PROSPECTUS DATED 26 MARCH 2018

Bank of Georgia Group PLC

(incorporated in England and Wales with registered number 10917019)

Prospectus

Admission to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange of up to 49,169,428 Bank of Georgia Group PLC shares (the "Shares")

Sponsor and Joint Financial Adviser

Citigroup Global Markets Limited

Joint Financial Adviser

Numis Securities Limited

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

This Prospectus has been prepared in connection with the Demerger of Georgia Capital PLC from the Existing BGEO Group on the assumption that the Scheme will have become effective in accordance with its terms and that the Demerger will become effective as proposed.

This Prospectus comprises a prospectus relating to Bank of Georgia Group PLC (the "Company") and has been prepared in accordance with the Prospectus Rules made under section 73A of the Financial Services and Markets Act 2000 ("FSMA"). This Prospectus has been filed with the Financial Conduct Authority (the "FCA") and has been made available to the public in accordance with section 3.2 of the Prospectus Rules.

Investors should read the whole of this Prospectus and any information incorporated by reference into it, including, in particular, the risk factors set out in Part II: "*Risk Factors*" *of this Prospectus.*

The directors of the Company (the "Directors"), whose names appear on page 36 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The Georgia Capital PLC Directors and Georgia Capital PLC accept responsibility for the information about Georgia Capital PLC contained in this Prospectus. To the best of the knowledge of the Georgia Capital PLC Directors and Georgia Capital PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

The BGEO Group PLC Directors and BGEO Group PLC accept responsibility for the information about BGEO Group PLC contained in this Prospectus. To the best of the knowledge of the BGEO Group PLC Directors and BGEO Group PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

Application has been made to the UK Listing Authority and the London Stock Exchange for up to 49,169,428 Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities, respectively. It is expected that Admission of the Shares will become effective and that dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 21 May 2018. No application has been or is currently intended to be made for the Shares to be admitted to listing elsewhere or to be traded on any other exchange.

The distribution of this Prospectus in certain jurisdictions other than the United Kingdom may be restricted by law. Accordingly, neither this Prospectus nor any advertisement may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities to any person in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful. This Prospectus has not been passported, and will not be passported, into any EEA jurisdiction outside the United Kingdom.

This Prospectus is intended solely for holders of the BGEO Group PLC's shares and following the Scheme becoming effective, the Shares.

No Shares have been marketed to, nor are available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the Shares to the premium listing segment of the Official List or the Proposals. This Prospectus does not constitute an offer or invitation for any person to subscribe for or purchase any securities in the Company or any other company.

Citigroup Global Markets Limited ("**Citi**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as sponsor and joint financial adviser to BGEO Group PLC and as sponsor and financial adviser to the listing of the Company and sponsor and financial adviser for the listing of Georgia Capital PLC and for no one else in connection with the Proposals and will not be responsible to anyone other than BGEO Group PLC, Georgia Capital PLC and the Company for providing the protections afforded to clients of Citi, nor for providing advice in relation to the Proposals or any other matter or arrangement referred to in this Prospectus. This statement does not seek to limit or exclude responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

Numis Securities Limited ("**Numis**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser to BGEO Group PLC, the Company and Georgia Capital PLC and for no one else in connection with the Proposals and will not be responsible to anyone other than BGEO Group PLC, Bank of Georgia Group PLC and Georgia Capital PLC and for providing the protections afforded to clients of Numis, nor for providing advice in relation to the Proposals or any other matter or arrangement referred to in this Prospectus. This statement does not seek to limit or exclude responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

Apart from the responsibilities and liabilities, if any, which may be imposed on Citi or Numis by the FSMA or the regulatory regime established thereunder, none of Citi or Numis or any person affiliated with any of them accepts any responsibility whatsoever nor makes any representation or warranty, express or implied, in respect of the contents of this Prospectus and/or any information incorporated by reference, including its accuracy, completeness or verification or for any other statement made or purported to be made by any of them, or on behalf of them, in connection with BGEO Group PLC, Georgia Capital PLC, the Company or the Proposals and nothing in this Prospectus is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of Citi or Numis accordingly disclaims, to the fullest extent permitted by applicable law, all and any responsibility and liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which any of them might otherwise have in respect of this Prospectus.

Overseas Shareholders

The implications of the Proposals for, and the distribution of this Prospectus to, Overseas Shareholders may be affected by the laws of the relevant jurisdictions in which such Overseas Shareholders are located. Overseas Shareholders should inform themselves about, and observe, all applicable legal and regulatory requirements.

No action has been taken to permit the distribution of this Prospectus in any jurisdiction where any action would be required for such purpose.

It is the responsibility of any person into whose possession this Prospectus comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the Proposals and the distribution of this Prospectus, including the obtaining of any governmental, exchange control, regulatory or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

Overseas Shareholders should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Proposals in their particular circumstances.

NOTICE TO INVESTORS IN THE UNITED STATES

The Shares have not been and will not be registered under the US Securities Act of 1933 (the "**Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into the United States absent registration under the Securities Act or an exemption therefrom. The Shares are expected to be offered in the United States in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof. A BGEO Group PLC shareholder who is an affiliate of the Company prior to the Scheme Effective Time will be subject to certain US transfer restrictions relating to the Shares received pursuant to the Scheme. For a description of these and certain further restrictions on offers, sales and transfers of the Shares and the distribution of this Prospectus, see "Part III: *Important Information*" of this Prospectus.

The Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission or any other US regulatory authority, nor have any of the foregoing authorities passed upon or determined the adequacy or accuracy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO RECIPIENTS IN SWITZERLAND

This document has been prepared without regard to the disclosure standards for prospectuses under art. 652a or art. 1156 of the Swiss Federal Code of Obligations ("**CO**") or the disclosure rules of any stock exchange or regulated trading facility in Switzerland, and does neither constitute a prospectus under such laws nor a similar communication within the meaning of art 752 CO.

General Notice

Nothing contained in this Prospectus is intended to constitute investment, legal, tax, accounting or other professional advice. This Prospectus is for your information only and nothing in this Prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

The contents of the websites of the Company, Georgia Capital PLC and BGEO Group PLC do not form part of this Prospectus.

Capitalised terms have the meanings ascribed to them in Part XXV: "*Definitions*" of this Prospectus.

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PART I

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A to E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for these types of securities and issuer. Since some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

<table>
<tr><th colspan="2">Section A – Introduction and warnings</th></tr>
<tr><th>Element</th><th>Disclosure requirement</th></tr>
<tr><td>A.1</td><td>Introduction and warnings
• This summary should be read as an introduction to the prospectus;
• Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor;
• Where a claim relating to the information contained in this prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated; and
• Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.</td></tr>
<tr><td>A.2</td><td>Resale or final placement of Shares by financial intermediaries
Not applicable. No consent is given by the Company for the subsequent resale or final placement of Shares by financial intermediaries.</td></tr>
<tr><th colspan="2">Section B – Company</th></tr>
<tr><th>Element</th><th>Disclosure requirement</th></tr>
<tr><td>B.1</td><td>The legal and commercial name of the Company
Bank of Georgia Group PLC.</td></tr>
<tr><td>B.2</td><td>Domicile and legal form of the Company
The Company is a public limited company, incorporated in England with registered number 10917019 and its registered office situated in England. The Company operates under the Companies Act 2006.</td></tr>
<tr><td>B.3</td><td>Current operations and principal activities of the Group and the principal markets in which it competes
The Group is a Georgia-based banking group which provides both retail banking and corporate investment banking services, with ancillary business lines including leasing and payment services, as well as Belarusky Narodny Bank ("BNB") (which provides banking operations in Belarus). The market share of the Bank in Georgia was 34.4%, 32.4%, 33.9% and 29.3% based on total assets, total gross loans, total client deposits and notes and shareholders' equity, respectively, according to statistics published by the National Bank of Georgia as of 31 December 2017. The Group strives to benefit from the underpenetrated banking sector in Georgia, through the provision of its diverse range of banking services.</td></tr>
</table>

B.4	**Significant recent trends affecting the Group and the industries in which it operates** The Group operates primarily in Georgia with its Georgian operations accounting for 94.4%, 94.1% and 92.1% of its total combined revenue for the years ended 31 December 2017, 2016 and 2015, respectively. Accordingly, the Group's results of operations and financial condition are, and will continue to be, significantly affected by Georgian political and economic factors. The Group derives the majority of its total net income from net interest income. As a result, the Group is affected by fluctuations in its net interest margin ("**NIM**"), which is, in turn, affected by key factors such as interest rates, competition for loans and deposits, customer demand and cost of funding. These key factors are influenced by other factors beyond the Group's control, such as global and local economic conditions, the resources of competitors and consumer confidence. In particular, interest rates and cost of funding are highly sensitive to many factors beyond the Group's control, including monetary policies, domestic and international economic and political conditions and the reserve policies of the NBG. The size of the Group's loan portfolio has continued to increase over the periods under review as a result of growth in lending activity, as well as the acquisition of Privatbank (Georgia) and its loan portfolio in 2015. The increase in the Group's total interest income in 2016 was principally attributable to the continued increase in the size of the Group's loan portfolio as a result of increased lending activity and increase in the proportion of Lari-denominated loans, which bear higher interest rates. However, the increase was partially offset by a decrease in loans as a percentage of total interest-earning assets and a decrease in loan yields in 2016. The size of the Group's total loan portfolio, as well as the portion of its Lari-denominated loans in the total loan portfolio continued to increase in the year ended 31 December 2017 as a result of increased lending. The increases contributed to higher interest income during the period. In recent years, the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 December 2017, there were 16 commercial banks operating in Georgia, 15 of which had foreign capital participation. The Group competes with a number of these banks, including TBC Bank, Liberty Bank, ProCredit Bank and VTB Georgia, in respect of retail, small and medium enterprises ("**SME**") and micro finance (together with SME, "**MSME**") loans and in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share.
B.5	**Description of the Company and the Company's position within the Group** Bank of Georgia Group PLC is a holding company which, with effect from the Scheme Effective Time, will be the new ultimate parent company of the Existing BGEO Group. It is expected that shortly after the Scheme Effective Time, Bank of Georgia Group PLC will effect a reduction of capital and repay capital to shareholders. The repayment of capital will be satisfied by the transfer of the Investment Business to Georgia Capital PLC, in consideration for which Georgia Capital PLC will issue shares to the Shareholders on a one for one basis. It is also expected that shortly after the Demerger Effective Time and prior to admission of Georgia Capital PLC to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange, Bank of Georgia Group PLC will issue 19.90% of its then current issued share capital to the Investment Business in exchange for the transfer of 19.90% of the Banking Business then held by the Investment Business to it. Georgia Capital PLC (through its subsidiary JSC Georgia Capital) will indirectly hold 19.90% of Bank of Georgia Group PLC following Georgia Capital admission. For so long as the shareholding in Bank of Georgia Group PLC of Georgia Capital PLC together with any person acting in concert with it for the purposes of the Takeover Code ("**Concert Parties**") is greater than 9.9% of the voting rights exercisable at Bank of Georgia PLC general meetings (the "**Floor**") (in which case all the Shares held by Georgia Capital PLC and any person acting in concert with it being the "**Proportional Voting Shares**"), Georgia Capital PLC and its Concert Parties will be subject to a proportional voting mechanism in relation to all of the Proportional Voting Shares. The mechanics of the proportional voting mechanism as it will apply to the Proportional Voting Shares at general meetings of Bank of Georgia Group PLC are set out in the Articles. As at the date of Georgia Capital Admission, other than the 19.90% of Bank of Georgia Group PLC held indirectly by Georgia Capital PLC, being the

	Proportional Voting Shares, neither Georgia Capital PLC nor any of its Concert Parties will hold any shares in Bank of Georgia Group. This arrangement has been put in place so that, following the Demerger and for such time as Georgia Capital PLC together with its Concert Parties holds the Proportional Voting Shares, Georgia Capital PLC will not be able to influence the voting outcomes of Bank of Georgia Group PLC shareholder resolutions at general meetings. The results of this arrangement are intended to meet the U.S. tax requirements for the Demerger to qualify for non-recognition treatment.
B.6	**Relationship with major shareholders** As of 22 March 2018 (being the latest practicable date prior to the publication of this Prospectus), insofar as it is known to the Company by reference to notifications to BGEO Group PLC made in accordance with rule 5.1 of the Disclosure Guidance and Transparency Rules, the name of each person who holds voting rights representing 3 per cent or more of the total voting rights in respect of BGEO Group PLC Shares, and the amount of such person's holding of the total voting rights in respect of the Shares following the Scheme becoming effective is expected to be as follows:

Name	Number of BGEO Group PLC Shares	Percentage of BGEO Group PLC issued share capital beneficially owned (%)	Number of Bank of Georgia Group PLC Shares	Percentage of BGEO PLC issued share capital beneficially owned (%)
Harding Loevner LP	3,320,410	8.43	3,320,410	8.43
Schroder Investment Management	1,956,588	4.97	1,956,588	4.97
Standard Life Aberdeen plc	1,944,825	4.94	1,944,825	4.94
Sanne Fiduciary Services	1,709,688	4.34	1,709,688	4.34
LGM Investments	1,384,669	3.52	1,384,669	3.52
Norges Bank Investment Management	1,220,508	3.10	1,220,508	3.10

	It is expected that shortly after the Demerger Effective Time and prior to admission of Georgia Capital PLC to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange, Bank of Georgia Group PLC will also issue 19.90% of its then current issued share capital to the Investment Business in exchange for the transfer of 19.90% of the Banking Business then held by the Investment Business to it. Therefore Georgia Capital PLC will, as the ultimate holding of the Investment Business, indirectly hold 19.90% of Bank of Georgia Group PLC's share capital.
B.7	**Selected historical key financial information** The Company was incorporated on 15 August 2017 in preparation for the Demerger. To provide financial results for the Company's business as it will be following the Scheme and the Demerger, Part XXVI (*Historical Financial Information*) of this Prospectus contains the combined historical financial information of the banking business of BGEO Group PLC (the "**Banking Business**") as at and for each of the three years ended 31 December 2017 (the "**Historical Financial Information**"). The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board and adopted by the European Union except for the application of certain conventions set out in SIR 2000 for the preparation of combined financial information. Ernst & Young LLP ("**EY**") has prepared an accountant's report in respect of the Historical Financial Information (the "**Accountant's Report**") which is also included in Part XXVI (*Historical Financial Information*). In addition, Part XXVI (*Historical Financial Information*) contains financial statements of Bank of Georgia Group PLC as at and for the period ended 31 December 2017.

