-committee-terms-of-reference2-48.pdf>.

Composition of the Risk Committee and meetings

The composition of the Risk Committee and the members' attendance during the year is listed on page 95. Our Risk Committee is solely comprised of Independent Non-Executive Directors.

The biographies of the members of the Risk Committee are set out on pages 86 and 89.

Our meetings are regularly attended by the Chairman of the Board, the Chairman of the Audit Committee, BGEO and JSC BGEO Group CEO, Bank CEO, JSC BGEO Group and Bank CFO, Chief Risk Officer and occasionally by our head of Internal Audit and our external auditor. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into key issues and developments. In addition, non-Committee Board members are also invited to attend.

At each meeting, the Risk Committee receives detailed reporting which provides an analysis of: the Group's overall risk profile using both quantitative models and risk analytics, key risk exposures and management actions, performance against risk appetite, the emerging and potential risks the Group may face, the drivers of risk throughout the Group as well as analyses of down-side stress testing scenarios. The underlying assumptions, methodology applied and results of such stress testing are challenged by the Risk Committee. In 2014, we recommended changes to the content of reporting by management and also requested additional stress scenarios and key assumptions, which were all implemented in early 2015.

Meetings of the Risk Committee take place prior to the Board meeting in order for the Risk Committee to report its activities and matters of particular relevance to the Board.

Risk Committee activities during 2015

In addition to our regular responsibilities, we spent time focusing on the evaluation of the design, completeness and effectiveness of the risk management framework focusing on the requirements of the Code, the FRC guidance in respect of risk management and the needs of our businesses.

As mentioned in last year's Annual Report, our priorities in 2015 included close monitoring of the US Dollar-denominated loan book covered by Lari income; the integration of PrivatBank; and the implementation of investment business strategy. We monitored each of these risks very closely throughout the year with the rest of the Board and management. We also ensured that the Audit Committee assessed operational risk associated with IT and cyber-security in accordance with our agreed division of responsibilities.

In 2015, the Group saw an increase in NPLs in respect of US Dollar-denominated loans covered by Lari income as a result of slower economic growth, the devaluation of the Lari and the PrivatBank acquisition. We monitored this very closely. For our retail loan book (especially mortgage loan), we discussed with management actions that might be taken to reduce our risk, including the offering of loan restructuring options to certain retail customers, and followed closely the evolution of NPLs. In the end, very few customers chose to restructure their loans and default rates were not materially affected, principally due to relatively low loan to value ratios in our mortgage book, retail customers' preference to save in US Dollars and the increase in US Dollar foreign remittances.

Despite approximately 85% of our corporate loan book being denominated in US Dollars, more than 50% of customers with US Dollar loans have income in US Dollars. We saw that the majority of our corporate customers were able to continue servicing their loans due to increased oil prices and stable inflation rates, despite the devaluation in the Lari. We closely monitored NPL levels and management's actions to assure adequate coverage of our loan loss exposure, including the increase in our NPL coverage ratio during the year, from 67.5% as of 31 December 2014 to 83.4% as of 31 December 2015. In the second half of 2015, we discussed and agreed with management a plan to decrease our corporate lending as well as reduce the concentration of our top 10 corporate banking clients as part of our strategy to rebalance our loan book in favour of lower-risk retail loans.

We closely followed management's work on the integration of PrivatBank and were pleased that it was executed so smoothly – five months ahead of schedule and at a cost that was significantly less than expected. We also monitored the development of NPLs in the PrivatBank portfolio and were satisfied that increasing NPLs and provisions did not materially impact the important overall benefits of the acquisition.

We monitored execution risk associated with the GHG IPO on the premium segment of the London Stock Exchange and were pleased that, in the face of turbulent market conditions, the transaction was successfully completed in November 2015, raising gross proceeds of approximately US\$ 100 million, which is critical to GHG's development plans. For the real estate business, we monitored completion risk and pre-sales to ensure that projects were proceeding as planned.

In 2014, the Committee recommended changes to the content of reporting by management, management responsibilities and reporting lines to the Committee, all of which were adopted. In 2015, we reviewed these changes and were pleased with the outcomes.

We have also assisted in formulating the Group viability statement in conjunction with the Audit Committee and management.



The viability statement can be found on page 47.

We also carefully reviewed the principal risks and uncertainties disclosure and other relevant risk management disclosures for inclusion in this Annual Report.



The Group's principal risks and uncertainties and a discussion of how we mitigate these risks and uncertainties are outlined on pages 48 to 51.

Committee effectiveness review

In 2014, due to the Risk Committee's recent formation, we decided to assess our own effectiveness internally. However, in 2015, an externally facilitated review of the Risk Committee was performed by Lintstock. The evaluation principally addressed the composition of the Risk Committee, the division of responsibilities between the Risk and Audit Committees, the alignment of risk appetite with Group strategy, the oversight of the risk management infrastructure and process and the effectiveness of the risk management function. The evaluation concluded that the Committee operates and performs effectively.

Our priorities for 2016 include ensuring that both the reduction of our corporate loan book exposure and operational risks in our investment business are monitored and executed in keeping with our Group strategy. We will also continue to focus on loan quality in relation to the US Dollar-denominated loan book.

Shareholder engagement

The Company has a comprehensive shareholder engagement programme and maintains an open and transparent dialogue with existing and potential shareholders, a responsibility that the Company takes very seriously.

The Board's primary contact with institutional shareholders is through the Chairman, Senior Independent Non-Executive Director, CEO and Head of Investor Relations, each of whom provide a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairmen also make themselves available to answer questions from investors.

We formally communicate with our shareholders via our AGM, Annual Report and Accounts, Half-Year Report and Interim Management Statements. These are supported by a combination of presentations and telephone briefings. Over the course of the year, we met with over 200 institutional investors, and participated in more than 20 investor conferences and road shows around the world. Our Directors and management met with shareholders in the United Kingdom, Europe, the United States, Singapore and South Africa.

At our 2015 AGM, we received just over 12% of votes against our resolution to authorise the Company to call general meetings on not less than 14 days' clear notice. We have decided that we will not propose this resolution to our shareholders at our 2016 AGM.

In November 2015, BGEO hosted an investor day in London, which was open to all investors. This investor day provided the opportunity for investors to receive an update from the Board and executive management on strategy and performance as well as meet informally with the full Board and raise matters of interest. BGEO was pleased to host 50 investors at our investor day.

In addition to our shareholders, we meet and present to analysts throughout the year and hold regular meetings with the Group's existing lenders and actively engage with potential lenders to discuss our funding strategy. Our Company Secretary also has ongoing communication with the shareholders' advisory groups.

The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The full Board is regularly kept informed of these views by the Chairman as well as executive management and the Investor Relations team and, to the extent deemed appropriate, issues raised at these meetings have been adopted by the Group. Informal feedback from analysts and the Group's corporate advisors is also shared with the Board.

In December 2015, we replaced our previous website, www.bogh.co.uk with a new and enhanced website, www.bgeo.com, which ensures that our stakeholders can access the Group's results, press releases, investor presentations, analyst reports, details on our corporate governance and corporate and social responsibility framework, our leadership, as well as other information relevant to our stakeholders. We also ensure that shareholders can access details of the Group's results and other news releases through the London Stock Exchange's Regulatory News Service.

Directors' Remuneration Report

Annual Statement by the Chairman of the Remuneration Committee



Alasdair (Al) Breach
Chairman of the
Remuneration Committee

Dear Shareholders,

The discretionary remuneration of our CEO, Irakli Gilauri, is always one of our Committee's most important decisions. It conveys to our shareholders our sense of the Group's performance and prospects, how Mr Gilauri has performed, and of course, how the Committee rewards that performance. Although the discretionary compensation of senior management is not part of our formal Directors' Remuneration Policy, our views of the Group's performance and prospects are generally also reflected in senior management discretionary compensation decisions, of course always dependent on how each senior manager performs in respect of his KPIs.

As mentioned in last year's Directors' Remuneration Report, although the Committee and the Board rated the overall performance of Mr Gilauri as excellent, which would have meant a discretionary bonus award at or near maximum opportunity as per our Directors' Remuneration Policy, Mr Gilauri requested that his actual bonus should be notably less. Mr Gilauri was concerned that 2015 could be a considerably more difficult year than 2014, so as a demonstration to the Group of the need for cost discipline, he felt that he and the group of senior officers he leads should take a lower discretionary bonus. His suggestion was met with overwhelming support by the senior officers. The Committee also accepted that view. As a result, the Committee ultimately awarded Mr Gilauri discretionary compensation of 25,000 shares, representing 27% of total salary and 55% of his maximum opportunity.

Despite the Lari devaluation and challenging macro-economic conditions, 2015 was another record year for the Group. It met or exceeded its strategic objectives as described in the Strategic Report of this Annual Report and achieved an all-time low cost to income ratio. Mr Gilauri also met or exceeded all of his objective and non-tangible KPIs. The Committee and the Board again rated Mr Gilauri's overall performance in 2015 as excellent and although Mr Gilauri's austerity in 2014 was commendable, the Committee strongly felt that he deserved a discretionary award near maximum opportunity. As a result, the Committee agreed to award Mr Gilauri 47,000 shares, representing 46% of total salary and 92% of his maximum opportunity.

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Directors' Remuneration Report continued

I am also pleased to report that the Committee met all of its priorities set for 2015, as set out below:

- the Bank signed a new Service Agreement with Mr Gilauri on 24 August 2015, which will become effective on 1 May 2016. The new Service Agreement reflects the terms of our Directors' Remuneration Policy and ensures that the combination of the substantial number of deferred salary shares and the potential to earn discretionary shares of a significant value keeps Mr Gilauri highly motivated and aligned with shareholders;
- new contracts were signed with six of our senior officers whose contracts were coming up for renewal. Although not required, the terms of the contracts are also in line with our Directors' Remuneration Policy;
- we increased the number of our Committee meetings and implemented a more formal review cycle;
- we enhanced our review of the performance of senior and middle management; and
- we improved the exchange of information with the full Board.

At the 2015 AGM, our Directors' Remuneration Report was approved by nearly 94% of shareholders, further affirming that our Directors' Remuneration Policy is the right one – striking a balance between rewarding achievement and aligning the interest of executive management with our shareholders in order to promote the long-term success of the Group.

What is in this report?

This Directors' Remuneration Report describes the implementation of BGEO's remuneration policy for Executive and Non-Executive Directors and discloses the amounts earned relating to the year ended 31 December 2015.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

The Directors' Remuneration Policy was approved by shareholders in a binding vote at the 2014 AGM and took formal effect from the date of approval and will apply until the 2017 AGM, at which time we will be required to submit our Directors' Remuneration Policy for approval by shareholders. A summary of our policy has again been included in this report (set out on pages 117 to 123) for the purposes of clarity and transparency.

The Annual Statement by the Chairman of the Remuneration Committee (set out on pages 107 to 108) and the Directors' Remuneration Report (set out on pages 109 to 123) will be subject to an advisory vote at the AGM.

AI Breach

Chairman of the Remuneration Committee
7 April 2016

1. The Remuneration Committee and its advisors

The Remuneration Committee considers matters relating to executive management remuneration and remuneration for other senior management. The Remuneration Committee's full Terms of Reference are available on our website at <http://bgeo.com/uploads/pages/remuneration-committee-terms-of-reference-29.pdf>.

The composition of the Committee and the members' attendance at meetings during 2015 is listed on page 95.

In addition to the formal meetings held during the year, the Committee participated in various discussions by telephone outside of these meetings.

Other attendees at Committee meetings who provided advice or assistance to the Committee on remuneration matters from time to time included the CEO, Bank CEO, the other Board members and General Counsel. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Committee seeks advice from time to time from independent remuneration advisers. In 2015, we again engaged H2Glenfern to review our disclosure and advise on our discussions with shareholder advisory groups. H2Glenfern voluntarily operates in accordance with the Code of Conduct of the Remuneration Consultants' Group in relation to executive remuneration consulting in the United Kingdom. H2Glenfern has confirmed that it has adhered to the Remuneration Consultant Group's Code of Conduct throughout the year for all remuneration services provided to BGEO and the Committee has therefore satisfied itself that all advice provided by H2Glenfern was objective and independent. H2Glenfern was paid a fixed fee of £5,880 for its remuneration consultancy services and does not provide services to the Group other than remuneration advice.

The Committee also received advice from Baker & McKenzie LLP, its legal advisors, on compliance and best practice.

2. Shareholder context

At our AGM on 28 May 2014, the Directors' Remuneration Report (including the Directors' Remuneration Policy and the implementation report) received the following votes from shareholders:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	26,121,743	91.91	2,300,144	8.09	28,421,887	128,908
Approval of the Directors' Remuneration Report	25,901,873	93.59	1,773,857	6.41	27,675,730	875,065

At our AGM on 21 May 2015, the Directors' Remuneration Report (including the Annual Statement of the Chairman of the Remuneration Committee) received the following votes from shareholders:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	28,081,250	93.98	1,799,042	6.02	29,880,292	87,002

We were of course pleased with both of these outcomes.

Directors' Remuneration Report continued

3. Directors' remuneration

3.1 Single total figure of remuneration for the sole Executive Director (audited)

The table below sets out the remuneration received by BGEO's sole Executive Director, Irakli Gilauri, for 2015 and 2014 in respect of his employment with BGEO and the Bank. Mr Gilauri is not entitled to any remuneration in respect of his role as Chairman of either GHG PLC or JSC GHG or any other subsidiary within the Group.

Mr Gilauri's February 2013 contract provides for cash and deferred share salary compensation fixed at 2013 levels. In addition, Mr Gilauri is entitled to discretionary deferred share compensation up to a maximum of 50% of total salary (including both the cash and deferred salary components). This figure was agreed in connection with the increase in the absolute market value of Mr Gilauri's fixed compensation (cash and deferred share salary) in 2013.

Approximately 83% of Mr Gilauri's compensation for 2015 set forth in the table below is in the form of deferred shares, for which the average vesting period exceeds three years.

	BGEO and Bank cash salary (US\$) ¹	Bank deferred share salary (US\$) ²	Total salary (US\$)	Discretionary deferred share compensation (US\$) ³	Taxable benefits (US\$) ⁴	Pension benefits (US\$) ⁵	Dividend equivalents (US\$) ⁶	Total (US\$)
2015	437,500	1,954,157	2,391,657	1,099,473	1,252	1,801	196,459	3,690,642
2014	437,500	1,954,157	2,391,657	654,250	961	1,785	93,368	3,142,021

Notes:

- BGEO and Bank cash salaries are expressed in US Dollars but paid in GBP and Lari, converted into the respective currency as described in Note 2 of the table in section 1 of the Directors' Remuneration Policy on page 109 of this Annual Report. Accordingly, there may be variations in the numbers above and those provided in the accounts.
- Deferred share salary. The figures show the value of the BGEO shares underlying nil-cost options granted in respect of service in the relevant year. For both 2014 and 2015, the award was 90,000 BGEO shares. The value is calculated by reference to the share price of US\$ 21.71 (based on the official share price of £14.06 per share converted into US Dollars using an exchange rate of 1.5443, being the official exchange rate published by the Bank of England) as at 19 February 2013, the date the 2013 contract was signed. Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the year to which the award relates (the "work year") even though the number of deferred share shares is fixed in the contract. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 1(a) of the Directors' Remuneration Policy on page 119 of this Annual Report.
- Discretionary deferred share compensation. The figures show the value of BGEO shares underlying nil-cost options granted in respect of bonus awards in the relevant year. For 2015, options were awarded over 47,000 BGEO shares. The value is calculated by reference to the share price on 12 February 2016 which was US\$ 23.39 (based on the official share price of £16.18 per share converted into US Dollars using an exchange rate of 1.4458, being the official exchange rate published by the Bank of England on the same date). For 2014, options were awarded over 25,000 BGEO shares. The value is calculated by reference to the share price on 19 March 2015 which was US\$ 26.17 (based on the official share price of £17.77 per share converted into US Dollars using an exchange rate of 1.4727, being the official exchange rate published by the Bank of England on the same date). The discretionary compensation in respect of the relevant years is deferred and vests as to 50% in January two years following the work year and 50% in January of the following year, subject to the leaver provisions described in section 8 of the Directors' Remuneration Policy on page 121 of this Annual Report. The means of determining the number of shares underlying this compensation and the terms and conditions are described in section 1(b) of the Directors' Remuneration Policy on page 119 of this Annual Report. The basis for determining Mr Gilauri's 2015 discretionary awards is described in section 3.2 below.
- Benefits. The figures show the gross taxable value of health and disability insurance and Directors' and Officers' liability insurance.
- Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme.
- Dividend equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in the relevant years.
- Mr Gilauri was reimbursed for reasonable business expenses, on provision of valid receipts.
- No money or other assets are received or receivable by Mr Gilauri in respect of a period of more than one financial year, where final vesting is determined by reference to achievement of performance measures or targets relating to the relevant period.

The following table sets out details of total remuneration for Mr Gilauri for the period from 1 January 2010 to 31 December 2015 and his discretionary compensation as a percentage of maximum opportunity. The Company does not have a LTIP and therefore the table does not include long-term incentive vesting rates against maximum opportunity.

	2010	2011	2012	2013	2014	2015
Single figure of total remuneration (US\$)	1,707,425	1,827,674	2,002,386	3,488,463	3,142,021	3,690,642
Discretionary compensation as a percentage of maximum opportunity (%)	31.7%	41.1%	94.9%	83.2%	54.7%	91.9%

Notes:

- Single figure of total remuneration for 2013, 2014, and 2015 has been calculated in accordance with the table above. In 2013, 2014 and 2015, the maximum opportunity for Mr Gilauri was 50% of salary.
- In 2012, Mr Gilauri's cash salary was US\$ 437,500 and the value of the salary deferred shares was calculated by reference to the global depository receipt (GDR) price on 25 May 2010 of US\$ 10.20 per GDR. The award of discretionary deferred shares was 30,000 BGEO shares in respect of 2012. The value is calculated by reference to the share price on 15 February 2013 which was US\$ 21.49 per share (based on the official share price of £13.84 per share converted into US Dollars using an exchange rate of 1.5525, being the official exchange rate published by the Bank of England on the same date). The maximum opportunity in 2012 was less than 50% of Mr Gilauri's total remuneration.
- For 2011, Mr Gilauri's cash salary was US\$ 375,000 and the value of the salary deferred shares was calculated on the same basis as 2012. The award of discretionary deferred shares was 34,000 BGEO shares in respect of 2011. The value is calculated by reference to the share price on 6 March 2012 which was US\$ 15.61 per share (based on the official share price of £9.92 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). The maximum opportunity in 2011 was 100% of Mr Gilauri's salary, being US\$ 1,293,000.
- For 2010, Mr Gilauri's cash salary was US\$ 375,000 and the value of the salary deferred shares was calculated on the same basis as 2011 and 2012. The award of discretionary deferred shares was 20,000 GDRs in respect of 2010. The value is calculated by reference to the GDR price on 21 February 2011 which was US\$ 20.50. The maximum opportunity in 2011 was 100% of Mr Gilauri's salary, being US\$ 1,293,000.

3.2 Basis for determining Mr Gilauri's discretionary deferred share compensation in respect of 2015

Mr Gilauri's KPIs include both objective and non-tangible components. The objective elements largely track the Group's KPIs as he is expected to deliver on the Group's strategy, but the KPIs also include non-tangible factors such as leadership, strategy development and implementation as well as corporate and social responsibility.

The following table sets out the objective KPIs set for Mr Gilauri in respect of 2015 as well as Mr Gilauri's performance against them.

Key performance measure	2015 target	2015 performance	Committee evaluation
Banking Business			
Return on Average Equity (ROAE)	20.0%	21.7%	Target met, driven by the strong retail banking segment.
Retail loan book growth	20.0%	35.3%	Target exceeded, driven by the PrivatBank acquisition (integration was seamless) and the strong execution of the Express Banking and Solo strategies as well as an enhanced and motivated retail banking management team.
Operating leverage	Positive	16.6%	Expectations exceeded; operating leverage increased significantly in 2015 compared to 2014.
Investment Business			
GHG IPO	Successful completion	Met in November 2015	Given the difficult market conditions, the successful completion of the GHG IPO was outstanding and extremely beneficial to the Group as a whole.
Investment Business strategy	Successful delivery	Exceeded expectations	All of the investment businesses delivered on budget and the net profit for the Investment Business grew by more than 80% year on year.
Investment companies	Effective oversight	Met	The investments in the water, hydro and beverages businesses are proceeding as planned.
Group structure, management team and self-development			
New Group management structure	Successful implementation	Met in September 2015 ¹	The new management structure is in place, performing well and resulting in greater efficiencies. Recent promotions have also served to motivate management generally.
Management team	Coaching and mentoring	Met	Mr Gilauri has taken this responsibility very seriously. He has enhanced opportunities for promotion within the Group for members of management that continue to upskill – in performance, management of others and self-development. Mr Gilauri has provided guidance to those members of the management team with the potential and drive to further grow their talent.
Self-development	Continued self-development	Exceeded	Mr Gilauri has prioritised self-development, principally through analysis of his own management style. He identified weaknesses and began to successfully address them. His increased self-awareness has resulted in him improving his own leadership skills and has had a very positive effect on the wider management culture.

Note:

¹ As management succession planning is a continuous process, additional changes were made in February 2016 to best utilise management talent. The February 2016 changes included the promotion of several members of management.

In terms of objective KPIs, Mr Gilauri met or exceeded all KPIs, as described above. In terms of non-tangible factors, the Committee also considered Mr Gilauri's performance very strong. In 2015, Mr Gilauri continued to progress the Group's social and environmental agenda, which is described on pages 60 to 69. Under Mr Gilauri's leadership, an Environmental and Social Coordinator was hired in 2015 and sponsorship and charitable contributions increased, most notably to: (i) enhance access to education through Bank of Georgia University as well as the Chevening and Fulbright scholarship funds; (ii) support the disabled, both through increased access to the Bank's branches and charitable contributions; and (iii) fund nature conservation within the country. In his personal capacity, Mr Gilauri has also established an education fund, sending a strong message that personal charitable contributions can also make a difference.

For 2015, the Committee found that Mr Gilauri's performance was excellent. He met and exceeded his KPIs as outlined above. As a result, the Committee determined that Mr Gilauri should be awarded discretionary deferred share compensation near maximum opportunity. As a result, the Committee agreed to award Mr Gilauri 47,000 shares, representing 46% of total salary and 92% of his maximum opportunity. See section 1(b) of the summary of the Directors' Remuneration Policy on page 118 which describes why the Remuneration Committee steers away from a strict weighting of the performance measures and the discretion it retains in respect of determining the number of discretionary shares that may be granted.

Directors' Remuneration Report continued

For 2016, in respect of objective KPIs, we plan to measure Mr Gilauri's performance against KPIs which reflect the separation of our Banking and Investment Businesses as well as the strategy of the Group as a whole as outlined below. Strict weighting is not imposed on the KPIs below for the reasons mentioned in section 1(b) of the summary of the Directors' Remuneration Policy on page 119.

Banking Business

- ROAE of 20%.
- Retail loan book growth of 20%.

Investment Business

- Growth of the value of our Investment Businesses.
- Continued enhancement of our Investment Business management teams.

Group-wide

- Continued coaching and mentoring of the management team.
- Continued self-development.

3.3 Further details of fixed and discretionary contingent deferred share compensation granted during 2015 (audited)

The following table sets out details of the nil-cost options over BGEO shares which have been granted to Mr Gilauri in 2015 in respect of the year ended 31 December 2014.

	Deferred share salary	Discretionary deferred share compensation
Number of underlying shares and basis on which award was made	90,000 granted on the basis described in the table in section 1 and section 1(a) of the Remuneration Policy.	25,000 granted on the basis described in the table in section 1 and section 1(b) of the Remuneration Policy.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group (as reflected in accounts)	US\$ 1,954,157 ¹	US\$ 654,250 ²
Face value	US\$ 1,954,157 ¹	US\$ 654,250 ²
	Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.	Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of the executive's salary set out in the 2013 contract and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2014 performance (and is not a LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.	Nil. The options make up the entirety of the Executive Director's performance-based compensation and so no payment is required upon exercise.
Vesting period	Five (5) years, with full vesting in January 2019.	Two (2) years, with full vesting in January 2017.
Performance measures	None. See section 1(a) of the Remuneration Policy.	See section 3.2 above and section 1(b) of the Remuneration Policy.

Notes:

1 Figures calculated as described in Note 2 to the table in section 3.1.

2 Figures calculated as described in Note 3 to the table in section 3.1.

3.4 Percentage change in remuneration of CEO

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2014 and 2015, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2014 and 2015. See section 3.1 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred compensation of Mr Gilauri.

	Percentage change for the CEO between 2014 and 2015	Average percentage change for the Group's employees as a whole (excluding Mr Gilauri) between 2014 and 2015
Total cash salary (combined BGEO and Bank) ¹	0.0%	1.4%
Total deferred share salary (Bank) ²	0.0%	4.6%
Taxable benefits ³	30.3%	-0.8%
Total bonus (discretionary deferred share compensation, in the case of Mr Gilauri, and deferred discretionary share compensation plus cash bonus, in the case of other employees of the Group)	68.1%	13.3%

Notes:

1 Figures calculated as described in Note 1 to the table in section 3.1.

2 Figures calculated as described in Note 2 to the table in section 3.1.

3 The value of Mr Gilauri's taxable benefits increased to US\$ 1,252 in 2015 from US\$ 961 in 2014, as a result of an amendment to Mr Gilauri's medical insurance policy.

3.5 Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director in 2015 and 2014.

	BGEO fees (US\$)		Bank fees (US\$)		Total fees (US\$)	
	2015	2014	2015	2014	2015	2014
Neil Janin (Chairman) ¹	107,500	107,500	107,500	107,500	215,000	215,000
David Morrison ²	83,500	83,500	72,500	72,500	156,000	156,000
Al Breach	67,000	67,000	56,000	56,000	123,000	123,000
Kaha Kiknavelidze	67,000	67,000	56,000	56,000	123,000	123,000
Kim Bradley	70,500	70,500	59,500	59,500	130,000	130,000
Bozidar Djelic	56,000	56,000	45,000	45,000	101,000	101,000
Tamaz Georgadze	56,000	56,000	45,000	45,000	101,000	101,000
Hanna Loikkanen ³	20,714	N/A	12,500	N/A	33,214	N/A
Total	528,214	507,500	454,000	441,500	983,214	950,000

Notes:

1 On 4 September 2015, Mr Janin was appointed as an Independent Non-Executive Director of GHG PLC. He also serves as Chairman of both the Nomination and Remuneration Committees of GHG PLC. In 2015, Neil Janin received remuneration of US\$ 89,706 from GHG PLC in respect of his services. Mr Janin has no entitlement to fees in respect of his position on the Supervisory Board of JSC Georgia Healthcare Group.

2 On 4 September 2015, Mr Morrison was appointed as an Independent Non-Executive Director of GHG PLC. He also serves as Chairman of the Audit Committee and a member of both the Nomination and Critical Quality and Safety Committees. In 2015, Mr Morrison received US\$ 102,664 from GHG PLC in respect of his services. Mr Morrison has no entitlement to fees in respect of his position on the Supervisory Board of JSC Georgia Healthcare Group.

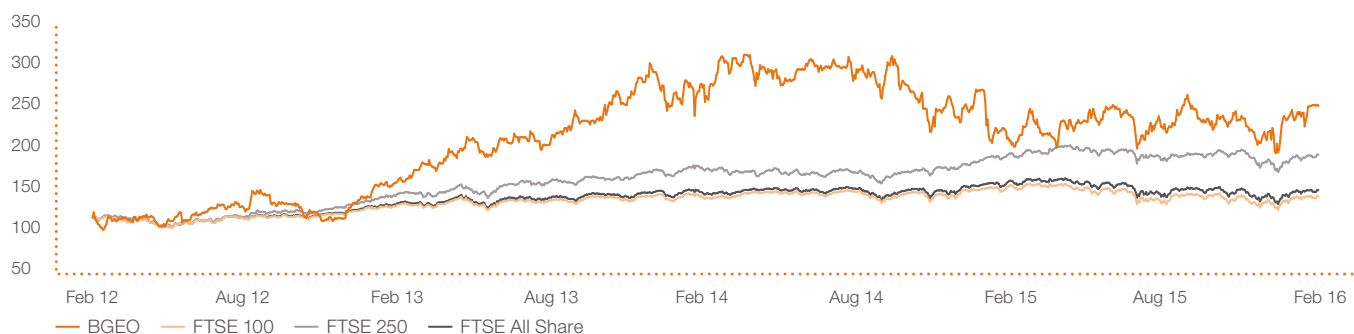
3 Ms Loikkanen was appointed to the Board of BGEO and the Supervisory Board of the Bank on 12 June 2015 and 27 August 2015, respectively, and therefore the fees reflected above have been pro-rated from the date of appointment until 31 December 2015. Ms Loikkanen's yearly remuneration for BGEO and the Bank is US\$ 37,500 and US\$ 37,500, respectively.

In 2015, no payments were made to past Directors, nor were payments made for loss of office.

3.6 Total Shareholder Return

BGEO Group PLC TSR vs. the FTSE indices TSR

The following graph compares the Total Shareholder Return (TSR) of BGEO Group PLC with the companies comprising the FTSE All-Share Index, the FTSE 250 Index and FTSE 100 Index for the period since BGEO's listing on the Premium Segment of the LSE on 28 February 2012 until 31 March 2016.



Source: Thomson Datastream

Directors' Remuneration Report continued

3.7 Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2014 and 2015 as well as the difference in value of distributions paid to shareholders by way of dividends between 2014 and 2015.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Year ended 31 December 2014 (US\$) (dividend for year 2013)	82,532,004	38,437,970
Year ended 31 December 2015 (US\$) (dividend for year 2014)	77,384,819	33,575,932
Percentage change	-6.2%	-12.6%

3.8 Directors' interests in shares (audited)

The following table sets forth the respective holdings of BGEO shares of each Director as at 31 December 2014 and 2015.

As at 31 December 2014					As at 31 December 2015				
	Number of vested but unexercised BGEO shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised BGEO shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BGEO shares		Number of vested but unexercised BGEO shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised BGEO shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BGEO shares		
Irakli Gilauri ¹	161,131	–	322,000	483,131	250,319	–	289,500	539,819	
Neil Janin ²	35,729	N/A	N/A	35,729	35,729	N/A	N/A	35,729	
David Morrison	26,357	N/A	N/A	26,357	26,357	N/A	N/A	26,357	
Al Breach ³	16,400	N/A	N/A	16,400	16,400	N/A	N/A	16,400	
Kaha Kiknavelidze	26,337	N/A	N/A	26,337	26,337	N/A	N/A	26,337	
Kim Bradley	1,250	N/A	N/A	1,250	1,250	N/A	N/A	1,250	
Tamaz Georgadze	0	N/A	N/A	0	0	N/A	N/A	0	
Bozidar Djelic	0	N/A	N/A	0	0	N/A	N/A	0	

Notes:

- 1 In 2015, Mr Gilauri exercised options in respect of 174,500 BGEO shares. Mr Gilauri's unvested and unexercised shares include the shares granted on 2 March 2016 in respect of the 2014 work year.
- 2 At year-end 2015, NeilCo Limited, a company wholly-owned by Mr Janin, held 10,000 BGEO shares.
- 3 At year-end 2015, Gemsstock Growth Fund, which Mr Breach manages, held 20,000 BGEO shares.