SUMMARY INCOME STATEMENT

Summary income statement of the Banking Business results:

	For the year ended 31 December		
	2017	2016	2015
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Net interest income	672,103	553,610	510,597
Net fee and commission income	131,473	124,909	121,219
Revenue	909,336	773,910	727,150
Operating expenses	(342,937)	(291,546)	(258,286)
Profit from associates	1,311	—	—
Operating income before cost of credit risk	567,710	482,364	468,864
Cost of credit risk	(167,299)	(167,751)	(150,807)
Net operating income before non-recurring items	400,411	314,613	318,057
Profit before income tax (expense) benefit	396,110	269,259	305,712
Profit for the year	369,519	295,703	261,795

SUMMARY FINANCIAL POSITION

	As of 31 December		
	2017	2016	2015
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	12,907,679	11,123,143	9,051,332
Total liabilities	11,354,971	9,770,855	7,802,669
Total invested capital attributable to shareholders of the parent	1,545,822	1,332,616	1,230,971
Total invested capital	1,552,708	1,352,288	1,248,663
Total liabilities and invested capital	12,907,679	11,123,143	9,051,332

SUMMARY STATEMENT OF CASH FLOW

Summary statement of cash flows of the Banking Business results:

	For the year ended 31 December		
	2017	2016	2015
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Net cash flow from operating activities	588,747	784,157	979,056
Net cash flows used in investing activities	(417,947)	(367,108)	(171,811)
Net cash flows used in financing activities	(139,952)	(335,180)	(135,903)
Net increase(decrease) in cash and cash equivalents	35,618	102,483	671,969

From 2015 to 2017, the Group's revenue increased as a result of the growth in the Retail Banking business. The Group's operating expenses increased as a result of the overall growth of the Group's businesses.

Other than as disclosed above there has been no significant change in the financial condition or operating results of the Banking Business during the period for which the Historical Financial Information was prepared, or subsequently. There has been no significant change in the financial condition or operating results of the Company during the period from incorporation, 15 August 2017 to 31 December 2017, the date to which the latest financial statements of the Company have been prepared, or subsequently.

B.8	**Selected key *pro forma* financial information** The unaudited *pro forma* statement of net assets as at 31 December 2017 set out below has been prepared to illustrate the impact on the net assets of Bank of Georgia Group PLC of (i) the acquisition of BGEO Group PLC; (ii) the Demerger of the Investment Business; (iii) expenses incurred by the Company in implementing the Demerger and Admission; (iv) the repayment of certain borrowings, and (v) borrowings from JSC Georgia Capital as if each of these events had occurred on 31 December 2017. The unaudited *pro forma* income statement for the year ending 31 December 2017 set out below has been prepared to illustrate the impact on the financial performance of Bank of Georgia Group PLC of (i) the acquisition of BGEO Group PLC; (ii) the Demerger of the Investment Business; (iii) expenses incurred by the Company in implementing the Demerger and Admission; (iv) the repayment of certain borrowings, and (v) borrowings from JSC Georgia Capital as if each of these events had occurred on 1 January 2017. The unaudited *pro forma* statement of net assets and income statement have been prepared on a basis consistent with the accounting policies of Bank of Georgia Group PLC as applied in preparing its financial statements as at and for the period ending 31 December 2017 set out in Part XXVI and on the basis set out in the notes below and in accordance with Annex II to the Prospectus Directive Regulation. The unaudited *pro forma* statement of net assets and *pro forma* income statement have been prepared for illustrative purposes only and, because of their nature, address a hypothetical situation and, therefore, do not represent Bank of Georgia Group PLC's actual financial position or results. They may not, therefore, give a true picture of Bank of Georgia Group PLC's financial position or results nor are they indicative of the financial position and performance that may or may not be expected to be achieved in the future.

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS AT 31 DECEMBER 2017

		Adjustments (GEL 000's)						
	Company as at 31 Dec 2017 *(note 1)*	**Acquisition of BGEO Group PLC** *(note 2)*	**Demerger of Investment Business** *(note 3)*	**Removal intra-group eliminations** *(note 4)*	**Demerger and Admission expenses** *(note 5)*	**Repayment of borrowings** *(note 6)*	**Borrowing from JSC Georgia Capital** *(note 7)*	**Pro-forma net assets at 31 Dec 2017**
Assets								
Cash and cash equivalents	—	1,582,435	(374,301)	308,267	(19,286)	279,608	129,610	1,906,333
Amounts due from credit institutions	—	1,225,947	(38,141)	28,543	—	—	—	1,216,349
Investment securities	—	1,564,869	(33,059)	81,949	—	—	—	1,613,759
Loans to customers and finance lease receivables	—	7,690,450	—	50,970	—	—	—	7,741,420
Insurance premiums receivable	—	30,573	(30,854)	281	—	—	—	—
Prepayments	—	149,558	(88,057)	—	—	—	—	61,501
Investment properties	—	353,565	(155,367)	4,335	—	—	—	202,533
Property and equipment	—	988,436	(661,176)	(4,335)	—	—	—	322,925
Goodwill	—	55,276	(21,925)	—	—	—	—	33,351
Intangible assets	—	60,980	(5,455)	—	—	—	—	55,525
Income tax assets	—	2,293	(1,374)	—	—	—	—	919
Other assets	175	327,870	(189,022)	4,147	—	—	—	143,170
Assets of disposal group held for sale	—	1,136,417	(1,165,182)	28,765	—	—	—	—
Total assets	**175**	**15,168,669**	**(2,763,913)**	**502,922**	**(19,286)**	**279,608**	**129,610**	**13,297,785**
Liabilities								
Client deposits and notes	—	6,712,482	—	365,576	—	—	—	7,078,058
Amounts owed to credit institutions	—	3,155,839	(377,501)	—	—	—	129,610	2,907,948
Debt securities issued	—	1,709,152	(357,442)	34,702	—	279,608	—	1,666,020
Accruals and deferred income	—	132,669	(90,462)	—	—	—	—	42,207
Insurance contract liabilities	—	46,402	(46,402)	—	—	—	—	—
Income tax liabilities	—	20,959	(859)	—	—	—	—	20,100
Other liabilities	—	142,133	(92,553)	281	—	—	—	49,861
Liabilities of disposal group held for sale	—	516,663	(619,026)	102,363	—	—	—	—
Total liabilities	**—**	**12,436,299**	**(1,584,245)**	**502,922**	**—**	**279,608**	**129,610**	**11,764,194**
Net Assets	**175**	**2,732,370**	**(1,179,668)**	**—**	**(19,286)**	**—**	**—**	**1,533,591**

	Company income statement for the period ended 31 Dec 2017 (note 1)	Adjustments (GEL 000's) Acquisition of BGEO Group PLC (note 2)	Demerger of Investment Business (note 3)	Removal intra-group eliminations (note 4)	Demerger and Admission expenses (note 5)	Repayment of borrowings (note 6)	Borrowing from JSC Georgia Capital (note 7)	Pro-forma income statement for the year ended 31 Dec 2017
Revenue	**3**	**1,080,631**	**(181,369)**	**10,073**	**—**	**(16,706)**	**(11,665)**	**880,967**
Salaries and other employee benefits	—	(230,542)	34,548	(2,219)	—	—	—	(198,213)
Administrative expenses	—	(136,177)	38,350	(2,464)	—	—	—	(100,291)
Banking depreciation and amortisation	—	(40,974)	—	—	—	—	—	(40,974)
Other operating expenses	—	(5,352)	1,894	—	—	—	—	(3,458)
Operating expenses	**—**	**(413,045)**	**74,792**	**(4,683)**	**—**	**—**	**—**	**(342,936)**
Profit from associates	—	1,311	—	—	—	—	—	1,311
Operating income before cost of credit risk	**3**	**668,897**	**(106,577)**	**5,390**	**—**	**(16,706)**	**(11,665)**	**539,342**
Investment Business related income statement items	—	(57,417)	50,216	7,201	—	—	—	—
Operating income before cost of credit risk	**3**	**611,480**	**(56,361)**	**12,591**	**—**	**(16,706)**	**(11,665)**	**539,342**
Impairment charge on loans to customers	—	(155,210)	—	—	—	—	—	(155,210)
Impairment charge on finance lease receivables	—	(496)	—	—	—	—	—	(496)
Impairment charge on other assets and provisions	—	(15,005)	3,415	—	—	—	—	(11,590)
Cost of credit risk	**—**	**(170,711)**	**3,415**	**—**	**—**	**—**	**—**	**(167,296)**
Net operating income before non-recurring items	**3**	**440,769**	**(52,946)**	**12,591**	**—**	**(16,706)**	**(11,665)**	**372,046**
Net non-recurring items	—	(4,923)	623	—	(19,286)	—	-	(23,586)
Profit before income tax expense from continuing operations	**3**	**435,846**	(52,323)	12,591	(19,286)	(16,706)	(11,665)	348,460
Income tax (expense) gain	—	(32,340)	5,748	—	—	—	—	(26,592)
(Loss) profit for the year from continuing operations	**3**	**403,506**	(46,575)	12,591	(19,286)	(16,706)	(11,665)	321,868
Profit from discontinued operations	—	59,943	(47,352)	(12,591)	—	—	—	—
Profit for the year	**3**	**463,449**	**(93,927)**	—	(19,286)	(16,706)	(11,665)	321,868

Notes:

(1) The net assets and income statement for Bank of Georgia Group PLC as at and for the period ended 31 December 2017 have been extracted without material adjustment from the financial statements of Bank of Georgia Group PLC, set out on pages F-88 to F-93 of Part XXVI.

(2) The net assets and income statement of BGEO Group PLC as at and for the year ended 31 December 2017 have been extracted without material adjustment from the BGEO Group Annual Report 2017 incorporated by reference into this prospectus as set out in Part XXIV. This adjustment is expected to have a continuing impact on the Group income statement.

(3) The net assets and income statement for the Investment Business of BGEO Group PLC as at and for the year ended 31 December have been extracted without material adjustment from the BGEO Group Annual Report 2017 incorporated by reference into this prospectus as set out in Part XXIV. This adjustment is expected to have a continuing impact on the Group income statement.

	(4) The net assets and income statement for the intra-group eliminations with Investment Business of BGEO Group PLC as at and for the year ended 31 December have been extracted without material adjustment from the BGEO Group Annual Report 2017 incorporated by reference into this prospectus as set out in Part XXIV. This adjustment is expected to have a continuing impact on the Group income statement. (5) The total expected expenses in relation to the Demerger and Admission are GEL 28.8 million. These have been incurred in the following proportion: GEL 19.3 million by Bank of Georgia Group PLC and GEL 9.5 million to Georgia Capital PLC. The expenses incurred by Bank of Georgia Group PLC are included in the unaudited pro forma statement of net assets as a cash outflow and in the unaudited pro forma income statement as an expense. This adjustment is not expected to have a continuing impact on the Group income statement. (6) The legal entity JSC BGEO Group has external borrowings of US$350 million. Of this amount, US$100 million was lent to the investment business as described in page 163, Part XIX Related Party Transactions, with the remaining balance of US$250m included in debt securities issued in the HFI. As part of the demerger process, in March 2018, this amount together with accrued interest was repaid by the investment business. The amount shown in the unaudited pro forma income statement represents the interest expense on the additional borrowings in the Banking Business as if the repayment of the external borrowings had occurred at 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement. (7) In March 2018, the Group received a US$50 million 9% Loan from JSC Georgia Capital. The adjustment to net assets reflects the cash inflow of the respective amount. The amount shown in the unaudited pro forma income statement represents the respective interest expense, as if the transaction occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement. (8) In preparing the unaudited pro forma income statement, no account has been taken of the trading or transactions of the Bank of Georgia Group PLC or the Banking Business since 31 December 2017.
B.9	**Profit forecast or estimate** Not applicable. No profit forecast or estimate has been included in this Prospectus.
B.10	**A description of the nature of any qualifications in the accountant's report on the historical financial information** Not applicable. There are no qualifications to the accountant's report on the Historical Financial Information of the Banking Business. There was also no qualifications to the audit report on the financial statements of Bank of Georgia Group PLC for the period ended 31 December 2017.
B.11	**Working capital** Not applicable. In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this Prospectus.
	Section C – Shares
Element	**Disclosure requirement**
C.1	**Details of the Proposals** This Prospectus has been prepared in advance of the Demerger of Georgia Capital PLC from BGEO Group PLC, which is proposed to be effected through a court-sanctioned scheme of arrangement and capital reduction, and it is intended solely for holders of BGEO Group PLC Shares. As part of the Proposals, Bank of Georgia Group PLC will become the new holding company of the BGEO Group PLC. Application will be made to the FCA and the London Stock Exchange for up to 49,169,428 Shares to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. When admitted to trading, the Shares will be registered with ISIN number GB00BF4HYT85.
C.2	**Currency of the Shares** The currency of the Shares is British pound sterling.
C.3	**Number of shares in issue and par value** Up to 49,169,428 Shares will be issued as fully paid to holders of BGEO Group PLC's shares as part of the Proposals. The nominal value of the Shares at their time of issue will be equal to the closing mid-market trading price of a BGEO Group PLC Share immediately prior to the Scheme Effective Time (as derived from the London Stock Exchange Daily Official List), unless the Directors determine that a different nominal value should be set. Following the Demerger Effective Time and

C.4	subject to the Bank of Georgia Group PLC Capital Reduction, the nominal value of the Shares will be £0.01. No Shares will be issued and not fully paid. **Rights attaching to the Shares** The Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of Bank of Georgia Group PLC.
C.5	**Restrictions on the free transferability of the Shares** There are no restrictions on the free transferability of the Shares.
C.6	**Applications for admission to trading on a regulated market and identity of all the regulated markets where the Shares are or are to be traded** Application will be made to the UK Listing Authority for up to 49,169,428 Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. No application has been or is currently intended to be made for the Shares to be admitted to listing elsewhere or to be traded on any other exchange.
C.7	**A description of dividend policy** Bank of Georgia Group PLC will continue the dividend policy previously disclosed by BGEO Group PLC. Therefore, the Company will have as its dividend policy a targeted payout of 25-40% of profits from the Banking Business on an annual basis.
Section D – Risks	
Element	**Disclosure requirement**
D.1	**Key risks that are specific to the Group** • 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 peace-keeping operations. Regional tensions could have an adverse effect on the local economy and the Group's business. • The quality of the Group's US Dollar denominated loan portfolio may deteriorate due to slower economic growth, depreciations or devaluations. Any depreciation of the Lari against the US Dollar or other factors beyond Bank of Georgia Group PLC's control, such as geopolitical instability, could result in Bank of Georgia Group PLC's customers having difficulty in repaying their loans. • The Group's loan portfolio is concentrated, with its top ten corporate investment banking customers accounting 10.7% of the gross loan portfolio. There is a risk that it may lose these customers to its competitors. • The value of the Group's collateral received under, and/or securing, the loans issued may decline. Downturns in areas of the economy, such as real estate, could result in a decline in the value of the collateral securing loans. Furthermore, fluctuations in the prices of collateral in Georgia may impact the uncertainty associated with the collateral valuation. • There are risks inherent to the banking sector which the Group will always be subject to. These may take the form of human error, inadequacies of internal systems or the failure of internal control systems. • The banking sector is a particularly fast-evolving regulatory environment. The Group cannot predict what additional regulatory changes may be introduced in the future or their effect. • Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business.

	Risks relating to the Demerger • A number of conditions precedent must be satisfied before the Proposals can be complete. • The Demerger may not occur even after the Scheme has become effective. • Some or all of the anticipated benefits of the Demerger may not be realised.
D.2	**Key risks that are specific to the Shares** • The price of the Shares may be volatile. • Any future equity issues by the Company could have an adverse effect on the market price of the Shares and could dilute ownership. • Any change in current tax law or practice could adversely affect holders of Shares. • Holders of Shares in the United States and other overseas jurisdictions may not be able to participate in any future equity offerings of the Company. • The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or the Directors may be limited.

Section E – Proposals	
Element	**Disclosure requirement**
E.1	**Net proceeds and expenses of global offer** Not applicable. This Prospectus does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company. It is intended solely for holders of BGEO Group PLC's shares. It has been prepared in connection with the application to listing on the premium listing segment of the Official List and trading on the London Stock Exchange of up to 49,169,428 Shares to be issued in connection with the Proposals. The Company will not receive any proceeds as a result of the Scheme or the Demerger.
E.2	**Reasons for the offer and use of proceeds** Not applicable. This Prospectus does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company. It is intended solely for the holders of BGEO Group PLC's shares. Bank of Georgia Group PLC will not receive any proceeds as a result of the Scheme or the Demerger.
E.3	**Terms and conditions of the offer** Not applicable. This Prospectus does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company. It is intended solely for holders of BGEO Group PLC's shares.
E.4	**Material interests** Certain of the Directors have shareholding interests in BGEO Group PLC. So far as the Directors are aware, no other person involved in the Scheme or the Demerger has any interest, including conflicting ones, that is material to the Scheme or the Demerger.
E.5	**Selling shareholder and lock-ups** Not applicable. There are no selling shareholders or lock-up arrangements in connection with the Proposals.
E.6	**Resulting dilution** Not applicable.
E.7	**Estimated expenses charged to the investor by the Company** Not applicable.

PART II

RISK FACTORS

In addition to the other information set out in this Prospectus, the following risk factors should be carefully considered. If one or more of the following risks were to arise, the Group's business, results of operations, financial condition, prospects and/or the Group's share price could be materially and adversely affected to the detriment of the Group and its shareholders, and investors could lose all or part of their investment. The risks set out below may not be exhaustive and do not necessarily comprise all of the risks associated with an investment in the Group and the Shares. Additional risks and uncertainties not currently known to the Group or which Bank of Georgia Group PLC currently deems immaterial may arise or become material in the future and may have a material adverse effect on the financial condition or business of Bank of Georgia Group PLC.

During the period between the Scheme Effective Time and the Demerger Effective Time (which is expected to be a period of approximately three days), Georgia Capital PLC will be part of the Group. A description of certain risks relating to Georgia Capital PLC is incorporated into this Prospectus by reference to Part II: "Risk Factors" of the Georgia Capital PLC Prospectus and the related definitions contained in Part XXV "Definitions" of the Georgia Capital PLC Prospectus. Georgia Capital PLC will no longer be part of Bank of Georgia Group PLC with effect from the Demerger Effective Time.

You should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice.

The terms "loan(s)" and "loans to customers", as used in this section, means the sum of loans to customers and finance lease receivables.

Risks Relating to the Group

The Group is subject to risks associated with political, financial and economic instability in Georgia and the wider region.

The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Group's results of operations are, and are expected to continue to be, significantly affected by political, financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia and the wider region. Factors such as gross domestic product ("**GDP**"), inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, can have a material impact on customer demand for its products and services.

Real GDP growth in Georgia slowed from 4.6% in 2014 to 2.9% in 2015 and 2.8% in 2016, according to the Legal Entity of Public Law National Statistics Office of Georgia ("**Geostat**"). This slowdown was due to a weaker external economic environment, which was reflected in weaker foreign currency remittances from Georgians working abroad, lower net exports from Georgia and lower foreign direct investment ("**FDI**"). According to Geostat, Georgia continues to deliver strong GDP growth, estimated at 4.8% in 2017. According to the International Monetary Fund ("**IMF**") World Economic Outlook updated in January 2018, global economic activity continues to increase, particularly in Europe and Asia. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage point to 3.9%. The revision reflects increased global growth momentum and the expected impact of recently approved U.S. tax policy changes. The regional economies continued to improve in 2017, following a deep recession in 2015 and very shallow growth in 2016. The IMF projects a 2.2% growth rate in Commonwealth of Independent States ("**CIS**") economies in 2017 and 2018, and an average growth rate of 2.3% from 2019 to 2022, and, after two years of recession, economic activity in Russia is projected to expand by 1.8% in 2017, helped by stabilising oil prices, easing financial conditions, and improved confidence. Although Management believes that Georgia's real GDP growth in 2018 will be higher than the 4.2% forecasted by the IMF and other organisations, there can be no assurance that these growth levels will be achieved. Georgia continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of its customers in Georgia. Uncertain and volatile global economic conditions, such as the unpredictability of the US regulatory and fiscal policies, the potential adoption of trade restrictions, the negotiation of the United Kingdom's relationship with the EU post-Brexit, and heightened geopolitical risk, could have substantial political and macroeconomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy.

The Georgian economy is also dependent upon the economies of other countries in the region, in particular, Russia, Turkey, Azerbaijan and Armenia. Russia is one of the largest markets for Georgian exports and imports, accounting for approximately 7.4% and 9.8% of Georgia's total exports and approximately 8.6% and 9.3% of Georgia's total imports in 2015 and 2016, respectively, according to Geostat. In 2015 and 2016 the Russian economy was in recession due, in part, to the decline in global oil prices and US and EU sanctions imposed as a result of the ongoing political tensions between Russia and Western countries arising from the conflict in Ukraine and Syria. In January 2016, the Russian Rouble declined to an all-time low against the US Dollar before recovering modestly during the course of 2016. In 2017, the Russian Rouble generally returned to 2015 levels of strength against the US Dollar. Turkey represents the largest source of Georgian imports, accounting for 18.2% and 18.6% of total imports in 2015 and 2016, respectively, according to figures published by Geostat. Although Turkey grew by 7.4% during the first nine months of 2017 and is projected to grow by 3.5% in 2018 according to the IMF, continued political uncertainty and rising inflation represent potential obstacles to the growth of the Georgian economy. Azerbaijan and Armenia accounted for 10.9% and 8.2% of Georgia's total exports, respectively, in 2015 and 7.2% and 7.1%, respectively, in 2016. Following its devaluation by 47.6% against the US Dollar and 47.9% against the Euro in December 2015, the Azerbaijan Manat stabilised throughout 2016 and 2017. The Armenian Dram also experienced a period of stability during 2017, having devalued by 16.9% against the US Dollar in between October 2014 and February 2015.

The economic slowdowns and currency depreciations in Georgia's main trading partners have resulted in lower exports from and remittances to, Georgia in the period from 2014 to 2016. Any continuing or further economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy.

The Group may not be able to maintain the quality of its loan portfolio

The quality of the Group's loan portfolio may deteriorate due to external factors beyond Bank of Georgia Group PLC's control such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio. For example, in 2015 and 2016, the Group's loan book quality was negatively affected by the economic slowdown in Georgia and Russia. In 2017, the Group's cost of risk was 2.1%, as compared to 2.6% in 2016 and 2.9% in 2015. Impairment charges and, in turn, the Group's cost of credit risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. As of 31 December 2017, 2016 and 2015, the Group's non performing loans (**"NPLs"**) accounted for 3.8%, 4.2% and 4.3% of gross loans, respectively. Loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or potential inability to pay, accounted for 3.1% of net loans as of 31 December 2017, 5.2% as of 31 December 2016 and 3.9% as of 31 December 2015. The Group continuously monitors market conditions and reviews market changes, and it also performs stress and scenario testing to test its financial position under adverse economic conditions. Notwithstanding these precautions, any future deterioration in the quality of the loan portfolio or increase in its loan impairment charges could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's loan portfolio is largely US Dollar denominated, and the quality of the Group's loan portfolio may deteriorate as a result of slower economic growth and Lari depreciations and devaluations

As of 31 December 2017 and 31 December 2016, approximately 83.1% and 83.4% of the Group's corporate investment banking loan were denominated in foreign currency, respectively, and approximately 48.2% and 60.1% of the retail banking loan portfolio, respectively, was denominated in foreign currency (predominantly US Dollars). The quality of the Group's loan portfolio may deteriorate due to external factors beyond the Group's control (see "*—The Group may not be able to maintain the quality of its loan portfolio*"), and is also affected by changes in the creditworthiness of the Group's customers, the ability of customers to repay their loans on time, the statutory priority of claims against customers, and the Group's ability to enforce its security interests over customers' collateral or real estate and control the value of such collateral should such customers fail to pay interest on, or repay the principal of, their loans, as well as other factors beyond the Group's control, such as global, regional or Georgian economic instability. Any depreciation of the Lari against the

US Dollar may result in customers having difficulty repaying their loans. See "*—Currency fluctuations have affected, and may continue to affect, the Group*". The Group's impairment charges and, in turn, the cost of credit risk may increase if a single large borrower defaults or a material concentration of smaller borrowers default. In addition, fluctuations of the Lari against the US Dollar may cause the value of the Group's US Dollar loan portfolio to fluctuate.

Since the second half of 2014, the Georgian economy has been affected by falling global commodity prices and negative spill overs of the recession in Russia, as well as by depreciation of the currencies of Georgia's main trading partners. See "*—The Group is subject to risks associated with political, financial and economic instability in Georgia and the wider region*". Exports also fell further by 4.2% in 2016, although, beginning in the second half of 2016, remittances began to show signs of recovery and this recovery trend continued throughout 2017, as exports increased by 29.1% compared to 2016 and remittances increased by 19.8% compared to 2016. The increase in exports, remittances and tourism revenues along with moderate growth in imports, caused the Lari to experience moderate appreciation against the US Dollar of 2.1% in 2017 having depreciated by 10.5% in 2016 and by 28.5% in 2015. See also "*—Currency fluctuations have affected, and may continue to affect, the Group*". In order to mitigate the impact of depreciation related increases in inflation expectations, the NBG tightened its monetary policy in 2017, having relaxed its monetary policy stance in 2016 as weak aggregate demand and falling global commodity prices eased price pressures. Despite the tightening of monetary policy and greater credit growth in 2017, total Georgian banking sector Lari-denominated loans reduced loan dollarisation to 56.9% in 2017 from 65.4% in 2016. Total Georgian banking sector NPLs reduced to 2.8% as of 31 December 2017 from 3.4% as of 31 December 2016. Although economic growth in Georgia has accelerated since the end of 2016 due to more favourable external conditions (according to Geostat, real GDP growth was 4.8% in the year ended 31 December 2017), there can be no assurances that any such factors will continue and contribute to further economic growth or that the growth for the coming years will follow the same trend.

As the majority of the Group's customers with foreign-currency denominated loans depend on Lari-denominated income, any depreciation of the Lari against the currency of the loan may result in customers facing difficulties repaying their loans. In 2017, there was a decrease in foreign currency (predominantly US Dollar) NPLs in the corporate investment banking loan portfolio and a slight increase in the retail banking loan portfolio, principally as a result of the Group's corporate investment banking loan portfolio risk de-concentration and repositioning initiatives. Foreign currency NPLs as a percentage of gross loans was flat at 1.4% in retail banking and decreased to 7.7% from 8.0% in corporate investment banking as of 31 December 2017, as compared to 31 December 2016. Foreign currency NPLs as a percentage of gross loans decreased to 1.4% from 1.5% in retail banking and increased to 8.0% from 6.2% in corporate investment banking as of 31 December 2016, as compared to 31 December 2015.