The Directors' Remuneration Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The long vesting periods, particularly for deferred salary shares (five years), result in executive management having large holdings of unvested shares. Accordingly, the Group does not apply a shareholding guideline or impose a holding period on Mr Gilauri's or executive management's shares. The policy naturally results in our executives holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Management Association.

As at the date of this Annual Report, Mr Gilauri's shareholding remains 539,819 BGEO shares, representing approximately 1.4% of the share capital of BGEO. The vesting period for the majority of unvested shares exceeds four years.

None of Mr Gilauri's connected persons have interests in any BGEO shares.

The Group does not require Non-Executive Directors to hold a specified number of shares in BGEO. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. There have been no changes in the Non-Executive Directors' BGEO shareholdings since 31 December 2015.

Several of our Directors chose to subscribe for shares in the GHG IPO, which closed on 12 November 2015. The following table sets forth the respective holdings of GHG shares of each Director as at 31 December 2015.

As at 31 December 2015

	Number of GHG shares held directly
Irakli Gilauri	411,700
Neil Janin	88,000
David Morrison	116,600
Al Breach	30,000
Kim Bradley	19,000

3.9 Mr Gilauri's interests in Group debt securities and real estate

Directors and senior management of the Group from time-to-time will purchase debt securities or real estate from Group entities on an arms-length basis. In the interest of transparency, such transactions entered into by our sole Executive Director, Mr Gilauri, are described below.

Mr Gilauri participated in the US\$ 20 million two-year bond offering by m² Real Estate and the US\$ 15 million two-year bond offering by Evex, each of which are described on page 81 of this Annual Report and Note 18 of the Accounts on page 188. Both bonds are listed on the Georgian Stock Exchange. As at the date of this Annual Report, Mr Gilauri has purchased US\$ 243,900 worth of m² Real Estate bonds and US\$ 281,390 worth of Evex bonds.

On 24 December 2015, Mr Gilauri purchased an apartment in the m² Real Estate Skyline Project (described on page 85 of this Annual Report) in the amount of US\$ 519,220. Mr Gilauri purchased this apartment during the pre-sales phase on an arms-length basis. Pre-sales were offered to potential clients that have either requested to receive direct marketing from m² Real Estate or through direct marketing to Solo and private wealth customers of the Bank.

3.10 Details of Non-Executive Directors' terms of appointment

Letters of appointment are entered into by BGEO with each Non-Executive Director, generally for three-year terms. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. New BGEO letters of appointment for each Non-Executive Director, save for Hanna Loikkanen, were signed on 10 April 2014. Ms Loikkanen signed her letter of appointment on 12 June 2015. Ms Loikkanen will be proposed for election at the AGM and all other Non-Executive Directors will be proposed for annual re-election at the AGM.

A succession plan adopted by the Board provides for an initial term of six years, with a maximum tenure of nine years, if their skills and experience continue to enhance the effectiveness of the Group and their continued appointments are deemed to be in the best interests of the Group. As the Group continues to evolve, the Board has and will continue to enhance its skills and will continue to improve gender diversity in line with its Board Diversity Policy.

The table below shows each Non-Executive Director's date of appointment to the Board of BGEO and the Supervisory Board of the Bank.

	Date of appointment to BGEO	Date of appointment to the Bank
Neil Janin	December 2011	June 2010
David Morrison	December 2011	June 2009
Al Breach	December 2011	June 2010
Kaha Kiknavelidze	December 2011	February 2009
Kim Bradley	December 2013	December 2013
Bozidar Djelic	December 2013	December 2013
Tamaz Georgadze	December 2013	December 2013
Hanna Loikkanen	June 2015	August 2015

4. Senior officer remuneration

In addition to the CEO of BGEO and the Bank, in 2015, there were seven senior officers. These individuals include the Bank's Deputy CEOs responsible for the following divisions: Finance, Retail Banking, Corporate Banking and Investment Management as well as the CEOs of GHG and m² and the Group General Counsel.

Key information regarding remuneration for senior officers is disclosed below in the interests of transparency, but the remuneration of senior officers is not subject to the Regulations or to the Directors' Remuneration Policy. The principles and remuneration structure described in the Directors' Remuneration Policy are currently applied in broadly the same way to senior officers. This means that, as for Mr Gilauri, senior officers receive remuneration based on two components:

- salary, which includes both a modest cash sum and deferred share compensation which vests over a five-year period; and
- a discretionary award, payable 100% in deferred share compensation vesting over a two-year period, which is dependent on both Group performance and the executive achieving his KPIs.

Unlike previous years, we have not combined the table reflecting senior officer remuneration for a two-year period due to additional disclosure required in respect of 2015 in respect of deferred share salary. Certain senior officers signed new contracts upon expiration of their previous contracts and increases in deferred share compensation for these senior officers occurred during the year, which has required us to calculate the value of 2015 deferred share compensation using different share values. In addition, certain senior officers received a portion of their deferred share salary from entities within the Group other than BGEO. Details for each senior officer are listed in the footnotes to the 2015 table.

With respect to both 2015 and 2014, the following applies to remuneration for both years:

- Cash salary. Values are expressed in US Dollars but paid in Lari.
- Deferred share salary. Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the work year even though the number of deferred salary shares is fixed in the contract. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 1(a) of the Directors' Remuneration Policy.
- Discretionary deferred share compensation. The means of determining the number of shares underlying this compensation and the terms and conditions are described in section 1(b) of the Directors' Remuneration Policy.
- Taxable benefits, pension and dividend equivalents. See footnotes 4, 5 and 6 in the table provided in section 3.1.

Directors' Remuneration Report continued

4.1 Single total figure of remuneration for senior officers

The following tables below set out the remuneration received by each of the senior officers for 2014 and 2015 in respect of his employment within the Group.

	2015					
	Cash salary (US\$)	Fixed deferred share salary (US\$) ¹	Total fixed compensation (US\$)	Discretionary deferred share compensation (US\$) ²	Taxable benefits, pension and dividend equivalents (US\$)	Total (US\$)
Murtaz Kikoria ³	150,000	618,835	768,835	643,309	57,626	1,469,770
Levan Kulijanishvili ⁴	150,000	477,439	627,439	327,503	12,351	967,293
Mikheil Gomarteli ⁵	150,000	576,448	726,448	666,702	61,684	1,454,834
Sulkhan Gvalia ⁶	150,000	576,448	726,448	350,896	72,990	1,150,334
Archil Gachechiladze ⁷	175,000	683,260	858,260	701,791	68,043	1,628,094
Avto Namichieshvili ⁸	150,000	661,223	811,223	748,577	68,281	1,628,081
Nikoloz Gamkrelidze ⁹	150,463	1,617,049	1,767,512	600,946	48,157	2,416,615
Irakli Burdiladze ¹⁰	150,000	593,407	743,407	748,577	57,224	1,549,208

Notes:

- For all senior officers (save for Mr Gamkrelidze, who was also granted GHG PLC shares (see footnote 9)), fixed deferred share salary is granted in respect of BGEO shares.
- For all senior officers, save for Mr Gamkrelidze (see footnote 9), discretionary deferred share compensation granted in 2016 in respect of the 2015 work year is in the form of BGEO shares, the value of which is calculated by reference to the BGEO share price on 12 February 2016 which was US\$ 23.39 (based on the official share price of £16.18 per share converted into US Dollars using an exchange rate of 1.4458, being the official exchange rate published by the Bank of England on the same date).
- The value of deferred salary share compensation is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date). Mr Kikoria's deferred share salary was increased from 25,000 to 35,000 in July, which became effective 1 September 2015. The value of the additional 10,000 deferred salary shares is calculated by reference to the share price on 24 August 2015, which was US\$ 25.43 per share (the official share price of £16.16 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 27,500 BGEO shares (see footnote 1).
- Prior to being appointed as CFO of the Bank in September 2015, Mr Kulijanishvili served as Head of Compliance and Internal Control Head of Compliance. The value of deferred share compensation is calculated by reference to the share price on 25 February 2014 which was US\$ 39.79 per share (based on the official share price of £23.85 per share converted into US Dollars using an exchange rate of 1.6682, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 14,000 BGEO shares (see footnote 1).
- The value of deferred share compensation is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date). Mr Gomarteli's deferred share salary was increased from 25,000 to 30,000 in July, which became effective 1 September 2015. The value of the additional 5,000 deferred salary shares is calculated by reference to the share price on 24 August 2015, which was US\$ 25.43 per share (the official share price of £16.16 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 28,500 BGEO shares (see footnote 1).
- The value of deferred share compensation is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date). Mr Gvalia's deferred share salary was increased from 25,000 to 30,000 in July, which became effective 1 September 2015. The value of the additional 5,000 deferred salary shares is calculated by reference to the share price on 24 August 2015, which was US\$ 25.43 per share (the official share price of £16.16 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 15,000 BGEO shares (see footnote 1).
- The value of deferred share compensation is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date). Mr Gachechiladze's deferred share salary was increased from 30,000 to 35,000 in July, which became effective 1 September 2015. The value of the additional 5,000 deferred salary shares is calculated by reference to the share price on 24 August 2015, which was US\$ 25.43 per share (the official share price of £16.16 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 30,000 BGEO shares (see footnote 1).
- The value of deferred share compensation for the first 10 months of the year is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date). Mr Namichieshvili's service agreement with the Bank expired on 31 October 2015. He accepted a new service agreement with JSC BGEO Group on the same terms as his previous agreement with the Bank, which became effective 1 November 2015. As a result, the value of his deferred share salary for the last two months of the year is calculated by reference to the share price on 24 August 2015, which was US\$ 25.43 per share (the official share price of £16.16 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 32,000 BGEO shares (see footnote 1).
- Mr Gamkrelidze's deferred salary share compensation is comprised of 175,000 GHG PLC shares in respect of his employment at GHG and 55,000 BGEO shares in respect of services rendered to the Group in relation to the GHG IPO. The value of the 175,000 GHG shares is calculated by reference to a share price US\$ 1.16 per share, which corresponds to EY's determination of the value of such shares as at 1 April 2015 (prior to the listing of GHG PLC). The value of the 55,000 BGEO shares is calculated by reference to two different share prices. The value of 25,000 BGEO shares is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date) and the value of 30,000 BGEO shares is calculated by reference to the share price on 17 December 2014 which was US\$ 29.34 per share (based on the official share price of £18.76 per share converted into US Dollars using an exchange rate of 1.5643, being the official exchange rate published by the Bank of England on the same date). Options in respect of discretionary deferred compensation were awarded over 237,500 GHG shares, the value of which is calculated by reference to the GHG PLC share price on 15 February 2016 which was US\$ 2.53 per share (based on the official share price of £1.74 per share converted into US Dollars using an exchange rate of 1.4552, being the official exchange rate published by the Bank of England on the same date).
- On 1 September 2015, Mr Burdiladze's 2013 service contract with the Bank was transferred to m2 and on 1 November 2015, he accepted a new service agreement with m2 on the same terms as his previous agreement with the Bank, save for the increase in deferred salary shares to 30,000, as described below. The value of deferred share compensation in respect of 25,000 salary shares for the first 10 months of the year is calculated by reference to the share price on 18 February 2013 which was US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date). Mr Burdiladze's deferred share salary was increased from 25,000 to 30,000 in July, which became effective 1 September 2015. The value of the additional 5,000 deferred salary shares prior to commencement of his new service agreement with m2 on 1 November 2015 is calculated by reference to the share price on 24 August 2015, which was US\$ 25.43 per share (the official share price of £16.16 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). The value of his 30,000 deferred salary shares for the remaining two months of the year is also calculated by reference to the share price on 24 August 2015 as described directly above. Options in respect of discretionary deferred compensation were awarded over 32,000 BGEO shares (see footnote 1).

	2014					Total (US\$)
	Bank cash salary (US\$)	Bank deferred share salary (US\$) ¹	Total salary (US\$)	Discretionary deferred share compensation (US\$) ²	Taxable benefits, pension and dividend equivalents (US\$)	
Murtaz Kikoria	150,000	534,060	684,060	549,570	29,332	1,262,962
Mikheil Gomarteli	150,000	534,060	684,060	549,570	36,762	1,270,392
Sulkhan Gvalia	150,000	534,060	684,060	314,040	36,524	1,034,624
Archil Gachechiladze	175,000	640,872	815,872	497,230	40,461	1,353,563
Avto Namichieshvili	150,000	640,872	790,872	457,975	42,611	1,291,458
Nikoloz Gamkrelidze	150,000	640,872	790,872	497,230	24,669	1,312,771
Irakli Burdiladze	150,000	534,060	684,060	497,230	29,820	1,211,110

Notes:

- 1 Deferred share salary. The value is calculated by reference to the share price as of US\$ 21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date) as at 18 February 2013, the date of the service contracts.
- 2 Discretionary deferred share compensation. The value of discretionary deferred share compensation granted in 2015 in respect of the 2014 work year is calculated by reference to the share price on 19 March 2015, which was US\$ 26.17 per share (based on the official share price of £17.77 per share converted into US Dollars using an exchange rate of 1.4727, being the official exchange rate published by the Bank of England on the same date). The number of BGEO shares granted to the senior officers in respect of discretionary share compensation in 2014 is as follows: Murtaz Kikoria: 21,000; Mikheil Gomarteli: 21,000; Sulkhan Gvalia: 12,000; Archil Gachechiladze: 19,000; Avto Namichieshvili: 17,500; Nikoloz Gamkrelidze: 19,000; and Irakli Burdiladze: 19,000.

4.2 Shareholdings of senior officers

The following table sets forth the respective holdings of BGEO shares of the senior officers as at 31 December 2014 and 2015.

	As at 31 December 2014			As at 31 December 2015		
	Number of vested BGEO shares	Number of unvested BGEO shares	Total vested and unvested BGEO shares	Number of vested BGEO shares	Number of unvested BGEO shares ¹	Total vested and unvested BGEO shares
Murtaz Kikoria	5,000	98,000	103,000	200	100,000	100,200
Levan Kulijanishvili	–	15,180	15,180	9	25,918	25,927
Mikheil Gomarteli	30,851	99,000	129,851	27,851	98,750	126,601
Sulkhan Gvalia	42,022	96,500	138,522	37,022	89,750	126,772
Archil Gachechiladze	–	112,000	112,000	50,750	110,250	161,000
Avto Namichieshvili	61,664	112,000	173,664	58,139	108,750	166,889
Nikoloz Gamkrelidze	1,082	83,542	84,624	–	95,250	95,250
Irakli Burdiladze	–	98,000	98,000	–	98,000	98,000

Note:

- 1 Includes shares granted on 2 March 2016 in respect of the 2014 work year.

5. Committee effectiveness review

An externally facilitated review of the Committee was performed by Lintstock. The evaluation principally addressed the composition of the Committee, the structure and effectiveness of the Remuneration Policy and the performance evaluation process. The effectiveness evaluation concluded that the Committee continues to operate and perform effectively.

Our priorities for 2016 include the commencement of discussions regarding the terms of the Directors' Remuneration Policy to be proposed to shareholders for approval at the 2017 AGM. We are also carefully monitoring the performance of senior management against expanded self-development and mentoring KPIs and are enhancing the scope of management performance evaluations.

Directors' Remuneration Policy

Our Directors' Remuneration Policy was approved by our shareholders at the 2014 AGM. The approved Directors' Remuneration Policy (which has not been amended) is valid for three years from the date of the 2014 AGM and will not be presented to shareholders for approval at the 2016 AGM. In the pages that follow, we have provided a summary of the key provisions of the Directors' Remuneration Policy in order to provide context to the discussion of the implementation of the policy in the Directors' Remuneration Report on pages 107 to 123. Please refer to the 2013 Annual Report for the full text of the approved Directors' Remuneration Policy, which is also available on our website, <http://bgeo.com/page/id/1/annual-reports>. There will be no significant changes between the Directors' Remuneration Policy and its implementation in 2016.

Mr Gilauri entered into a new contract with the Bank, which will take effect on 1 May 2016. The terms of the contract are consistent with the Directors' Remuneration Policy.

Directors' Remuneration Report continued

1. Executive Director remuneration policy

Component	Purpose and link to strategy	Operation and opportunity
Salary in the form of cash and deferred shares	Cash salary - Modest yet sufficient to cover reasonable living expenses and, when combined with the other elements of the package, competitive enough to attract, retain and develop high-calibre talent. - Reflective of the Executive Director's duties to each of BGEO and the Bank, respectively. Deferred share salary - Fixed compensation in the form of nil-cost options over BGEO shares which vest over a five-year period promotes the long-term success of the Group by closely aligning the Executive Director's and shareholders' interests.	Cash salary - Cash salary payable under the terms of the separate service contracts with BGEO and the Bank². The total amount payable under Mr Gilauri's current contracts is US\$ 437,500. - Reviewed upon renewal of the service contract. - There is no provision for the recovery or withholding of cash salary. Deferred share salary - Awarded annually over the number of BGEO shares under the terms of the service contract with the Bank (currently 90,000 per annum for Mr Gilauri under his contract with the Bank). - Reviewed upon renewal of the service contract. - Awards are formally granted in January of the first year following the work year, and vest as to 20% in January of each of the second, third and fourth years following the work year, and as to 40% in January of the fifth year following the work year. - Dividend equivalent payments are made upon vesting (exercise of the nil-cost options)³. - Unvested deferred share salary lapses upon termination by BGEO or the Bank "for cause" or by the Director other than for "good reason" or if the Director does not remain employed by the Group or serve as a Director of a subsidiary of the Group (each as defined in the relevant service contract). - There is no provision for the recovery or withholding of deferred share salary.
Discretionary deferred share compensation	- Annual performance-based compensation paid entirely in the form of nil-cost options over BGEO shares which vest over a two-year period in lieu of a cash bonus or LTIP. - Promotes the Group's long-term success by closely aligning the Executive Director's and shareholders' interests.	- May be awarded annually from a pool of shares made available for such awards based on the performance of the Group and the Bank and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year. - For Mr Gilauri, the maximum value of an award in a given year for the remainder of his service contract with the Bank is capped at 50% of total salary. For an Executive Director other than Mr Gilauri, an award will not comprise more than 125% of total salary, save that the Remuneration Committee has the discretion to increase such award to a maximum 150% of total salary for performance that has resulted in outstanding benefits for shareholders. - Awards vest as to 50% in January of each of the second and third years following the work year. - Dividend equivalent payments are made upon vesting exercise of the nil-cost options³. - Unvested deferred share compensation lapses on the same terms as deferred share salary, save that the Board has reserved the right to permit unvested discretionary deferred shares to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group. - If at any time after awarding discretionary deferred share compensation, it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse.
Pension	The provision of retirement benefits helps to attract and retain high-calibre talent.	- The Bank operates a defined contribution pension scheme. - The Executive Director and the Bank each contribute a minimum of 1% of the Executive Director's gross monthly cash salary payable under his service contract with the Bank. - The Bank will match in additional contributions in a proportion of 0.2 to one, up to a maximum additional Bank contribution of 1% of gross monthly salary where the Director makes additional contributions up to 5% of gross monthly salary. - There is no provision for the recovery or withholding of pension payments.
Benefits	Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	- Benefits consist of health insurance, disability insurance and Directors' and officers' liability insurance, mobile phone (including contract charges and costs of calls made during business trips abroad) and personal security arrangements (if requested by the Executive Director). - A tax equalisation payment may be paid to a Director if any part of his remuneration becomes subject to double taxation. - There is no provision for the recovery or withholding of benefits.

Notes:

- 1 A discussion of how we implemented the Directors' Remuneration Policy in 2015 is set out on pages 107 and 123.
- 2 BGEO cash salary is converted from US Dollars to Sterling at the exchange rate published by the Bank of England on each monthly payment date. Bank cash salary is converted from US Dollars to Lari at the exchange rate published by the National Bank of Georgia on each bi-weekly payment date.
- 3 At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Dividend equivalents are paid in Lari as at the date dividends were paid to other shareholders.
- 4 Work year refers to the year following the year to which the award relates.

(a) Salary

The deferred share salary comprises the most important element of the Executive Director's fixed annual remuneration and is commensurate with his role within the Group. By heavily weighting the base salary to deferred share compensation rather than cash, the Executive Director's day-to-day actions are geared towards sustained Group performance over the long term. The deferred share salary component is neither a bonus nor a LTIP: it is salary fixed at the outset of each three-year service contract and is therefore not subject to performance targets or measures. That salary, however, increases or declines in value depending on Group performance over the five-year vesting period, aligning the Executive Director's interests directly and naturally with those of shareholders.

(b) Discretionary deferred share compensation

The Group does not operate a LTIP because it believes there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share compensation. No cash bonuses are paid to Executive Directors. Instead, individual and Group performance is rewarded through an award of discretionary deferred share compensation that vests over the two years following the work year. As discretionary deferred share compensation is awarded to reward past performance over the work year, it is not subject to any performance measures over the period from award to vesting.

The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Director and all other members of executive management is determined annually by the Remuneration Committee in its discretion, based on a number of factors including:

- financial objectives (e.g. ROAE, operating leverage and Cost to Income ratio);
- business growth objectives (e.g. net loan book growth and deposit growth and fee and commission generation);
- risk management objectives (e.g. capital strength, liquidity management and cost of credit risk);
- the performance of the Bank relative to its competitors in Georgia and in the light of overall global market conditions; and
- the market value of the shares at the time the discretionary share award is determined.

The number of shares over which an individual Executive Director's discretionary deferred share compensation will be granted is determined by the Remuneration Committee by reference to the performance of the Group and the Executive Director's KPIs, which are set for the Executive Director by the Remuneration Committee at the start of the financial year and which reflect the Executive Director's required contribution to the Group's overall key strategic and financial objectives for the financial year. A description of the KPIs set for Mr Gilauri in respect of 2015 and his performance against these targets can be found on pages 111 and 112.

While the Remuneration Committee has defined the set of factors to determine the aggregate pool of discretionary shares and evaluate an Executive Director's performance, it seeks to steer away from defining a series of narrow objectives for its Executive Directors and does not utilise strict weighting of performance measures. A high level of discretion is intentionally maintained when determining the quantum of discretionary deferred shares awarded to each Executive Director. Even in a "good" year for an Executive Director (e.g. achievement of most of his KPIs), in a "bad" year for the Group (e.g. poor financial performance by it) the Executive Director could receive little or no discretionary share compensation.

As mentioned in the table on the previous page, the maximum value of discretionary deferred share remuneration that Mr Gilauri may be awarded in a given year for the remainder of his service contract with the Bank is capped at 50% of his total salary.

(c) Equity compensation trust and dilution limits

An equity compensation trust, the Rubicon Executive Equity Compensation Trust (Trust), was established for the purposes of satisfying deferred share compensation awarded to Executive Directors and persons discharging managerial responsibility. In 2015, Sanne Fiduciary Services Limited, acting as trustee of the Trust, purchased 282,657 shares in the market. The BGEO shares currently committed to the Trust will partially satisfy awards in respect of the 2015 work year. We intend for Sanne to continue purchasing additional shares in the market, but may need to issue new shares, in order to ensure that there are a sufficient number of shares committed to the Trust in order to satisfy awards. However, the Group has committed to shareholders that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the Premium Segment of the LSE will not exceed 10% of BGEO's ordinary share capital over any 10-year period.

(d) Business expenses

Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts.

2. Legacy arrangements

It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

Directors' Remuneration Report continued

3. Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received on our remuneration structure each year as well as guidance from shareholder representative bodies, as we view shareholder input as key when shaping remuneration policy. We frequently meet with our shareholders to discuss our remuneration structure and engage directly with several shareholder advisory groups. The feedback we received is positive and our shareholders are widely supportive of our executive remuneration structure, understanding that although it varies from a typical UK remuneration structure in that we do not operate a LTIP or give cash bonuses, the absence of cash bonuses and the dominance of deferred share compensation in the overall remuneration package creates a direct and natural alignment of shareholder and executive management interests.

4. Consideration of employment conditions elsewhere in the Group

The Remuneration Committee considers the pay and employment conditions of executive management (other than Directors) when determining an Executive Director's remuneration as well as changes in pay and employment conditions across the Group as a whole in relation to the proposed pay for Directors. The Remuneration Committee consults with the Human Relations department, executive management and other employees during the year to seek feedback on the executive remuneration structure and takes such views into account when analysing its Policy. In 2015, the employees consulted confirmed that they were satisfied with the manner in which they were compensated. In taking this information into account in determining an Executive Director's remuneration, the Remuneration Committee relies on its judgement, particularly given that international comparisons are the most relevant for senior management and the Georgian labour market is more relevant for other employees.

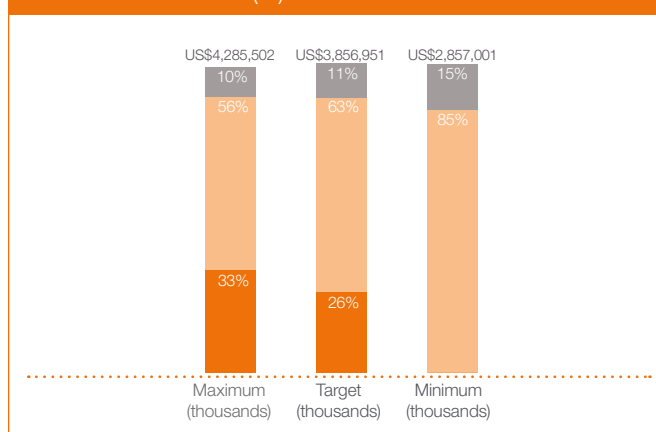
5. Comparison with Remuneration Policy for employees generally

The components of the remuneration package for Executive Directors (as provided for by the Policy) are broadly the same as those for non-Board members of the executive management team. Other members of senior management and middle management receive their entire salary in cash and do not receive a deferred share salary. Their bonuses may be either in the form of cash and/or shares which vest over a three-year period following the award. All other employees within the Group receive a cash salary and may be eligible to receive cash bonuses, portions of which may be deferred until the publication of the audited annual results for the work year and/or based on continuous employment with the Group. The deferred portion of the cash bonus may also be reduced if it is revealed, upon completion of the annual audit, that the annual results published by the department where the employee works were incorrect in any material respect. All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on the same terms as applicable to Executive Directors.

6. Total remuneration opportunity for our sole Executive Director

The chart below shows the remuneration which Mr Gilauri, our sole Executive Director, could receive in respect of 2016 under the Policy at three different performance levels. It should be noted that, at the maximum level, 89% of Mr Gilauri's 2016 compensation will be in the form of deferred shares for which the average vesting period exceeds three years. At the minimum level, 85% of Mr Gilauri's 2016 compensation will be in the form of deferred shares for which the average vesting is just under four years.

Total remuneration opportunity for our sole Executive Director (%)



■ Discretionary deferred share compensation
■ Fixed share salary ■ Fixed cash salary

Notes:

- Salary is comprised of cash, deferred share salary, benefits and pension contributions. Mr Gilauri's total cash salary in 2016 in respect of both his service contract with BGEO and the JSC BGEO Group will be US\$ 437,500. In 2016, Mr Gilauri's new contract with the JSC BGEO Bank, which was approved on 13 July 2015, will become effective on 1 May 2016. From 1 January 2016 until 30 April 2016, the value of the deferred share salary payable is calculated by reference to the share price as at the date Mr Gilauri's 2013 service contract at the Bank was signed, being US\$ 21.71 per share (the official share price of £14.06 per share as at 19 February 2013 converted into US Dollars using an exchange rate of 1.5503, being the official exchange rate published by the Bank of England on the same date). From 1 May 2016 until 31 December 2016, the value of the deferred share salary payable is calculated by reference to the share price as at the date Mr Gilauri's new service contract with JSC BGEO Group was approved, being US\$ 29.44 per share (the official share price of £18.96 per share as at 13 July 2015 converted into US Dollars using an exchange rate of 1.5526, being the official exchange rate published by the Bank of England on the same date). The price is the value at which the shares were committed to the Trust and underlies the determination of compensation expense in the Group's income statement for the year. Deferred share salary in respect of 2016 will be formally granted in January 2017 and will vest from January 2018 to January 2021. For the purposes of this graph, we have used the value of pension and benefits for 2015 as we assume that pension and benefits in 2016 will be substantially the same.
- The means of determining the number of shares underlying the discretionary deferred share compensation and terms and conditions applying to this compensation are described in section 1(b) above. Discretionary deferred shares in respect of 2016 will be formally granted in January 2017 and will vest in January 2018 and 2019.
- Minimum opportunity reflects a scenario whereby Mr Gilauri receives only fixed remuneration, comprised of cash salary, deferred share salary, pension contributions and benefits and the Remuneration Committee considers that the Group's and/or the Director's performance in 2016 does not warrant any award of discretionary deferred share compensation.
- On-target opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described above) and assumes a discretionary deferred share compensation award at 70% of the maximum opportunity for Group and individual performance which is in line with the Group's expectation, which is excellent performance.
- Maximum opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described above) and a discretionary deferred share compensation award of 50% of total salary (i.e. the Remuneration Committee considers that the Group's and the individual's performance in 2016 warrant the highest possible level of discretionary deferred share compensation).
- The value of deferred shares does not take into account any increase or decrease in share price over the vesting period or any dividend equivalents payable on vesting (upon exercise of the nil-cost options).

7. Non-Executive Director Remuneration Policy

In 2015, each member of the Board of BGEO, with the exception of Mr Gilauri, served as a member of the Supervisory Board of the Bank. Fees for Non-Executive Directors on both the Board of BGEO and the Supervisory Board of the Bank are paid solely in cash. Each member received a base fee and was further remunerated for membership on the Audit Committee, Remuneration Committee and/or Nomination Committee, if applicable.

The Policy provides for a Non-Executive Director's remuneration package to be comprised of the following elements:

Component	Purpose and link to strategy	Operation and opportunity
Base cash fee	- Combined BGEO and Bank base cash fee is competitive enough to attract and retain experienced individuals. - The Chairman and Senior Independent Non-Executive Director receive higher base fees which reflect increased responsibilities and time commitment.	- Cash payment on a quarterly basis. - Reviewed every three years by the Remuneration Committee. The next review will be in 2017. - The combined BGEO and Bank base cash fee currently payable to Non-Executive Directors and Supervisory Board members is US\$ 75,000 per year (US\$ 37,500 for each of BGEO and the Bank). - The Remuneration Committee reserves the right, in its sole discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. - The maximum aggregate BGEO fees for all Non-Executive Directors which may be paid under BGEO's Articles of Association is £ 750,000.
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging Committee duties for BGEO and the Bank.	- Cash payment on a quarterly basis. - Reviewed every three years by the Remuneration Committee. The next review will be in 2017. - Fees for committee membership range from US\$ 7,500 to US\$ 15,000 per Committee, depending on the Committee and whether the Non-Executive Director is a Committee chairman or member.

Notes:

- 1 Non-Executive Directors do not receive any deferred share salary or discretionary deferred share compensation, pensions, benefits or any variable or performance-linked remuneration or incentives.
- 2 Non-Executive Directors are reimbursed for reasonable business expenses, including travel expenses, incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.
- 3 Non-Executive Directors who are appointed to the Board and/or to the Supervisory Board of the Bank by shareholders of BGEO are required to waive any entitlements to fees which would otherwise be payable to them under the Policy for so long as they are appointees of a shareholder.

8. Payments for loss of office of the current Directors

The following paragraphs (a) to (d) summarise the termination provisions of Mr Gilauri's service contracts with BGEO, the Bank and JSC BGEO Group, all of which are consistent with the Directors' Remuneration Policy. In 2015, and as of the date of this Annual Report, Mr Gilauri remained the sole Executive Director on the BGEO Board.

The Group's policy for payments for loss of office for Non-Executive Directors is described in paragraph (e) below and its approach to payments for loss of office for future Executive and Non-Executive Directors is described in section 9 below.

The Directors' service contracts and letters of appointment are kept for inspection by shareholders at BGEO's registered office.

(a) Termination of BGEO service contract dated 15 December 2011

Mr Gilauri's service contract with BGEO is for an indefinite term (subject to annual re-election at the AGM) and is terminable by either party on four months' written notice. Where the service contract is terminated on notice, BGEO may put Mr Gilauri on garden leave for some or all of the notice period and continue to pay his cash salary under the BGEO service contract, provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period.

BGEO may terminate Mr Gilauri's employment early with immediate effect and without notice and pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, conviction of an offence (other than traffic-related) or becoming of unsound mind. BGEO may also terminate the agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be solely in respect of cash salary due under the BGEO service contract as at the date of termination of employment.

(b) Termination of Bank service contract dated 19 February 2013

Mr Gilauri's service contract with the Bank is for an initial term of three years expiring on 1 May 2016, which may be renewed by agreement between the parties or terminated prior to the expiry of the term by either Mr Gilauri or the Bank. A further service contract has been agreed effective from 1 May 2016 and the termination provisions of it are described further at paragraph (c) below. The current agreement was subject to variations on 26 February 2014 and 24 August 2015. The latter variation was in connection with Mr Gilauri's change of role to Chairman of the Supervisory Board of the Bank. The Bank may terminate the service contract immediately without notice (subject to the terms set out below), whereas Mr Gilauri may terminate the contract upon three months' written notice or such shorter period as is agreed with the Supervisory Board and CEO of the Bank.

Separation payments

Mr Gilauri is entitled only to:

- accrued and unpaid cash salary;
- accrued but not yet paid dividend equivalents;
- benefits;
- holiday pay; and
- reimbursement of business expenses,

Directors' Remuneration Report continued

if his contract is terminated in the following circumstances:

- termination by the Bank for "cause" (cause being defined as gross and wilful misconduct in the course of his duties having a material adverse effect on the Group, material repeated failure to perform his duties or breach of his obligations or conviction of a felony, among other circumstances);
- termination by reason of death or disability (in which case he receives life or disability insurance benefits); or
- termination by Mr Gilauri other than for "good reason" (meaning uncorrected material breach of a material provision of the service contract by the Bank which is not cured within 45 days upon Mr Gilauri serving notice of breach, or material and unremedied illegal or unethical behaviour by Bank employees which has been notified to the Board by Mr Gilauri and the Board fails to react and cooperate with Mr Gilauri in addressing the behaviour).

If Mr Gilauri's service contract is terminated for any other reason, or is not renewed on substantially similar terms on expiry of the terms of the service contract, he is entitled to a separation payment equal to 12 months' cash salary plus any accrued and outstanding unpaid cash bonus, holiday pay and reimbursement of business expenses. He will not be entitled to any additional severance or leaving allowance, reimbursements, pay in lieu of notice, benefits, compensation for sick leave or other similar payments other than in respect of his deferred share salary and discretionary deferred share compensation (as described below). Any separation payments are intended to include a severance allowance and any additional payments would be decided by shareholders at a general meeting.

The Bank may restrict Mr Gilauri from being employed in the financial industry and/or providing consulting or similar services to a competing financial institution (based in a country in which the Bank operates) for a period of up to four months following the termination of his employment, and will continue to pay him his full cash salary under the Bank service contract as compensation for his unemployment. In addition, the Bank may impose a two-year non-compete period in exchange for accelerated vesting of his deferred share compensation (as described below). These non-competition covenants are subject to a materiality threshold.

Deferred share compensation on termination

Mr Gilauri will be entitled to an award of his deferred share salary in respect of any incomplete calendar year which he has worked. He may also be awarded discretionary deferred share compensation if:

- his service contract expires and is not renewed upon substantially similar terms;
- he is or is not offered a new service contract but is offered and accepts continued membership of the BGEO and/or Bank Board; or
- his service contract is terminated before its expiry date but he continues as a member of the BGEO and/or Bank Board.

Mr Gilauri will not be entitled to any deferred share salary for calendar years covered by the contract period during which he has not worked.

Vesting and lapse of existing awards

If Mr Gilauri's service contract is terminated for cause or by him other than for good reason, his unvested deferred share compensation will, unless otherwise agreed with the Board, lapse on the termination date.

Any unvested deferred share compensation of Mr Gilauri will vest immediately if:

- his service contract is terminated by the Bank other than for cause; is terminated by him for good reason; or expires and neither a renewed agreement nor Board membership is offered; or
- he ceases to be an Executive Director by reason of death, disability, injury, redundancy or retirement at normal retirement age; or
- there is a change of control of the Bank, BGEO or any intermediary holding company of the Company (as appropriate).

If Mr Gilauri's service contract expires and he is offered but refuses membership of the board of a company within the Group, 50% of his unvested deferred share compensation will vest immediately and the remaining 50% will, at his discretion, either continue to vest as normal or he may acquire some or all of the underlying shares for a specified price based on the price of the shares on their respective grant dates in accordance with the terms of the service contract plus a 10% annual increase from the respective grant date until the date of purchase (if any) by Mr Gilauri. In consideration for this vesting treatment, Mr Gilauri will be bound by a two-year non-compete period during which he may not be employed by, provide consultancy services to or otherwise found or be a partner or associate of a commercial bank in Georgia (save that he may hold less than 5% of shares of a publicly listed bank). If it is found that either an interim or annual statement, following an audit, requires a material adjustment, and such adjustment is due to the inaccuracies of a department under Mr Gilauri's control, then the Board may decide that all or any unvested securities may lapse.

If Mr Gilauri's service contract expires and is not renewed upon substantially similar terms but he is offered and accepts continued or renewed membership of the BGEO and/or Bank Board, 50% of his unvested shares vest immediately and the remaining 50% shall continue to vest as normal.

If he subsequently ceases to be a member of the Bank and/or BGEO Board, at Mr Gilauri's discretion, unvested shares either continue to vest as normal or he may acquire some or all of the underlying shares for the specified price as described above.

Mr Gilauri will be paid cash payments equivalent to the dividends accrued on his deferred share compensation. Such payments will be made on the vesting date in respect of dividends paid from the date the award was made to the vesting date. Such cash payments shall accrue and be payable on any vested shares, even if Mr Gilauri's service contract with the Bank has been terminated prior to vesting. The Bank will not pay any cash equivalent in respect of dividends on any deferred share compensation that has lapsed.

(c) Termination provisions in Bank service contract dated 24 August 2015

As disclosed in paragraph (b) above, on 24 August 2015, Mr Gilauri entered into a new service agreement with JSC BGEO Group. This will be effective from 1 May 2016 and is on the same terms as the contract described in (b).

(d) Previous service contract with the Bank dated 25 May 2010

Any unvested awards granted under Mr Gilauri's previous service contract with the Bank (for the period from 25 May 2010 until and including 30 April 2013) shall vest immediately on termination of his current service contract for any reason, except that (i) if his current agreement is terminated by the Bank for cause, any unvested awards shall (unless the Board determines otherwise) lapse, and (ii) if it is terminated by Mr Gilauri for any reason other than for good reason (and unless the Board determines otherwise to his advantage), 50% of the unvested awards will vest immediately and the remaining 50% will, at his discretion, either continue to vest as normal or the underlying shares may be acquired for the specified price as above.

(e) Termination of Non-Executive Directors' appointments

The letters of appointment for Non-Executive Directors provide for a one-month notice period although BGEO may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to BGEO, is guilty of fraud or dishonesty, brings BGEO or him/herself into disrepute or is disqualified as acting as a Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

9. Policy on the appointment of external hires and internal appointments

Any arrangement specifically established to recruit a new Executive Director would take the form of deferred shares. The value of these deferred shares would be capped to be no higher, on recruitment, than the awards which the individual had to surrender in order to be recruited and the vesting period of such deferred shares would be a similar timeframe to the awards being bought out. The application of performance conditions and/or clawback provisions may also be considered, where appropriate.

The remuneration package offered to any new Executive Director would comprise the components described in section 1 above.

A new Executive Director would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience but such package would be capped at the annual total monetary value or the total number of shares currently awarded to executives at the equivalent level of seniority pursuant to existing contractual arrangements. The terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

Relocation support for an incoming Executive Director and, where relevant, his or her family may be provided depending on the individual's circumstances. BGEO has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.

Any payment upon termination of a new Executive Director's service contract would not exceed 12 months' cash salary under the relevant service contract, plus any accrued and unpaid cash salary, benefits and holiday pay and reimbursement of any business expenses. The Group may also continue to pay a former Executive Director his full cash salary for any period following the termination of his appointment during which he is prohibited from competing with the Group.

It is expected that the following vesting provisions will apply to deferred share compensation in the case of termination of a new Executive Director's service contract:

- Unvested deferred share compensation would lapse upon termination of the service contract by BGEO or the Bank for cause, termination by the Executive Director other than for good reason or if the Executive Director's employment is terminated for any other reason and he is not offered continued membership of the Board or the Bank's Supervisory Board.
- Unvested deferred share compensation would continue to vest in the normal way during the respective vesting period(s) upon termination by BGEO or the Bank without cause, if the Executive Director's service contract expires and he is not offered a new service contract on substantially similar terms on expiration or if the Executive Director ceases to be an Executive Director by reason of injury, disability, redundancy or retirement (at normal retirement age).
- Unvested deferred share compensation would vest immediately upon death of the Executive Director; termination of the service contract by the Executive Director for good reason or a change of control.

Notwithstanding the above, the Board reserves the right to permit unvested deferred share compensation to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group.

If an existing employee of the Group is appointed as an Executive or Non-Executive Director, any obligation or commitment entered into with that individual prior to his appointment will be honoured by the Group in accordance with the terms of those obligations or commitments, even where they differ from the terms of the Policy.

Signed on behalf of the Board of Directors.

AI Breach

Chairman of the Remuneration Committee
7 April 2016

Statement of Directors' Responsibilities

Statement

We are responsible for preparing the Annual Report, the Director's Remuneration Report, the Strategic Report and the accompanying consolidated and separate financial statements in accordance with applicable law and regulations. Company law requires us to prepare financial statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law.

We must not approve the accompanying consolidated and separate financial statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing the accompanying consolidated and separate financial statements, we are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and separate financial statements, Article 4 of the IAS Regulation.

We have further responsibility for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We are also responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to the auditor

We confirm that, so far as we are aware, there is no relevant audit information of which the Company's auditors are unaware and we have taken all steps that we reasonably should have taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the consolidated and separate financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

In arriving at this position the Board was assisted by a number of processes that form part of its internal control and risk management systems, including the following:

- the Annual Report is drafted by appropriate senior management with overall coordination by the Head of Investor Relations to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by the CEO and other senior executive management; and
- the final draft is reviewed by the Audit Committee and Risk Committee prior to consideration by the Board.

By order of the Board

Kate Bennett Rea
on behalf of KB Rea Ltd.
Company Secretary
7 April 2016

Directors' Report

Strategic Report

The Strategic Report on pages 2 to 85 was approved by the Board of Directors on 7 April 2016 and signed on its behalf by Irakli Gilauri, Chief Executive Officer.

Management Report

This Directors' Report together with the Strategic Report on pages 2 to 85 form the Management Report for the purposes of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be part of this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future developments	Pages 2 to 85
BGEO Risk Management	Pages 46 to 47
Going concern statement	Page 47
Viability statement	Page 47
Bank Risk Management	Pages 52 to 59
Principal Risks and Uncertainties	Pages 48 to 51
Directors' Governance Statement	Page 92
The Board of Directors	Pages 86 and 89
Nomination Committee Report	Pages 97 and 98
Audit Committee Report	Pages 100 to 103
Risk Committee Report	Pages 104 to 105
Greenhouse gas emissions	Pages 68 to 69
Employee matters	Pages 65 to 66
Environmental matters	Pages 67 to 69
Share capital	Note 20 on page 189
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and financial instruments	Note 29 on pages 195 and 202

Articles of Association

BGEO's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The process for the appointment and removal of Directors is included in our Articles of Association. The BGEO Articles of Association are available on BGEO's website:

<http://bg eo.com/uploads/pages/bg eo-group-plc-articles-of-association-91.pdf>.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 20 to the consolidated financial statements on page 189 of this Annual Report.

As at the date of this Annual Report, there was a single class of 39,500,320 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to BGEO's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and BGEO's Articles of Association, to:

- have shareholder documents made available to them including the notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

In accordance with a request issued by BGEO, Sanne Fiduciary Services Limited, acting as trustee of the Trust, has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by BGEO.

BGEO is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Such authority was given at the 2015 AGM but no purchases were made during this financial year.

None of the ordinary shares carry any special rights with regard to control of BGEO.

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Group Share Dealing Code, whereby the Directors and designated employees require approval to deal in BGEO's shares; and
- where a person with an interest in BGEO's shares has been served with a disclosure notice and has failed to provide BGEO with information concerning interests in those shares.

All employees (including Directors) that are deemed by BGEO to be insiders have complied with the Group's Share Dealing Code. There are no restrictions on exercising voting rights save in situations where BGEO is legally entitled to impose such a restriction (for example under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to BGEO). BGEO is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Results and dividends

The Group made a profit before taxation of GEL 359.4 million (year ended 31 December 2014: GEL 276.6 million). The Group's profit after taxation for the year was GEL 310.9 million (year ended 31 December 2014: GEL 240.8 million).

BGEO may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by BGEO's Directors. The Directors may also pay interim dividends as appear to be justified by the profits of BGEO available for distribution.

As BGEO is a holding company, BGEO relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividend to its shareholders.

As a result of the Bank's strong financial performance and condition, the BGEO Board intends to recommend an annual dividend of GEL 2.4 payable in British Pounds Sterling, which is subject to shareholders' approval at the 2016 AGM. If approved, the dividend will be paid on 22 July 2016 to shareholders on the UK register of members at the close of business in the UK (6:00 pm London time) on 8 July 2016.

Directors' Report continued

Powers of Directors

The Directors may exercise all powers of BGEO subject to applicable legislation and regulation and BGEO's Articles of Association.

Conflicts of interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2015. BGEO's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his duty under company law.

Directors' remuneration

Directors' fees are determined by the Board from time to time. The remuneration of our Directors' must be in accordance with the Directors' Remuneration Policy approved by our shareholders in 2014. Fees for Non-Executive Directors (as distinct from any salary, remuneration or other amount payable to a Director pursuant to other provisions of the Articles of Association or otherwise) may not exceed £750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of BGEO. The fees paid to the Non-Executive Directors in 2015 pursuant to their letters of appointment are shown on page 113. The fees paid to our sole Executive Director in 2015 pursuant to his service agreements with BGEO and the Bank are shown on page 110.

Directors' interests

The Directors' beneficial interests in ordinary shares of BGEO as at 31 December 2015 are shown on page 114.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of BGEO (other than any person engaged by the Company as auditor) shall be indemnified by BGEO against any liability in relation to BGEO, other than (broadly) any liability to BGEO or a member of the Group, or any criminal or regulatory fine.

Related party disclosures

Details of related party disclosures are set out in Note 32 to the consolidated financial statements on pages 211 to 212 of this Annual Report.

Significant agreements

On 23 October 2015, BGEO entered into a Relationship Agreement with GHG and JSC BGEO Investments which regulates the degree of control that BGEO and its associates may exercise over the management and business of GHG. The principal purpose of the Relationship Agreement is to ensure that GHG and its subsidiaries are capable at all times of carrying on their business independently of BGEO and its associates. The Relationship Agreement took effect on 12 November 2015 and will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) BGEO, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If BGEO ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as BGEO and its associates together hold 20% or more of the voting share capital of GHG, BGEO and its associates shall amongst other things:

- conduct all transactions, agreements or arrangements entered into between (i) BGEO and its associates and (ii) GHG or any of its subsidiaries on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- not take any action that has or would have the effect of preventing GHG or any of its subsidiaries from complying with their obligations under the Listing Rules;
- not propose or procure the proposal of any resolution of the shareholders (or any class thereof) which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and/or
- abstain from voting on any resolution required by LR 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving BGEO.

The Relationship Agreement entitles BGEO to appoint one person to be a Non-Executive Director of GHG for so long as it (together with its associates) holds at least 20% of the voting share capital of GHG.

The Relationship Agreement also provides that (subject to permitted exceptions) neither BGEO nor its associates shall compete with the business of GHG nor use any names associated with GHG and that GHG shall not use any names associated with BGEO or its associates.

A copy of the Relationship Agreement is available to view at the BGEO's registered office.

At no time during 2015 did any Director hold a material interest in any contracts of significance with BGEO or any subsidiary of the Group. BGEO is not party to any significant agreements that would take effect, alter or terminate following a change of control of BGEO.

Presence outside of Georgia

We have representative offices in London, Budapest, Istanbul and Tel Aviv. See page 4.

Payment of creditors

We value our suppliers and acknowledge the importance of paying invoices in an orderly and timely manner. It is the Group's practice to agree terms on an individual basis when entering into contracts and meet obligations accordingly. The Group does not follow any specific published code or standard on payment practice.

Employee disclosures

Our disclosures relating to the number of women in senior management, employee engagement and policies as well as human rights, including employment of the disabled, are included in "Employee matters" on pages 65 to 66.

Political donations

The Group did not make any political donations or expenditures during 2015.

Code of Conduct and ethics

The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct is available on our website: <http://bgeo.com/uploads/pages/code-of-conduct-and-ethics-91.pdf>.

Independent auditors

A resolution to reappoint Ernst & Young LLP as auditors of BGEO will be put to shareholders at the upcoming AGM.

Major interests in shares

The table below lists shareholders with voting rights of more than 3% as of 31 December 2015. A description of changes in voting rights which have been notified to BGEO for the period 1 January 2016 up to and including 31 March 2016 are disclosed below the table.

Shareholder	As of 31 December 2015	
	Number of voting rights	% of voting rights
Schroders Investment Management	4,067,716	10.30
Harding Loevner Management LLP	3,592,183	9.09
Westwood International Advisors	1,600,964	4.05
Artemis Investment Management	1,409,248	3.57
Sanne Fiduciary Services Limited ¹	1,201,406	3.04
Firebird Management LLC ²	1,199,541	3.04

Source: Georgeson, Computershare

Notes:

- 1 Sanne Fiduciary Services Limited as trustee of The Rubicon Executive Equity Compensation Trust. BGEO was notified on 21 March 2016 that it decreased its number of voting rights to 1,183,020 (2.99% of voting rights).
- 2 BGEO was notified on 18 February 2016 that Firebird Management LLC decreased its number of voting rights to 1,168,650 (2.96% of voting rights).

BGEO was notified on 7 January 2016 that Frank Russell Company held 1,391,322 voting rights (3.52% of voting rights). This was the first notification received from Frank Russell Company, which disclosed that it was previously exempt from notifying an issuer of its holdings due to being an asset manager.

The respective regulatory filings by shareholders are available on the BGEO website: <http://bgeo.com/regulatoryannouncements> and the London Stock Exchange website: www.londonstockexchange.com/news/news/finance.htm.

Post balance sheet events

In March 2016, the Group signed a binding Memorandum of Understanding, subject to relevant regulatory approvals, to acquire a 100% equity stake in JSC GPC, one of the three leading pharmaceutical retailers and wholesalers in Georgia.

By order of the Board

Kate Bennett Rea
on behalf of KB Rea Ltd.
Company Secretary
7 April 2016

Independent Auditor's Report

To the members of BGEO Group PLC

Our opinion on the financial statements

In our opinion:

- BGEO Group PLC's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

BGEO Group PLC's financial statements comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2015	Separate statement of financial position as at 31 December 2015
Consolidated income statement for the year then ended	Separate statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Separate statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 34 to the financial statements
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 34 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement	• Monitoring of credit quality and appropriateness of allowance for loan losses • Risk of fraud in recognition of healthcare revenue • Valuation of land and buildings and investment properties • Accounting for complex or one-off transactions • IT general and automated controls over financial reporting In executing our audit response to the above risks of material misstatement, we also considered the risk of fraud in relation to management override of controls particularly post close adjustments and significant areas of accounting estimate.
Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further four components. • The components where we performed full or specific audit procedures accounted for more than 91% of Group's pre-tax profit, revenue and total assets.
Materiality	• Overall Group materiality is GEL 18.0 million which represents 5% of pre-tax profit.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Monitoring of credit quality and appropriateness of allowance for loan losses <i>Balance of GEL 198.9 million, prior year comparative GEL 103.8 million</i> JSC Bank of Georgia, which is the principal subsidiary of BGEO Group PLC, is the largest credit institution in Georgia. There is a risk that the Group's management may be under pressure to report strong financial performance in order to meet the expectations of internal and external stakeholders, particularly in light of lowered economic growth forecasts in Georgia, the devaluation of the Georgian Lari against the US Dollar and the acquisition of PrivatBank. The allowance for loan losses is calculated using a collective provisioning model or discounted cash flow analysis and this involves a high level of subjectivity and reliance on the provisioning models and assumptions therein. Specifically, for individually impaired loans, management judgement is involved in the process of assessing the impairment charge. As a consequence, there is a greater risk of misstatement in these balances, either by fraud or error, including through the potential override of controls by management. <i>Refer to the Audit Committee Report (page 101); Accounting policies (page 153); and Notes 4, 10 and 29 of the Consolidated Financial Statements (pages 164, 175 to 177 and 196 to 199)</i> The risk has increased in the current year as a result of lowered economic growth forecasts in Georgia, the devaluation of Georgian Lari against the US Dollar and the acquisition of PrivatBank.	We performed a walkthrough of the loan loss provision process and assessed the design and operating effectiveness of key controls. We tested key controls over collective loan loss provisioning, which included controls over the process of identifying the loans to be included in the collective provisioning and management's review of key assumptions. For each of significant risk group, we tested application controls (including loss given default, probability of default, loan loss allowance and probability of default migration controls). We tested key controls over the specific loan loss provision, which addressed aspects such as the classification of borrowers into their respective risk grades, calculation of days past due, and the recalculation of the loan loss allowance, including the valuation of collateral. For the specific loan loss provision, we selected loan exposures on a sample basis and tested the appropriateness of the specific loan loss provision as at the balance sheet date, including reviewing the Group's documented credit assessment of the borrowers, challenging assumptions around future cash flow projections and the valuation of collateral held. For the collective loan loss provision, we critically assessed the appropriateness of the collective provisioning methodology as well as the key assumptions and data inputs (including probability of default rates, cure rates, efficiency factor and average workout time) into the model with reference to our understanding of the business, relevant accounting standards and market practices. We also recalculated the collective loan loss provision and performed sensitivity analysis to changes in key inputs (including probability of default rates, efficiency factor, average workout time and collateral value) to the collective provisioning model. We inspected a sample of restructured loans and the Group's documented assessment to provide assurance that any loans that have been subject to forbearance have been appropriately provided for, classified and reported. We performed full scope audit procedures over this risk area in one component, which covered 89% of the risk amount.	Based on the results of our audit procedures, we concluded that the loan loss provision is within a reasonable range as at 31 December 2015.
Risk of fraud in recognition of healthcare revenue <i>Balance of GEL 184.0 million, prior year comparative GEL 125.7 million</i> Georgia Healthcare Group ("GHG") is one of the largest healthcare providers in Georgia. There is a risk that the Group's management may be under pressure to report strong financial performance in order to meet the expectations of internal and external stakeholders, particularly following the listing of Georgia Healthcare Group PLC and in light of lowered economic growth forecasts in Georgia and the devaluation of the Georgian Lari against the US Dollar. Further, compensation tied to the performance of the Group may create an incentive for management to manipulate results. As a consequence, there is a greater risk of misstatement in these balances, either by fraud or error, including through the potential override of controls by management. This is a new risk this year. Our audit approach and assessment of key areas of audit focus changes in response to circumstances affecting the Group. <i>Refer to the Audit Committee Report (page 101); Accounting policies (page 159); and Note 24 of the Consolidated Financial Statements (page 192)</i>	We performed a walkthrough of the healthcare revenue process and assessed the design and operating effectiveness of key controls. We increased our standard sample size for transactional testing by at least 1.7 times according to our statistical sampling methodology, to respond to this risk of fraud. We agreed transactions on a sample basis back to supporting audit evidence, such as receipt of cash and invoices; where appropriate, we also recalculated the fees charged. We performed analytical procedures and journal entry testing in order to identify and test the risk of misstatement arising from management override of controls. We performed substantive analytical review to consider unusual trends that could indicate material misstatements, and we considered changes in key drivers of healthcare revenue, such as bed occupancy, number of patients and number of beds. We also performed cut-off testing to obtain evidence that revenue is recognised in the correct period. We performed specific scope audit procedures over this risk area in one component, which covered 100% of the risk amount.	Based on the results of our audit procedures, we concluded that the healthcare revenue for the year ended 31 December 2015 is materially correct.

Independent Auditor's Report continued

To the members of BGEO Group PLC

Risk	Our response to the risk	What we concluded to the Audit Committee
Valuation of land and buildings and investment properties <i>Balance of GEL 474.8 million, prior year comparative GEL 414.4 million</i> The Group adopted the revaluation model for the measurement of its land and buildings and the fair value model for investment properties. Real estate valuation is inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid. Although the valuations are performed by a combination of internal and external, appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. <i>Refer to the Audit Committee Report (page 101); Accounting policies (pages 155 to 156); and Notes 4, 11, 12 and 30 of the Consolidated Financial Statements (pages 164, 178 to 180 and 205 to 206)</i> The risk has neither increased nor decreased in the current year.	We performed a walkthrough of the real estate valuation process and assessed the design effectiveness of key controls. We engaged our Real Estate specialists to evaluate the appropriateness of the Group's real estate valuations. This assessment included evaluating the competence and objectivity of the external valuers engaged by the Group, challenging the methods and assumptions used and testing the data provided by the valuers. In respect of properties which were not subject to individual valuation by the external valuers, we ascertained management's basis for conclusion, challenged management's assumption that property prices in certain categories and locations had not changed significantly during the year, and corroborated these by reference to our understanding of the Group's real estate portfolio and market information. We ensured the appropriate recognition of the results of real estate valuation in accordance with IAS 16 'Property, Plant and Equipment' and IAS 40 'Investment Property'. We performed full and specific scope audit procedures over this risk area in four components, which covered 80% of the risk amount.	Based on the results of our audit procedures, we concluded that the valuations of land and buildings and investment properties are within a reasonable range as at 31 December 2015.
Accounting for complex or one-off transactions The Group has experienced significant levels of growth and change in recent years. The Group has expanded its investment business over the years as part of the Group's strategy to capture compelling investment opportunities. From time to time, the Group has entered into a number of complex and one-off transactions and agreements, including transactions relating to business combinations and valuation of options and convertible shares, for which determining the appropriate accounting treatment is inherently subjective, requires the exercise of a high degree of judgement, is subject to significant levels of estimation uncertainty, or requires the re-assessment of fair values arising from historic transactions on a periodic basis. We focused on this area due to the complexity of the accounting considerations and the involvement of management's judgement. This is a new risk this year. Our audit approach and assessment of key areas of audit focus changes in response to circumstances affecting the Group. <i>Refer to the Audit Committee Report (page 101)</i>	We assessed management's processes for identifying and accounting for complex and one-off transactions. We reviewed significant complex and one-off transactions, including transactions relating to business combinations and valuation of options and convertible shares. We critically challenged the assumptions and judgements made by management in determining the appropriate accounting treatment in accordance with applicable IFRSs. We assessed whether the conclusions reached by management were consistent with the underlying agreements and commercial factors applicable to each of the transactions. Complex and one-off transactions were subject to full scope audit procedures by the Primary audit team.	We highlighted to the Audit Committee the need for the Group to continue to improve its internal controls to match the growth in the business, particularly in relation to complex and one-off transactions. Based on the results of our audit procedures, we concluded that the complex and one-off transactions are materially correct as at 31 December 2015 and for the year then ended.
IT general and automated controls over financial reporting The integrity of the Group's financial statements is dependent on the integrity of data and reports produced by the Group's IT systems and the effectiveness of IT-dependent controls in the processes underlying the preparation of the financial statements. There is a risk that IT general and automated controls over financial reporting are not designed and operating effectively. <i>Refer to the Audit Committee Report (pages 101 to 102)</i> The risk has neither increased nor decreased in the current year.	We evaluated the design and operating effectiveness of the key IT systems that are relevant to financial reporting. We examined the controls over program development and changes, access to programs and data and IT operations in respect of those IT systems, and embedded application controls. We engaged our IT specialists to perform sufficient audit procedures to enable us to place reliance on the IT applications and relevant controls identified as having a material impact on the financial reporting process. Where exceptions were observed in our testing, we identified compensating controls and tested those to address the identified risk. In addition, we performed substantive audit procedures to cover the additional risks associated with the ineffective controls over logical access. We performed full scope audit procedures over this risk area in one component, which covered 100% of the risk.	The results of our audit procedures on the IT general and automated controls over financial reporting, including the results of our testing of compensating controls and the procedures performed to cover the additional risks associated with the ineffective controls over logical access, provided us with sufficient audit evidence to enable us to place reliance on the IT applications and relevant controls identified as having a material impact on the financial reporting process.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit findings when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to make sure we had adequate quantitative coverage of significant accounts in the financial statements, we selected six components. Of the six components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining four components ("specific scope components"), we performed audit procedures on specific accounts within the components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Scope	Procedures performed by	Number of components
Full	Primary team	2
Specific	Primary team	3
Specific	Component team	1
Total		6

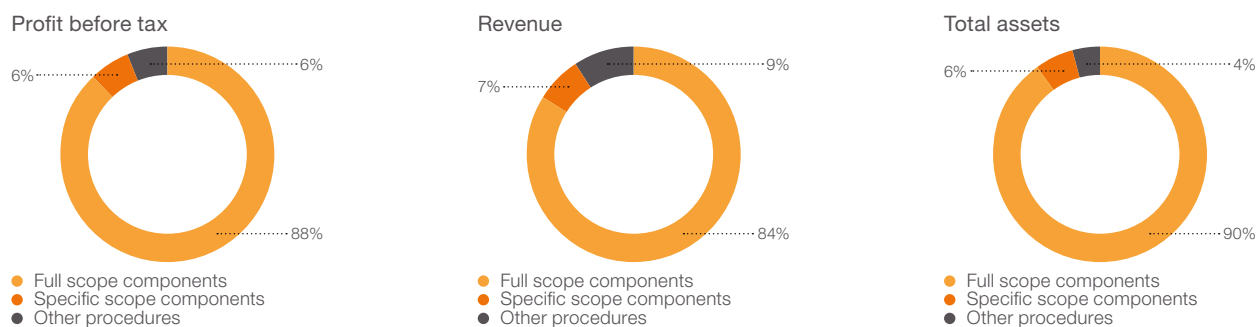
Details of the specific scope component which was audited by a component team are set out below:

Component	Location	Scope	Auditor
JSC Medical Corporation EVEX	Georgia	Specific	EY

Components subject to a full scope audit account for over 84% (2014: over 89%) of the Group's revenue, over 88% (2014: over 84%) of the Group's pre-tax profit and over 90% (2014: over 92%) of the Group's total assets. Components subject to a specific scope audit account for over 7% (2014: over 1%) of the Group's revenue, over 6% (2014: over 2%) of the Group's pre-tax profit and over 6% (2014: over 5%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 22 components that together represent 6% of the Group's pre-tax profit, none are individually greater than 5% of the Group's pre-tax profit. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Changes from the prior period

In the prior year, we identified one full scope component and one specific scope component which represented 85% and 5%, respectively, of the Group's profit before tax in the prior year. Full and specific scope components have been re-assessed as the contribution of such components to the Group consolidated financial statements varies each year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors operating under our instruction.