Among other things, in order to assess the creditworthiness of its customers, the Group takes into account currency volatility when there is a currency mismatch between the customer's loan and revenue. The Group allocates 75% more capital to the foreign currency loans of customers who earn income in Lari. See "*Industry Overview—Dollarisation of the Georgian Economy*". Although these policies are intended to manage risk related to the Group's foreign currency-denominated (and in particular, US Dollar) loan book, the continued quality of the loan book and the Group's future cost of credit risk is dependent on macroeconomic conditions. In particular, any depreciation or devaluation of the Lari against the US Dollar may result in the Group's customers facing difficulty in meeting their payment obligations. There is no assurance that the Group's scenario testing and possible loss limitation will protect it from further losses. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's corporate investment banking loan portfolio is concentrated

The corporate investment banking loan portfolio is concentrated, with the Group's top ten corporate investment banking borrowers accounting for 10.7% of the loan portfolio (gross of allowances for impairment) as of 31 December 2017, as compared to 11.8% as of 31 December 2016 and 12.7% as of 31 December 2015. The top ten corporate investment banking borrowers accounted for 35.5% of the corporate investment banking gross loan portfolio as of 31 December 2017, as compared to 32.1% as of 31 December 2016 and 30.4% as of 31 December 2015. In general, corporate customers are sensitive to the cost of their loans and more likely than retail customers to move their business to banks which offer competitive terms. There can be no assurance that the Group's corporate customers will not transfer a significant portion of their deposits and/or loans to one or more of the Group's competitors. In addition, to the extent that such borrowers enter into further loan arrangements with the Group, this will increase the credit and general counterparty risk of the Group with respect to those counterparties. For example, as of 31 December 2017, two of the Group's top twenty corporate investment banking loans, accounting for 3.8% of the Group's total corporate investment banking gross loan portfolio, was past-due by more than 90 days. Although the Group aims to adhere strictly to the limits set by the NBG for client exposures, monitors the level of concentration in its loan portfolio and the financial performance of its largest borrowers and uses collateral to minimise loss given default ("**LGD**") on its largest exposures, reduces guarantee exposures in the construction sector and maintains a well-diversified loan book sector concentration, there can be no assurance, however, that any such measures will be successful. Any loss of a key corporate borrower or deterioration in the quality of the Group's corporate investment banking loan portfolio could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

Collateral values may decline

As of 31 December 2017, the Group held collateral against gross loans covering 83.3% of the total gross loans. The main forms of collateral taken in respect of corporate investment banking loans are liens over real estate, property plant and equipment, corporate guarantees, inventory, deposits and securities, transportation equipment and gold. The most common form of collateral accepted in retail banking loans is a lien over residential property. For mortgage loans secured by real estate, the Group imposes a loan-to-value ratio (based on the market value of the real estate used as collateral) of between 60% and 90% at the time the loan is advanced, depending on the value of the secured property. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate may result in illiquidity and a decline in the value of the collateral securing loans, including a decline to levels below the outstanding principal balance of those loans. In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Group to accurately value collateral it holds. If the fair value of the collateral that the Group holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days. Further changes to laws or regulations may impair the value of such collateral. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Significant changes or volatility in the Group's net interest margin could have an adverse effect on the Group's performance

The Group derives the majority of its total net income from net interest income. As a result, the Group is affected by fluctuations in its net interest margin (**"NIM"**), which is, in turn, affected by key factors such as interest rates, competition for loans and deposits, customer demand and cost of funding. These key factors are influenced by other factors beyond the Group's control, such as global and local economic conditions, the resources of competitors and consumer confidence. In particular, interest rates and cost of funding are highly sensitive to many factors beyond the Group's control, including monetary policies, domestic and international economic and political conditions and the reserve policies of the NBG.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period could reduce the NIM. The Group's NIM was 6.9% and 7.0% in the years ended 31 December 2017 and 2016, respectively. The decrease in NIM in the year ended 31 December 2017, as compared to the year ended 31 December 2016, was primarily due to the NBG's decision in the second quarter of 2016 mandating an increase in minimum regulatory reserve requirements. The Group's NIM decreased to 7.0% in 2016, as compared to 8.1% in 2015, primarily as a result of excess liquidity levels (which is the actual liquidity ratio (as calculated in accordance with NBG guidelines), less 30% (representing the minimum levels required by the NBG), multiplied by current liabilities (as calculated in accordance with NBG guidelines)), which the Group strategically started to build up at the end of 2015 in order to maintain a strong liquid position due to a planned liability management exercise, which was completed in July 2016. Any reduction in NIM (as a consequence of the factors outlined above) could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, any increase in interest rates for variable rate loans, which represent 29.2% of the gross loan book as at 31 December 2017, may result in an increase in the periodic instalment amounts payable by the Group's customers in respect of loans. Such an increase may result in difficulties related to the repayment of loans, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and have a material adverse effect on the interest payments it receives.

Currency fluctuations have affected, and may continue to affect, the Group

A substantial portion of the total assets of the Group, especially the Group's loan portfolio (61.7% of gross loans as of 31 December 2017), is denominated in foreign currencies, primarily US Dollars, while the majority of customers with foreign-currency denominated loans depend on Lari-denominated income. Consequently, any depreciation of the Lari against the currency of loans may result in customers facing difficulties repaying such loans. Although the Group offers programmes to certain customers facing financial difficulties, there can be no assurance that any of these programmes will materially reduce the number of such customers. In 2017, the Lari appreciated against the US Dollar by 2.1%. NPLs to gross loans decreased to 3.8% as of 31 December 2017, as compared to 4.2% as of 31 December 2016, and the cost of risk ratio decreased to 2.1% in 2017, as compared to 2.6% in 2016.

In addition, the Group's operations are affected by the Lari to Belarusian Rouble exchange rate as this affects the value of the Bank's majority equity interest (99.98% as of 31 December 2017) in BNB, which may, in turn, affect the Group's ability to comply with contractual covenants, calculated on a consolidated basis. See "*Information on Bank of Georgia Group PLC—Banking Business—Belarus Banking Operations*". A depreciation of the Belarusian Rouble against the Lari reduces BNB's contribution to the Group's consolidated capital, as it directly affects BNB's results of operations and indirectly affects the value of the Group's equity interest. Lari appreciated against the Belarussian Rouble (by 3.3% in 2017, compared to 4.9% depreciation in 2016). The regulatory capital of BNB increased in Lari terms by 6.5% and 8.8% in 2017 and 2016, respectively, and remained above the minimum regulatory capital requirement set by the National Bank of the Republic of Belarus (**"NBRB"**). As of 31 December 2017, the regulatory capital of BNB was GEL 78.2 million. Any subsequent depreciation or a devaluation of the Belarusian Rouble could result in declines in BNB's regulatory capital. If the Lari exchange rate against the US Dollar or the Belarusian Rouble fluctuates, or, as a result of any currency depreciation or devaluation, any counterparties default on their obligations, this could lead to the Group suffering losses, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's risk management policies and procedures may not effectively mitigate credit risk

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Group to mitigate credit risk and to protect against loan losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of the loan portfolio. In addition, even though the Group requires regular financial disclosure by its corporate customers or counterparties, customer and counterparty financial statements may not always present a complete and accurate picture of each customer's or counterparty's financial condition. Some of the Group's corporate customers or counterparties may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to evaluate effectively the current financial condition of each prospective corporate borrower or counterparty and to evaluate effectively the ability of such corporate borrower or counterparty to repay its loans when due. Similarly, the creditworthiness of some retail customers or counterparties is difficult to assess and predict, as some retail borrowers or counterparties have limited credit history. Accordingly, the risk management systems employed by the Group may prove insufficient in measuring and managing risks, which could, in turn, have a material adverse effect on the Group's business.

The Group is subject to operational risk inherent in banking activities

The Group is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. The financial services industry is exposed to the risk of misconduct by employees, which could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines, as well as serious reputational or financial harm.

The proper functioning of banking systems, risk management, internal controls, accounting, customer service and other information technology systems, such as loan origination, are critical to the Group's operations. Over the past few years, as its operations have expanded, the Group has seen an increase in external fraud, although losses from such fraud have not been significant and have further declined since 2013. The Group is also subject to five major cyber-security threats: data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance e-mail attacks. Although to date cyber-security threats have not materially affected the Group's operations, it is expected that such threats will continue to increase, which will require the Group to closely monitor such threats. Money laundering has also increased globally and is continuously monitored by the Bank's anti-money laundering (**"AML"**) compliance department.

Although the Company's Board of Directors and Senior Managers (**"Management"**) believe that Bank of Georgia Group PLC's risk management policies and procedures (which are designed to identify and analyse relevant risks to the Banking Business, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis) are adequate and that the Group is currently in compliance in all material respects with all laws, standards and recommendations applicable to it, any failure of the Group's risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties adequately to perform key outsourced activities, such as card processing and the transportation of cash, could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion

The Group aims to achieve long-term sustainable growth and profitability of its business by increasing the size of its retail banking business relative to corporate banking, mostly by increasing its product to client ratio, and generating additional non-interest income from advisory and other fee-generating businesses. Although the Group expects to have sufficient funding to execute its strategy, there can be no assurance, however, that Bank of Georgia Group PLC will be able to achieve its major strategic objectives, including increasing its revenue or profitability, over the longer term, as the Group is subject to certain macroeconomic risks including risks relating to economic growth in Georgia and the wider region, see "*The Group is subject to risks associated with political, financial and economic instability in Georgia and the wider region*".

The Group's ability to achieve its strategic objectives may be adversely affected by negative trends in the Georgian economy, the economies of neighbouring countries and the performance of the global economy. In addition, the Group's strategic objectives are based, in part, on the expectation that the Georgian banking sector will continue to grow in general and with respect to retail banking in particular. There can be no assurance that these expectations will be met, which could, in turn, adversely affect the Group's ability to achieve its objectives. For example, in order to deliver on the Group's current strategy of increasing loans by 15-20% per annum, the Group may be willing to extend loans to higher credit risk customers. Notwithstanding the strategic aims, the Group's overall goal is profitability and accordingly, it may not fulfil certain growth strategic goals if this would result in a negative impact on profitability. There can also be no assurance that the anticipated growth in loans will offset any deterioration in the quality of the Group's loan portfolio. Furthermore, the Group's expansion strategy is expected to be financed through attracting more deposits, additional borrowings and possibly additional capital, as well as cash flows provided by operations. However, external financing and the cost of such financing are dependent on numerous factors, many of which are outside of the Group's control. The Group cannot provide any assurance that it will be able to arrange any such external financing on commercially reasonable terms, if at all, and the Group's inability to access such funding at favourable rates could adversely affect its ability to implement its strategy. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces liquidity and funding risk

The Group is exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Although the Group expects to have sufficient funding over the next 18 months and beyond to execute its strategy and to have sufficient liquidity over the next 18 months and beyond, liquidity risk is nevertheless inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability. Credit markets worldwide have in recent years experienced, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors. The availability of credit in emerging markets, in particular, is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings of, the Company, the Bank, the NBG or Georgia, or state interventions or debt restructurings in a relevant industry), could affect the price or availability of funding for the Group companies, operating in any of these markets.

The Group seeks to manage its liquidity risk by, among other things, maintaining a diverse funding base comprising of short-term sources of funding (including retail banking and corporate investment banking customer deposits, inter-bank borrowings and borrowings from the NBG) and longer-term sources of funding (including term retail banking and corporate investment banking deposits, borrowing from international credit institutions, sales and purchases of securities and long-term debt securities). The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid or their value drops substantially, the Group may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available on the Georgian inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to access such external funding sources depends on the level of credit lines available to it, and this, in turn, is dependent on Bank of Georgia Group PLC's financial and credit condition, as well as general market liquidity.

Client deposits and notes are one of the most important sources of funding for the Group. As of 31 December 2017, 31 December 2016 and 2015, 91.4%, 91.5%, and 89.1%, respectively, of client deposits and notes had contractual maturities of one year or less, of which 56.5%, 53.9%, and 53.6%, respectively, were payable on demand. As of the same dates, the ratio of net loans to client deposits and notes was 109.4%, 116.1% and 107.1%, respectively and the NBG liquidity ratios were 34.4%, 37.7% and 46.2%, respectively. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to withdraw deposits in large volumes rapidly include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. If a substantial portion of customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on Bank of Georgia Group PLC's business, financial condition and results of operations.

Bank of Georgia Group PLC faces competition

In recent years, the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 December 2017, there were 16 commercial banks operating in Georgia, 15 of which had foreign capital participation. The Group competes with a number of these banks, including TBC Bank, Liberty Bank, ProCredit Bank and VTB Georgia, in respect of retail, small and medium enterprises (**"SME"**) and micro finance (together with SME, **"MSME"**) loans and in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share.

Increased competition may have a negative impact on the Group, particularly if the Group's competitors possess greater financial resources (especially in case of banks with foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), have access to lower-cost funding or provide a broader offering of products, or if the Group's competitors merged to significantly enhance their financial resources, access to funding and product offerings. Unlike most of its competitors, the Group has a relatively wide ultimate shareholder base and does not have an international development financial institution as a majority shareholder. An increase in competition could lead to significant pressure on the Group's market share, which could have a material adverse effect on Bank of Georgia Group PLC's business, financial condition and results of operations.

Further, there can be no assurance that the current regulatory environment in which the Group operates with respect to competition and anti-monopoly matters will not be subject to significant change in the future. Anti-monopoly matters with respect to the Banking services sector in Georgia are currently overseen by the NBG. However, the Government may, in the future, seek to legislate or regulate competition and anti-monopoly matters in the Georgian banking industry through a governmental agency other than the NBG.

The Bank is subject to certain regulatory ratios

The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

The current NBG capital regulation is based on a combination of Basel II and III guidelines, with material regulatory discretions applied by the NBG due to the specifics of the local banking industry. In addition to Basel II/III requirements, from 30 June 2014 to 31 December 2017, Georgian banks were also required to comply with certain regulatory capital ratios under the existing NBG regulation, which had been progressively phased out by 1 January 2018.

Pursuant to NBG Decree No. 100/04, commercial banks in Georgia were required to submit Pillar II requirements (the **"ICAAP"**) to the NBG. In October 2014, the Bank submitted its first Pillar II ICAAP Report to the NBG. The Bank also submitted to the NBG a full draft of its internal capital regulation and policies and received feedback from the NBG following its review in May 2015. Based on this feedback from the NBG, the Bank updated its draft Pillar II package, and re-submitted it to the NBG for further review in August 2016. The regulatory review process is not yet finalised.

The NBG is authorised to impose capital buffers on commercial banks in addition to minimum capital requirements. On 13 April 2017, the NBG announced the proposed introduction of a Pillar I and Pillar II capital buffer implementation plan, which was intended to apply to commercial banks and sets out details of new capital buffer rules and requirements.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and the introduction of new requirements (i) on additional capital buffer requirements for commercial banks within Pillar 2; (ii) on the determination of the countercyclical buffer rate; and (iii) on the identification of systematically important banks and determining systemic buffer requirements. The purpose of these amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework.

Pillar 1 requirements (including combined buffer requirements)

The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel Committee of Banking Supervision. The amendments included:

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements (Basic Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum regulatory capital requirements are currently 4.5% Basic Tier 1 Capital, 6.0% Tier 1 Capital and 8.0% Total Regulatory Capital (whereas previously the minimum regulatory capital requirements were 7.0% Basic Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Regulatory Capital); and
- the introduction of a requirement that banks hold an additional 'combined buffer' through Basic Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of risk-weighted assets ("**RWAs**"), while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated three commercial banks in Georgia, including the Bank, as domestic systemically important banks ("**DSIBs**") for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Basic Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2 requirements

In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net general risk assessment programme buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer will be effective from 1 April 2018 and the net stress test buffer will be effective from 1 January 2020. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Basic Tier 1 Capital 4.5%, Tier 1 Capital 6.0% and Total Regulatory Capital 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Basic Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. Commercial banks have been given appropriate timeframes for the purposes of complying with these requirements, as the additional Pillar 2 buffers will be implemented over a five-year transitional period, during which the required composition of the buffers will become more stringent by increasing the required proportions of Basic Tier 1 Capital and Tier 1 Capital. See also "*Part VIII (Industry Overview)—History of the Georgian Banking Sector*" and *Part XII (Regulation of the Georgian Banking Sector)—Regulatory Capital*".

As a result of the changes to the regulations relating to capital adequacy requirements introduced by the NBG in December 2017, the Bank became subject to the following Basel III minimum capital requirements as at 31 December 2017:

- Basic Tier 1 Capital ratio of 8.1% (comprising core Basic Tier 1 Capital requirement of 4.5% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.1%);
- Tier 1 Capital ratio of 9.9% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.4%); and
- Total Regulatory Capital ratio of 12.4% (comprising of core Total Regulatory Capital requirement of 8.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%).

As at 31 December 2018, the minimum capital requirements are expected to increase to a Basic Tier 1 Capital ratio of 9.5% (comprising core Basic Tier 1 Capital requirement of 4.5% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.5%), a Tier 1 Capital ratio of 11.4% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%) and a Total Regulatory Capital ratio of 16.0% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 4.5%). Capital requirements that the Bank is subject to, in particular Pillar 2 requirements, are set by the NBG from time to time and therefore there can be no assurance that the expected minimum capital requirements for 2018 set out above will not change.

Separately, BNB is licenced by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. As of 31 December 2017, its total capital adequacy ratio (as calculated in accordance with the requirements set by the NBRB) was 14.1%, as compared to the 10.0% minimum requirement set by the NBRB. As of 31 December 2017, BNB had Tier 1 ratio of 8.1%, as compared to the 6.0% minimum requirement set by NBRB.

The Bank is not in breach of any applicable capital adequacy or regulatory ratios and expects to be able to comply with current and future capital ratios that will enter into force (including those that will apply from 31 December 2018), over the next 18 months and beyond. However, the Bank's ability to comply with applicable capital adequacy and regulatory ratios could be affected by a number of factors, some of which are beyond its control, including:

- an increase of the Bank's risk-weighted assets;
- the Bank's ability to raise capital;
- losses resulting from a deterioration in the Bank's asset quality, a reduction in income levels, an increase in expenses or a combination of some or all of these factors;
- a decline in the values of the Bank's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of capital adequacy ratios; and
- increases in minimum capital adequacy ratios imposed by the NBG.

Failure to maintain the minimum capital adequacy, liquidity, related party credit exposure and other regulatory ratios may have a material adverse effect on the Bank. The Bank may be subject to penalties from the NBG for violations of capital adequacy and other regulatory ratios. Depending on the seriousness of any violation, the NBG is also authorised to impose other sanctions, including suspension of the signatory authority of the Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, in severe cases, withdrawal of the Bank's licence.

If the Bank fails to meet the Pillar 1 ratios, it may be subject to different types of supervisory measures. Depending on the seriousness of the violation, the NBG is authorised to impose sanctions, including suspension of the signatory authority of the Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, placing the bank in temporary administration, and in severe cases, withdrawal of the Bank's licence. If the Bank fails to meet the combined buffer requirement (the sum of the conservation buffer, countercyclical buffer and systemic risk buffer), it will be subject to distribution restrictions in relation to Basic Tier 1 Capital, additional Tier 1 Capital instruments, variable remuneration (bonuses) and possibly other distribution constraints imposed by the NBG. In addition, in case of breach of the combined buffer, the Bank must submit a capital conservation plan to the NBG about the steps it will take to ensure compliance with the combined buffer requirements. If the NBG assesses that the capital conservation plan is not adequate, it may request the Bank to implement additional measures and/or impose further sanctions. The decision on the timing and character of sanctions is the discretion of the NBG and depends on the seriousness of a breach and possible risks. It is considered that the breach of systemic risk buffer is a more serious violation and subject to stricter sanctions. If the Bank fails to meet the Pillar 2 requirements, it may be subject to different types of supervisory measures or sanctions from the NBG. The character of such measures or sanctions is the discretion of the NBG and depends on the seriousness of the breach.

As is the case with the Bank, BNB is also subject to regulatory oversight and failure to maintain required levels of capital adequacy or any other ratio can similarly lead to potential administrative sanctions or business disruption. Sanctions imposed by a regulator in the case of a material breach of regulatory requirements could impact the Bank's or BNB's ability to conduct its business, and result in an increase in operating costs and loss of reputation, all of which could, in turn, have a material adverse effect on the Bank's business, financial condition and results of operations. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios* ".

The Group operates in an evolving regulatory environment and is subject to regulatory oversight with changes to regulations being difficult to predict

The Group operates in an evolving regulatory environment, which means that its retail banking business, corporate investment banking business and BNB are subject to changes in regulation imposed by various regulatory bodies. The Group cannot predict what regulatory changes will be introduced in the future or their effect. For example, on 3 May 2017, the NBG issued Decree No. 61/04 setting out new requirements for commercial banks in respect of regulatory capital. Pursuant to the decree, commercial banks are required to have regulatory capital of no less than: (i) GEL 30 million as of 31 December 2017; (ii) GEL 40 million as of 30 June 2018; and (iii) GEL 50 million as of 31 December 2018. In addition, on 15 May 2017 NBG issued an Order on Liquidity Coverage Ratio for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. In December 2017, the NBG introduced amendments to the regulations relating to capital adequacy requirements, such amendments making Pillar 1 minimum requirements in Georgia compatible with the framework established by Basel Committee of Banking Supervision, implementing additional capital requirements under Pillar 2 of Basel III and designating three commercial banks in Georgia, including the Bank, as DSIBs. See also "*—The Bank is subject to certain regulatory ratios*" and "*Regulation of the Georgian Banking Sector*".

In addition, the Group is also subject to significant regulation and governmental supervision. If regulations change or the Group expands its businesses, the Group may become subject to additional rules and regulations at a national, international or supranational level, which may impact operations. Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of detailed rules relating to such change. There can be no assurance that the current regulatory environment in which it operates will not be subject to significant change in the future, including as a result of a change in government in the

United Kingdom, Georgia or Belarus, or that the Group will be able to comply with any or all resulting regulations. See "*—Macroeconomic and Political Risks Related to Georgia—Political and governmental instability in Georgia could have a material adverse effect on the local economy and on the Group's business*". If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition and results of operations. Regulation may also change as Georgia harmonises its laws with the EU in implementing an association agreement (the **"EU Association Agreement"**) to introduce a Deep and Comprehensive Free Trade Area (**"DCFTA"**) with the potential long-term goal of full integration into the EU market. As part of this harmonisation, Management anticipates that Georgia will adopt any incoming EU regulations. It is not possible to predict the timeframe or extent of such changes or the effect of such changes on Bank of Georgia Group PLC's business.

If the Bank fails to comply with any applicable regulations relating to, or is associated with, money laundering or terrorist financing, this could have an adverse effect on the Bank

The Bank has implemented comprehensive AML, "know-your-customer" (**"KYC"**), "know your corresponding bank" and "know your employee" policies. Compliance with these policies is monitored by the Bank's and BNB's AML and Compliance Department and the Bank seeks to adhere to all requirements under applicable legislation in relation to money laundering. However, there can be no assurance that these measures will be effective. In addition, applicable regulations related to money laundering and terrorist financing are evolving and are subject to change, and the Bank cannot anticipate regulatory developments. Although EU and U.S. sanctions laws do not directly apply to Georgia or Belarus, the Bank has undertaken an obligation in good faith to ensure compliance with targeted financial sanctions and, therefore, changes to existing regulations or the introduction of new regulations may have a direct effect on the Bank's policies and activities. If the Bank fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have a material adverse effect on its business, financial condition and results of operations. In addition, involvement in such activities may result in criminal or regulatory fines and sanctions.

The Group may be subject to substantial liabilities as a consequence of litigation claims made against it

On 20 March 2018, BGEO Group PLC was served with a notice of claim by Roman Pipia, the former beneficial owner of Rustavi Azoti, a chemical fertiliser business based in Georgia. The Bank had initiated the sale of collateral pledged by Rustavi Azoti and its parent company to secure loans granted by the Bank following default by the borrowers in 2016. The claim was filed in the High Court of Justice Business and Property Courts of England and Wales Queen's Bench Division Commercial Court. The claim names BGEO Group PLC, JSC BGEO Group, JSC Bank of Georgia, certain of their officers, and JSC EU Investments (the current owner of the plant) and its director as defendants. The claim is made under the laws of Georgia and asserts that the defendants are liable to the claimant under the Georgian Civil Code for harm to the claimant in relation to the loss of the Rustavi Azot plant. The claimant claims losses and damages of up to US$995 million, or as may be determined by the Court. The claim also refers to the proposed Demerger and states that, to the extent required, the claimant will seek relief against the Company and Georgia Capital PLC. BGEO Group considers that the claim is without merit and it intends to oppose it vigorously. Neither BGEO Group PLC nor its affiliates intend to create any reserves in respect of the claim. Nevertheless, due to the magnitude of the claim, there is a risk that the Group could become liable for substantial damages should the claimant be successful, which would have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's insurance policies may not cover, or fully cover, certain types of losses

The Group generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in the United Kingdom and Georgia. The Bank also maintains Bankers' Blanket Bond and directors' and officers' liability insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect its existing operations and could, in turn, have a material adverse effect on the business.

The Bank faces certain risks associated with conducting international operations

The Group has made investments in Ukraine and Belarus in the past, although it liquidated all of its interests in Ukrainian banking investments in 2014. The Bank's financial results in 2011 were adversely affected by a goodwill write down in the amount of GEL 23.4 million, due to the write off of the entire goodwill associated with BNB, as a result of a material devaluation of the Belarusian Rouble. Although the Bank's ownership interest in BNB increased to 94.99% in February 2017 and to 99.98% in December 2017 from 79.99% in 2016 as a result of the exercise of a put option by the IFC, the Bank intends to seek to exit from its investment in BNB at the appropriate time. While it retains its investment in BNB, it will continue to be subject to risks relating to its operations, including political and economic risks, compliance risks and foreign currency exchange risks, regulatory risks as well as the risk of failure to market adequately to potential customers in Belarus. See "*—Macroeconomic and Political Risks Related to Georgia—There are risks associated with investing in emerging markets such as Georgia*". Any failure to manage such risks may cause the Group to incur increased liabilities, which could, in turn, have a material adverse effect on its business.

The loss of key personnel or the failure to attract, develop or retain skilled or qualified employees could negatively impact the Group's businesses

The Group depends on the capabilities and performance of its key personnel, including its executive officers and employees. As there is a limited pool of potential officers and employees with the relevant expertise that can be recruited in Georgia, the Group's ability to continue to retain, motivate and attract qualified and experienced management and personnel is vital to its business. There can be no assurance that the Group will be able to successfully recruit and retain the necessary qualified personnel to staff the Group's business. The loss or diminution in the services of members of the Group's senior management team or an inability to recruit, train or retrain necessary personnel could negatively impact the Group's ability to implement its strategy.

Macroeconomic and Political Risks Related to Georgia

Regional tensions and disruptions in neighbouring markets could have a negative effect on Georgia's economy.

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories within its borders, Abkhazia and the Tskhinvali Region/South Ossetia. Ongoing political tensions within the region have led to sporadic outbreaks of violence and the straining of diplomatic relations between Georgia and its neighbours. Russia imposed sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed the international border and a state of war was declared. Although a French-brokered ceasefire was signed, calling for the withdrawal of Russian troops, Russia recognised the independence of the breakaway regions and tensions persist. The introduction of a free trade regime between Georgia and the EU in 2014 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 may exacerbate tensions between these countries. The geopolitical relationship between Russia and Ukraine remains strained following the crisis which began in 2013. Sanctions by the United States and the European Union against Russia continue and there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. The civil unrest which took place in Turkey during 2016 has placed significant doubt over Turkey's ability to function as a stable regional trading partner for Georgia. The failed coup attempt of 2016 has led to increasingly autocratic governance of Turkey and in April 2017, amendments to the Turkish constitution which grant the president wider powers were approved by voters in a referendum. These amendments could have a negative impact upon political stability in Turkey. Further geopolitical disharmony in the region, most notably between and Azerbaijan and Armenia may also impact upon Georgia.