For the one specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Independent Auditor's Report continued

To the members of BGEO Group PLC

The Group audit team continued to follow a programme of planned visits that has been designed to make sure that the Senior Statutory Auditor visits the principal components of the Group. The Senior Statutory Auditor is based in the UK, but since Group management and operations reside in Georgia, the Group audit team operates as an integrated primary team including members from the UK, Georgia and Russia. The Senior Statutory Auditor visited Georgia four times during the current year's audit and there was regular interaction between team members in each jurisdiction.

These visits involved discussing the audit approach with the Georgian primary team and the component team and any issues arising from their work, as well as meeting with Group and local management. In addition, we participated in planning and closing meetings and reviewed selected audit working papers. The primary team interacted regularly with the component team where appropriate during various stages of the audit and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 18.0 million (2014: GEL 13.8 million), which is 5% (2014: 5%) of pre-tax profit.

We consider the basis of our materiality to be one of the principal considerations for shareholders of the Company in assessing the financial performance of the Group. It is linked to the key earnings measures discussed when the Group presents the financial results.

This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

During the course of our audit, we reassessed initial materiality and made adjustments based on the final financial performance of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely GEL 9.0 million (2014: GEL 6.9 million). We have set performance materiality at this percentage (which is the lowest in the range) due to misstatements which were identified in the prior year audit. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected misstatements does not exceed our materiality of GEL 18.0 million for the Group financial statements as a whole.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was as follows:

BGEO Group PLC	GEL 9.0 million
JSC Bank of Georgia	GEL 7.5 million
All specific scope components	GEL 2.2 million

Reporting threshold

An amount below which identified misstatements are considered to be clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 0.9 million (2014: GEL 0.7 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 124, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 47, and longer-term viability, set out on page 47; and • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Independent Auditor's Report continued

To the members of BGEO Group PLC

Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

We have nothing material to add or to draw attention to.

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Andrew McIntyre (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

7 April 2016

Notes:

1. The maintenance and integrity of the BGEO Group PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Separate Statement of Financial Position

As at 31 December 2015 (Thousands of Georgian Lari)

	Notes	2015	2014	2013
Assets				
Cash and cash equivalents	7	32,435	88,005	4,628
Amounts due from credit institutions		–	46,368	–
Investments in subsidiaries	2	950,290	896,253	858,205
Investments in associates	15	53,458	48,659	–
Other assets		305	591	550
Total assets		1,036,488	1,079,876	863,383
Liabilities				
Other liabilities		9,740	11,151	8,441
Total liabilities		9,740	11,151	8,441
Equity				
Share capital	20	1,154	1,143	1,028
Additional paid-in capital		208,621	206,884	–
Other reserves		–	(328)	4,943
Retained earnings		816,973	861,026	848,971
Total equity		1,026,748	1,068,725	854,942
Total liabilities and equity		1,036,488	1,079,876	863,383

The financial statements on page 135 to 213 were approved by the Board of Directors on 7 April 2016 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer
BGEO Group PLC
7 April 2016

Registered No. 07811410

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

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Separate Statement of Changes in Equity

For the year ended 31 December 2015 (Thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
31 December 2012	957	–	416	796,344	797,717
Total comprehensive income	–	–	–	49,865	49,865
GBP-GEL translation effect	71	–	4,527	53,997	58,595
Dividends to shareholders of BGEO (Note 20)	–	–	–	(51,235)	(51,235)
31 December 2013	1,028	–	4,943	848,971	854,942
Total comprehensive income	–	–	–	64,685	64,685
Issue of share capital	108	218,921	–	–	219,029
Transactions costs recognised directly in equity	–	(3,370)	–	–	(3,370)
GBP-GEL translation effect	7	(8,667)	(5,271)	16,481	2,550
Dividends to shareholders of BGEO (Note 20)	–	–	–	(69,111)	(69,111)
31 December 2014	1,143	206,884	(328)	861,026	1,068,725
Total comprehensive income	–	–	–	23,576	23,576
GBP-GEL translation effect	11	1,737	328	12,782	14,858
Dividends to shareholders of BGEO (Note 20)	–	–	–	(80,411)	(80,411)
31 December 2015	1,154	208,621	–	816,973	1,026,748

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2015 (Thousands of Georgian Lari)

	Note	2015	2014	2013
Cash flows from (used in) operating activities				
Interest income received		1,146	–	–
Fees and commissions paid		(484)	(498)	(217)
Salaries and other employee benefits paid		(1,920)	(1,492)	(1,382)
General and administrative expenses paid		(2,073)	(2,250)	(3,513)
Cash flows (used in) operating activities before changes in operating assets and liabilities		(3,331)	(4,240)	(5,112)
Net decrease in operating assets		56,658	–	–
Net increase (decrease) in operating liabilities		2,976	(46,857)	(4,935)
Net cash flows from (used in) operating activities		56,303	(51,097)	(10,047)
Net cash flows (used in) from investing activities				
Purchase of investments in associates	15	(3,092)	(45,567)	–
Increase of investments in subsidiaries		(45,125)	(28,549)	–
Dividends received		–	69,856	54,589
Net cash flows (used in) from investing activities		(48,217)	(4,260)	54,589
Net cash flows (used in) financing activities				
Proceeds from issue of share capital		–	215,659	–
Dividends paid		(80,411)	(69,111)	(51,235)
Net cash flows (used in) from financing activities		(80,411)	146,548	(51,235)
Effect of exchange rates changes on cash and cash equivalents		16,755	(7,814)	(988)
Net (decrease) increase in cash and cash equivalents		(55,570)	83,377	(7,681)
Cash and cash equivalents, beginning of the year		88,005	4,628	12,309
Cash and cash equivalents, ending of the year		32,435	88,005	4,628

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

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Consolidated Statement of Financial Position

As at 31 December 2015 (Thousands of Georgian Lari)

		2015			
	Notes	Banking Business	Investment Business	Elimination	Total
Assets					
Cash and cash equivalents	7	1,378,459	290,576	(236,101)	1,432,934
Amounts due from credit institutions	8	721,802	15,730	(6,167)	731,365
Investment securities	9	906,730	1,153	(4,016)	903,867
Loans to customers and finance lease receivables	10	5,366,764	–	(44,647)	5,322,117
Accounts receivable and other loans		10,376	82,354	(4,758)	87,972
Insurance premiums receivable		19,829	20,929	(1,532)	39,226
Prepayments		21,033	37,295	–	58,328
Inventories		9,439	117,588	–	127,027
Investment properties	11	135,453	110,945	–	246,398
Property and equipment	12	337,064	457,618	–	794,682
Goodwill	13	49,592	23,392	–	72,984
Intangible assets		35,162	5,354	–	40,516
Income tax assets	14	16,003	5,547	–	21,550
Other assets	15	163,731	79,479	(6,437)	236,773
Total assets		9,171,437	1,247,960	(303,658)	10,115,739
Liabilities					
Client deposits and notes	16	4,993,681	–	(242,294)	4,751,387
Amounts owed to credit institutions	17	1,692,557	144,534	(48,029)	1,789,062
Debt securities issued	18	961,944	84,474	(6,614)	1,039,804
Accruals and deferred income		20,364	126,488	–	146,852
Insurance contracts liabilities		34,547	21,298	–	55,845
Income tax liabilities	14	89,980	34,415	–	124,395
Other liabilities	15	63,073	78,404	(6,721)	134,756
Total liabilities		7,856,146	489,613	(303,658)	8,042,101
Equity					
Share capital	20	1,154	–	–	1,154
Additional paid-in capital		101,793	138,800	–	240,593
Treasury shares		(44)	–	–	(44)
Other reserves		(63,958)	96,802	–	32,844
Retained earnings		1,257,415	319,635	–	1,577,050
Total equity attributable to shareholders of BGEO		1,296,360	555,237	–	1,851,597
Non-controlling interests		18,931	203,110	–	222,041
Total equity		1,315,291	758,347	–	2,073,638
Total liabilities and equity		9,171,437	1,247,960	(303,658)	10,115,739

The financial statements on page 135 to 213 were approved by the Board of Directors on 7 April 2016 and signed on its behalf by:

Irakli Gilauri

Chief Executive Officer
BGEO Group PLC
7 April 2016

Registered No. 07811410

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

2014 (Reclassified)				2013 (Reclassified)			
Banking Business	Investment Business	Elimination	Total	Banking Business	Investment Business	Elimination	Total
706,780	92,722	(89,358)	710,144	1,040,466	27,608	(14,403)	1,053,671
399,430	72,181	(53,330)	418,281	344,919	10,123	(7,781)	347,261
768,559	1,153	–	769,712	518,450	1,173	–	519,623
4,438,032	–	(90,181)	4,347,851	3,567,257	–	(52,387)	3,514,870
12,653	61,836	(4,282)	70,207	8,152	32,596	(329)	40,419
14,573	18,020	(753)	31,840	15,120	47,544	(717)	61,947
15,644	18,130	–	33,774	17,500	8,034	–	25,534
6,857	94,585	–	101,442	10,385	77,824	–	88,209
128,552	62,308	–	190,860	138,490	19,217	–	157,707
314,369	274,144	–	588,513	285,082	185,587	–	470,669
38,537	11,096	–	49,633	38,537	10,183	–	48,720
31,768	2,664	–	34,432	25,069	1,365	–	26,434
14,484	8,261	–	22,745	11,997	7,099	–	19,096
153,764	58,407	(2,460)	209,711	136,313	10,817	(321)	146,809
7,044,002	775,507	(240,364)	7,579,145	6,157,737	439,170	(75,938)	6,520,969
3,482,001	–	(143,276)	3,338,725	3,140,742	–	(23,010)	3,117,732
1,324,609	177,313	(92,708)	1,409,214	1,084,656	124,881	(51,558)	1,157,979
827,721	29,374	(400)	856,695	728,117	–	–	728,117
19,897	88,726	–	108,623	16,493	65,610	–	82,103
27,979	18,607	–	46,586	25,625	48,094	–	73,719
79,987	17,577	–	97,564	61,649	7,381	–	69,030
51,031	40,594	(3,980)	87,645	36,280	16,325	(1,370)	51,235
5,813,225	372,191	(240,364)	5,945,052	5,093,562	262,291	(75,938)	5,279,915
1,143	–	–	1,143	1,028	–	–	1,028
87,950	157,355	–	245,305	20,759	3,084	–	23,843
(46)	–	–	(46)	(56)	–	–	(56)
(11,073)	(11,501)	–	(22,574)	(27,601)	11,202	–	(16,399)
1,134,158	216,100	–	1,350,258	1,050,932	123,192	–	1,174,124
1,212,132	361,954	–	1,574,086	1,045,062	137,478	–	1,182,540
18,645	41,362	–	60,007	19,113	39,401	–	58,514
1,230,777	403,316	–	1,634,093	1,064,175	176,879	–	1,241,054
7,044,002	775,507	(240,364)	7,579,145	6,157,737	439,170	(75,938)	6,520,969

Consolidated Income Statement

For the year ended 31 December 2015 (Thousands of Georgian Lari)

	Notes	2015			Total
		Banking Business	Investment Business	Elimination	
Banking interest income		872,299	–	(12,521)	859,778
Banking interest expense		(359,372)	–	984	(358,388)
Net (loss)/gain from interest rate swaps		–	–	–	–
Net banking interest income	21	512,927	–	(11,537)	501,390
Fee and commission income		161,891	–	(3,733)	158,158
Fee and commission expense		(40,302)	–	550	(39,752)
Net fee and commission income	22	121,589	–	(3,183)	118,406
Net banking foreign currency gain		76,926	–	–	76,926
Net other banking income		19,837	–	(1,309)	18,528
Net insurance premiums earned		40,161	54,996	(2,256)	92,901
Net insurance claims incurred		(20,114)	(42,880)	–	(62,994)
Gross insurance profit	23	20,047	12,116	(2,256)	29,907
Healthcare revenue		–	183,993	–	183,993
Cost of healthcare services		–	(103,055)	–	(103,055)
Gross healthcare profit	24	–	80,938	–	80,938
Real estate revenue		–	54,409	–	54,409
Cost of real estate		–	(39,721)	–	(39,721)
Gross real estate profit	25	–	14,688	–	14,688
Gross other investment profit	25	–	20,639	138	20,777
Revenue		751,326	128,381	(18,147)	861,560
Salaries and other employee benefits	26	(155,744)	(31,621)	2,036	(185,329)
Administrative expenses	26	(74,381)	(18,491)	1,953	(90,919)
Banking depreciation and amortisation		(34,199)	–	–	(34,199)
Other operating expenses		(3,535)	(750)	–	(4,285)
Operating expenses		(267,859)	(50,862)	3,989	(314,732)
Operating income before cost of credit risk/EBITDA		483,467	77,519	(14,158)	546,828
Profit from associates		–	4,050	–	4,050
Depreciation and amortization of investment business		–	(14,225)	–	(14,225)
Net foreign currency gain (loss) from investment business		–	651	–	651
Interest income from investment business	21	–	3,338	(998)	2,340
Interest expense from investment business	21	–	(25,493)	15,156	(10,337)
Operating income before cost of credit risk		483,467	45,840	–	529,307
Impairment charge on loans to customers	10	(142,819)	–	–	(142,819)
Impairment charge on finance lease receivables	10	(1,958)	–	–	(1,958)
Impairment charge on other assets and provisions		(6,740)	(3,860)	–	(10,600)
Cost of credit risk		(151,517)	(3,860)	–	(155,377)
Net operating income before non-recurring items		331,950	41,980	–	373,930
Net non-recurring items	27	(13,046)	(1,531)	–	(14,577)
Profit before income tax expense		318,904	40,449	–	359,353
Income tax expense	14	(44,647)	(3,761)	–	(48,408)
Profit for the year		274,257	36,688	–	310,945
Attributable to:					
– shareholders of BGEO		270,466	33,228	–	303,694
– non-controlling interests		3,791	3,460	–	7,251
		274,257	36,688	–	310,945
Earnings per share:	20				
– basic and diluted earnings per share					7.9264

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

2014 (Reclassified)				2013 (Reclassified)			
Banking Business	Investment Business	Elimination	Total	Banking Business	Investment Business	Elimination	Total
600,925	–	(7,313)	593,612	577,683	–	(5,321)	572,362
(243,654)	–	–	(243,654)	(255,147)	–	1,221	(253,926)
–	–	–	–	(398)	–	–	(398)
357,271	–	(7,313)	349,958	322,138	–	(4,100)	318,038
134,488	–	(2,053)	132,435	116,517	–	(1,437)	115,080
(32,643)	–	–	(32,643)	(28,080)	–	–	(28,080)
101,845	–	(2,053)	99,792	88,437	–	(1,437)	87,000
52,752	–	–	52,752	48,355	–	–	48,355
9,890	–	(620)	9,270	9,402	–	(514)	8,888
28,129	69,700	(1,979)	95,850	28,816	102,858	(1,681)	129,993
(11,707)	(54,713)	–	(66,420)	(9,027)	(75,633)	–	(84,660)
16,422	14,987	(1,979)	29,430	19,789	27,225	(1,681)	45,333
–	125,720	–	125,720	–	60,013	–	60,013
–	(72,237)	–	(72,237)	–	(32,484)	–	(32,484)
–	53,483	–	53,483	–	27,529	–	27,529
–	60,456	(80)	60,376	–	16,178	–	16,178
–	(46,810)	–	(46,810)	–	(5,929)	–	(5,929)
–	13,646	(80)	13,566	–	10,249	–	10,249
–	12,804	187	12,991	(0)	12,671	139	12,810
538,180	94,920	(11,858)	621,242	488,121	77,674	(7,593)	558,202
(130,060)	(25,651)	1,530	(154,181)	(117,018)	(19,192)	1,162	(135,048)
(58,833)	(15,974)	1,348	(73,459)	(50,797)	(10,687)	1,124	(60,360)
(25,641)	–	–	(25,641)	(24,780)	–	–	(24,780)
(3,230)	(520)	–	(3,750)	(1,823)	(547)	–	(2,370)
(217,764)	(42,145)	2,878	(257,031)	(194,418)	(30,426)	2,286	(222,558)
320,416	52,775	(8,980)	364,211	293,703	47,248	(5,307)	335,644
–	–	–	–	–	–	–	–
–	(9,164)	–	(9,164)	–	(6,963)	–	(6,963)
–	(3,169)	–	(3,169)	–	(4,844)	–	(4,844)
–	1,860	(551)	1,309	–	2,919	(1,173)	1,746
–	(16,089)	9,531	(6,558)	–	(12,167)	6,480	(5,687)
320,416	26,213	–	346,629	293,703	26,193	–	319,896
(45,088)	–	–	(45,088)	(41,499)	–	–	(41,499)
(476)	–	–	(476)	(2,809)	–	–	(2,809)
(10,168)	(3,288)	–	(13,456)	(16,561)	(932)	–	(17,493)
(55,732)	(3,288)	–	(59,020)	(60,869)	(932)	–	(61,801)
264,684	22,925	–	287,609	232,834	25,261	–	258,095
(11,837)	820	–	(11,017)	(8,214)	(4,625)	–	(12,839)
252,847	23,745	–	276,592	224,620	20,636	–	245,256
(32,343)	(3,482)	–	(35,825)	(32,099)	(3,814)	–	(35,913)
220,504	20,263	–	240,767	192,521	16,822	–	209,343
216,883	15,626	–	232,509	189,011	12,479	–	201,490
3,621	4,637	–	8,258	3,510	4,343	–	7,853
220,504	20,263	–	240,767	192,521	16,822	–	209,343
			6.7228				5.9291

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015 (Thousands of Georgian Lari)

	Notes	2015	2014	2013
Profit for the year		310,945	240,767	209,343
Other comprehensive (loss) income				
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:				
– Unrealised revaluation of available-for-sale securities		(30,928)	(4,079)	4,611
– Realised gain (loss) on available-for-sale securities reclassified to the consolidated income statement		84	(83)	(2,858)
– (Loss) gain from currency translation differences		(14,372)	20,157	8,922
Income tax effect	14	(1,276)	(124)	(872)
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		(43,940)	15,871	9,803
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	12	(7,223)	–	1,591
Income tax effect	14	361	–	(223)
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		(6,862)	–	1,368
Other comprehensive (loss) income for the year, net of tax		(50,802)	15,871	11,171
Total comprehensive income for the year		260,143	256,638	220,514
Attributable to:				
– shareholders of BGEO		256,324	250,571	213,597
– non-controlling interests		3,819	6,067	6,917
		260,143	256,638	220,514

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015 (Thousands of Georgian Lari)

	Attributable to shareholders of BGEO						Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total		
31 December 2012	957	14,767	(69)	14,097	981,322	1,011,074	48,438	1,059,512
Profit for the year	–	–	–	–	201,490	201,490	7,853	209,343
Other comprehensive loss for the year	–	–	–	(29,069)	41,176	12,107	(936)	11,171
Total comprehensive income for the year	–	–	–	(29,069)	242,666	213,597	6,917	220,514
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(1,797)	1,797	–	–	–
Increase in equity arising from share-based payments	–	13,906	19	–	–	13,925	–	13,925
GBP-GEL translation effect	71	–	(3)	358	(426)	–	–	–
Dividends to shareholders of BGEO (Note 20)	–	–	–	–	(51,235)	(51,235)	–	(51,235)
Dilution of interests in subsidiaries	–	–	–	–	–	–	150	150
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	12	–	12	2,958	2,970
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	51	51
Purchase of treasury shares	–	(4,830)	(3)	–	–	(4,833)	–	(4,833)
31 December 2013	1,028	23,843	(56)	(16,399)	1,174,124	1,182,540	58,514	1,241,054
Profit for the year	–	–	–	–	232,509	232,509	8,258	240,767
Other comprehensive loss for the year	–	–	–	11,359	6,703	18,062	(2,191)	15,871
Total comprehensive income for the year	–	–	–	11,359	239,212	250,571	6,067	256,638
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(446)	446	–	–	–
Increase in equity arising from share-based payments	–	19,094	13	–	–	19,107	–	19,107
Issue of share capital (Note 20)	108	218,921	–	–	–	219,029	–	219,029
GBP-GEL translation effect	7	(8,667)	–	551	8,109	–	–	–
Transactions costs recognised directly in equity	–	(3,370)	–	–	–	(3,370)	–	(3,370)
Dividends to shareholders of BGEO (Note 20)	–	–	–	–	(71,633)	(71,633)	–	(71,633)
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(17,639)	–	(17,639)	(15,516)	(33,155)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	10,942	10,942
Purchase of treasury shares	–	(4,516)	(3)	–	–	(4,519)	–	(4,519)
31 December 2014	1,143	245,305	(46)	(22,574)	1,350,258	1,574,086	60,007	1,634,093
Profit for the year	–	–	–	–	303,694	303,694	7,251	310,945
Other comprehensive loss for the year	–	–	–	(41,535)	(5,835)	(47,370)	(3,432)	(50,802)
Total comprehensive income for the year	–	–	–	(41,535)	297,859	256,324	3,819	260,143
Depreciation of property and equipment revaluation reserve, net of tax	–	–	–	(625)	625	–	–	–
Increase in equity arising from share-based payments	–	22,483	15	–	–	22,498	897	23,395
GBP-GEL translation effect*	11	1,737	–	(10,467)	8,719	–	–	–
Dividends to shareholders of BGEO (Note 20)	–	–	–	–	(80,411)	(80,411)	–	(80,411)
Dilution of interests in subsidiaries (Note 2)	–	–	–	109,435	–	109,435	125,163	234,598
Transactions costs recognised directly in equity (Note 2)	–	–	–	(13,379)	–	(13,379)	–	(13,379)
Acquisition and sale of non-controlling interests in existing subsidiaries (Note 2)	–	–	–	11,989	–	11,989	2,369	14,358
Non-controlling interests arising on acquisition of subsidiary (Note 5)	–	–	–	–	–	–	29,786	29,786
Purchase of treasury shares	–	(28,932)	(13)	–	–	(28,945)	–	(28,945)
31 December 2015	1,154	240,593	(44)	32,844	1,577,050	1,851,597	222,041	2,073,638

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

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Consolidated Statement of Cash Flows

For the year ended 31 December 2015 (Thousands of Georgian Lari)

	Notes	2015	2014	2013
Cash flows from (used in) operating activities				
Interest received		863,965	588,978	559,604
Interest paid		(361,834)	(270,942)	(239,544)
Fees and commissions received		153,049	133,948	104,099
Fees and commissions paid		(39,931)	(33,006)	(28,211)
Insurance premiums received		92,838	95,859	126,640
Insurance claims paid		(60,818)	(66,385)	(88,161)
Healthcare revenue received		171,927	95,865	57,953
Cost of healthcare services paid		(92,358)	(70,308)	(33,661)
Net cash inflow from real estate		25,611	24,396	7,682
Net realised (loss) gain from trading securities		(655)	407	61
Net realised (loss) gain from investment securities available-for-sale		(84)	83	2,858
Net realised gain from foreign currencies		64,256	44,169	46,330
Recoveries of loans to customers previously written off	10	33,685	28,706	27,479
Other (expenses paid) income received		(126)	3,236	(21,673)
Salaries and other employee benefits paid		(151,500)	(129,793)	(109,626)
General and administrative and operating expenses paid		(105,616)	(63,038)	(62,916)
Cash flows from operating activities before changes in operating assets and liabilities		592,409	382,175	348,914
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(180,446)	(71,099)	49,297
Loans to customers		184,963	(935,313)	(534,365)
Finance lease receivables		(4,022)	6,115	(6,777)
Prepayments and other assets		(21,062)	9,897	5,744
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		96,462	243,021	(79,766)
Debt securities issued		(60,478)	128,364	283,908
Amounts due to customers		349,420	236,794	425,641
Other liabilities		(25,915)	(2,419)	(2,662)
Net cash flows from (used in) operating activities before income tax		931,331	(2,465)	489,934
Income tax paid		(29,408)	(15,990)	(29,834)
Net cash flows from (used in) operating activities		901,923	(18,455)	460,100
Cash flows used in investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(24,467)	(22,177)	(7,810)
Purchase of investment securities available-for-sale		(157,509)	(255,710)	(48,033)
Proceeds from sale of investments in associates		–	300	–
Purchase of investments in associates	15	(3,092)	(45,567)	–
Proceeds from sale of investment properties	11	19,815	7,383	10,748
Purchase of investment properties	11	(18,947)	(49,348)	–
Proceeds from sale of property and equipment and intangible assets	12	24,616	2,648	5,317
Purchase of property and equipment and intangible assets		(157,488)	(80,459)	(70,592)
Net cash flows used in investing activities		(317,072)	(442,930)	(110,370)
Cash flows (used in) from financing activities				
Proceeds from issue of share capital		–	215,659	–
Dividends paid		(82,015)	(69,725)	(51,235)
Purchase of treasury shares		(28,945)	(4,519)	(4,833)
Net proceeds from sale of non-controlling interest in existing subsidiary	2	221,219	–	–
Proceeds from sale (purchase) of interests in existing subsidiaries, net of cash acquired		14,358	(28,972)	–
Net cash from (used in) financing activities		124,617	112,443	(56,068)
Effect of exchange rates changes on cash and cash equivalents		13,322	5,415	(2,818)
Net increase (decrease) in cash and cash equivalents		722,790	(343,527)	290,844
Cash and cash equivalents, beginning of the year	7	710,144	1,053,671	762,827
Cash and cash equivalents, ending of the year	7	1,432,934	710,144	1,053,671

The accompanying notes on pages 145 to 213 are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. Principal Activities

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

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

BGEO Group PLC ("BGEO", formerly known as Bank of Georgia Holdings PLC) is a public limited liability company incorporated in England and Wales with registered number 07811410. BGEO holds 99.52% of the share capital of the Bank as at 31 December 2015, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries BGEO makes up a group of companies (the "Group") and provide banking, healthcare, insurance, real estate, leasing, brokerage and investment management services to corporate and individual customers. The list of the companies included in the Group is provided in Note 2. The shares of BGEO ("BGEO Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

The Group completed legal restructuring in August 2015, undertaken in accordance with the National Bank of Georgia's intention to regulate banks in Georgia on a standalone basis and thereby limit investments in non-banking subsidiaries by locally regulated banking entities.

Bank of Georgia Holdings PLC established a 100% subsidiary – JSC BGEO Group to act as an ultimate Georgian holding company, for the Group and renamed Bank of Georgia Holdings PLC into BGEO Group PLC.

There were no changes to the management structure of BGEO Group PLC, where Neil Janin remained as Chairman of Board of Directors and Irakli Gilauri continued as Chief Executive Officer.

BGEO's registered legal address is 84 Brook Street, London, W1K 5EH United Kingdom.

As at 31 December 2015, 31 December 2014 and 31 December 2013, the following shareholders owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	31 December 2015	31 December 2014	31 December 2013
Schroders Investment Management	10.30%	12.46%	3.06%
Harding Loevner Management LP	9.09%	4.32%	4.01%
Franklin Templeton Investments	0.48%	2.45%	7.21%
International Finance Corporation	–	–	5.06%
European Bank for Reconstruction & Development	–	–	5.06%
Others	80.13%	80.77%	75.60%
Total*	100.00%	100.00%	100.00%

* For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Group.

Notes to Consolidated Financial Statements continued

1. Principal Activities continued

As at 31 December 2015, the members of the Supervisory Board and Management Board of the Bank owned 646,959 shares or 1.6% (31 December 2014: 508,541 shares or 1.3%, 31 December 2013: 413,932 shares or 1.2%) of BGEO. Interests of the members of the Supervisory Board and Management Board of the Bank were as follows:

Shareholder	31 December 2015, shares held	31 December 2014, shares held	31 December 2013, shares held
Irakli Gilauri	250,319	161,131	60,831
Giorgi Chiladze	116,596	101,800	82,000
Avto Namicheishvili	58,139	61,664	50,000
Archil Gachechiladze	50,750	–	–
Sulkhan Gvalia	37,022	42,022	37,237
Neil Janin	35,729	35,729	25,729
Mikheil Gomarteli	27,851	30,851	35,000
David Morrison	26,357	26,357	26,357
Kaha Kiknavelidze	26,337	26,337	26,337
Al Breach	16,400	16,400	14,279
Kim Bradley	1,250	1,250	–
Murtaz Kikoria*	200	5,000	–
Levan Kulijanishvili**	9	–	–
Allan Hirst***	–	–	48,434
Ian Hague***	–	–	5,112
Hanna Loikkanen****	–	–	2,616
Total	646,959	508,541	413,932

* Joined the Management Board in December 2014;

** Joined the Management Board in September 2015

*** Stepped down from the Board of Directors of the BGEO and the Supervisory Board of the Bank in December 2013;

**** Stepped down from and rejoined the Board of Directors of BGEO and the Supervisory Board of the Bank in December 2013 and August 2015 respectively.