There are risks associated with investing in emerging markets such as Georgia

Emerging markets may have higher volatility, more limited liquidity and a narrower export base than more mature markets and are subject to more frequent changes in the political, economic, social, legal and regulatory environment. They are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors may react to events, disfavouring an entire region or class of investment, a phenomenon known as the "contagion effect". If such a contagion effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by contagion effects in the past, including following the 1998 Russian financial crisis, the 2008-2009 global financial crisis, and recent regional turbulence due to lower oil prices, and may be affected by similar events in the future.

Increased volatility in global financial markets and lower capital flows to emerging market economies world-wide, weakness of global trade, elevated geopolitical risks, highly volatile and large and sustained declines in commodity prices, wide-ranging spill overs from Russia's recession, and the slowdown and rebalancing of China's economy may have an adverse effect on Georgia's economy. Financial or political instability in emerging markets also tends to have a material adverse effect on capital markets and the wider economy as investors generally move their money to more developed markets, which they may consider to be more stable. These risks may be compounded by incomplete, unreliable, unavailable or untimely economic and statistical data on Georgia, which may include such information disclosed in this Prospectus.

Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business

Since its independence from the former USSR in 1991, Georgia has experienced an ongoing and substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

Georgia faces several challenges, one of which is the need to implement further economic and political reforms. However, business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of existing reform policies or as a result of a rejection of reform policies by the president, the parliament or others.

In October 2010, the Parliament approved certain amendments to the constitution of Georgia (the **"Constitution"**) that were intended to enhance the primary governing authority of the Parliament, to increase the powers of the prime minister of Georgia and to limit the scope of functions of the president of Georgia. The Parliament adopted certain constitutional amendments further limiting the powers of the president of Georgia in March 2013. In October 2017, the Parliament made numerous changes to the Constitution introducing, *inter alia*, the indirect election of the president by the Parliament, a fully proportional electoral system of the Parliament starting from 2024, special status to agricultural land, and, raising the minimum age for members of the Parliament and the president. Any further changes to Georgian parliamentary, presidential or prime ministerial powers might create political disruption or political instability or otherwise negatively affect the political climate in Georgia.

The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on the business

Georgia is still developing an adequate legal framework with several fundamental civil, criminal, tax, administrative and commercial laws recently becoming effective. The recent introduction of this legislation and the rapid evolution of the Georgian legal system have resulted in ambiguities and inconsistencies in their application, including their enforceability. In addition, the court system in Georgia is understaffed and has been undergoing significant reform. Judges and courts in Georgia are generally less experienced in commercial and corporate law than in certain other countries, particularly in Europe and the United States. The uncertainties of the Georgian judicial system, and any decision made by the Georgian courts, could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on the Group.

There may be challenges associated with legislative harmonisation of the Georgian regulatory environment with the EU driven by the DCFTA

On 27 June 2014, Georgia entered into the EU Association Agreement (with effect from 1 July 2016) and established a DCFTA (effective since 1 September 2014) with the EU, which envisages bilateral trade liberalisation with the EU. The implementation of the EU Association Agreement is expected to create new business opportunities, although it may pose challenges for businesses, households and the state. The implementation of the EU Association Agreement and the DCFTA may require Georgia to conform to EU trade-related and sector-specific legislation, which is expected to be challenging, especially in the areas of environmental protection and customer safety, including product and safety information, among others.

Georgia has been gradually conforming its trade legislation to EU norms and practices since it became a member of the World Trade Organisation in 2000. For example, in 2013, it introduced amendments to the labour code to bring Georgian labour regulations closer to commitments under the EU Association Agreement and the DCFTA. These amendments required employers to pay overtime, increased severance pay (from one to two months salary), strengthened workers' rights to challenge employers' decisions in courts, prohibited dismissal without clear cause, and guaranteed basic working conditions. The amendments also strengthened the competition laws in Georgia, which could restrict the Group's ability to make further acquisitions in line with its growth strategy.

Other changes may be expected in governmental policy, including changes in the implementation or approach of previously announced government initiatives. In addition, the implementation of the EU Association Agreement may place a significant burden on regulatory bodies, divert their resources from on-going reforms and slow their efficiency.

As a result of expected regulatory amendments to achieve harmonisation with EU legislation, the Group may be required to adjust its policies and procedures to comply with any resulting changes in laws and regulations. For example, the Group has made changes to its labour contracts to reflect changes to the labour code described above. The Group expects that there will be further changes, although it cannot predict the extent to which it might be affected by, or able to comply with, any such changes. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Group and there may be changes in current tax laws and policies

Tax laws have not been in force in Georgia for significant periods of time compared to more developed market economies. This creates challenges in complying with tax laws, to the extent that such tax laws are unclear or subject to differing interpretations, and subjects companies to the risk that their attempted compliance could be challenged by the authorities. Tax law enforcement can also be unpredictable, such as the imposition of liens over the Group's assets.

Moreover, such tax laws are subject to changes and amendments, which can result in unusual complexities for businesses. A new tax code (the **"Tax Code"**) came into effect on 1 January 2011. In 2011, the Georgian Parliament passed the Organic Law on Economic Liberty prohibiting the introduction of new state-wide taxes or increases in the existing tax rates (other than excise) without a public referendum initiated by the Government (except in certain limited circumstances). This law has been in effect since 31 December 2013. Differing opinions regarding the interpretation of various provisions of the Tax Code exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. However, the Tax Code does provide for the Georgian tax authorities to give advance tax rulings on tax issues raised by taxpayers. While Management believes that the Group and members of the Group operating in Georgia (including the Bank) are currently in compliance with the tax laws, it is possible that the relevant authorities could take differing positions with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that the Group could face fines or penalties as a result of regular tax audits.

In addition, tax laws and government tax policies may be subject to change in the future, including changes resulting from a change of government. See "*—Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business*". Such changes could include the introduction of new taxes or an increase in the tax rates applicable to the Group or its customers, which may, in turn, have a material adverse effect on its business.

In May 2016, the Parliament adopted changes to the Tax Code related to corporate profit tax, whereby an enterprise will not be liable for the payment of profit tax until the enterprise distributes its profit to the shareholders or incurs such costs or makes supplies or payments that are subject to corporate profit tax. It is expected that this change will intensify the economic activity and increase the capitalisation of the private sector. The relevant amendments to the Tax Code have applied with effect from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). There can be no assurance, however, as to whether these amendments will achieve the desired result.

Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on the Group

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2017, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (including activities of the NBG) amounted to US$26.1 billion and €6.9billion, respectively, as compared to the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (including the sum of sales and purchase) of US$28.4 billion and

€10.8 billion, respectively, in 2016. According to the NBG, the NBG had US$3.0 billion in gross official reserves as of 31 December 2017. While the Government has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group's business, financial condition and results of operations.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy. There was significant instability in the Lari to US Dollar exchange rate following the Russian financial crisis of August 1998, following the conflict with Russia in 2008 and following the regional economic slowdown due to the fall in oil prices in 2015. In 2015, the NBG allowed the Lari to depreciate against the US Dollar by 28.5% and by a further 10.5% in 2016, in a measure aimed at alleviating the negative impact of the economic slowdown in neighbouring countries on the Georgian economy. While the Lari generally appreciated against the US Dollar and other major international currencies in the first half of 2016, primarily driven by an increase in the number of tourists travelling to Georgia, the Lari exchange rate experienced depreciation in the second half of 2016. The Lari/US Dollar exchange rate was 2.3949 as of 31 December 2015 and 2.6468 as of 31 December 2016. The Lari exchange rate has appreciated to date and the Lari/US Dollar exchange rate was 2.5922 as of 31 December 2017. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI and other currency inflows. Any failure to do so, or a major depreciation or further depreciation of the Lari, could adversely affect Georgia's economy.

According to information published by Geostat, annual inflation in Georgia, as measured by the end-of-period Consumer Price Index (**CPI**), was 4.9% in 2015, 1.8% in 2016 and 6.7% in 2017. There is no guarantee that the Georgian economy will not be further affected by domestic or global increases in food, consumer products and oil prices. See "*Factors Affecting Bank of Georgia Group PLC's Financial Statements—Macroeconomic Conditions*". Deflation, while increasing the purchasing power of the Lari, could adversely affect foreign investment and profitability in the lending activities of the Group. On the other hand, high and sustained inflation could lead to market instability, financial crisis, reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the Group's customers, which could, in turn, have a material adverse effect on its business.

Risks relating to the Demerger

A number of conditions precedent must be satisfied before the Proposals can complete

Completion of the Proposals is subject to the satisfaction (or, where permitted, waiver) of a number of conditions precedent contained in the Demerger Agreement (including the approval of the Scheme at the Court Meeting and the approval of the Proposals by BGEO Group PLC Shareholders at the annual general meeting of BGEO Group PLC) and successful completion of each of the individual steps of the Proposals. If BGEO Group PLC Shareholders do not approve the Scheme at the Court Meeting or the Proposals at the BGEO Group PLC annual general meeting, or the Court fails to sanction the Scheme or confirm the BGEO Group PLC Capital Reduction or the Bank of Georgia Group PLC Capital Reduction, the Demerger will not complete. If the Demerger does not occur in whole or in part, then the Group may experience a delay in the execution of its strategic objectives and may be unable to realise the benefits for shareholders that the BGEO Group PLC Board believe will result from the Demerger.

The Demerger may not occur even after the Scheme has become effective

Although the Proposals are intended to be implemented in full, the Scheme and the Bank of Georgia Group PLC Capital Reduction require different Court approvals which cannot be inter-conditional. It is therefore possible that the Demerger will not occur after Bank of Georgia Group PLC has become the new holding company of the Group pursuant to the Scheme. If that happens, BGEO Group PLC Shareholders will not receive Georgia Capital PLC Shares and the Investment Business will continue to be owned by Bank of Georgia Group PLC for the foreseeable future.

Some or all of the anticipated benefits of the Demerger may not be realised

BGEO Group PLC believes a demerger of its businesses will deliver additional long-term value to Bank of Georgia Group PLC and Georgia Capital PLC shareholders by creating two distinct entities which will have enhanced growth opportunities in the strongly growing Georgian economy. The Demerger entails execution risks and significant costs, and there can be no guarantee that the Group will realise any or all of the anticipated benefits of the Demerger in a timely manner or at all. Furthermore, the Demerger will require considerable management time and effort and may divert management's attention from day to day operations and if the Demerger does not complete and deliver the anticipated benefits, the Existing BGEO Group may be unable to realise the returns to shareholders from its businesses that the Board believes should result from the Demerger.

The financial results of Bank of Georgia Group PLC or Georgia Capital PLC after the Demerger may be more volatile than those of the BGEO Group PLC before the Demerger

BGEO Group PLC currently benefits from diversification, resulting from operating the businesses which will become Bank of Georgia Group PLC and Georgia Capital PLC. Following the Demerger, that diversification will diminish and Bank of Georgia Group PLC and/or Georgia Capital PLC may individually demonstrate increased volatility in terms of their operations and/or financial results and requirements.

The Demerger may give rise to other unanticipated tax consequences

BGEO Group PLC has undertaken tax due diligence to identify the likely tax treatment of the Demerger and the Scheme, and has structured the Demerger and the Scheme so as to mitigate any adverse tax consequences. However, tax law and practice can be subject to differing interpretations and, in some jurisdictions, the tax authorities may exercise discretion in how the tax law should be applied in certain cases. Consequently, the BGEO Group PLC is not able to guarantee that the tax authorities in each jurisdiction in which companies in the Group have a taxable presence will interpret or apply the relevant tax law and practice in the manner in which the Company anticipates and this may give rise to unintended tax consequences. Details of the United Kingdom and United States treatment of shareholders arising under the Scheme and the Demerger are set out in the sections entitled "*United Kingdom Taxation*" and "*United States Taxation*" in Part IX of the circular sent to BGEO Group PLC Shareholders who are advised to consult an independent professional adviser with regard to their personal tax consequences in connection with the Proposal.

Bank of Georgia Group PLC and Georgia Capital PLC could have significant indemnification obligations to each other as a result of the Proposals

Bank of Georgia Group PLC and Georgia Capital PLC have entered into certain Separation Agreements that govern the allocation of the assets and liabilities of the businesses and their post-Demerger obligations to each other in respect of, among other things, taxes and transitional services. Under the terms of the Demerger Agreement, each of Bank of Georgia Group PLC and Georgia Capital PLC has agreed to indemnify the other in respect of liabilities incurred by members of their respective groups prior to and following the Demerger Effective Time which relate to the Banking Business and the Investment Business, respectively. The amounts payable by Bank of Georgia Group PLC and Georgia Capital PLC to the other pursuant to such indemnity obligations could be significant and are not capped. In addition, In addition, the tax liabilities that could arise under the Tax Sharing and Indemnification Agreement could be significant. The tax liabilities that could arise under the Tax Sharing and Indemnification Agreement could be significant and are not capped.

Following the Demerger and the Exchange, the mandatory offer threshold for the Company will be lower than 30%

Following the Demerger and pursuant to the Exchange, the Company will issue 19.90% of its share capital to a subsidiary of Georgia Capital PLC. The shares held by Georgia Capital PLC and its Concert Parties will be subject to the Proportional Voting Mechanism for such time as their aggregate holding is greater than the Floor. The Panel Executive has confirmed that, for so long as the Proportional Voting Mechanism applies, shareholders in the Company other than Georgia Capital PLC and its Concert Parties will be treated for the purposes of the Takeover Code as being interested in such number of Proportional Voting Shares as is represented by the percentage of the Shares in issue in which they are interested (excluding the Proportional Voting Shares).

Consequently, Shareholders (other than Georgia Capital PLC and its Concert Parties) should take account of the Proportional Voting Shares in which they will be treated as being interested when considering the application of Rule 9 of the Takeover Code to them, because in practical terms the thresholds set out in Rule 9 of the Takeover Code will be reduced to the Effective Rule 9 Threshold (which as at the date of Admission will be 24.03% rather than 30% as prescribed by the Takeover

Code). Shareholders will need to monitor the number of Proportional Voting Shares as disclosed by the Company from time to time to obtain the latest Effective Rule 9 Threshold when buying or selling Shares. As a consequence of the Effective Rule 9 Threshold, there is a risk that Shareholders could be required to make a mandatory offer for the Company at a lower level of shareholding than is ordinarily required.

Risks relating to the Shares

The price of the Shares may be volatile

The price of the Shares following Admission could be subject to significant fluctuations due to the volatility of the stock market in general and a variety of other factors, some of which are beyond Bank of Georgia Group PLC's control, including the other risks relating to an investment in Bank of Georgia Group PLC described in this section. The fluctuations could result from national and global economic and financial conditions, the market's response to the Demerger, market perceptions of Bank of Georgia Group PLC, including its ability to manage its existing debt facilities and raise new capital, regulatory changes affecting Bank of Georgia Group PLC's operations, variations in Bank of Georgia Group PLC's operating results, business developments of Bank of Georgia Group PLC and/or its competitors and liquidity of financial markets. Furthermore, the operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Shares.

Any future equity issues by the Company could have an adverse effect on the market price of the Shares and could dilute ownership

Other than the proposed issue of shares under the Proposals, the Company has no current plans for an offering of its shares. However, it is possible that the Company may decide to issue additional shares in the future and if shareholders did not take up such offer or were not eligible to participate, their proportionate ownership and voting interests in the Company would be reduced and the percentage that their shares would represent of the total share capital of the Company would be reduced accordingly. A future equity issue, or significant sale of the Shares by major shareholders, could have a material adverse effect on the market price of the Shares as a whole.

Any change in current tax law or practice could adversely affect holders of the Shares

Statements in this Prospectus concerning the taxation of holders of the Shares are based on current UK, US and Georgian tax law and practice as of the date of this Prospectus, each of which is subject to change, possibly with retrospective effect.

The taxation of an investment in the Shares depends on the individual circumstances of the Company's shareholder and the summary of the UK, US and Georgian taxation treatment of an investment in the Shares set out in Part XXI: "*Taxation*" of this Prospectus is intended as a general guide only. It does not address the specific tax position of every investor and only deals with rules of UK, US and Georgian taxation of general application. Therefore, any investors who are in any doubt as to their tax position regarding the Shares and any investors subject to tax in any other jurisdiction should consult their own independent tax advisers.

Holders of the Shares in the United States and other overseas jurisdictions may not be able to participate in any future equity offerings of the Company

The Companies Act provides for pre-emption rights to be granted to the Company's Shareholders, unless such rights are disapplied by shareholder resolution. However, US shareholders may not be entitled to exercise these rights unless the rights, and the Shares issued pursuant to such rights, are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. The Company has no current intention to seek such registration and would evaluate, at the time of any rights issue, whether the offer would qualify for an exemption, as well as the indirect benefits to the Company of enabling US shareholders to exercise rights and any other factors it considers to be appropriate at the time, prior to making a decision on whether to utilise an exemption, if available, from the registration requirements of the Securities Act. Similar issues may arise in relation to other overseas jurisdictions.

The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or its Directors may be limited

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England. The rights of holders of the

Shares are governed by English law and by the Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors and executive officers. The majority of the Directors and executive officers are residents of the United Kingdom. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

The receipt of Shares could be a taxable transaction for BGEO Group PLC Shareholders for US federal income tax purposes.

The receipt of Shares by BGEO Group PLC Shareholders is intended to qualify for non-recognition treatment for US federal income tax purposes under the US Internal Revenue Code of 1986, as amended ("**IRS Code"**). BGEO Group PLC has received an opinion from its tax adviser (the "**US Tax Opinion"**) to the effect that, in the opinion of the tax adviser, while not free from doubt, the shareholders of BGEO Group PLC should not recognize gain or loss on the deemed exchange of the shares of BGEO Group PLC for shares of Bank of Georgia Group PLC. The US Tax Opinion is based on certain representations made by BGEO Group PLC and on certain assumptions, and any inaccuracy in the representations made by BGEO Group PLC or the assumptions could invalidate the US Tax Opinion.

If it were ultimately determined that the receipt of Shares failed to qualify for non-recognition treatment under the IRS Code, adverse US federal income tax consequences could result for a holder of BGEO Group PLC Shares who is a US person. A summary of the US federal income tax treatment for US persons of receipt of Shares pursuant to the Scheme are set out in the section entitled "US Federal Income Tax Considerations" in Part IX: "*Taxation*" of the BGEO Group PLC Circular.

PART III

IMPORTANT INFORMATION

Forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, ''forward-looking statements''. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology such as ''believe'', ''expects'', ''may'', ''will'', ''could'', ''should'', ''shall'', ''risk'', ''intends'', ''estimates'', ''aims'', ''plans'', ''predicts'', ''continues'', ''assumes'', ''positioned'' or ''anticipates'' or the negative thereof, other variations thereon or comparable terminology. They appear in a number of places throughout this Prospectus, involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Directors' or the Group's intentions, beliefs or current expectations concerning, in particular, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates and the general economic outlook. In particular, the statements under the headings ''*Summary*'', ''*Risk Factors*'', ''*Information on Bank of Georgia Group PLC*'' and ''*Operating and Financial Review*'' regarding the Group's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Directors, expressly disclaim any obligation or undertaking to update these forward-looking statements contained in the Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, or the Disclosure Guidance and Transparency Rules of the FCA.

These forward-looking statements speak only as of the date of this Prospectus. Except as required by the FCA, the London Stock Exchange, the Prospectus Rules, the Listing Rules, the Disclosure Guidance and Transparency Rules or applicable law, neither BGEO Group PLC nor the Company undertakes any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur.

The contents of these paragraphs relating to forward looking statements are not intended to qualify the statements made as to sufficiency of working capital in this Prospectus.

Notice to investors

Enforceability of US judgments

The Company is a public limited company incorporated under the laws of England and Wales. The majority of the Directors and officers reside outside the United States. In addition, substantially all of the Group's assets and the majority of the assets of its Directors and officers are located outside of the United States. As a result, it may not be possible for US investors to effect service of process within the United States upon the Company or its Directors and officers located outside the United States or to enforce in the US courts or outside the United States judgments obtained against them in US courts or in courts outside the United States, including judgments predicated upon the civil liability provisions of the US federal securities laws or the securities laws of any state or territory within the United States. There is also doubt as to the enforceability in England and Wales, whether by original actions or by seeking to enforce judgments of US courts, of claims based on the federal securities laws of the United States. In addition, punitive damages in actions brought in the United States or elsewhere may be unenforceable in England and Wales.

Overseas Shareholders

United States

The Shares to be issued in connection with the Scheme are expected to be issued in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) and, as a consequence, have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States.

The Shares generally should not be treated as "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and persons who receive securities in the Scheme and the Demerger (other than "affiliates" as described in the paragraph below) may resell them without restriction under the Securities Act.

Under the US securities laws, persons who are deemed to be affiliates of BGEO Group PLC, the Company or Georgia Capital PLC as of the Scheme Effective Time may not resell the Shares received pursuant to the Scheme without registration under the Securities Act, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. BGEO Group PLC's shareholders who believe they may be affiliates for the purposes of the Securities Act should consult their own legal advisers prior to any resale of the Shares received pursuant to the Scheme.

Other jurisdictions

The implications of the Proposals for Overseas Shareholders may be affected by the laws of jurisdictions outside the United Kingdom. Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. It is the responsibility of any Overseas Shareholders to satisfy themselves as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes or duties or payments due in such jurisdiction. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus has been prepared for the purposes of complying with English law and the rules of the FCA and the information disclosed may not be the same as that which would have been disclosed if this Prospectus had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

If, in respect of any Overseas Shareholder, the Company is advised that the allotment and/or issue of the Shares would or may infringe the laws of any jurisdiction outside the United Kingdom, or would or may require the Company to comply with any governmental or other consent or any registration, filing or other formality with which the Company is unable to comply or compliance with which the Company regards as unduly onerous, the Scheme provides that Bank of Georgia Group PLC may, in its sole discretion, either:

(a) determine that such Shares shall be sold, in which event the Shares shall be issued to such holder and the Company shall appoint a person who shall be authorised on behalf of such Overseas Shareholder to procure that any shares in respect of which the Company has made such determination shall, as soon as practicable following the Scheme Effective Time, be sold; or

(b) determine that such Shares shall not be issued to such Overseas Shareholder but shall instead be issued to a nominee for such holder appointed by the Company on terms that the nominee shall, as soon as practicable following the Scheme Effective Time, sell the Shares so issued.

Any such sale shall be carried out at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid to the relevant Overseas Shareholder by sending a cheque or creating an assured payment obligation in accordance with the terms of the Scheme. Any remittance of the net proceeds of the sale referred to shall be at the risk of the relevant Overseas Shareholder.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY, NOR SHALL THERE BE ANY SALE, ISSUANCE OR TRANSFER OF THE SECURITIES REFERRED TO IN THIS PROSPECTUS IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme and the Proposals to their particular circumstances.

PART IV

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical financial information for Bank of Georgia Group PLC

The Company was incorporated on 15 August 2017 in preparation for the Demerger. To provide financial results for the Company's business as it will be following the Scheme and Demerger, Part XXVI (*Historical Financial Information*) of this Prospectus contains the combined historical financial information of the banking business of BGEO Group PLC (the "**Banking Business**") as at and for each of the three years ended 31 December 2017 (the "**Historical Financial Information**"). The Historical Financial Information has been prepared in accordance with International Financial Reporting Standard ("**IFRS**"), as issued by the International Accounting Standards Board and adopted by the European Union except for the application of certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. Ernst & Young LLP ("**EY**") has prepared an accountant's report in respect of the Historical Financial Information (the "**Accountant's Report**") which is also included in Part XXVI (*Historical Financial Information*). In addition, Part XXVI (*Historical Financial Information*) contains financial statements of Bank of Georgia Group PLC as at and for the period ended 31 December 2017.

Non-IFRS Information

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. The non-IFRS measures described below are alternative performance measures (**"APMs"**) as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015 (the **"ESMA Guidelines"**). Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method.

The APMs used in this Prospectus include return on average assets (**"ROAA"**), return on average equity (**"ROAE"**), cost to income ratio, net interest margin (**"NIM"**), loan yield, liquid assets yield, cost of funds, cost of client deposits and notes, cost of amounts due to credit institutions, cost of debt securities, NBG liquidity, total average assets, total average liabilities, total average interest-bearing liabilities, total average equity, total average interest-earning assets and equity, NPLs, NPL coverage ratio, ratio of charge to average gross loans during the period, cost of credit risk, invested capital to assets ratio, leverage, NBG (Basel II) Tier 1 Capital Adequacy Ratio, NBG (Basel II) Total Capital Adequacy Ratio, NBG (Basel III) Tier 1 Capital Adequacy Ratio, NBG (Basel III) Total Capital Adequacy Ratio, NBG (Only) Tier 1 Capital Adequacy Ratio and NBG (Only) Total Capital Adequacy Ratio. The non-IFRS measures disclosed in this Prospectus are unaudited supplementary measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS. Although the APMs disclosed in this Prospectus are not measures of operating income, operating performance or liquidity derived in accordance with IFRS, the Company has presented these measures in this Prospectus because it considers that such measures may be used by some investors and analysts. The APMs disclosed in this Prospectus should not, however, be considered as an alternative to, in isolation from or as substitutes for financial information reported under IFRS. The APMs disclosed in this Prospectus are not measures specifically defined by IFRS and Bank of Georgia Group PLC's use of these measures may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology of similar measures by other companies in its industry.

Supplemental Data

The Group defines:

- *ROAA* as profit for the year divided by the total average assets (calculated as the sum of total assets at the start and at the end of the relevant year, divided by two);
- *ROAE* as profit for the year attributable to the shareholders of the parent divided by average invested capital attributable to the shareholders of the parent (calculated as the sum of total invested capital at the start and at the end of the relevant year, divided by two);

- *cost to income ratio* as operating expenses divided by revenue;
- *NIM* as net interest income divided by the average of interest-earning assets at the beginning and the end of the relevant year;
- *loan yield* as interest income from loans to customers and finance lease receivables for the year divided by average gross loans and finance lease receivables (calculated as the sum of total gross loans and finance lease receivables at the start and at the end of the relevant year, divided by two);
- *liquid assets yield* as interest income from total interest-earning liquid assets for the year divided by average liquid assets (calculated as the sum of total interest-earning assets at the start and at the end of the relevant year, divided by two). Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities but exclude cash on hand from cash and cash equivalents, and corporate shares from investment securities;
- *cost of funds* as interest expense for the year divided by total average interest-bearing liabilities (calculated as the sum of total interest-bearing liabilities at the start and at the end of the relevant year, divided by two);
- *cost of client deposits and notes* as interest expense on client deposits and notes for the year divided by average client deposits and notes (calculated as the sum of total client deposits and notes at the start and at the end of the relevant year, divided by two);
- *cost of amounts owed to credit institutions* as interest expense on amounts owed to credit institutions for the year divided by average amounts owed to credit institutions (calculated as the sum of total amounts owed to credit institutions at the start and at the end of the relevant year, divided by two);
- *cost of debt securities issued* as interest expense on debt securities issued for the year divided by average debt securities issued (calculated as the sum of total debt securities issued at the start and at the end of the relevant year, divided by two);
- *cost of risk* as impairment charges for loans to customers and finance lease receivables for the year divided by average gross loans to customers and finance lease receivable (calculated as the sum of gross loans to customers and finance lease receivables at the start and at the end of the relevant year, divided by two);
- *NBG liquidity* as daily average liquid assets (as defined by the NBG) during the month divided by daily average liabilities (as defined by the NBG) during the same month. Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities;
- *total average assets* as the sum of total average interest-earning assets, cash on hand, investment securities (non-interest earning) and all other assets (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below);
- *total average interest-earning assets* as the sum of amounts due from credit institutions, investment securities (interest-earning), loans to customers and finance lease receivables less reserve for loan and finance lease receivables losses (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below);
- *total average liabilities* as the sum of total average interest-bearing liabilities and all other liabilities (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below);
- *total average interest-bearing liabilities* as the sum of client deposits and notes, amounts due to credit institutions and debt securities issued (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below);
- *total average invested capital* as the sum of invested capital attributable to shareholders of the parent and non-controlling interest (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below);
- *total average liabilities and invested capital* as the sum of total average liabilities and total average invested capital (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below);
- *weighted average effective interest rate for each financial asset or financial liability* as the Group's interest income or expense, as applicable, for the last month of the applicable period in the relevant currency, divided by the average outstanding balance of the financial asset or financial

liability (calculated as the sum of financial asset or financial liability at the start and at the end of the relevant period, divided by two), then divided by the actual number of days in the period multiplied by 365 for 2017, 366 for 2016 and 365 for 2015 and 2014;