2. Basis of Preparation

General

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the stand-alone income statement of BGEO is not presented as part of these financial statements. BGEO's income for the year is disclosed within the separate statement of changes in equity.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2015 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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

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

Going concern

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

2. Basis of Preparation continued

Subsidiaries and associates

BGEO holds a 99.52% stake in the Bank (Through JSC BGEO Group) as at 31 December 2015. Total amount of investment in subsidiaries in BGEO's separate statement of financial position as at 31 December 2015 was GEL 950,290 (2014: GEL 896,253, 2013: GEL 858,205), represented by direct investment in JSC BGEO Group. The consolidated financial statements as at 31 December 2015, 31 December 2014 and 31 December 2013 include the following subsidiaries and associates:

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Industry	Date of incorporation	Date of acquisition
	31 December 2015	31 December 2014	31 December 2013				
JSC BGEO Group	100.00%	–	–	Georgia	Investment	28/5/2015	–
JSC Bank of Georgia	99.52%	99.63%	99.59%	Georgia	Banking	21/10/1994	–
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	Georgia	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	–	Turkey	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	Information Sharing and Market Research	9/2/2009	–
Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	100.00%	Georgia	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	100.00%	100.00%	100.00%	Georgia	Education	15/10/2013	–
Privat Guard, LLC	100.00%	–	–	Georgia	Security	–	21/1/2015
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
JSC Belarusky Narodny Bank	79.99%	79.99%	79.99%	Belarus	Banking	16/4/1992	3/6/2008
BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
JSC Galt and Taggart Holdings (Georgia)	(f)	100.00%	100.00%	Georgia	Investments	4/11/2008	–
JSC BGEO Investment	100.00%	–	–	Georgia	Investment	7/8/2015	–
JSC m ² Real Estate	100.00%	100.00%	100.00%	Georgia	Real estate	27/9/2006	–
m ² Residential, LLC	100.00%	–	–	Georgia	Real estate	17/8/2015	–
Optima ISANI, LLC	100.00%	100.00%	–	Georgia	Real estate	25/7/2014	–
Tamarashvili 13, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	3/11/2011	–
m ² at Hippodrome, LLC	100.00%	–	–	Georgia	Real estate	6/7/2015	–
m ² Skyline, LLC	100.00%	100.00%	–	Georgia	Real estate	23/7/2015	–
m ² at Kazbegi, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
m ² at Tamarashvili, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
m ² at Nutsubidze, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	21/5/2013	–
M Square Park, LLC	100.00%	–	–	Georgia	Real estate	15/9/2015	–
Optima Saburtalo, LLC	100.00%	–	–	Georgia	Real estate	15/9/2015	–
m ² Hospitality, LLC	100.00%	–	–	Georgia	Real estate	17/8/2015	–
m ² , LLC (formerly JSC m ²)	100.00%	100.00%	–	Georgia	Real estate	12/2/2014	–
Caucasus Autohause, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	29/3/2011	–
Land, LLC	100.00%	100.00%	–	Georgia	Real estate	3/10/2014	–
JSC Georgian Renewable Power Company	100.00%	–	–	Georgia	Renewable Energy	14/9/2015	–
JSC Geohydro	85.00%	85.00%	85.00%	Georgia	Renewable Energy	11/10/2013	–
JSC Svaneti Hydro	65.00%	100.00%	100.00%	Georgia	Renewable Energy	6/12/2013	–
JSC Zoti Hydro	100.00%	–	–	Georgia	Renewable Energy	20/8/2015	–
Georgia Healthcare Group PLC	67.70%	–	–	United Kingdom	Healthcare	27/8/2015	28/8/2015
JSC Georgia Healthcare Group	100.00%	–	–	Georgia	Healthcare	29/4/2015	–
JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI) (a)	100.00%	100.00%	100.00%	Georgia	Insurance	22/6/2007	–
Biznes Centri Kazbegze, LLC	100.00%	100.00%	100.00%	Georgia	Various	22/6/2010	10/1/2011
JSC Medical Corporation EVEX	100.00%	100.00%	–	Georgia	Healthcare	31/7/2014	–
JSC My Family Clinic	(d)	100.00%	51.00%	Georgia	Healthcare	3/10/2005	–
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	66.70%	66.70%	Georgia	Medical services	5/5/2003	29/11/2011
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	66.70%	66.70%	Georgia	Medical services	15/10/2004	12/9/2011
Tskaltubo Regional Hospital, LLC	66.70%	66.70%	66.70%	Georgia	Medical services	29/9/1999	12/9/2011
JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	96.87%	92.90%	81.00%	Georgia	Medical services	3/11/2000	20/5/2008
Kutaisi Regional Clinical Hospital, LLC	(d)	100.00%	100.00%	Georgia	Medical services	19/7/2010	10/1/2010
JSC Zugdidi multi profile Clinical Hospital "Republic"	(d)	100.00%	100.00%	Georgia	Medical services	11/6/1998	29/11/2011

Notes to Consolidated Financial Statements continued

2. Basis of Preparation continued

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Industry	Date of incorporation	Date of acquisition
	31 December 2015	31 December 2014	31 December 2013				
JSC Chkhorotskhu Regional Central Hospital	(d)	100.00%	100.00%	Georgia	Medical services	30/11/1999	29/11/2011
E.K. Pipia Central Hospital of Tslenjikha, LLC	(d)	100.00%	100.00%	Georgia	Medical services	1/9/1999	12/9/2011
Martvili Multi profile Hospital, LLC	(d)	100.00%	100.00%	Georgia	Medical services	17/3/2000	12/9/2011
Abasha Outpatient-Polyclinic Union, LLC	(d)	100.00%	100.00%	Georgia	Medical services	16/3/2000	12/9/2011
Khobi Central Regional Hospital, LLC	(d)	100.00%	100.00%	Georgia	Medical services	13/7/2000	12/9/2011
Traumatologist, LLC	(d)	100.00%	–	Georgia	Medical Service	20/7/2011	30/9/2014
GN KO, LLC	50.00%	–	–	Georgia	Medical services	6/4/2001	5/8/2015
High Technology Medical Center, LLC	100.00%	–	–	Georgia	Healthcare Service	16/4/1999	5/8/2015
Geolab, LLC	50.00%	–	–	Georgia	Healthcare Service	3/5/2011	5/8/2015
Nephrology Development Clinic Center, LLC	80.00%	–	–	Georgia	Healthcare Service	28/9/2010	5/8/2015
Catastrophe Medicine Pediatric Center, LLC	100.00%	–	–	Georgia	Medical services	18/6/2013	5/8/2015
Deka, LLC	95.00%	–	–	Georgia	Medical services	12/1/2012	11/6/2015
EVEX-Logistics, LLC	100.00%	–	–	Georgia	Medical services	2/2/2015	–
Unimed Achara, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
Unimedi Samtskhe, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
Unimedi Kakheti, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	29/6/2010	1/5/2012
LLC Caraps Medline	(e)	100.00%	100.00%	Georgia	Medical Service	26/8/1998	26/12/2013
LLC Medline +	–	(b)	100.00%	Georgia	Medical Service	13/12/2007	30/12/2013
Avante Hospital Management Group, LLC	(e)	100.00%	–	Georgia	Medical Service	5/8/2011	19/2/2014
Children's New Hospital, LLC	(e)	75.00%	–	Georgia	Medical Service	18/7/2011	19/2/2014
New Life, LLC	(e)	100.00%	–	Georgia	Medical Service	21/9/1999	19/2/2014
Batumi Regional Healthcare Center for Mothers and Children, LLC	(e)	100.00%	–	Georgia	Medical Service	19/11/2004	19/2/2014
Sunstone Medical, LLC	(e)	100.00%	–	Georgia	Medical Service	9/11/2012	21/5/2014
M. Iashvili Children's Central Hospital, LLC	66.70%	66.70%	–	Georgia	Medical Service	3/5/2011	19/2/2014
Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	100.00%	100.00%	–	Georgia	Medical Service	6/3/2000	19/2/2014
Referral Centre of Pathology, LLC	100.00%	100.00%	–	Georgia	Medical services	29/12/2014	–
EVEX Learning Center	100.00%	100.00%	100.00%	Georgia	Education	20/12/2013	–
JSC Liberty Consumer	87.64%	70.12%	67.51%	Georgia	Investments	24/5/2006	–
JSC Teliani Valley	71.44%	50.92%	50.88%	Georgia	Winery	30/6/2000	28/2/2007
Teliani Trading (Georgia), LLC	100.00%	100.00%	100.00%	Georgia	Distribution	10/1/2006	27/3/2007
Teliani Trading (Ukraine), LLC	100.00%	100.00%	100.00%	Ukraine	Distribution	3/10/2006	31/12/2007
Le Caucase, LLC	100.00%	100.00%	100.00%	Georgia	Cognac Production	23/9/2006	20/3/2007
Kupa, LLC	70.00%	70.00%	70.00%	Georgia	Oak Barrel Production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	100.00%	100.00%	–	Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
JSC Intertour	99.94%	99.94%	99.94%	Georgia	Travel agency	29/3/1996	25/4/2006
JSC Prime Fitness	100.00%	100.00%	100.00%	Georgia	Fitness centre	7/3/2006	–
JSC BG Financial	100.00%	–	–	Georgia	Investment	7/8/2015	–
JSC Galt & Taggart	100.00%	100.00%	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	–	Azerbaijan	Representative Office	28/12/2013	–
Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Investments	3/7/2006	–
BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	Brokerage	19/2/2008	–
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
Prime Leasing	100.00%	–	–	Georgia	Leasing	27/1/2012	21/1/2015
Solo, LLC	100.00%	–	–	Georgia	Trade	22/4/2015	–
JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	Registrar	29/5/2006	–
JSC Express Technologies	100.00%	100.00%	100.00%	Georgia	Investments	29/10/2007	–
JSC Georgian Card	99.47%	98.23%	56.20%	Georgia	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Center	100.00%	100.00%	100.00%	Georgia	Communication services	23/4/2007	–
Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	Business servicing	10/5/2006	–
Express Technologies CEE, LLC	100.00%	100.00%	–	Hungary	Other Financial Service Activities	5/3/2014	N/A

2. Basis of Preparation continued

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Industry	Date of incorporation	Date of acquisition
	31 December 2015	31 December 2014	31 December 2013				
JSC Insurance Company Aldagi	100.00%	100.00%	–	Georgia	Insurance	31/7/2014	–
JSC Insurance Company Tao	100.00%	–	–	Georgia	Insurance	22/8/2007	21/1/2015
Alliance, LLC	100.00%	100.00%	100.00%	Georgia	Various	3/1/2000	5/1/2012
Green Way, LLC	100.00%	100.00%	100.00%	Georgia	Various	9/8/2008	5/1/2012
Premium Residence, LLC	100.00%	100.00%	100.00%	Georgia	Hotel	9/7/2010	1/5/2012
JSC Agron Group	100.00%	100.00%	–	Georgia	Agro Trade	3/11/2014	–
Agron Center, LLC	(g)	100.00%	–	Georgia	Agro Trade	11/11/2014	–
Premium Compliance Advisory, LLC	100.00%	100.00%	100.00%	Georgia	Various	17/2/2012	–

Following the National Bank of Georgia's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in non-banking subsidiaries by locally regulate entities, the Group undertook legal restructuring in 2015. For this purpose, JSC BGEO Group was created to act as an ultimate Georgian holding company for the Group, which in turn holds:

- JSC Bank of Georgia and its subsidiaries serving banking operations;
- Newly created JSC BG Financial and its subsidiaries providing non-banking financial services;
- Newly created JSC BGEO Investment and its subsidiaries providing non-financial products and services.

Associates	Proportion of voting rights and ordinary share capital held			Country of incorporation	Industry	Date of incorporation	Date of acquisition
	31 December 2015	31 December 2014	31 December 2013				
JSC N Tour	30.00%	30.00%	30.00%	Georgia	Travel services	11/1/2001	29/5/2008
JSC Hotels and Restaurants Management Group – m/Group	–	(c)	10.00%	Georgia	Food retail	30/5/2005	29/5/2008
Georgian Global Utilities, LLC	25%	25%	–	British Virgin Islands	Utilities	16/08/2007	31/12/2014
Georgian Water and Power, LLC	100%	100%	–	Georgia	Utilities	25/06/1997	31/12/2014
Rustavi Water, LLC	100%	100%	–	Georgia	Utilities	31/08/1999	31/12/2014
Gardabani Sewage Treatment, LLC	100%	100%	–	Georgia	Utilities	20/12/1999	31/12/2014
Mtskheta Water, LLC	100%	100%	–	Georgia	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	100%	100%	–	Georgia	Utilities	20/03/2011	31/12/2014
JSC Saguramo Energy	100%	100%	–	Georgia	Utilities	11/12/2008	31/12/2014

(a) On 31 July 2014 a new holding company – JSC Medical Corporation EVEX was created to hold the Group's healthcare subsidiaries. Also, the Group's insurance operations were split between two legal entities – the newly incorporated JSC Insurance Company Aldagi to operate the Group's property & casualty insurance business and the former JSC Insurance Company Aldagi BCI that was renamed to JSC Insurance Company Imedi L to operate the Group's health insurance business

(b) Merged to LLC Caraps Medline in 2014

(c) No longer Group associate due to sale in 2014

(d) Merged to JSC Medical Corporation Evex in 2015

(e) Merged to Unimed Kakheti, LLC in 2015

(f) Merged to JSC Bank of Georgia in 2015

(g) Agron Center LLC merged to JSC Agron Group in 2015

Georgia Healthcare Group PLC ("GHG"), healthcare and health insurance holding company of the Group, was 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 in November 2015.

GHG issued 38,681,820 new ordinary shares for the price of 170 pence per share, diluting the Group's stake in GHG by 29.4%. Further 2.9% or 3,868,180 shares of GHG were sold as a result of an exercised over-allotment option granted by the Group to the stabilising manager.

As a result of issuing GHG's new shares, the Group raised GEL 220,529 net proceeds (GEL 233,908 gross proceeds less GEL 13,379 transaction costs), recognising GEL 124,503 non-controlling interests and GEL 96,026 unrealised gain on dilution of interests in subsidiaries. As a result of selling the existing shares in GHG through an over-allotment option, the Group received GEL 20,670, recognising GEL 12,450 non-controlling interests and GEL 8,220 unrealised gain on sale of non-controlling interests in existing subsidiaries.

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

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

Basis of consolidation

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

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

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

3. Summary of Significant Accounting Policies continued

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

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

Investments in associates

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

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

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

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

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

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

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Loans and receivables

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

Available-for-sale financial assets

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

Derivative financial instruments

Whilst the Group does not adopt a formal hedge accounting policy, in the ordinary course of business the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from foreign currencies translation differences.

Measurement of financial instruments at initial recognition

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

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

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

Offsetting

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

Cash and cash equivalents

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

Borrowings

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

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

Subordinated debt

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

Leases

i. Finance – Group as lessor

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

ii. Operating – Group as lessee

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

3. Summary of Significant Accounting Policies continued

iii. Operating – Group as lessor

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Write-off of loans to customers

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

Available-for-sale financial assets

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

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

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

Renegotiated loans

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

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

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

3. Summary of Significant Accounting Policies continued

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

Inventories

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

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

- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Taxation

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

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

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

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

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

Investment properties

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

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

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within net other banking income for Banking Business companies and within real estate revenue for Investment Business companies. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement within net other banking income for Banking Business companies and within real estate revenue or gross other investment profit for Investment Business companies, depending on whether the gains derive from active property development or passive appreciation respectively.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

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

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

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

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

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

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

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

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

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

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

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

Goodwill Impairment

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

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

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

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

Intangible assets

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

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

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

3. Summary of Significant Accounting Policies continued

Insurance and reinsurance receivables

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

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

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

Insurance liabilities

General insurance liabilities

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

Provision for unearned premiums

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

Liability adequacy test

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

Provisions

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

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

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% – additionally paid by the Group. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. Respective pension benefit obligations are recorded within other liabilities, Note 15.

Share-based payment transactions

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

Equity-settled transactions

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

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

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

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

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

Share capital

Share capital

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

Treasury shares

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

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

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

Income and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Dividend income

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

3. Summary of Significant Accounting Policies continued

Insurance premium income

For property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Healthcare revenue

The Group recognises healthcare revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Healthcare revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state).

Healthcare revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes following components:

- Healthcare revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties;
- Healthcare revenue from state – The Group recognises the revenue from the individuals who are insured under the state programs based on the completion of the actual medical service and the agreed-upon terms between the counterparties;
- Healthcare revenue from out-of-pocket and other – The Group recognises the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered calculated according to contractual tariffs.

Gross real estate profit and Gross other investment profit

Gross real estate profit comprises revenue from sale of developed real estate property and revaluation gains on such developed properties.

Revenue from sale of developed real estate property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

Gross other investment profit comprises revenue from sale of other finished goods and revaluation of other investment properties that were not developed by the Group.

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

EBITDA

The Group separately presents EBITDA on the face of income statement for Investment Business. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation, as well as cost of credit risk and net non-recurring items for the Investment Business.

Non-recurring income and expenses

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

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

Change in Presentation of Statement of Financial Position and Income Statement

The Group changed the reporting format to reflect its recently updated strategy to operate as a Georgia-focused banking group with an investment arm. As a result, consolidated statements of financial position and income statement are presented as a combination of the Group's Banking and Investment businesses with corresponding inter-business eliminations. Certain line items of the statement of financial position and the income statement were reorganised to provide a more relevant presentation of these two distinct parts of the Group.

Reclassifications

Starting from 2015, BGEO separated investment in associates from other assets in its separate financial statements and amended comparative financial information accordingly.

Due to the change in the presentation of the consolidated statement of financial position, the following reclassifications were made to the 31 December 2014 and 31 December 2013 statements of financial position to conform to the year ended 31 December 2015 presentation requirements:

As at	Consolidated Statement of Financial Position:	As previously reported	Reclassification	As reclassified
31 December 2014	Loans to customers	4,322,186	(4,322,186)	–
31 December 2014	Finance lease receivables	38,519	(38,519)	–
31 December 2014	Investments in associates	48,659	(48,659)	–
31 December 2014	Other assets	351,687	(141,976)	209,711
31 December 2014	Loans to customers and finance lease receivables	–	4,350,803	4,350,803
31 December 2014	Accounts receivable and other loans	–	67,255	67,255
31 December 2014	Insurance premiums receivable	–	31,840	31,840
31 December 2014	Inventories	–	101,442	101,442
31 December 2014	Current income tax assets	4,215	(4,215)	–
31 December 2014	Deferred income tax assets	18,530	(18,530)	–
31 December 2014	Income tax assets	–	22,745	22,745
31 December 2014	Current income tax liabilities	11,093	(11,093)	–
31 December 2014	Deferred income tax liabilities	86,471	(86,471)	–
31 December 2014	Income tax liabilities	–	97,564	97,564
31 December 2014	Provisions	4,732	(4,732)	–
31 December 2014	Other liabilities	238,122	(150,477)	87,645
31 December 2014	Accruals and deferred income	–	108,623	108,623
31 December 2014	Insurance contracts liabilities	–	46,586	46,586

As at	Consolidated Statement of Financial Position:	As previously reported	Reclassification	As reclassified
31 December 2013	Loans to customers	3,477,309	(3,477,309)	–
31 December 2013	Finance lease receivables	45,606	(45,606)	–
31 December 2013	Other assets	329,339	(182,530)	146,809
31 December 2013	Loans to customers and finance lease receivables	–	3,514,870	3,514,870
31 December 2013	Accounts receivable and other loans	–	40,419	40,419
31 December 2013	Insurance premiums receivable	–	61,947	61,947
31 December 2013	Inventories	–	88,209	88,209
31 December 2013	Current income tax assets	4,552	(4,552)	–
31 December 2013	Deferred income tax assets	14,544	(14,544)	–
31 December 2013	Income tax assets	–	19,096	19,096
31 December 2013	Current income tax liabilities	2,930	(2,930)	–
31 December 2013	Deferred income tax liabilities	66,100	(66,100)	–
31 December 2013	Income tax liabilities	–	69,030	69,030
31 December 2013	Provisions	481	(481)	–
31 December 2013	Other liabilities	206,576	(155,341)	51,235
31 December 2013	Accruals and deferred income	–	82,103	82,103
31 December 2013	Insurance contracts liabilities	–	73,719	73,719

3. Summary of Significant Accounting Policies continued

Due to the change in the presentation of income statement, the following line items were divided into Banking Business and Investment Business parts and placed above and below revenue respectively. The following main reclassifications were made to the years ended 31 December 2014 and 31 December 2013 income statements to conform to the 31 December 2015 presentation requirements:

Year ended	Consolidated Income Statement:	As previously reported	Reclassification	As reclassified
31 December 2014	Interest income	594,921	(594,921)	–
31 December 2014	Banking interest income	–	593,612	593,612
31 December 2014	Interest income from investment business	–	1,309	1,309
31 December 2014	Interest expense	(250,861)	250,861	–
31 December 2014	Salaries and other employee benefits	(153,807)	(374)	(154,181)
31 December 2014	General and administrative expenses	(73,183)	(276)	(73,459)
31 December 2014	Banking interest expense	–	(243,654)	(243,654)
31 December 2014	Interest expense from investment business	–	(6,558)	(6,558)
31 December 2014	Depreciation and amortization	(28,207)	28,207	–
31 December 2014	Cost of healthcare services	(78,836)	6,599	(72,237)
31 December 2014	Banking depreciation and amortization	–	(25,641)	(25,641)
31 December 2014	Depreciation and amortization of investment business	–	(9,164)	(9,164)
31 December 2014	Net gain from foreign currencies: dealing	44,168	(44,168)	–
31 December 2014	Net gain from foreign currencies: translation differences	5,415	(5,415)	–
31 December 2014	Net banking foreign currency gain	–	52,752	52,752
31 December 2014	Net foreign currency loss from investment business	–	(3,169)	(3,169)

Year ended	Consolidated Income Statement:	As previously reported	Reclassification	As reclassified
31 December 2013	Interest income	574,108	(574,108)	–
31 December 2013	Banking interest income	–	572,362	572,362
31 December 2013	Interest income from investment business	–	1,746	1,746
31 December 2013	Interest expense	(259,613)	259,613	–
31 December 2013	Salaries and other employee benefits	(135,055)	7	(135,048)
31 December 2013	General and administrative expenses	(60,364)	4	(60,360)
31 December 2013	Banking interest expense	–	(253,926)	(253,926)
31 December 2013	Interest expense from investment business	–	(5,687)	(5,687)
31 December 2013	Depreciation and amortization	(26,572)	26,572	–
31 December 2013	Cost of healthcare services	(37,644)	5,160	(32,484)
31 December 2013	Banking depreciation and amortization	–	(24,780)	(24,780)
31 December 2013	Depreciation and amortization of investment business	–	(6,963)	(6,963)
31 December 2013	Net gain from foreign currencies: dealing	46,329	(46,329)	–
31 December 2013	Net gain from foreign currencies: translation differences	(2,818)	2,818	–
31 December 2013	Net banking foreign currency gain	–	48,355	48,355
31 December 2013	Net foreign currency loss from investment business	–	(4,844)	(4,844)

Functional, reporting currencies and foreign currency translation

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

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

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

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

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

Change in Functional Currency

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

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

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

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

In 2015 BGEO also performed a re-assessment of its functional currency in accordance with IAS 21 and determined that Georgian Lari was its functional currency as well, due to the fact that BGEO is a holding company that has no sufficiently substantive operations to enable it to have a different functional currency from its subsidiary.

As the result, the Bank and BGEO changed their functional currencies, from US Dollars and GBP respectively, to Georgian Lari starting 1 January 2015 and this has been accounted for prospectively from that date.

Share capital, additional paid-in capital and retained earnings of BGEO were retranslated to Georgian Lari from the 31 December 2014 GBP-GEL exchange rate of 2.8932 to the 1 January 2015 exchange rate of 2.9220. This movement is shown as a GBP-GEL translation effect in the consolidated statement of changes in equity for the year ended 31 December 2015.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

IAS 12 Income Taxes

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

IFRS 15 Revenue from Contracts with Customers

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

3. Summary of Significant Accounting Policies continued

IFRS 16 Leases

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

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

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

Annual Improvements 2012-2014 Cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

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

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

Notes to Consolidated Financial Statements continued

3. Summary of Significant Accounting Policies continued

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

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

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

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

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

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

4. Significant Accounting Judgements and Estimates

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

Fair value of financial instruments

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

Measurement of fair value of investment properties and property and equipment

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

The Group performs valuation of its investment properties, and office buildings and service centres once in every three years, unless there is a sign of material change in fair values on the market. Last valuation was performed as at 31 December 2015 by Colliers International Georgia. Results of this valuation are presented in notes 11 and 12, while valuation inputs and techniques are presented in note 30.

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

Allowance for impairment of loans and finance lease receivables

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

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

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

5. Business Combinations

Acquisition of JSC PrivatBank

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

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

	Fair value recognised on acquisition
Cash and cash equivalents	107,553
Amounts due from credit institutions	26,226
Loans to customers and finance lease receivables ¹	297,387
Insurance premiums receivable	2,069
Investment properties (note 13)	705
Property and equipment	20,301
Intangible assets	148
Income tax assets	1,785
Other assets	14,515
	470,689
Client deposits and notes	340,284
Amounts due to credit institutions	38,620
Accruals and deferred income	1,991
Other liabilities	6,668
	387,563
Total identifiable net assets	83,126
Goodwill arising on business combination	11,055
Consideration given²	94,181

The net cash inflow on acquisition was as follows:

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

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

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

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

¹ Gross amount of loans to customers and finance lease receivables was GEL 335,008 of which GEL 37,621 is not expected to be collected;

² Consideration comprised of GEL 94,181, which consists of GEL 84,933 cash payment and GEL 9,248 fair value of a holdback amount.

Acquisition of Healthcare Subsidiaries

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

- On 5 August 2015, 50% of the shares of LLC GNCo, a healthcare company operating in Georgia, was acquired from individual shareholders with effective management and operational control over the company;
- On 30 June 2015, 95% of the shares of LLC Deka, a healthcare company operating in Georgia, was acquired from individual shareholders;
- On 1 March 2015, 100% share in LLC Tbilisi Emergency Center, a healthcare company operating in Georgia, was acquired from individual shareholders.

Notes to Consolidated Financial Statements continued

5. Business Combinations continued

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

	Provisional fair value recognised on acquisition
Cash and cash equivalents	541
Receivables from healthcare services ¹	8,320
Property and equipment	125,313
Other assets	4,419
	138,593
Amounts due to credit Institution	15,142
Accounts payable	11,123
Accruals for employee compensation	5,558
Deferred income tax liabilities	12,461
Other liabilities	2,631
	46,915
Total identifiable net assets	91,678
Non-controlling interests	29,786
Gain on bargain purchase ²	5,361
Goodwill arising on business combination	12,296
Consideration given³	68,827

The net cash inflow on acquisition was as follows:

	2015
Cash paid	(47,628)
Cash acquired with the subsidiary	541
Net cash outflow	(47,087)

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC GNCo, LLC Deka, LLC Tbilisi Emergency Center and. Management considers that the deal will have a positive impact on the value of the Group.

GEL 19,010 and GEL 2,634 of revenue and profit, respectively come from the acquirees after their respective acquisition dates. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 888,415 and GEL 314,429 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 12,296 was added to the Healthcare cash generating unit. The whole amount of goodwill recognised is expected to be tax deductible. The Group has elected to measure the non-controlling interests in LLC GNCo and LLC Deka at the non-controlling interests' proportionate share of their respective identifiable net assets.

- 1 Gross amount of receivables from healthcare services was GEL 18,271 of which GEL 9,951 is not expected to be collected;
- 2 Prior to acquisition, owners of LLC Deka encountered certain financial difficulties which resulted in a lower acquisition cost and a gain from a bargain purchase in the amount of GEL 5,361, recorded in net non-recurring items;
- 3 Consideration comprised GEL 68,827 which consists of cash payment of GEL 47,628 and a holdback amount with a fair value of GEL 21,199.

6. Segment Information

Following the updated strategy of the Group to operate as a Georgia-focused banking group with an investment arm, the management also reorganised its segment information accordingly. The previously presented Corporate Banking, Retail Banking, Investment Management and Corporate Centre of the Strategic group, P&C of the Synergistic group and BNB of the Non-core group was reorganised into the Banking Business, while GHG and Affordable Housing of the Synergistic group and Liberty Consumer and Other of the Non-core group were reorganised into the Investment Business.

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

Banking Business	– The Group's Banking Business segments, dedicated to delivery and enhancement of banking and related financial services:
RB	– Retail Banking (excluding Retail Banking of BNB) – principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses;
CB	– Corporate Banking (excluding Corporate Banking of BNB) – principally providing loans and other credit facilities to large legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers;
IM	– Investment Management – principally providing private banking services to resident and non-resident wealthy individuals as well as their direct family members by ensuring individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory, private equity and brokerage services;
P&C	– Property and Casualty Insurance – principally providing wide-scale property and casualty insurance services to corporate clients and insured individuals;
BNB	– Comprising JSC Belaruskly Narodny Bank, principally providing retail and corporate banking services in Belarus.
Investment Business	– the Group's investment arm segments, with disciplined development paths and exit strategies:
GHG	– Georgia Healthcare Group – principally providing wide-scale healthcare and health insurance services to clients and insured individuals;
m²	– Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

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

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

The 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 2015, 2014 or 2013.

Notes to Consolidated Financial Statements continued

6. Segment Information continued

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

	Banking Business							
	Retail banking	Corporate banking	Investment management	BNB	P&C	Other Banking Business	Banking Business Eliminations	Banking Business
Net banking interest income	322,878	134,883	20,941	29,307	2,330	2,344	244	512,927
Net fee and commission income	78,218	31,142	3,193	9,198	310	(440)	(32)	121,589
Net banking foreign currency gain (loss)	17,109	38,136	3,627	17,036	993	25	–	76,926
Net other banking income	9,159	9,178	1,178	2,199	994	4	(2,875)	19,837
Gross insurance profit	–	–	–	–	21,179	–	(1,132)	20,047
Gross healthcare profit	–	–	–	–	–	–	–	–
Gross real estate profit	–	–	–	–	–	–	–	–
Gross other investment profit	–	–	–	–	–	–	–	–
Revenue	427,364	213,339	28,939	57,740	25,806	1,933	(3,795)	751,326
Operating expenses	(172,297)	(51,888)	(11,470)	(19,731)	(11,199)	(5,069)	3,795	(267,859)
Operating income (expense) before cost of credit risk/EBITDA	255,067	161,451	17,469	38,009	14,607	(3,136)	–	483,467
Investment Business related income statement items	–	–	–	–	–	–	–	–
Operating income before cost of credit risk	255,067	161,451	17,469	38,009	14,607	(3,136)	–	483,467
Cost of credit risk	(75,406)	(55,678)	(480)	(19,270)	(710)	27	–	(151,517)
Net operating income (loss) before non-recurring items	179,661	105,773	16,989	18,739	13,897	(3,109)	–	331,950
Net non-recurring (expense/loss) income/gain	(8,947)	(4,539)	(337)	1,478	(701)	–	–	(13,046)
Profit before income tax	170,714	101,234	16,652	20,217	13,196	(3,109)	–	318,904
Income tax (expense) benefit	(23,992)	(14,928)	(2,328)	(2,754)	(731)	86	–	(44,647)
Profit for the year	146,722	86,306	14,324	17,463	12,465	(3,023)	–	274,257
Assets and liabilities								
Total assets	4,612,774	3,937,985	114,406	475,483	102,886	2,011	(74,108)	9,171,437
Total liabilities	3,117,808	3,282,133	1,065,568	397,970	66,630	146	(74,109)	7,856,146
Other segment information								
Property and equipment	43,990	5,689	1,181	1,193	442	186	–	52,681
Intangible assets	6,568	870	293	598	958	71	–	9,358
Capital expenditure	50,558	6,559	1,474	1,791	1,400	257	–	62,039
Depreciation & amortization	(27,714)	(4,126)	(486)	(1,038)	(834)	(1)	–	(34,199)

Investment Business						
GHG	M2	Other Investment Business	Investment Business Eliminations	Investment Business	Inter-Business Eliminations	Group Total
–	–	–	–	–	(11,537)	501,390
–	–	–	–	–	(3,183)	118,406
–	–	–	–	–	–	76,926
–	–	–	–	–	(1,309)	18,528
12,149	–	–	(33)	12,116	(2,256)	29,907
80,938	–	–	–	80,938	–	80,938
557	14,131	–	–	14,688	–	14,688
3,187	7,502	9,950	–	20,639	138	20,777
96,831	21,633	9,950	(33)	128,381	(18,147)	861,560
(37,633)	(5,860)	(7,402)	33	(50,862)	3,989	(314,732)
59,198	15,773	2,548	–	77,519	(14,158)	546,828
(30,791)	(2,905)	2,017	–	(31,679)	14,158	(17,521)
28,407	12,868	4,565	–	45,840	–	529,307
(3,449)	–	(411)	–	(3,860)	–	(155,377)
24,958	12,868	4,154	–	41,980	–	373,930
(1,676)	(137)	282	–	(1,531)	–	(14,577)
23,282	12,731	4,436	–	40,449	–	359,353
9	(1,974)	(1,796)	–	(3,761)	–	(48,408)
23,291	10,757	2,640	–	36,688	–	310,945
758,966	275,676	213,638	(320)	1,247,960	(303,658)	10,115,739
286,941	167,889	35,103	(320)	489,613	(303,658)	8,042,101
89,653	701	1,532	–	91,886	–	144,567
3,532	21	12	–	3,565	–	12,923
93,185	722	1,544	–	95,451	–	157,490
(12,666)	(191)	(1,368)	–	(14,225)	–	(48,424)

Notes to Consolidated Financial Statements continued

6. Segment Information continued

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

	Banking Business							
	Retail banking	Corporate banking	Investment management	BNB	P&C	Other Banking Business	Banking Business Eliminations	Banking Business
Net banking interest income	215,796	103,158	14,613	22,410	506	317	471	357,271
Net fee and commission income	58,858	24,811	8,760	9,443	312	(449)	110	101,845
Net banking foreign currency gain (loss)	18,622	24,848	1,432	9,932	(2,085)	3	–	52,752
Net other banking income	3,563	6,996	789	504	516	36	(2,514)	9,890
Gross insurance profit	–	–	–	–	17,752	–	(1,330)	16,422
Gross healthcare profit	–	–	–	–	–	–	–	–
Gross real estate profit	–	–	–	–	–	–	–	–
Gross other investment profit	–	–	–	–	–	–	–	–
Revenue	296,839	159,813	25,594	42,289	17,001	(93)	(3,263)	538,180
Operating expenses	(127,627)	(48,985)	(11,810)	(18,390)	(9,403)	(4,812)	3,263	(217,764)
Operating income (expense) before cost of credit risk/EBITDA	169,212	110,828	13,784	23,899	7,598	(4,905)	–	320,416
Investment Business related income statement items	–	–	–	–	–	–	–	–
Operating income before cost of credit risk	169,212	110,828	13,784	23,899	7,598	(4,905)	–	320,416
Cost of credit risk	(9,241)	(41,750)	47	(4,187)	(601)	–	–	(55,732)
Net operating income (loss) before non-recurring items	159,971	69,078	13,831	19,712	6,997	(4,905)	–	264,684
Net non-recurring (expense/loss) income/gain	(5,796)	(2,672)	(296)	(3,073)	–	–	–	(11,837)
Profit before income tax	154,175	66,406	13,535	16,639	6,997	(4,905)	–	252,847
Income tax (expense) benefit	(19,297)	(9,493)	(2,029)	(962)	(1,083)	521	–	(32,343)
Profit for the year	134,878	56,913	11,506	15,677	5,914	(4,384)	–	220,504
Assets and liabilities								
Total assets	3,269,069	3,315,377	40,888	403,764	86,750	73,120	(144,966)	7,044,002
Total liabilities	2,316,688	2,412,671	842,874	326,515	58,695	748	(144,966)	5,813,225
Other segment information								
Property and equipment	19,540	2,629	3,894	2,101	1,477	313	–	29,954
Intangible assets	6,503	1,121	130	304	232	7	–	8,297
Capital expenditure	26,043	3,750	4,024	2,405	1,709	320	–	38,251
Depreciation & amortization	(19,525)	(3,812)	(413)	(1,318)	(570)	(3)	–	(25,641)

Investment Business						
GHG	M2	Other Investment Business	Investment Business Eliminations	Investment Business	Inter-Business Eliminations	Group Total
–	–	–	–	–	(7,313)	349,958
–	–	–	–	–	(2,053)	99,792
–	–	–	–	–	–	52,752
–	–	–	–	–	(620)	9,270
14,987	–	–	–	14,987	(1,979)	29,430
53,483	–	–	–	53,483	–	53,483
–	13,645	1	–	13,646	(80)	13,566
377	107	12,320	–	12,804	187	12,991
68,847	13,752	12,321	–	94,920	(11,858)	621,242
(30,077)	(5,136)	(6,932)	–	(42,145)	2,878	(257,031)
38,770	8,616	5,389	–	52,775	(8,980)	364,211
(22,041)	(1,752)	(2,769)	–	(26,562)	8,980	(17,582)
16,729	6,864	2,620	–	26,213	–	346,629
(2,872)	(66)	(350)	–	(3,288)	–	(59,020)
13,857	6,798	2,270	–	22,925	–	287,609
505	18	297	–	820	–	(11,017)
14,362	6,816	2,567	–	23,745	–	276,592
(1,345)	(1,022)	(1,115)	–	(3,482)	–	(35,825)
13,017	5,794	1,452	–	20,263	–	240,767
409,834	193,119	172,785	(231)	775,507	(240,364)	7,579,145
237,565	112,407	22,449	(230)	372,191	(240,364)	5,945,052
38,503	368	1,761	–	40,632	–	70,586
1,519	27	30	–	1,576	–	9,873
40,022	395	1,791	–	42,208	–	80,459
(7,714)	(332)	(1,118)	–	(9,164)	–	(34,805)

Notes to Consolidated Financial Statements continued

6. Segment Information continued

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

	Banking Business							
	Retail banking	Corporate banking	Investment management	BNB	P&C	Other Banking Business	Banking Business Eliminations	Banking Business
Net banking interest income	192,796	101,096	9,365	18,565	(177)	(91)	583	322,138
Net fee and commission income	53,010	27,318	1,298	6,350	248	(195)	408	88,437
Net banking foreign currency gain (loss)	16,274	24,723	1,382	5,875	101	–	–	48,355
Net other banking income	3,838	5,975	834	(128)	545	99	(1,761)	9,402
Gross insurance profit	–	–	–	–	20,749	–	(960)	19,789
Gross healthcare profit	–	–	–	–	–	–	–	–
Gross real estate profit	–	–	–	–	–	–	–	–
Gross other investment profit	–	–	–	–	–	–	–	–
Revenue	265,918	159,112	12,879	30,662	21,466	(186)	(1,730)	488,120
Operating expenses	(116,768)	(43,654)	(8,917)	(15,200)	(7,858)	(3,751)	1,730	(194,417)
Operating income (expense) before cost of credit risk/EBITDA	149,154	115,458	3,962	15,462	13,608	(3,937)	–	293,703
Investment Business related income statement items	–	–	–	–	–	–	–	–
Operating income before cost of credit risk	149,154	115,458	3,962	15,462	13,608	(3,937)	–	293,703
Cost of credit risk	(28,931)	(31,112)	10	(563)	(273)	–	–	(60,869)
Net operating income (loss) before non-recurring items	120,223	84,346	3,972	14,899	13,335	(3,937)	–	232,834
Net non-recurring (expense/loss) income/gain	(2,201)	(2,690)	(2,508)	(399)	–	(416)	–	(8,214)
Profit before income tax	118,022	81,656	1,464	14,500	13,335	(4,353)	–	224,620
Income tax (expense) benefit	(14,466)	(11,223)	(1,351)	(3,514)	(2,100)	555	–	(32,099)
Profit for the year	103,552	70,433	113	10,986	11,235	(3,798)	–	192,521
Assets and liabilities								
Total assets	2,709,786	3,083,035	28,846	326,465	72,402	15,944	(78,741)	6,157,737
Total liabilities	1,830,958	2,344,946	684,503	260,980	50,447	469	(78,741)	5,093,562
Other segment information								
Property and equipment	20,921	2,853	302	466	503	136	–	25,181
Intangible assets	5,666	972	78	249	522	13	–	7,500
Capital expenditure	26,587	3,825	380	715	1,025	149	–	32,681
Depreciation & amortization	(18,703)	(3,459)	(355)	(1,628)	(573)	(62)	–	(24,780)

Investment Business						
GHG	M2	Other Investment Business	Investment Business Eliminations	Investment Business	Inter-Business Eliminations	Group Total
–	–	–	–	–	(4,100)	318,038
–	–	–	–	–	(1,437)	87,000
–	–	–	–	–	–	48,355
–	–	–	–	–	(514)	8,888
27,248	–	–	(23)	27,225	(1,681)	45,333
27,529	–	–	–	27,529	–	27,529
502	9,739	8	–	10,249	–	10,249
724	739	11,208	–	12,671	139	12,809
56,003	10,478	11,216	(23)	77,674	(7,593)	558,201
(21,677)	(2,818)	(5,954)	23	(30,426)	2,286	(222,557)
34,326	7,660	5,262	–	47,248	(5,307)	335,644
(20,230)	1,111	(1,936)	–	(21,055)	5,307	(15,748)
14,096	8,771	3,326	–	26,193	–	319,896
(747)	(185)	–	–	(932)	–	(61,801)
13,349	8,586	3,326	–	25,261	–	258,095
–	(823)	(3,802)	–	(4,625)	–	(12,839)
13,349	7,763	(476)	–	20,636	–	245,256
(2,049)	(1,142)	(623)	–	(3,814)	–	(35,913)
11,300	6,621	(1,099)	–	16,822	–	209,343
274,049	115,220	50,116	(215)	439,170	(75,938)	6,520,969
176,118	59,021	27,367	(215)	262,291	(75,938)	5,279,915
35,136	463	1,422	–	37,021	–	62,202
832	47	11	–	890	–	8,390
35,968	510	1,433	–	37,911	–	70,592
(5,853)	(75)	(1,035)	–	(6,963)	–	(31,743)

Notes to Consolidated Financial Statements continued

7. Cash and Cash Equivalents

	2015	2014	2013
Cash on hand	442,293	393,315	384,410
Current accounts with central banks, excluding obligatory reserves	152,455	152,647	132,219
Current accounts with other credit institutions	475,779	138,243	357,447
Time deposits with credit institutions with maturity of up to 90 days	362,407	25,939	179,595
Cash and cash equivalents	1,432,934	710,144	1,053,671

Cash and cash equivalents held by BGEO of GEL 32,435 (2014: GEL 88,005, 2013: GEL 4,628) is represented by placements on current accounts with Georgian and the Organisation for Economic Co-operation and Development ("OECD") banks.

As at 31 December 2015, GEL 662,296 (2014: GEL 136,559, 2013: GEL 485,740) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.59% interest per annum on these deposits (2014: up to 1.30%, 2013: up to 6.92%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

8. Amounts Due from Credit Institutions

	2015	2014	2013
Obligatory reserves with central banks	620,287	382,963	330,319
Time deposits with maturity of more than 90 days	12,717	33,832	9,623
Deposits pledged as security for open commitments	96,405	–	1,761
Inter-bank loan receivables	1,956	1,486	5,558
Amounts due from credit institutions	731,365	418,281	347,261

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

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

9. Investment Securities

	2015	2014	2013
Georgian ministry of Finance treasury bonds*	575,591	459,400	391,486
Georgian ministry of Finance treasury bills**	165,545	169,796	63,606
Certificates of deposit of central banks***	76,807	92,547	59,265
Other debt instruments****	84,476	46,557	–
Corporate shares	1,448	1,412	5,266
Investment securities	903,867	769,712	519,623

* GEL 229,800 was pledged for short-term loans from the NBG (2014: GEL 341,681, 2013: GEL 200,065).

** GEL 3,805 was pledged for short-term loans from the NBG (2014: GEL 60,889, 2013: GEL 19,773).

*** GEL 2,966 was pledged for short-term loans from the NBG (2014: Nil, 2013: GEL 30,328).

**** GEL 79,187 was pledged for short-term loans from the NBG (2014: GEL 25,069, 2013: Nil).

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

10. Loans to Customers and Finance Lease Receivables

	2015	2014	2013
Commercial loans	2,397,781	2,181,427	1,854,622
Consumer loans	1,165,107	801,474	660,220
Micro and SME loans	1,041,929	772,283	566,273
Residential mortgage loans	814,344	604,143	447,063
Gold – pawn loans	61,140	53,785	61,871
Loans to customers, gross	5,480,301	4,413,112	3,590,049
Less – Allowance for loan impairment	(198,894)	(103,780)	(120,785)
Loans to customers, net	5,281,407	4,309,332	3,469,264
Finance Lease Receivables, gross	42,912	39,248	46,249
Less – Allowance for finance lease receivables impairment	(2,202)	(729)	(643)
Finance Lease Receivables, net	40,710	38,519	45,606
Loans to customers and finance lease receivables, net	5,322,117	4,347,851	3,514,870

Allowance for loan impairment

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

	Commercial loans 2015	Consumer loans 2015	Residential mortgage loans 2015	Micro and SME loans 2015	Total 2015
At 1 January	72,885	23,648	2,993	4,254	103,780
Charge	59,090	62,638	3,410	17,681	142,819
Recoveries	4,331	21,079	3,066	5,209	33,685
Write-offs	(10,324)	(47,075)	(2,847)	(10,694)	(70,940)
Accrued interest on written-off loans	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation differences	416	(238)	–	1,046	1,224
At 31 December	125,312	51,017	6,061	16,504	198,894
Individual impairment	118,960	1,850	4,380	13,745	138,935
Collective impairment	6,352	49,167	1,681	2,759	59,959
	125,312	51,017	6,061	16,504	198,894
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	330,084	3,136	15,902	27,421	376,543
	Commercial loans 2014	Consumer loans 2014	Residential mortgage loans 2014	Micro and SME loans 2014	Total 2014
At 1 January	90,949	20,772	3,093	5,971	120,785
Charge (reversal)	34,617	14,147	(2,280)	(1,396)	45,088
Recoveries	3,104	14,730	5,661	5,211	28,706
Write-offs	(41,894)	(22,556)	(2,777)	(4,748)	(71,975)
Accrued interest on written-off loans	(13,581)	(3,341)	(704)	(348)	(17,974)
Currency translation differences	(310)	(104)	–	(436)	(850)
At 31 December	72,885	23,648	2,993	4,254	103,780
Individual impairment	63,816	1,403	2,525	3,637	71,381
Collective impairment	9,069	22,245	468	617	32,399
	72,885	23,648	2,993	4,254	103,780
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	243,825	1,924	7,944	10,594	264,287

Notes to Consolidated Financial Statements continued

10. Loans to Customers and Finance Lease Receivables continued

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

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

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

Concentration of loans to customers

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

As at 31 December 2015, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,094,979 accounting for 20% of the gross loan portfolio of the Group (2014: GEL 1,094,084 and 25% respectively, 2011: GEL 912,106 and 25% respectively). An allowance of GEL 41,413 (2014: GEL 18,324, 2013: GEL 9,345) was established against these loans.

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

	2015	2014	2013
Individuals	2,482,389	1,831,479	1,411,958
Trade	727,214	647,858	560,389
Manufacturing	711,677	719,003	659,527
Real estate	354,331	244,134	250,147
Services	223,088	156,399	124,711
Construction	178,642	114,891	132,477
Hospitality	168,011	166,214	106,997
Transport & communication	165,330	151,715	148,849
Mining and quarrying	127,706	15,310	9,517
Financial intermediation	77,662	109,201	14,758
Electricity, gas and water supply	77,633	124,772	63,378
Other	186,618	132,136	107,341
Loans to customers, gross	5,480,301	4,413,112	3,590,049
Less – allowance for loan impairment	(198,894)	(103,780)	(120,785)
Loans to customers, net	5,281,407	4,309,332	3,469,264

10. Loans to Customers and Finance Lease Receivables continued

Loans have been extended to the following types of customers:

	2015	2014	2013
Private companies	2,958,145	2,531,689	2,073,147
Individuals	2,482,389	1,831,479	1,411,958
State-owned entities	39,767	49,944	104,944
Loans to customers, gross	5,480,301	4,413,112	3,590,049
Less – allowance for loan impairment	(198,894)	(103,780)	(120,785)
Loans to customers, net	5,281,407	4,309,332	3,469,264

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

	2015			2014			2013		
	Individual impairment 2015	Collective impairment 2015	Total 2015	Individual impairment 2014	Collective impairment 2014	Total 2014	Individual impairment 2013	Collective impairment 2013	Total 2013
At 1 January	71,381	32,399	103,780	91,799	28,986	120,785	83,172	26,865	110,037
Charge for the year	94,883	47,936	142,819	34,088	11,000	45,088	19,395	22,104	41,499
Recoveries	9,994	23,691	33,685	12,897	15,809	28,706	10,828	16,651	27,479
Write-offs	(34,722)	(36,218)	(70,940)	(51,774)	(20,201)	(71,975)	(17,269)	(32,682)	(49,951)
Interest accrued on impaired loans to customers	(3,617)	(8,057)	(11,674)	(14,846)	(3,128)	(17,974)	(4,273)	(3,949)	(8,222)
Currency translation differences	1,016	208	1,224	(783)	(67)	(850)	(54)	(3)	(57)
At 31 December	138,935	59,959	198,894	71,381	32,399	103,780	91,799	28,986	120,785

Finance Lease Receivables

	2015	2014	2013
Minimum lease payments receivable	51,649	47,047	56,124
Less – Unearned finance lease income	(8,737)	(7,799)	(9,875)
	42,912	39,248	46,249
Less – Allowance for impairment	(2,202)	(729)	(643)
Finance lease receivables, net	40,710	38,519	45,606

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

As at 31 December 2015, the concentration of investment in the five largest lease receivables comprised GEL 15,234 or 36% of total finance lease receivables (2014: GEL 10,160 or 26%, 2013: GEL 5,766 or 12%) and finance income received from it for the year ended 31 December 2015 comprised GEL 1,931 or 20% of total finance income from lease (2014: GEL 909 or 11%, 2013: GEL 429 or 6%).

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

	2015	2014	2013
Within 1 year	28,807	29,901	35,472
From 1 to 5 years	22,842	17,146	18,880
More than 5 years	–	–	1,772
Minimum lease payment receivables	51,649	47,047	56,124

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

	Finance lease receivables 2015	Finance lease receivables 2014	Finance lease receivables 2013
At 1 January	729	643	507
Charge	1,958	476	2,809
Amounts written-off	(305)	(435)	(2,639)
Currency translation differences	(180)	45	(34)
At 31 December	2,202	729	643
Individual impairment	1,507	243	100
Collective impairment	695	486	543
	2,202	729	643
Gross amount of finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	3,725	1,487	870

Notes to Consolidated Financial Statements continued

11. Investment Properties

	2015	2014	2013
At 1 January	190,860	157,707	160,353
Additions*	56,823	58,449	20,051
Disposals	(19,815)	(7,383)	(10,748)
Net gains from revaluation of investment property	20,737	1,909	9,788
Hyperinflation effect	–	394	–
Acquisition through business combination	705	–	–
Transfers from (to) property and equipment and other assets**	2,381	(31,025)	(21,737)
Currency translation differences	(5,293)	10,809	–
At 31 December	246,398	190,860	157,707

* GEL 18,947 paid in 2015 for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2015 and full additions of 2014 and 2013 comprise foreclosed properties, no cash transactions were involved.

** Comprised of GEL 669 transfer to property and equipment (2014: transfers to property and equipment GEL 6,389 and 2013: transfers from property and equipment GEL 4,979 respectively), GEL 2,357 transfer from other assets – inventories (2014 and 2013: transfer to other assets – inventories GEL 25,132 and GEL 14,089) and GEL 693 transfer from finance lease receivables (2014: transfer from finance lease receivable GEL 496 and 2013: transfer to finance lease receivable 12,627).

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2015 and was carried out by professional valuers. Refer to Note 30 for details on fair value measurements of investment properties.

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

12. Property and Equipment

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

	Office buildings & service centres	Hospitals & clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2014	230,376	207,038	140,130	130,810	7,566	12,751	9,599	738,270
Additions	5,348	24,528	23,764	67,631	2,834	5,555	14,907	144,567
Business combination, Note 5	10,388	94,096	8,317	22,806	870	1,790	7,347	145,614
Disposals	(2,555)	(1,425)	(389)	(21,096)	(581)	(1,872)	(140)	(28,058)
Transfers	3,090	8,538	3,124	(1,616)	(1,024)	4,000	(16,112)	–
Transfers to investment properties	(425)	–	–	–	–	–	–	(425)
Transfers (to) from other assets	–	–	(343)	(736)	4	–	(6,231)	(7,306)
Revaluation	(9,168)	–	–	–	–	–	–	(9,168)
Currency translation differences	(3,169)	–	(269)	(525)	(83)	(77)	(337)	(4,910)
31 December 2015	233,435	332,775	174,334	197,274	9,586	22,147	9,033	978,584
Accumulated impairment								
31 December 2014	3,621	–	51	120	13	9	9	3,823
Reversal of impairment	(1,097)	–	–	–	–	–	–	(1,097)
Transfers to investment properties	(1,040)	–	–	–	–	–	–	(1,040)
Currency translation differences	(263)	–	(13)	(38)	(6)	(9)	–	(329)
31 December 2015	1,221	–	38	82	7	–	9	1,357
Accumulated depreciation								
31 December 2014	3,208	2,646	75,530	55,402	4,023	5,125	–	145,934
Depreciation charge	3,059	4,264	15,787	15,920	1,770	2,676	–	43,476
Currency translation differences	(195)	–	(91)	(235)	(31)	(36)	–	(588)
Transfers	(199)	58	589	(315)	(60)	(73)	–	–
Transfers to investment properties	(54)	–	–	–	–	–	–	(54)
Transfers (to) from other assets	–	–	(233)	(606)	3	–	–	(836)
Revaluation	(1,945)	–	–	–	–	–	–	(1,945)
Disposals	(25)	(124)	(161)	(1,575)	(360)	(1,197)	–	(3,442)
31 December 2015	3,849	6,844	91,421	68,591	5,345	6,495	–	182,545
Net book value:								
31 December 2014	223,547	204,392	64,549	75,288	3,530	7,617	9,590	588,513
31 December 2015	228,365	325,931	82,875	128,601	4,234	15,652	9,024	794,682

12. Property and Equipment continued

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

	Office buildings & service centres	Hospitals & clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2013	209,639	128,491	129,769	101,563	6,728	10,771	8,942	595,903
Additions	1,417	26,478	8,492	21,020	2,665	3,258	7,256	70,586
Business combination	2	51,839	588	6,076	306	–	141	58,952
Disposals	(44)	(38)	(623)	(1,084)	(1,089)	(2,675)	(93)	(5,646)
Transfers	5,040	268	(1,856)	3,005	(1,150)	1,139	(6,446)	–
Transfers from investment properties	6,389	–	–	–	–	–	–	6,389
Transfers from (to) other assets	478	–	(216)	(511)	–	–	(61)	(310)
Effect of hyperinflation	3,225	–	228	438	52	67	58	4,068
Currency translation differences	4,230	–	3,748	303	54	191	(198)	8,328
31 December 2014	230,376	207,038	140,130	130,810	7,566	12,751	9,599	738,270
Accumulated impairment								
31 December 2013	3,611	–	40	109	6	–	–	3,766
Effect of hyperinflation	187	–	7	19	3	–	–	216
Currency translation differences	(177)	–	4	(8)	4	9	9	(159)
31 December 2014	3,621	–	51	120	13	9	9	3,823
Accumulated depreciation								
31 December 2013	553	1,526	65,442	44,414	4,317	5,216	–	121,468
Depreciation charge	3,009	1,141	12,471	11,828	1,187	1,849	–	31,485
Effect of hyperinflation	134	–	102	238	38	66	–	578
Currency translation differences	(261)	–	(1,333)	(1,129)	(233)	(298)	–	(3,254)
Transfers to other assets	(352)	–	(499)	(494)	–	–	–	(1,345)
Disposals	125	(21)	(653)	545	(1,286)	(1,708)	–	(2,998)
31 December 2014	3,208	2,646	75,530	55,402	4,023	5,125	–	145,934
Net book value:								
31 December 2013	205,475	126,965	64,287	57,040	2,405	5,555	8,942	470,669
31 December 2014	223,547	204,392	64,549	75,288	3,530	7,617	9,590	588,513

Notes to Consolidated Financial Statements continued

12. Property and Equipment continued

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

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

Office building and service centres of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2015 and was carried out by professional valuers. Refer to Note 30 for details on fair value measurements of the Group's premises.

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

	2015	2014	2013
Cost	179,067	166,839	146,104
Accumulated depreciation and impairment	(19,736)	(16,896)	(14,023)
Net carrying amount	159,331	149,943	132,081

13. Goodwill

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

	2015	2014	2013
Cost			
1 January	78,083	77,170	74,107
Business combinations, Note 5	23,351	913	3,063
At 31 December	101,434	78,083	77,170
Accumulated impairment			
1 January	28,450	28,450	28,450
At 31 December	28,450	28,450	28,450
Net book value:			
1 January	49,633	48,720	45,657
At 31 December	72,984	49,633	48,720

Impairment test for goodwill

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

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

	2015	2014	2013
P&C Insurance	16,139	16,139	16,139
Retail banking*	23,488	12,433	12,433
Corporate banking	9,965	9,965	9,965
Healthcare**	16,491	4,195	3,282
Health Insurance	3,462	3,462	3,462
Liberty Consumer	3,439	3,439	3,439
Total	72,984	49,633	48,720

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

** GEL 12,296 increase in goodwill for 2015 is from acquisition of healthcare subsidiaries (note 5), which was added to Healthcare CGU. Impairment test revealed no need for impairment as at 31 December 2015.

Key assumptions used in value in use calculations

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

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

	Corporate Banking			Retail Banking		
	2015, %	2014, %	2013, %	2015, %	2014, %	2013, %
Discount rate	5.8%	6.2%	8.5%	6.7%	6.5%	8.5%

The following rates were used by the Group for P&C Insurance and Health Insurance:

	P&C Insurance			Health Insurance		
	2015, %	2014, %	2013, %	2015, %	2014, %	2013, %
Discount rate	10.4%	10.9%	13.3%	11.2%	11.3%	14.5%

The following rates were used by the Group for Healthcare and Liberty Consumer:

	Healthcare			Liberty Consumer		
	2015, %	2014, %	2013, %	2015, %	2014, %	2013, %
Discount rate	11.6%	10.5%	14.5%	9.4%	9.0%	14.5%

Notes to Consolidated Financial Statements continued

13. Goodwill continued

Discount rates

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

For the Healthcare CGU the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

For the Retail and Corporate banking CGUs the following additional assumptions were made:

- Stable, business as usual growth of loans and deposits;
- No material changes in cost/income structure or ratio;
- Stable, business as usual growth of trade finance and other documentary businesses;
- Further expansion of the express banking businesses bringing more stable margins to retail banking.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2015. Possible change was taken as +/-1% in discount rate and growth rate.

14. Taxation

The corporate income tax (expense) benefit comprises:

	2015	2014	2013
Current income expense	(38,959)	(24,493)	(17,284)
Deferred income tax expense	(9,449)	(11,332)	(18,629)
Income tax expense	(48,408)	(35,825)	(35,913)
Deferred income tax (expense) benefit in other comprehensive income (loss)	1,637	(124)	(1,095)

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

	2015	2014	2013
Currency translation differences	1,276	(124)	(873)
Net losses on investment securities available-for-sale	–	–	1
Revaluation of buildings	361	–	(223)
Income tax (expense) benefit in other comprehensive income	1,637	(124)	(1,095)

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

The UK Finance Bill 2015 was enacted in November 2015 reducing the standard rate of corporation tax from 20% to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. There are no UK deferred tax balances at 31 December 2015. The deferred tax balances in other countries are recognised at the substantially enacted rates at the balance sheet date.

14. Taxation continued

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

	2015	2014	2013
Profit before income tax expense	359,353	276,592	245,256
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	(53,903)	(41,489)	(36,788)
Non-taxable income	3,744	–	–
Correction of prior year declarations	1,472	5,802	2,402
Non-deductible expenses	(487)	(697)	(486)
Tax at the domestic rates applicable to profits in each country	(262)	193	(1,155)
Effect of changes in tax rate	–	(502)	–
Other	1,028	868	114
Income tax expense	(48,408)	(35,825)	(35,913)

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

As at 31 December 2015, 31 December 2014 and 31 December 2013 income tax assets and liabilities consist of the following:

	2015	2014	2013
Current income tax assets	3,654	4,215	4,552
Deferred income tax assets	17,896	18,530	14,544
Income tax assets	21,550	22,745	19,096
Current income tax liabilities	20,083	11,093	2,930
Deferred income tax liabilities	104,312	86,471	66,100
Income tax liabilities	124,395	97,564	69,030

Notes to Consolidated Financial Statements continued

14. Taxation continued

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

the respective years are as follows:

	Origination and reversal of temporary differences			Origination and reversal of temporary differences				
	2012	In the income statement	In other comprehensive income	2013	In the income statement	Business combination	In other comprehensive income	2014
Tax effect of deductible temporary differences:								
Amounts due to credit institutions	55	1,125	—	1,180	(175)	—	—	1,005
Investment securities: available-for-sale	7	1,188	1	1,196	(1)	—	—	1,195
Investment properties	—	2,479	—	2,479	—	—	(1,499)	980
Insurance premiums receivables	1,324	(438)	—	886	624	—	—	1,510
Allowances for impairment and provisions for other losses	1,059	(604)	—	455	(257)	—	—	198
Tax losses carried forward	9,145	(974)	620	8,791	2,650	—	855	12,296
Property and equipment	933	9	—	942	(6)	—	—	936
Other assets and liabilities	2,730	439	—	3,169	751	—	(51)	3,869
Deferred tax assets	15,253	3,224	621	19,098	3,586	—	(695)	21,989
Tax effect of taxable temporary differences:								
Amounts due to credit institutions	72	28	(48)	52	(5)	—	(3)	44
Amounts due to customers	—	1,325	—	1,325	—	—	—	1,325
Loans to customers	9,008	12,831	—	21,839	8,562	—	(165)	30,236
Other insurance liabilities & pension fund obligations	850	106	—	956	426	—	—	1,382
Property and equipment	29,782	1,650	1,179	32,611	4,473	4,929	(330)	41,683
Investment properties	461	1,711	(2,170)	2	69	—	(7)	64
Intangible assets	4,887	688	—	5,575	965	—	(8)	6,532
Other assets and liabilities	2,025	3,514	2,755	8,294	428	—	(58)	8,664
Deferred tax liabilities	47,085	21,853	1,716	70,654	14,918	4,929	(571)	89,930
Net deferred tax liabilities	(31,832)	(18,629)	(1,095)	(51,556)	(11,332)	(4,929)	(124)	(67,941)

Origination and reversal of temporary differences			
In the income statement	Business combination	In other comprehensive income	2015
(523)	–	–	482
(1,194)	–	(1)	–
–	–	–	980
650	–	–	2,160
5,035	–	(367)	4,866
6,606	(1,992)	250	17,160
50	–	(49)	937
(406)	982	2	4,447
10,218	(1,010)	(165)	31,032
26	–	(2)	68
(1,325)	–	–	–
(763)	–	(517)	28,956
(1,160)	–	–	222
18,653	9,666	(1,184)	68,818
6,500	–	(53)	6,511
(1,122)	–	(7)	5,403
(1,142)	(13)	(39)	7,470
19,667	9,653	(1,802)	117,448
(9,449)	(10,663)	1,637	(86,416)

Notes to Consolidated Financial Statements continued

15. Other Assets and Other Liabilities

Other assets comprise:

	2015	2014	2013
Investments in associates	53,458	48,659	–
Foreclosed assets*	49,602	49,090	43,924
Derivative financial assets	42,212	45,733	39,431
Other receivables	19,380	4,811	19,797
Operating tax assets	18,225	10,934	15,626
Defined contribution pension assets	13,706	11,201	9,540
Assets purchased for finance lease purposes	10,689	6,841	3,649
Reinsurance assets	10,381	11,289	9,471
Settlements on operations	5,060	2,869	10,461
Trading securities owned	1,977	1,034	1,149
Other	22,083	20,014	8,909
	246,773	212,475	161,957
Less – Allowance for impairment of other assets	(10,000)	(2,764)	(15,148)
Other assets	236,773	209,711	146,809

* Foreclosed assets represent movable repossessed assets.

Other liabilities comprise:

	2015	2014	2013
Accounts payable	44,865	15,995	11,220
Amounts payable for share acquisitions*	38,005	16,786	–
Defined contribution pension obligations	13,706	11,201	9,540
Other insurance liabilities	9,572	7,395	7,360
Creditors	7,729	10,436	7,855
Other taxes payable	5,072	4,258	1,505
Derivative financial liabilities	3,243	7,505	1,513
Provisions	2,240	4,732	481
Dividends payable	815	2,419	511
Other	9,509	6,918	11,250
Other liabilities	134,756	87,645	51,235

* 2015 amounts payable for share acquisitions comprise GEL 28,757 payable for the healthcare subsidiaries acquired in 2015 and GEL 9,248 payable for the acquisition of JSC PrivatBank. 2014 amounts payable for share acquisitions comprise GEL 13,694 payable for healthcare business acquisitions and GEL 3,092 payable for acquisition of Georgian Global Utilities LLC.

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

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

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

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

15. Other Assets and Other Liabilities continued

The Group's investment in associate comprises of Georgian Global Utilities LLC ("GGU"), a holding company incorporated in the British Virgin Islands with wholly owned subsidiaries that supply water and provide wastewater services, as well as owns and operates hydropower generation facilities in Georgia.

GGU is a private entity that is not listed on any public exchange. The Group's interest in GGU is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information as at and for the year ended 31 December 2015 of the Group's investment in GGU:

	2015	2014
Current assets	38,463	47,201
Non-current assets	282,189	269,213
Current liabilities	38,862	24,757
Non-current liabilities	73,901	101,061
Equity	207,889	190,596
Group's share in equity	51,972	47,649
Group's carrying amount of the investment	53,458	48,659
Revenue	121,114	125,255
Operating expenses	(57,824)	(73,920)
EBITDA	63,290	51,335
Depreciation and amortisation expenses	(20,564)	(19,436)
Net interest expense	(7,385)	(1,439)
Currency translation loss	(14,514)	56
Profit before income tax expense	20,827	30,516
Income tax expense	(4,627)	(7,922)
Profit for the year	16,200	22,594
Total comprehensive income for the year	16,200	22,594
Group's share in profit for the year	4,050	–

GGU requires its parent's consent to distribute its profits, but also needs the Group's consent on such distributions if they exceed 50% of the associate's profit in accordance with IFRS for the previous year.

In 2008 GGU was sold to a group of private investors. As part of the share purchase agreement, GGU undertook an investment obligation of US\$ 220 million (GEL 527 million*) to refurbish and to rehabilitate the water supply and wastewater management infrastructure. The management of GGU believes that as of 31 December 2015, GGU has already fulfilled the above and as of 31 December 2015 is in the process of reconciliation of the fulfilled commitments with relevant government authorities.

* Translated at the official NBG exchange rate of 2.3949 as at 31 December 2015.

16. Client Deposits and Notes

The amounts due to customers include the following:

	2015	2014	2013
Time deposits	2,597,244	1,867,925	1,593,171
Current accounts	2,153,275	1,445,790	1,514,038
Promissory notes issued	868	25,010	10,523
Amounts due to customers	4,751,387	3,338,725	3,117,732
Held as security against letters of credit and guarantees (Note 19)	64,534	53,393	53,903

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

At 31 December 2015, amounts due to customers of GEL 782,146 (16%) were due to the 10 largest customers (2014: GEL 424,103 (13%), 2013: GEL 436,694 (14%).

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

	2015	2014	2013
Individuals	2,615,774	1,868,762	1,511,452
Private enterprises	1,945,233	1,284,955	1,435,900
State and state-owned entities	190,380	185,008	170,380
Amounts due to customers	4,751,387	3,338,725	3,117,732

Notes to Consolidated Financial Statements continued

16. Amounts Due to Customers continued

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

	2015	2014	2013
Individuals	2,615,774	1,868,762	1,511,452
Trade	374,291	277,792	360,378
Transport & communication	317,161	173,591	143,681
Financial intermediation	292,771	110,759	69,239
Service	289,485	275,504	350,558
Manufacturing	236,238	107,813	85,673
Construction	224,477	220,234	241,271
Government services	141,007	128,046	50,481
Electricity, gas and water supply	74,125	21,275	78,537
Real estate	64,990	53,742	69,625
Hospitality	18,818	33,503	35,049
Other	102,250	67,704	121,788
Amounts due to customers	4,751,387	3,338,725	3,117,732

17. Amounts Owed to Credit Institutions

Amounts due to credit institutions comprise:

	2015	2014	2013
Borrowings from international credit institutions	640,517	574,240	504,943
Short-term loans from the National Bank of Georgia	307,200	400,772	250,138
Time deposits and inter-bank loans	353,638	261,551	221,267
Correspondent accounts	92,617	32,606	12,921
Subtotal	1,393,972	1,269,169	989,269
Non-convertible subordinated debt	395,090	140,045	168,710
Amounts due to credit institutions	1,789,062	1,409,214	1,157,979

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

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

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

18. Debt Securities Issued

Debt securities issued comprise:

	2015	2014	2013
Eurobonds	908,183	779,445	728,117
Georgian local bonds	98,859	46,217	–
Certificates of deposit	32,762	31,033	–
Debt securities issued	1,039,804	856,695	728,117

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

In May 2015, the Group's real estate subsidiary JSC m² Real Estate completed the issuance of 2-year local bonds of US\$ 20 million (GEL 45 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with a 5% withholding tax applying to individuals.

19. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and BGEO are 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 or BGEO.

Financial commitments and contingencies

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

	2015	2014	2013
Credit-related commitments			
Guarantees issued	473,839	465,527	478,247
Undrawn loan facilities	273,851	144,634	147,273
Letters of credit	43,126	95,669	55,608
	790,816	705,830	681,128
Operating lease commitments			
Not later than 1 year	17,056	12,382	7,978
Later than 1 year but not later than 5 years	31,216	21,943	12,844
Later than 5 years	5,553	3,178	1,693
	53,825	37,503	22,515
Capital expenditure commitments	27,624	10,035	11,463
Less – Cash held as security against letters of credit and guarantees (Note 16)	(64,534)	(53,393)	(53,903)
Less – Provisions	(2,240)	(4,732)	(481)
Financial commitments and contingencies, net	805,491	695,243	660,722

As at 31 December 2015, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 25,915 and software and other intangible assets of GEL 1,709. As at 31 December 2014, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 9,810 and software and other intangible assets of GEL 225. As at 31 December 2013, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 8,796 and software and other intangible assets of GEL 2,667.

20. Equity

Share capital

As at 31 December 2015, issued share capital comprised 39,500,320 common shares, of which 39,500,320 were fully paid (31 December 2014: 39,500,320 issued share capital, of which 39,500,320 were fully paid, 31 December 2013: 35,909,383 issued share capital, of which 35,909,383 were fully paid). Each share has a nominal value of one (1) British Penny (31 December 2014: one (1) British Penny, 31 December 2013: one (1) British Penny). Shares issued and outstanding as at 31 December 2015 are described below:

	Number of shares Ordinary	Amount of shares Ordinary
31 December 2012	35,909,383	957
Effect of translation of equity components to presentation currency	–	71
31 December 2013	35,909,383	1,028
Issue of share capital	3,590,937	108
Effect of translation of equity components to presentation currency	–	7
31 December 2014	39,500,320	1,143
Effect of translation of equity components to presentation currency	–	11
31 December 2015	39,500,320	1,154

On 5 December 2014, a total of 3,590,937 ordinary shares of 1 British Penny each in the capital of BGEO (the "Placing Shares") have been placed by Citigroup Global Markets Limited ("Citi"), Numis Securities Limited ("Numis") and RBC Capital Markets ("RBC") at a price of 2.025 British Penny per Placing Share, raising GEL 215,659 in net proceeds. The Placing Shares issued represented 9.99% of the issued ordinary shares of BGEO prior to the Placing. On 10 December 2014 the Placing Shares were admitted to the premium listing segment of the Official List of the UK Listing Authority and to the London Stock Exchange. The Placing Shares are credited as fully paid and rank pari passu in all respects with the existing ordinary shares of 1 British Penny each in the capital of BGEO, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue of the Placing Shares. Citi acted as Global Coordinator in respect of the Placing and together with Numis and RBC as Joint Bookrunners in respect of the Placing.

Notes to Consolidated Financial Statements continued

20. Equity continued

Treasury shares

Treasury shares are held by the Group solely for the employee's future share-based compensation purposes.

The number of treasury shares held by the Group as at 31 December 2015 comprised 1,521,752 (31 December 2014: 1,522,185, 31 December 2013: 1,973,376).

Nominal amount of treasury shares of GEL 44 as at 31 December 2015 comprise the Group's shares owned by the Group (31 December 2014: GEL 46, 31 December 2013: GEL 56).

Dividends

Shareholders are entitled to dividends in British Pounds Sterling.

On 21 May 2015, the Directors of BGEO declared an interim dividend for 2014 of Georgian Lari 2.1 per share. The currency conversion date was set at 8 June 2015, with the official GEL – GBP exchange rate of 3.5110, resulting in a GBP denominated interim dividend of 0.5981 per share. Payment of the total GEL 80,411 interim dividends was received by shareholders on 16 June 2015.

On 28 May 2014, the Directors of BGEO declared an interim dividend for 2013 of Georgian Lari 2.0 per share. The currency conversion date was set at 9 June 2014, with the official GEL – GBP exchange rate of 2.9815, resulting in a GBP denominated interim dividend of 0.6708 per share. Payment of the total GEL 71,633 interim dividends was received by shareholders on 18 June 2014.

On 23 May 2013, the Directors of BGEO declared an interim dividend for 2012 of Georgian Lari 1.5 per share. The currency conversion date was set at 10 June 2013, with the official GEL – GBP exchange rate of 2.6051, resulting in a GBP denominated interim dividend of 0.5758 per share. Payment of the total GEL 51,235 interim dividends was received by shareholders on 19 June 2013.

Nature and purpose of Other Reserves

Revaluation reserve for property and equipment

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

Unrealised gains (losses) on investment securities

This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale/acquisition of shares in existing subsidiaries

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

Foreign currency translation reserve

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

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

Earnings per share

	2015	2014	2013
Basic and diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	303,694	232,509	201,490
Weighted average number of ordinary shares outstanding during the year	38,314,369	34,584,751	33,983,014
Basic and diluted earnings per share	7.9264	6.7228	5.9291

21. Net Interest Income

	2015				2014 (reclassified)			
	Banking Business	Investment Business	Elimination	Total	Banking Business	Investment Business	Elimination	Total
From loans to customers	782,525	1,480	(12,289)	771,716	546,668	628	(7,313)	539,983
From investment securities: available-for-sale	69,670	11	(245)	69,436	39,988	–	–	39,988
From finance lease receivable	9,728	–	–	9,728	8,370	–	–	8,370
From amounts due from credit institutions	10,376	1,847	(985)	11,238	5,899	1,232	(551)	6,580
Interest Income	872,299	3,338	(13,519)	862,118	600,925	1,860	(7,864)	594,921
On client deposits and notes	(190,024)	–	2,767	(187,257)	(133,835)	–	–	(133,835)
On amounts owed to credit institutions	(100,714)	(22,395)	11,453	(111,656)	(55,384)	(15,619)	9,063	(61,940)
On debt securities issued	(68,634)	(3,098)	1,920	(69,812)	(54,435)	(470)	468	(54,437)
Interest Expense	(359,372)	(25,493)	16,140	(368,725)	(243,654)	(16,089)	9,531	(250,212)
Net Interest Income	512,927	(22,155)	2,621	493,393	357,271	(14,229)	1,667	344,709

	2013 (reclassified)			
	Banking Business	Investment Business	Elimination	Total
From loans to customers	527,323	847	(5,321)	522,849
From investment securities: available-for-sale	35,371	–	–	35,371
From finance lease receivable	7,466	–	–	7,466
From amounts due from credit institutions	7,523	2,072	(1,173)	8,422
Interest Income	577,683	2,919	(6,494)	574,108
On client deposits and notes	(160,249)	–	1,221	(159,028)
On amounts owed to credit institutions	(59,475)	(12,166)	6,480	(65,161)
On debt securities issued	(35,423)	(1)	–	(35,424)
Interest Expense	(255,147)	(12,167)	7,701	(259,613)
Net Interest Income	322,536	(9,248)	1,207	314,495

22. Net Fee and Commission Income

	2015	2014	2013
Settlements operations	112,540	87,076	76,541
Guarantees and letters of credit	25,930	21,503	23,771
Cash operations	13,822	9,665	9,049
Currency conversion operations	1,550	3,204	2,652
Brokerage service fees	805	7,214	785
Advisory	465	–	272
Other	3,046	3,773	2,010
Fee and commission income	158,158	132,435	115,080
Settlements operations	(29,371)	(21,354)	(19,124)
Cash operations	(4,670)	(3,726)	(2,666)
Guarantees and letters of credit	(3,836)	(3,991)	(3,917)
Insurance brokerage service fees	(708)	(1,137)	(608)
Currency conversion operations	(62)	(108)	(95)
Other	(1,105)	(2,327)	(1,670)
Fee and commission expense	(39,752)	(32,643)	(28,080)
Net fee and commission income	118,406	99,792	87,000

Notes to Consolidated Financial Statements continued

23. Gross Insurance Profit

Net insurance premiums earned, net insurance claims incurred and respective gross insurance profit for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 comprised:

	2015	2014	2013
Life insurance contracts premium written	9,830	5,381	3,610
General insurance contracts premium written	110,962	81,691	135,635
Total premiums written	120,792	87,072	139,245
Gross change in life provision	283	70	881
Gross change in general insurance contracts unearned premium provision	(7,006)	26,621	2,913
Total gross premiums earned on insurance contracts	114,069	113,763	143,039
Reinsurers' share of life insurance contracts premium written	(530)	(53)	(505)
Reinsurers' share of general insurance contracts premium written	(20,402)	(18,328)	(14,660)
Reinsurers' share of change in life provision	1	(32)	5
Reinsurers' share of change in general insurance contracts unearned premium provision	(237)	500	2,114
Total reinsurers' share of gross earned premiums on insurance contracts	(21,168)	(17,913)	(13,046)
Net insurance premiums earned	92,901	95,850	129,993
Life insurance claims paid	(2,046)	(1,364)	(954)
General insurance claims paid	(67,561)	(68,827)	(86,425)
Total insurance claims paid	(69,607)	(70,191)	(87,379)
Reinsurers' share of life insurance claims paid	54	120	441
Reinsurers' share of general insurance claims paid	4,186	1,858	1,036
Gross change in total reserves for claims	3,045	443	2,325
Reinsurers' share of change in total reserves for claims	(672)	1,350	(1,083)
Net insurance claims incurred	(62,994)	(66,420)	(84,660)
Gross insurance profit	29,907	29,430	45,333

24. Gross Healthcare Profit

	2015	2014	2013
Revenue from government programmes	144,013	78,967	19,810
Revenue from free flow (non-insured retail individuals)	36,102	33,854	17,677
Revenue from insurance companies	3,878	11,562	22,418
Other revenue from medical services	–	1,337	108
Healthcare revenue	183,993	125,720	60,013
Direct salary expenses	(65,344)	(39,022)	(20,182)
Direct materials	(35,474)	(20,830)	(9,791)
Expenses on medical service providers	(2,017)	(12,042)	(1,885)
Other direct expenses	(220)	(343)	(626)
Cost of healthcare services	(103,055)	(72,237)	(32,484)
Gross healthcare profit	80,938	53,483	27,529

25. Gross Real Estate Profit and Gross Other Investment Profit

	2015	2014	2013
Revenue from affordable housing	44,917	56,993	7,151
Revaluation of investment property developed by the Group	7,083	1,910	7,202
Income from operating lease	2,409	1,473	1,825
Real estate revenue	54,409	60,376	16,178
Cost of real estate	(39,721)	(46,810)	(5,929)
Gross real estate profit	14,688	13,566	10,249
	2015	2014	2013
Revenue from wine production and distribution	10,079	12,449	11,270
Net gains from revaluation of other investment properties	7,267	–	944
Net gain from sale of PPE and IP	154	89	221
Other investment Profit	3,277	453	374
Gross other investment profit	20,777	12,991	12,809

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

	2015	2014	2013
Salaries and bonuses	(181,316)	(150,167)	(132,087)
Social security costs	(3,216)	(3,292)	(2,290)
Pension costs	(797)	(722)	(671)
Salaries and other employee benefits	(185,329)	(154,181)	(135,048)

The average number of staff employed by the Group for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 comprised:

	2015	2014	2013
The Bank	4,591	3,622	3,686
Insurance companies**	623	597	589
BNB	504	433	362
Other	1,062	840	807
Average number of staff employed excluding healthcare*	6,780	5,492	5,444
Healthcare companies***	8,229	7,242	6,046
Average total number of staff employed	15,009	12,734	11,490

* Salary expenses on staff employed in the healthcare segment are included in cost of healthcare services.

** JSC Insurance Company Imedi L and JSC Insurance Company Aldagi.

*** JSC Medical Corporation EVEX and its subsidiaries.

Salaries and bonuses include GEL 31,219, GEL 27,193 and GEL 18,702 of the Equity Compensation Plan costs for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 28 and 32).

	2015	2014	2013
Occupancy and rent	(18,077)	(11,351)	(9,783)
Legal and other professional services	(12,183)	(9,742)	(8,399)
Marketing and advertising	(11,266)	(10,901)	(9,467)
Repairs and maintenance	(10,785)	(9,065)	(7,482)
Office supplies	(7,579)	(6,246)	(6,119)
Communication	(6,630)	(5,107)	(4,750)
Operating taxes	(5,735)	(5,074)	(4,567)
Corporate hospitality and entertainment	(4,807)	(4,139)	(3,233)
Travel expenses	(2,383)	(1,621)	(1,441)
Security	(2,074)	(2,577)	(2,149)
Personnel training and recruitment	(1,703)	(1,697)	(1,212)
Insurance	(1,176)	(443)	(520)
Other	(6,521)	(5,496)	(1,238)
General and administrative expenses	(90,919)	(73,459)	(60,360)

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

	Audit	Audit Related	Other Services	Total
2015				
Audit of BGEO Group and subsidiaries' annual accounts	2,130	–	–	2,130
Review of the Group's interim accounts	–	385	–	385
Other assurance services	–	40	4,846	4,886
Total auditors' remuneration	2,130	425	4,846	7,401
2014				
Audit of BGEO Group and subsidiaries' annual accounts	1,784	–	–	1,784
Review of the Group's interim accounts	–	124	–	124
Other assurance services	–	673	263	936
Total auditors' remuneration	1,784	797	263	2,844
2013				
Audit of BGEO Group and subsidiaries' annual accounts	1,430	–	–	1,430
Review of the Group's interim accounts	–	226	–	226
Other assurance services	–	98	260	358
Total auditors' remuneration	1,430	324	260	2,014

The figures shown in the above table relate to fees paid to Ernst & Young LLP and its associates. Fees paid to other auditors not associated with Ernst & Young LLP in respect of the audit of the Parent and Group's subsidiaries were GEL 40 (2014: GEL 17, 2013: GEL 145) and in respect of other services of the Group were GEL 200 (2014: GEL 327, 2013: GEL 634).

Other assurance services in the year ended 31 December 2015 comprised of GEL 1,450 audit and GEL 3,101 non-audit services, or GEL 4,551 total, related to GHG IPO and debited directly to equity as GHG IPO related transaction costs.

Notes to Consolidated Financial Statements continued

27. Net Non-recurring Expenses

	2015	2014	2013
Gain on bargain purchase (note 5)	5,361	1,003	–
Reversal of impairment on property and equipment	1,524	–	–
Gain from building transferred to healthcare segment from the Government	–	524	–
Gain from penalties on unfulfilled obligations by contractors	–	–	201
Other non-recurring income/gain	641	277	515
Total non-recurring income/gain	7,526	1,804	716
Loss from early repayments of borrowings from international credit institutions and debt securities issued	(4,519)	(2,503)	–
JSC PrivatBank integration costs	(3,731)	–	–
Impairment of prepayments	(2,503)	–	–
Write-off of miscellaneous healthcare related assets	(2,277)	–	–
Impairment of finance lease receivables	(1,969)	–	–
Management leave compensation expense	(1,598)	–	(577)
Foreign exchange loss on revaluation of holdback	(1,580)	–	–
Tax penalties from inspection of Revenue Services of Georgia	(1,340)	–	–
Impairment of property and equipment, and intangible assets	(426)	–	(1,171)
Impairment of investment securities available-for-sale	–	(3,837)	–
Loss from Belarus Hyperinflation	–	(3,073)	(1,694)
Charity expenses	–	(210)	(240)
Impairment of receivables from sale of BG Bank	–	–	(3,100)
Impairment of investment in associate	–	–	(2,441)
Loss from damaged physical assets	–	–	(531)
Unforeseen loss on Affordable Housing pilot project	–	–	(389)
Other	(2,160)	(3,198)	(3,412)
Total non-recurring expense/loss	(22,103)	(12,821)	(13,555)
Net non-recurring expense/loss	(14,577)	(11,017)	(12,839)

28. Share-based Payments

Executives' Equity Compensation Plan

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

In March 2015 the BGEO's remuneration committee resolved to award 153,500 ordinary shares of BGEO to the members of the Management Board and 107,215 ordinary shares of BGEO to the Group's 24 executives. Shares awarded to the Management Board and the other 20 executives are subject to two-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 19 March 2015 as the grant date. The Group estimates that the fair value of the shares awarded on 19 March 2015 was Georgian Lari 57.41 per share.

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

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

In August 2015, Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 934,000 ordinary shares of BGEO. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 24 August 2015 as the grant date for the awards. The Group estimates that the fair value of the shares on 24 August 2015 was Georgian Lari 59.17.

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

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

28. Share-based Payments continued

Summary

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

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 58.74 per share in year ended 31 December 2015 (31 December 2014: Georgian Lari 67.90 per share, 31 December 2013: Georgian Lari 35.48).

The Group's total share-based payment expenses for the year ended 31 December 2015 comprised GEL 31,219 (31 December 2014: GEL 27,193, 31 December 2013: GEL 18,702) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2015	2014	2013
Total number of equity instruments awarded*	1,536,013	267,020	1,246,700
– Among them, to top management and board of directors	1,106,000	135,500	300,000
Weighted average value at grant date, per share (GEL in full amount)	58.74	67.90	35.48
Value at grant date, total (GEL)	90,228	18,132	44,238
Total expense recognised during the year (GEL)	(31,219)	(27,193)	(18,702)

* 2015 award includes fixed contingent share-based compensation of 1,164,000 ordinary shares per new employment agreements signed 24 August 2015 for subsequent consecutive 3 year period, including 934,000 of the Management Board members. 2013 award includes fixed contingent share-based compensation of 840,000 ordinary shares per new employment agreements of CEO and deputies, signed in February 2013 for the subsequent consecutive 3 year period;

During 2015 total gain from exercise of the share options by BGEO directors amounted to GEL 8,251 (2014: 7,437, 2013: GEL 2,558).

29. Risk Management

Introduction

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

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

Risk management structure

Audit Committee

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

Risk Committee

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

Management Board

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

Bank Asset and Liability Management Committee

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

Internal Audit

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

Notes to Consolidated Financial Statements continued

29. Risk Management continued

Risk measurement and reporting systems

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

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

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

Risk measurement and reporting systems

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

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

Risk mitigation

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

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

Excessive risk concentration

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

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

Credit risk

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

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

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

Derivative financial instruments

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

Credit-related commitments risks

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

29. Risk Management continued

Credit quality per class of financial assets

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

		Neither past due nor impaired			Past due or individually impaired	
		High grade	Standard grade	Sub-standard grade		Total
Total 31 December 2015						
Amounts due from credit institutions	8	731,365	–	–	–	731,365
Debt investment securities available-for-sale	9	902,419	–	–	–	902,419
Loans to customers:	10					
Commercial loans		1,789,428	196,607	57,085	354,661	2,397,781
Consumer loans		1,047,775	22,810	22,642	71,880	1,165,107
Micro and SME loans		892,014	80,064	27,828	42,023	1,041,929
Residential mortgage loans		750,455	22,033	11,223	30,633	814,344
Gold – pawn loans		61,140	–	–	–	61,140
		4,540,812	321,514	118,778	499,197	5,480,301
Finance lease receivables	10	16,442	12,270	3,531	10,669	42,912
Total		6,191,038	333,784	122,309	509,866	7,156,997
		Neither past due nor impaired			Past due or individually impaired	
	Notes	High grade	Standard grade	Sub-standard grade		Total
Total 31 December 2014						
Amounts due from credit institutions	8	418,281	–	–	–	418,281
Debt investment securities available-for-sale	9	768,300	–	–	–	768,300
Loans to customers:	10					
Commercial loans		1,635,707	138,115	159,074	248,531	2,181,427
Consumer loans		739,767	22,293	1,541	37,873	801,474
Micro and SME loans		663,388	83,413	7,799	17,683	772,283
Residential mortgage loans		570,879	16,565	2,009	14,690	604,143
Gold – pawn loans		53,785	–	–	–	53,785
		3,663,526	260,386	170,423	318,777	4,413,112
Finance lease receivables	10	19,437	4,684	2,150	12,977	39,248
Total		4,869,544	265,070	172,573	331,754	5,638,941
		Neither past due nor impaired			Past due or individually impaired	
	Notes	High grade	Standard grade	Sub-standard grade		Total
Total 31 December 2013						
Amounts due from credit institutions	8	347,261	–	–	–	347,261
Debt investment securities available-for-sale	9	514,357	–	–	–	514,357
Loans to customers:	10					
Commercial loans		1,461,590	114,248	110,791	167,993	1,854,622
Consumer loans		607,344	19,849	1,475	31,552	660,220
Micro and SME loans		486,536	63,501	4,198	12,038	566,273
Residential mortgage loans		411,291	21,359	2,303	12,110	447,063
Gold – pawn loans		61,871	–	–	–	61,871
		3,028,632	218,957	118,767	223,693	3,590,049
Finance lease receivables	10	30,325	4,020	1,918	9,986	46,249
Total		3,920,575	222,977	120,685	233,679	4,497,916

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

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

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

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

Notes to Consolidated Financial Statements continued

29. Risk Management continued

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

	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
31 December 2015					
Loans to customers:					
Consumer loans	29,592	8,498	6,930	23,724	68,744
Micro and SME loans	5,196	4,148	1,000	4,259	14,603
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,727	1,227	25	1,596	24,575
Finance lease receivables	1,520	342	535	4,547	6,944
Total	65,629	15,422	9,398	39,149	129,598
31 December 2014					
Loans to customers:					
Commercial loans	2,673	528	342	1,162	4,705
Consumer loans	19,266	4,758	2,703	9,222	35,949
Residential mortgage loans	3,822	788	304	1,832	6,746
Micro and SME loans	2,926	3,307	259	598	7,090
Finance lease receivables	1,977	9,154	156	203	11,490
Total	30,664	18,535	3,764	13,017	65,980
31 December 2013					
Loans to customers:					
Consumer loans	16,735	–	–	1	16,736
Commercial loans	9,118	2,422	847	11,584	23,971
Residential mortgage loans	4,201	547	288	283	5,319
Micro and SME loans	843	18	200	52	1,113
Finance lease receivables	5,839	3,081	88	108	9,116
Total	36,736	6,068	1,423	12,028	56,255

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

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

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

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

	2015	2014	2013
Loans to customers:			
Commercial loans	141,294	115,155	44,559
Micro and SME loans	20,890	8,734	5,147
Residential mortgage loans	28,594	3,446	9,418
Consumer loans	18,243	617	1,031
Finance lease receivables	2,684	4,957	1,533
Total	211,705	132,909	61,688

Impairment assessment

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

29. Risk Management continued

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on the product. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

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

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

	2015			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	623,904	662,296	146,734	1,432,934
Amounts due from credit institutions	630,217	97,242	3,906	731,365
Investment securities	824,820	79,047	–	903,867
Loans to customers and finance lease receivables	5,002,004	–	320,113	5,322,117
All other assets	1,625,445	63,265	36,746	1,725,456
	8,706,390	901,850	507,499	10,115,739
Liabilities:				
Client deposits and notes	3,522,316	422,649	806,422	4,751,387
Amounts owed to credit institutions	508,287	1,063,404	217,371	1,789,062
Debt securities issued	98,859	940,945	–	1,039,804
All other liabilities	446,820	8,296	6,732	461,848
	4,576,282	2,435,294	1,030,525	8,042,101
Net balance sheet position	4,130,108	(1,533,444)	(523,026)	2,073,638

	2014				2013			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	475,858	136,559	97,727	710,144	480,651	485,740	87,280	1,053,671
Amounts due from credit institutions	393,975	1,686	22,620	418,281	293,163	3,638	50,460	347,261
Investment securities	726,880	25,069	17,763	769,712	515,774	–	3,849	519,623
Loans to customers and finance lease receivables	4,081,898	–	265,953	4,347,851	3,315,562	–	199,308	3,514,870
All other assets	1,266,904	10,069	56,184	1,333,157	1,004,536	4,556	76,452	1,085,544
	6,945,515	173,383	460,247	7,579,145	5,609,686	493,934	417,349	6,520,969
Liabilities:								
Client deposits and notes	2,163,559	515,879	659,287	3,338,725	2,165,890	243,697	708,145	3,117,732
Amounts owed to credit institutions	582,906	770,838	55,470	1,409,214	359,374	705,177	93,428	1,157,979
Debt securities issued	46,216	810,479	–	856,695	–	728,117	–	728,117
All other liabilities	324,846	3,709	11,863	340,418	258,963	7,532	9,592	276,087
	3,117,527	2,100,905	726,620	5,945,052	2,784,227	1,684,523	811,165	5,279,915
Net balance sheet position	3,827,988	(1,927,522)	(266,373)	1,634,093	2,825,459	(1,190,589)	(393,816)	1,241,054

Notes to Consolidated Financial Statements continued

29. Risk Management continued

Liquidity risk and funding management

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

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

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

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

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

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

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

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

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

Financial liabilities As at 31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	2,968,883	1,258,421	613,914	60,094	4,901,312
Amounts owed to credit institutions	318,902	376,323	628,932	524,874	1,849,031
Debt securities issued	51,564	24,695	1,070,369	–	1,146,628
Other liabilities	53,099	36,939	19,266	4	109,308
Total undiscounted financial liabilities	3,392,448	1,696,378	2,332,481	584,972	8,006,279

Financial liabilities As at 31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	2,064,563	903,041	461,975	22,098	3,451,677
Amounts owed to credit institutions	616,480	225,911	535,643	189,493	1,567,527
Debt securities issued	45,941	73,767	879,653	–	999,361
Other liabilities	37,183	37,004	17,422	–	91,609
Total undiscounted financial liabilities	2,764,167	1,239,723	1,894,693	211,591	6,110,174

Financial liabilities As at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	2,059,836	830,537	476,370	32,099	3,398,842
Amounts owed to credit institutions	437,600	207,191	539,324	141,842	1,325,957
Debt securities issued	27,822	26,913	855,086	–	909,821
Other liabilities	20,866	70,713	14,242	3	105,824
Total undiscounted financial liabilities	2,546,124	1,135,354	1,885,022	173,944	5,740,444

29. Risk Management continued

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2015	411,175	300,894	142,915	17,281	872,265
31 December 2014	320,945	257,065	162,858	12,500	753,368
31 December 2013	272,385	244,987	181,044	16,690	715,106

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

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

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

Market risk

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

Interest rate risk

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

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

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

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

	Increase in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of other comprehensive income 2014
Currency			
GEL	0.07%	198	—
EUR	0.01%	(6)	—
US\$	0.01%	84	—

	Decrease in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of other comprehensive income 2014
Currency			
GEL	0.07%	(198)	—
EUR	0.01%	6	—
US\$	0.01%	(84)	—

Notes to Consolidated Financial Statements continued

29. Risk Management continued

Currency	Increase in basis points 2013	Sensitivity of net interest income 2013	Sensitivity of other comprehensive income 2013
GEL	0.14%	34	—
US\$	0.01%	29	—

Currency	Decrease in basis points 2013	Sensitivity of net interest income 2013	Sensitivity of other comprehensive income 2013
GEL	0.14%	(34)	—
US\$	0.01%	(29)	—

Currency risk

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

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

Currency	2015		2014		2013	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
EUR	2.9%	1	14.3%	11	1.9%	(7)
GBP	2.5%	—	22.9%	(6)	2.1%	(0)
US\$	1.1%	(1,329)	23.4%	(4,745)	0.8%	(1)

Prepayment risk

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

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

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

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

Operational risk

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

Operating environment

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

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

30. Fair Value Measurements

Fair value hierarchy

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

31 December 2015	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	246,398	246,398
Land	–	–	94,476	94,476
Residential properties	–	–	40,873	40,873
Non-residential properties	–	–	111,049	111,049
Investment securities	–	902,419	1,448	903,867
Other assets – derivative financial assets	–	42,212	–	42,212
Other assets – trading securities owned	1,977	–	–	1,977
Total revalued property	–	–	228,365	228,365
Office buildings	–	–	96,455	96,455
Service centres	–	–	131,910	131,910
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,432,934	–	1,432,934
Amounts due from credit institutions	–	731,365	–	731,365
Loans to customers and finance lease receivables	–	–	5,284,299	5,284,299
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	3,243	–	3,243
Liabilities for which fair values are disclosed				
Client deposits and notes	–	–	4,777,093	4,777,093
Amounts owed to credit institutions	–	–	1,789,062	1,789,062
Debt securities issued	–	938,894	131,621	1,070,515
31 December 2014				
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	190,860	190,860
Land	–	–	92,285	92,285
Residential properties	–	–	31,632	31,632
Non-residential properties	–	–	66,943	66,943
Investment securities	–	768,300	1,412	769,712
Other assets – derivative financial assets	–	45,733	–	45,733
Other assets – trading securities owned	1,034	–	–	1,034
Total revalued property	–	–	223,547	223,547
Office buildings	–	–	112,082	112,082
Service centres	–	–	111,465	111,465
Assets for which fair values are disclosed				
Cash and cash equivalents	–	710,144	–	710,144
Amounts due from credit institutions	–	418,281	–	418,281
Loans to customers and finance lease receivables	–	–	4,447,978	4,447,978
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	–	7,505	–	7,505
Liabilities for which fair values are disclosed				
Client deposits and notes	–	–	3,366,109	3,366,109
Amounts owed to credit institutions	–	–	1,409,214	1,409,214
Debt securities issued	–	779,455	77,250	856,695

Notes to Consolidated Financial Statements continued

30. Fair Value Measurements continued

31 December 2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	157,707	157,707
Land	–	–	26,749	26,749
Residential properties	–	–	42,954	42,954
Non-residential properties	–	–	88,004	88,004
Investment securities	–	514,401	5,222	519,623
Other assets – derivative financial assets	–	39,431	–	39,431
Other assets – trading securities owned	1,149	–	–	1,149
Total revalued property	–	–	205,475	205,475
Office buildings	–	–	85,400	85,400
Service centres	–	–	120,075	120,075
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,053,671	–	1,053,671
Amounts due from credit institutions	–	347,261	–	347,261
Loans to customers and finance lease receivables	–	–	3,629,708	3,629,708
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	1,513	–	1,513
Liabilities for which fair values are disclosed				
Client deposits and notes	–	–	3,159,482	3,159,482
Amounts owed to credit institutions	–	–	1,157,979	1,157,979
Debt securities issued	–	728,117	–	728,117

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

Derivative financial instruments

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

Trading securities and investment securities

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

Movements in level 3 financial instruments measured at fair value

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

	31 December 2012	Sale of AFS securities	At 31 December 2013	Impairment of Investment in BG Bank	Purchase of AFS securities	At 31 December 2014	Purchase of AFS securities	At 31 December 2015
Level 3 financial assets								
Equity investment securities available-for-sale	5,888	(666)	5,222	(3,837)	27	1,412	36	1,448

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

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 11 and 12 respectively.

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

	2015		2014		2013	
	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities available-for-sale	1,448	+/- 217	1,412	+/- 212	5,222	+/- 786

30. Fair Value Measurements continued

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions: In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

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

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

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

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	246,398						
Land	94,476	Market approach	Price per square metre	51-1,332 (457)	Square metres, land	8,165-230,398 (116,236)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	40,873	Market approach	Price per square metre	933-1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	111,049						
	19,550	Market approach	Price	2.8 - 5.5 million (4.1 million)	Square metres, land	8,383 - 18,635 (11,826)	Increase (decrease) in the price would result in increase (decrease) in fair value
			Rent per square metre	29.2 - 45.5 (38.1)	Square metres, building	2,293 - 6,702 (3,774)	Increase (decrease) in the price would result in increase (decrease) in fair value
	78,898	Income approach	Occupancy rate	35% - 90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12 - 218 (26)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Land price per square metre	34 - 67 (57)	Square metres, land	7,939 - 13,946 (9,672)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
	12,601	Cost approach	Depreciated replacement cost per square metre	366 - 1,054 (778)	Square metres, building	836 - 1,639 (1,851)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

Notes to Consolidated Financial Statements continued

30. Fair Value Measurements continued

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Property and equipment	228,365						
Office buildings	96,455	Income approach	Rent per square metre	53 - 108 (83)	Square metres, building	243 - 17,647 (12,670)	Increase (decrease) in the rent per square metre would result in increase (decrease) in fair value
			Occupancy Rate	60% - 95% (84%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
Service centres	131,910						
	30,783	Market approach	Price per square metre	1926 - 3,996 (3,170)	Square metres, building	66 - 1,589 (1,076)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
			Rent per square metre	26.3 - 115.0 (52.4)	Square metres, building	196 - 2,283 (952)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	89,645	Income approach	Occupancy Rate	40% - 95% (83%)			Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
			Average daily rate	16 - 256 (29)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	11,482	Cost approach	Depreciated replacement cost per square metre	501 - 501 (501)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value

Financial instruments overview

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

	31 December 2015		
	Loans and receivables	Available-for sale	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	731,365	–	–
Loans to customers and finance lease receivables	5,322,117	–	–
Accounts receivable and other loans	87,972	–	–
Equity instruments	–	1,448	1,505
Debt instruments	–	902,419	472
Foreign currency derivative financial instruments	–	–	42,212
Total:	6,141,454	903,867	44,189
Financial liabilities			
Client deposits and notes	4,751,387	–	–
Amounts owed to credit institutions	1,789,062	–	–
Debt securities issued	1,039,804	–	–
Trade and other payables (in other liabilities)	106,128	–	–
Foreign currency derivative financial instruments	–	–	3,243
Total:	7,686,381	–	3,243

30. Fair Value Measurements continued

	31 December 2014			31 December 2013		
	Loans and receivables	Available-for sale	Fair value through profit or loss	Loans and receivables	Available-for sale	Fair value through profit or loss
Financial assets						
Amounts due from credit institutions	418,281	–	–	347,261	–	–
Loans to customers and finance lease receivables	4,347,851	–	–	3,514,870	–	–
Accounts receivable and other loans	70,207	–	–	40,419	–	–
Equity instruments	–	1,412	41	–	5,266	58
Debt instruments	–	768,300	993	–	514,357	1,091
Foreign currency derivative financial instruments	–	–	45,733	–	–	39,408
Commodity options	–	–	–	–	–	23
Total:	4,836,339	769,712	46,767	3,902,550	519,623	40,580
Financial liabilities						
Client deposits and notes	3,338,725	–	–	3,117,732	–	–
Amounts owed to credit institutions	1,409,214	–	–	1,157,979	–	–
Debt securities issued	856,695	–	–	728,117	–	–
Trade and other payables (in other liabilities)	57,295	–	–	27,786	–	–
Foreign currency derivative financial instruments	–	–	7,505	–	–	60
Interest rate swaps	–	–	–	–	–	1,453
Total:	5,661,929	–	7,505	5,031,614	–	1,513

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

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

	Carrying value 2015	Fair value 2015	Unrecognised gain (loss) 2015
Financial assets			
Cash and cash equivalents	1,432,934	1,432,934	–
Amounts due from credit institutions	731,365	731,365	–
Loans to customers and finance lease receivables	5,322,117	5,284,299	(37,818)
Financial liabilities			
Client deposits and notes	4,751,387	4,777,093	(25,706)
Amounts owed to credit institutions	1,789,062	1,789,062	–
Debt securities issued	1,039,804	1,070,515	(30,711)
Total unrecognised change in unrealised fair value			(94,235)

	Carrying value 2014	Fair value 2014	Unrecognised loss 2014	Carrying value 2013	Fair value 2013	Unrecognised loss 2013
Financial assets						
Cash and cash equivalents	710,144	710,144	–	1,053,671	1,053,671	–
Amounts due from credit institutions	418,281	418,281	–	347,261	347,261	–
Loans to customers and finance lease receivables	4,347,851	4,447,978	100,127	3,514,870	3,629,708	114,838
Financial liabilities						
Client deposits and notes	3,338,725	3,366,109	(27,384)	3,117,732	3,159,482	(41,750)
Amounts owed to credit institutions	1,409,214	1,409,214	–	1,157,979	1,157,979	–
Debt securities issued	856,695	856,695	–	728,117	728,117	–
Total unrecognised change in unrealised fair value			72,743			73,088

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Notes to Consolidated Financial Statements continued

31. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2015							Total
	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	
Financial assets								
Cash and cash equivalents	1,072,361	360,573	–	–	–	–	–	1,432,934
Amounts due from credit institutions	617,673	702	28,338	82,393	309	–	1,950	731,365
Investment securities	560,120	241,481	31,247	6,531	60,244	3,057	1,187	903,867
Loans to customers and finance lease receivables	–	796,765	537,690	1,024,619	1,586,728	705,152	671,163	5,322,117
Total	2,250,154	1,399,521	597,275	1,113,543	1,647,281	708,209	674,300	8,390,283
Financial liabilities								
Client deposits and notes	847,003	810,072	541,142	2,008,160	444,591	80,012	20,407	4,751,387
Amounts owed to credit institutions	92,617	528,644	108,023	247,414	403,528	139,573	269,263	1,789,062
Debt securities issued	–	51,457	–	53,703	934,644	–	–	1,039,804
Total	939,620	1,390,173	649,165	2,309,277	1,782,763	219,585	289,670	7,580,253
Net	1,310,534	9,348	(51,890)	(1,195,734)	(135,482)	488,624	384,630	810,030
Accumulated gap	1,310,534	1,319,882	1,267,992	72,258	(63,224)	425,400	810,030	

	2014							Total
	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	
Financial assets								
Cash and cash equivalents	691,573	18,571	–	–	–	–	–	710,144
Amounts due from credit institutions	382,714	808	3,974	26,324	2,486	–	1,975	418,281
Investment securities	327,846	383,657	7,361	9,698	34,008	1,966	5,176	769,712
Loans to customers and finance lease receivables	–	695,719	510,881	734,149	1,282,395	624,387	500,320	4,347,851
Total	1,402,133	1,098,755	522,216	770,171	1,318,889	626,353	507,471	6,245,988
Financial liabilities								
Client deposits and notes	272,235	603,510	366,000	1,686,080	355,892	39,995	15,013	3,338,725
Amounts owed to credit institutions	32,951	582,882	63,704	153,848	314,313	152,742	108,774	1,409,214
Debt securities issued	–	45,864	28,930	43,425	738,476	–	–	856,695
Total	305,186	1,232,256	458,634	1,883,353	1,408,681	192,737	123,787	5,604,634
Net	1,096,947	(133,501)	63,582	(1,113,182)	(89,792)	433,616	383,684	641,354
Accumulated gap	1,096,947	963,446	1,027,028	(86,154)	(175,946)	257,670	641,354	

	2013							Total
	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	
Financial assets								
Cash and cash equivalents	884,728	168,943	–	–	–	–	–	1,053,671
Amounts due from credit institutions	289,926	7,438	7,296	29,199	8,953	4,449	–	347,261
Investment securities	256,140	254,202	3,518	1,697	2,915	823	328	519,623
Loans to customers and finance lease receivables	–	671,803	408,163	706,289	1,058,058	428,307	242,250	3,514,870
Total	1,430,794	1,102,386	418,977	737,185	1,069,926	433,579	242,578	5,435,425
Financial liabilities								
Client deposits and notes	284,099	525,229	460,880	1,542,062	251,091	43,228	11,143	3,117,732
Amounts owed to credit institutions	13,620	401,781	61,071	137,223	272,072	182,508	89,704	1,157,979
Debt securities issued	–	26,886	–	25,938	94,848	580,445	–	728,117
Total	297,719	953,896	521,951	1,705,223	618,011	806,181	100,847	5,003,828
Net	1,133,075	148,490	(102,974)	(968,038)	451,915	(372,602)	141,731	431,597
Accumulated gap	1,133,075	1,281,565	1,178,591	210,553	662,468	289,866	431,597	

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.

31. Maturity Analysis of Financial Assets and Liabilities continued

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

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

As at 31 December 2015 amounts due to customers amounted to GEL 4,751,387 (2014: GEL 3,338,725, 2013: GEL 3,117,732) and represented 59% (2014: 56%, 2013: 59%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2015 amounts owed to credit institutions amounted to GEL 1,789,062 (2014: GEL 1,409,214, 2013: GEL 1,157,979) and represented 22% (2014: 24%, 2013: 22%) of total liabilities. As at 31 December 2015 debt securities issued amounted to GEL 1,039,804 (2014: GEL 856,695, 2013: GEL 728,117) and represented 13% (2014: 14%, 2013: 14%) of total liabilities.

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

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

	31 December 2015		
	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	1,432,934	–	1,432,934
Amounts due from credit institutions	729,106	2,259	731,365
Investment securities	839,379	64,488	903,867
Loans to customers and finance lease receivables	2,359,074	2,963,043	5,322,117
Accounts receivable and other loans	87,955	17	87,972
Insurance premiums receivable	39,177	49	39,226
Prepayments	25,371	32,957	58,328
Inventories	98,387	28,640	127,027
Investment properties	–	246,398	246,398
Property and equipment	–	794,682	794,682
Goodwill	–	72,984	72,984
Intangible assets	–	40,516	40,516
Income tax assets	3,654	17,896	21,550
Other assets	106,129	130,644	236,773
Total assets	5,721,166	4,394,573	10,115,739
Client deposits and notes	4,206,377	545,010	4,751,387
Amounts owed to credit institutions	976,698	812,364	1,789,062
Debt securities issued	105,160	934,644	1,039,804
Accruals and deferred income	113,134	33,718	146,852
Insurance contracts liabilities	51,273	4,572	55,845
Income tax liabilities	20,083	104,312	124,395
Other liabilities	120,082	14,674	134,756
Total liabilities	5,592,807	2,449,294	8,042,101
Net	128,359	1,945,279	2,073,638

Notes to Consolidated Financial Statements continued

31. Maturity Analysis of Financial Assets and Liabilities continued

	31 December 2014			31 December 2013		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	710,144	–	710,144	1,053,671	–	1,053,671
Amounts due from credit institutions	413,820	4,461	418,281	333,859	13,402	347,261
Investment securities	728,562	41,150	769,712	515,557	4,066	519,623
Loans to customers and finance lease receivables	1,940,749	2,407,102	4,347,851	1,786,255	1,728,615	3,514,870
Accounts receivable and other loans	70,207	–	70,207	40,404	15	40,419
Insurance premiums receivable	31,764	76	31,840	61,006	941	61,947
Prepayments	17,848	15,926	33,774	14,802	10,732	25,534
Inventories	30,184	71,258	101,442	68,534	19,675	88,209
Investment properties	–	190,860	190,860	–	157,707	157,707
Property and equipment	–	588,513	588,513	–	470,669	470,669
Goodwill	–	49,633	49,633	–	48,720	48,720
Intangible assets	–	34,432	34,432	–	26,434	26,434
Income tax assets	–	22,745	22,745	4,552	14,544	19,096
Other assets	88,734	120,977	209,711	54,154	92,655	146,809
Total assets	4,032,012	3,547,133	7,579,145	3,932,794	2,588,175	6,520,969
Client deposits and notes	2,927,825	410,900	3,338,725	2,812,270	305,462	3,117,732
Amounts owed to credit institutions	833,385	575,829	1,409,214	613,695	544,284	1,157,979
Debt securities issued	118,219	738,476	856,695	52,824	675,293	728,117
Accruals and deferred income	36,241	72,382	108,623	75,541	6,562	82,103
Insurance contracts liabilities	43,166	3,420	46,586	70,968	2,751	73,719
Income tax liabilities	11,093	86,471	97,564	2,930	66,100	69,030
Other liabilities	49,422	38,223	87,645	39,323	11,912	51,235
Total liabilities	4,019,351	1,925,701	5,945,052	3,667,551	1,612,364	5,279,915
Net	12,661	1,621,432	1,634,093	265,243	975,811	1,241,054

32. Related Party Disclosures

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

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

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

	2015			2014			2013		
	Shareholders*	Associates**	Key management personnel***	Shareholders*	Associates**	Key management personnel***	Shareholders*	Associates**	Key management personnel***
Loans outstanding at 1 January, gross	–	78,592	2,048	–	–	1,484	–	–	5,136
Loans issued during the year	–	4,000	4,511	–	85,933	4,853	–	–	2,871
Loan repayments during the year	–	(84,033)	(6,188)	–	(16,376)	(4,474)	–	–	(2,319)
Other movements	–	14,982	887	–	9,035	185	–	–	(4,204)
Loans outstanding at 31 December, gross	–	13,541	1,258	–	78,592	2,048	–	–	1,484
Less: allowance for impairment at 31 December	–	(116)	–	–	(743)	(1)	–	–	(20)
Loans outstanding at 31 December, net	–	13,425	1,258	–	77,849	2,047	–	–	1,464
Interest income on loans	–	3,986	173	–	1,767	86	–	–	66
Loan impairment charge	–	–	–	–	(743)	–	–	–	(14)
Deposits at 1 January	–	4,975	17,500	–	50	11,455	11,636	17	9,681
Deposits received during the year	–	195,316	40,774	–	132,087	33,646	–	168	20,444
Deposits repaid during the year	–	(199,048)	(41,548)	–	(128,859)	(31,225)	–	(119)	(15,018)
Other movements	–	176	3,403	–	1,697	3,624	(11,636)	(16)	(3,652)
Deposits at 31 December	–	1,419	20,129	–	4,975	17,500	–	50	11,455
Interest expense on deposits	–	(33)	(477)	–	(2)	(513)	(488)	–	(425)
Other income	–	15	77	–	2	92	–	–	86
Borrowings at 1 January	–	–	–	233,209	–	–	233,441	–	–
Borrowings received during the year	–	–	–	–	–	–	61,224	–	–
Borrowings repaid during the year	–	–	–	1,453	–	–	(68,135)	–	–
Other movements****	–	–	–	(234,662)	–	–	6,679	–	–
Borrowings at 31 December	–	–	–	–	–	–	233,209	–	–
Interest expense on borrowings	–	–	–	(6,750)	–	–	(16,569)	–	–
Interest rate swaps***** at 1 January	–	–	–	1,453	–	–	4,783	–	–
Payments during the year	–	–	–	(1,453)	–	–	(3,728)	–	–
Other movements	–	–	–	–	–	–	398	–	–
Interest rate swaps at 31 December	–	–	–	–	–	–	1,453	–	–
Net loss from interest rate swaps	–	–	–	–	–	–	(398)	–	–

* On 24 February 2012 the EBRD and IFC utilized the equity conversion feature of subordinated convertible loans, becoming shareholders of the Group and sold their shares in 2014.

** On 23 December 2014 the Group acquired 25% interest in GGU, a holding company with wholly owned subsidiaries that supply water and provide wastewater services, which also owns and operates hydropower generation facilities in Georgia.

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

**** Movements caused by the change in the list of respective related parties during the period. Reduction of borrowings from related parties is attributable to the sale of BGEO shares by the International Finance Corporation during the year ended 31 December 2014.

***** Interest rate swap agreements with IFC.

Notes to Consolidated Financial Statements continued

32. Related Party Disclosures continued

Details of Directors' emoluments are included in the Remuneration Report on pages 107 to 123. Compensation of key management personnel comprised the following:

	2015	2014	2013
Salaries and other benefits	6,464	4,143	3,688
Share-based payments compensation	19,435	14,763	12,309
Social security costs	55	43	28
Total key management compensation	25,954	18,949	16,025

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 28). The number of key management personnel at 31 December 2015 was 16 (31 December 2014: 16, 31 December 2013: 15).

33. 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.

Approved and published on 28 October 2013 by NBG, new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar II (ICAAP) requirements becoming effective 30 June 2015. A transition period is to continue through 1 January 2017, during which the Bank will be required to comply with both the new, and the current, capital regulations of the NBG.

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

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

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

NBG capital adequacy ratio

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

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

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

33. Capital Adequacy continued

New NBG (Basel II/III) capital adequacy ratio

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

	2015	2014
Tier 1 capital	914,784	800,465
Tier 2 capital	479,176	217,100
Total capital	1,393,960	1,017,565
Risk-weighted assets	8,363,369	7,204,080
Total capital ratio	16.7%	14.1%

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

34. Event after the Reporting Period

In March 2016 the Group signed a binding Memorandum of Understanding, subject to relevant regulatory approvals, to acquire a 100% equity stake in JSC GPC ("GPC"), one of the three leading pharmaceutical retailers and wholesalers in Georgia.

Abbreviations

ADB	Asian Development Bank	EPS	Earnings per share
AFS	Available-for-sale	ESDD	Environmental and Social Due Diligence
AGM	Annual General Meeting	ESMS	Environmental and Social Risk Management Procedures
ALCO	Asset and Liability Committee	EUR	Euro
AML	Anti-money laundering	EY	Ernst & Young
ATMs	Automated Teller Machines	FDI	Foreign direct investment
WM	Wealth Management	FMO	Financierings-Maatschappij voor Ontwikkelingslanden
BGH	Bank of Georgia Holdings PLC	FMS	Financial Monitoring Services
BIS	Bank for International Settlement	FRC	Financial Reporting Council
BKNP	Borjomi-Kharagauli National Park	GBP	Great British Pound, national currency of the UK
BNB	Belarusky Narodny Bank	GDP	Gross domestic product
BYR	Belarusian Rouble, national currency of the Republic of Belarus	GDRs	Global Depositary Receipts
CAGR	Compounded annual growth rate	GEL	Georgian Lari or Lari, national currency of Georgia
CAR	Capital Adequacy ratio	GHG	Georgia Healthcare Group
CD	Certificate of Deposit	GIPA	Georgian Institute of Public Affairs
CEO	Chief Executive Officer	GLC	Georgian Leasing Company
Code	UK Corporate Governance Code 2014 (the Code)	GPW	Gross Premiums Written
CPI	Consumer price index	IAS	International Accounting Standards
CRM	Customer relationship management	IASB	International Accounting Standards Board
CRO	Chief Risk Officer	IDPs	Internally Displaced Persons
DCFTA	Deep and Comprehensive Free Trade Agreement	IMF	International Monetary Fund
DFI	Development Finance Institutions	IFC	International Finance Corporation
EBRD	European Bank for Reconstruction and Development	IFRS	International Financial Reporting Standards
EECP	Executives' Equity Compensation Plan	IMF	International Monetary Fund

IR	Investor Relations	PPP	Purchasing power parity
IRR	Internal Rate of Return	ROAA	Return on Average Assets
IT	Information Technology	ROAE	Return on Average Equity
JSC	Joint stock company	ROCE	Return on Capital Employed
KfW	Kreditanstalt für Wiederaufbau	SBRE	SB Real Estate
KPIs	Key performance indicators	SHRM	Society for Human Resources Management
LCR	Liquidity Coverage ratio	SMEs	Small and medium size enterprises
LSE	London Stock Exchange	TNS	Taylor Nelson Sofres
MFC	My Family Clinic	TSR	Total Shareholder Return
MOH	Ministry of Labour, Health and Social Affairs	TUB	Tbiluniversal Bank, Georgia
MPA	Motor personal accident	UAH	Ukrainian Hryvna, national currency of Ukraine
MSME	Micro small and medium enterprise	UK	United Kingdom of Great Britain and Northern Ireland
MTPL	Motor third-party liability insurance	US\$	The US Dollar, national currency of the United States of America
NBG	National Bank of Georgia	VAR	Value at Risk
NBRB	National Bank of the Republic of Belarus	WACC	Weighted Average Cost of Capital
NGO	Non-governmental organisation		
NIM	Net Interest Margin		
NMF	Not meaningful to present		
NPLs	Non-performing loans		
OECD	Organisation for Economic Co-operation and Development		
OFAC	Office of Foreign Assets Control		
PA	Personal accident		
P&C	Property & Casualty		
PFFIs	Participating foreign financial institutions		
PLC	Public limited company		
POS	Point of Sale		

Glossary

Asset and Liability Committee (ALCO)	The core risk-management body that establishes policies and guidelines with respect to various aspects of risk-management strategy
Asian Development Bank (ADB) of countries in Asia	A regional development bank established to facilitate economic development
Average Interest Earning Assets	Interest-earning assets include: fixed income investment and trading securities, amounts due from credit institutions and loans to customers and finance lease receivables
Basic EPS	Profit for the period from operations attributable to shareholders of the Group divided by the weighted average number of outstanding ordinary shares over the same period
Belarusky Narodny Bank (BNB)	Belarusian banking subsidiary of Bank of Georgia Group
BIS Tier I Capital Adequacy ratio	Tier I Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of Basel Accord I
BIS Total Capital Adequacy ratio	Total Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of Basel Accord I
New NBG (Basel 2/3) Tier I Capital Adequacy ratio	Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions
New NBG (Basel 2/3) Total Capital Adequacy ratio	Total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions
Book value per share	Total equity attributable to shareholders of the Group divided by ordinary shares outstanding at period end; net ordinary shares outstanding equals total number of ordinary shares outstanding at period end less number of treasury shares at period end
Constant currency basis	Changes assuming constant exchange rate
Cost of Funding	Interest expense of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by monthly average interest-bearing liabilities; interest-bearing liabilities include: amounts due to credit institutions, amounts due to customers, debt securities issued and interest rate derivatives
Cost to Income ratio	Operating expenses divided by revenue
Development Finance Institutions (DFIs)	Development finance institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, the EBRD, IFC, ADB, etc
East-West Highway	The main highway in Georgia
Environmental and Social Policy	A policy adopted by the BGH Board of Directors in 2012
EVEX	JSC Medical Corporation EVEX holds the Group's healthcare subsidiaries
Express banking	A wide array of services and products including Express branches, Express cards and Express Pay terminals, aimed at attracting mass-market customers
Express branch	A small-format branch offering predominantly transactional banking services through ATMs and Express Pay terminals
Express card	A contactless card with a loyalty programme linked to the customer's current account, which can also be used for transport payments
Express Metro branches	Express branches in metro stations in Tbilisi
Express Pay (self-service) terminal	A payment terminal enabling customers to make various payments remotely including utility bill payments and loan repayments at a wide variety of locations
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank

Galt & Taggart	Former BG Capital
Georgian Leasing Company (GLC)	The Bank's wholly-owned subsidiary through which it provides finance leasing services
Geostat	National Statistics Office of Georgia
Global Depositary Receipt (GDR)	A certificate issued by a depositary bank, which represents ownership of an underlying number of shares
Gross loans	In all sections of the Annual Report, except for the consolidated financial statements, gross loans are defined as gross loans to customers and gross finance lease receivables
International Finance Corporation (IFC)	A member of the World Bank Group, the largest global development institution focused exclusively on the private sector in developing countries
Kreditanstalt für Wiederaufbau (KfW)	German Government-owned development bank
Liberty Consumer	A Georgia-focused investment company in which the Group holds a 70% stake
Loan Yield	Interest income from loans to customers and finance lease receivables divided by average gross loans to customers and finance lease receivables
m² Real Estate	Real Estate business of the Group, formerly known as SB Real Estate
Market share(s)	Market share data is based on the information provided by the National Bank of Georgia. For Bank of Georgia, market share represents market share based on total assets as of 31 December 2014 (unless noted otherwise) on a stand-alone basis. For Aldagi, market share is provided based on the gross insurance premium revenue as of 31 December 2014
Net Interest Margin (NIM)	Net interest income of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by average interest-earning assets for the same period
Net loans	In all sections of the Annual Report, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for impairment
Non-performing loans (NPLs)	The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management
Operating cost	Equals operating expenses
Operating leverage	Percentage change in revenue less percentage change in operating expenses
Reserve for loan losses to gross loans	Allowance for impairment of loans and finance lease receivables divided by gross loans and finance lease receivables
Return on Average Total Assets (ROAA)	Profit for the period divided by monthly Average Total Assets for the same period
Return on Average Total Equity (ROAE)	Profit for the period attributable to shareholders of the Group divided by monthly average equity attributable to shareholders of the Bank for the same period
Tender Offer	BGH, a public limited liability company, launched the Tender Offer to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank in December 2011. The Tender Offer was successfully completed in February 2012
Weighted average number of ordinary shares	Average of daily outstanding number of shares less daily outstanding number of treasury shares
Weighted average diluted number of ordinary shares	Weighted average number of ordinary shares plus weighted average dilutive number of shares known to the management during the same period

Shareholder Information

Our website

All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about BGEO at <http://www.bgeo.com>.

Our registered address

BGEO Group PLC
84 Brook Street
London W1K 5EH
United Kingdom

Annual General Meeting

The Annual General Meeting of BGEO (the AGM) will be held at 12:00 pm (London time) on Thursday, 26 May 2016 at Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the business to be conducted at the AGM are contained in the Notice of AGM which will be mailed to shareholders on or about 25 April 2016 and will be available on the BGEO's website: <http://bgeo.com/page/id/83/shareholder-meetings>.

Shareholder enquiries

BGEO's share register is maintained by Computershare Investor Services PLC.

Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: www.investorcentre.co.uk or by calling the Shareholder Helpline on +44 (0)370 873 5866.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZY
United Kingdom
+44 (0)870 873 5866

Dividends

On 16 February 2016, the Directors of BGEO declared their intention to recommend an annual dividend in the amount of GEL 2.4 per share (payable in British Pounds Sterling at the prevailing rate), subject to approval by the shareholders at BGEO's AGM. As a holding company whose principal assets are the shares of its subsidiaries, BGEO relies primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries, principally the Bank, to generate reserves necessary to pay dividends to its shareholders.

If the annual dividend is approved at BGEO's AGM on 26 May 2016, BGEO envisions the following dividend timetable:

Ex-Dividend Date: 7 July 2016
Record Date: 8 July 2016
Currency Conversion Date: 11 July 2016
Payment Date: 22 July 2016

Forward-looking statements

Where this Annual Report contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of important factors, including those in this Annual Report, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under "Principal Risks and Uncertainties" on pages 48 to 51 of the Strategic Report. The Group undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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Notes



Galt & Taggart is a wholly-owned subsidiary of BGEO Group. Galt & Taggart Research is a pioneer of investment research in Georgia. We are the go-to provider of macroeconomic research on Georgia and Azerbaijan and offer a breadth of coverage across various sectors, as well as deep expertise in each of them. Our team of Georgian and Azerbaijani finance and economic experts have dedicated areas of coverage, providing timely analysis and insights for our clients.

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www.BGEO.com
We launched our new web-site for BGEO in 2015