- *NPLs* as loans to customers and finance lease receivables with overdue payments of principal loan amount and/or interest by more than 90 days, plus problem loans based on management's judgement;
- *NPL coverage ratio* as allowance at year end for loans to customers and finance lease receivables impairment divided by NPLs;
- *ratio of charge to average gross loans during the* period as impairment charge for the year divided by the quarterly average net loans for the same period;
- *invested capital to assets ratio* as average invested capital to total average assets (calculated as described under "*Average Balance Sheet and Interest Rate Data*" below;
- *leverage* as total liabilities divided by total invested capital;
- *NBG (Basel II) Tier I Capital Adequacy Ratio* as Tier I Capital divided by Risk-Weighted Assets under Basel II as adopted by the NBG;
- *NBG (Basel II) Total Capital Adequacy Ratio* as Total Regulatory Capital divided by Risk-Weighted Assets under Basel II as adopted by the NBG;
- *NBG (Basel III) Tier I Capital Adequacy Ratio* as Tier I Capital divided by Risk-Weighted Assets under Basel III as adopted by the NBG;
- *NBG (Basel III) Total Capital Adequacy Ratio* as Total Regulatory Capital divided by Risk-Weighted Assets under Basel III as adopted by the NBG;
- *NBG (Only) Tier I Capital Adequacy Ratio* as NBG (Only) Tier I Capital Adequacy Ratio; and
- *NBG (Only) Total Capital Adequacy Ratio* as Total Regulatory Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II/III as adopted by the NBG).

Average Balance Sheet and Interest Rate Data

This Prospectus includes information on the average balances of interest-earning assets and interest-bearing liabilities of the Group's, as well as the weighted average effective interest rates and average balance sheet and yield rates. Unless otherwise expressly stated, average balances are based on the Group's consolidated quarterly balances (as of the end of each quarter) during the period, from the beginning of the period to its end.

Calculation of these average balances on a weekly or daily basis could result in materially different average results. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates used in preparation of the historical financial information of the Group. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate.

Market, Industry and Economic Information

The Company obtained macroeconomic and industry data principally from the NBG. The Company obtained further macroeconomic and industry data from GeoStat, the Government, the IMF, Business Monitor International and the Georgian Tourism Agency and the NBRB. The Company accepts responsibility for having accurately reproduced information obtained from third parties, and, so far as the Company is aware and have been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Available Information

For so long as any of the securities are in issue and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Bank of Georgia Group PLC will, during any period in which it is not subject to section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of Shares, or to any prospective purchaser of its shares designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Exchange Rates

Solely for the convenience of the reader, this Prospectus contains translations of certain GEL amounts into U.S. dollars at exchange rates as reported by the National Bank of Georgia and effective as of the dates specified herein. These exchange rates may differ from the actual rates used in the preparation of the Historical Financial Information for Bank of Georgia Group PLC and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the GEL amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all. References to "billions" are to thousands of millions.

The official exchange rate as reported by the National Bank of Georgia for the purchase of GEL on 31 December 2017 was GEL 2.5922 = U.S.$1.00.

The following table sets forth, for the years indicated, the high, low, average and period-end official exchange rates as reported by the National Bank of Georgia, in each case for the purchase of GEL, all expressed in GEL per U.S. dollar.

	(unaudited)			
GEL to U.S. dollar	**High**	**Low**	**Average**	**Period End**
2015	2.4499	1.8780	2.2702	2.3949
2016	2.7846	2.1272	2.3667	2.6468
2017	2.7674	2.3824	2.5086	2.5922

The following table sets forth, for the months indicated, the high, low, average and period-end official exchange rates as reported by the National Bank of Georgia, in each case for the purchase of GEL, all expressed in GEL per U.S. dollar.

GEL to U.S. dollar	**High**	**Low**	**Average**	**Period End**
December 2017	2.7193	2.5266	2.6125	2.5922
January 2018	2.5967	2.4578	2.5473	2.4969
February 2018	2.4962	2.4427	2.4643	2.4795
March 2018	2.4962	2.4328	2.4489	2.4401(1)

(1) To 20 March 2018.

PART V

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and/or date
Latest time and date for receipt of blue Forms of Proxy/CREST Proxy Instructions for the Court Meeting	**11.00 a.m. on 26 April 2018(1)**
Latest time and date for lodging an electronic proxy for the Court Meeting by way of CREST Proxy Instruction or online at www.sharevote.co.uk	11.00 a.m. on 26 April 2018(1)
Latest time and date for receipt of white Forms of Proxy/ CREST Proxy Instructions for the Annual General Meeting	**11.15 a.m. on 26 April 2018(1)**
Latest time and date for lodging an electronic proxy for the Annual General Meeting by way of CREST Proxy Instruction or online at www.sharevote.co.uk	11.15 a.m. on 26 April 2018(1)
Voting Record Time in respect of the Court Meeting and Annual General Meeting	6.00 p.m. on 26 April 2018(1)(2)
Court Meeting	**11.00 a.m. on 30 April 2018(1)**
Annual General Meeting	**11.15 a.m. on 30 April 2018(1)(3)**
The following dates are subject to change	
Scheme Court Hearing to sanction the Scheme and to confirm the BGEO Group PLC Capital Reduction	**18 May 2018(1)**
Last day of dealings in, and for registration of transfers of, and disablement in CREST of, BGEO Group PLC Shares	Up until 4.30 p.m. on 18 May 2018(1)(4)
Scheme Record Time	6.00 p.m. on 18 May 2018(1)(4)
Scheme Effective Time: Bank of Georgia Group PLC becomes the holding company of BGEO Group PLC	**Around 9.00 p.m. on 18 May 2018(1)**
Cancellation of listing of BGEO Group PLC Shares, Bank of Georgia Group PLC Admission, crediting of Shares to CREST accounts and dealings in Shares commence on the London Stock Exchange	**8.00 a.m. on 21 May 2018(1)**
Bank of Georgia Group PLC Court Hearing to confirm the Capital Reduction	**23 May 2018(4)**
Demerger Record Time	**6.00 pm on 25 May 2018(5)**
Demerger Effective Time: Demerger becomes effective	**Before 8.00 a.m. on 29 May 2018(5)**
Georgia Capital PLC Admission, crediting of Georgia Capital PLC Shares to CREST accounts and dealings in Georgia Capital PLC Shares commence on the London Stock Exchange	8.00 a.m. on 29 May 2018(5)
Georgia Capital PLC Court Hearing to confirm the Georgia Capital PLC Capital Reduction	26 June 2018(5)
Georgia Capital PLC Capital Reduction Effective Date	On or before 26 June 2018(5)
Dispatch of share certificates for Shares	by 4 June 2018(5)
Dispatch of share certificates for Georgia Capital PLC Shares	by 12 June 2018(5)

Unless otherwise stated, all references to times in this Prospectus are to London times.

The Court Meeting and the Annual General Meeting will each be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. and 11.15 a.m.(3), respectively, on 30 April 2018.

Notes:

(1) If the blue Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to Computershare, on behalf of the chairman of the Court Meeting, at the Court Meeting before the taking of the poll. However, the white Form of Proxy for the Annual General Meeting must be returned by no later 11.15 a.m. on 26 April 2018 to be valid.

(2) If either the Court Meeting or the Annual General Meeting is adjourned, the Voting Record Time for the adjourned meeting will be 6.00 p.m. on the date two days before the date set for the adjourned meeting.

(3) Annual General Meeting to commence at 11.15 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

(4) These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the BGEO Group PLC Capital Reduction. If any of the expected dates change, BGEO Group PLC will give adequate notice of the change by issuing an announcement through a Regulatory Information Service.

(5) These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the BGEO Group PLC Capital Reduction and the date upon which the Court confirms the Bank of Georgia Group PLC Capital Reduction. If any of the expected dates change, BGEO Group PLC will give adequate notice of the change by issuing an announcement through a Regulatory Information Service.

PART VI

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors

The Directors and their principal functions are as follows:

Directors	Functions
Neil Janin	Chairman
Kaha Kiknavelidze	Chief Executive
Alasdair Breach	Non-Executive Director
Hanna Loikkanen	Non-Executive Director
Tamaz Georgadze	Non-Executive Director
Jonathan Muir	Non-Executive Director
Cecil Quillen	Non-Executive Director

The business address of each of the Directors is the Company's registered address at 84 Brook Street, London W1K 5EH.

Company Secretary	Rebecca Wooldridge 84 Brook Street, London W1K 5EH
Registered Office	84 Brook Street, London W1K 5EH Tel: 020-31784052, or, when dialling from outside the UK, +44 (0)20 3178 4052. Registered in England and Wales with number 10917019.
Head Office of the Bank in Georgia	29a Gagarini Street, Tbilisi 0160, Georgia
Sponsor and Joint Financial Adviser	Citigroup Global Markets Limited Canada Square Canary Wharf London EC4N 8AL
Joint Financial Adviser	Numis Securities Ltd. 10 Paternoster Square London EC4M 7LT
Legal Advisers to Bank of Georgia Group PLC	Baker & McKenzie LLP 100 New Bridge Street London EC4V 6JA Dentons Georgia LLC Melikishvili Street #10 Tbilisi, 0179 Georgia
Legal Advisers to the Sponsor and Joint Financial Advisers	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
Auditors and Reporting Accountants	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

PART VII

INFORMATION ON THE PROPOSALS

Information on the Proposals is incorporated into this Prospectus by reference to Part II: ''Explanatory Statement'' of the BGEO Group PLC Circular and the related definitions contained in Part XII: ''Definitions'' of the BGEO Group PLC Circular.

PART VIII

INDUSTRY OVERVIEW

All figures in this section are unaudited

Introduction

The Georgian financial sector consists mainly of Georgian banks, non-bank depository institutions and microfinance organisations. Non-bank depository institutions and microfinance organisations provide only limited banking services, such as accepting deposits from and issuing loans to their members only (in the case of non-bank deposition institutions), or issuing micro-loans (in the case of microfinance organisations), while banks provide a wide range of banking services. The NBG is the regulator of the financial sector supervising the banking sector and the securities market. The responsibilities of the NBG in relation to the supervision of commercial banks include issuing licences, establishing mandatory financial ratios, regulating accounting and reporting rules and supervising compliance with laws and regulations. Generally, all credit institutions in Georgia are required to be licenced or registered by the NBG. The NBG is Georgia's central bank and it establishes minimum reserve requirements for commercial banks. The NBG also establishes Georgian monetary policy, controls inflation, issues money and ensures the effective functioning of payment systems.

As of 31 December 2017, there were 16 commercial banks operating in Georgia, 15 of which had foreign capital participation. According to information published by the NBG (based on data provided to the NBG by Georgian banks), as of 31 December 2017, the aggregate assets of all banks in Georgia were approximately GEL 34.6 billion (US$13.3 billion), with the five largest banks accounting for approximately 84.5% of total banking sector assets.

History of the Georgian Banking Sector

The Georgian banking sector was transformed immediately upon Georgia's independence from the Soviet Union in 1991, when a two-tier banking system was introduced: the Georgian branch of the former GosBank (State bank of the Soviet Union) became the NBG and various commercial banks were established in mid-1991. Subsequently, the five state-owned Georgian banks (Eximbank, Savings Bank, Agromretsvbank, Mretsvmshenbank and Binsotsbank) were fully privatised in the period from 1993 to 1995.

The NBG was established as an independent supervisory, regulatory and monetary body and many of the practices in place when it was part of the Soviet Union remained largely unchanged. In particular, the NBG was still directly influenced by the Government at that time and was required to finance the budget deficit and to continue to provide indirect loans to state-owned enterprises in Georgia.

During the period from 1991 to 1994, Georgia experienced intense political and economic turmoil resulting from the break-up of traditional trade relations within the Soviet Union, followed by a military coup, a civil war and two secessionist wars. As a result, Georgia experienced one of the deepest economic recessions among the former Soviet Union states. By 1994, the majority of commercial banks were in financial difficulty and, as a result of hyperinflation, bank deposits had lost almost all of their value.

On 23 June 1995, the Parliament adopted the Organic Law of Georgia on the National Bank of Georgia (the **"1995 NBG Law"**), and on 23 February 1996, it adopted the Law of Georgia on the Activities of Commercial Banks (the **"Banking Law"**), which strengthened the independence of the NBG and granted it more authority to suspend the licences of those banks which failed to meet prudential regulations. The NBG's banking supervision policy was based on the "25 Key Principles for Effective Banking Supervision" developed by the Basel Committee on Banking Supervision. Furthermore, new rules and procedures to regulate banking activities were introduced that envisaged the creation of a new system of assets classification in order to: identify credit risks with greater precision, enhance external and internal auditing functions and eliminate conflicts of interests in banking activities.

In 1997, further banking industry regulations came into force. The NBG lowered reserve requirements in an attempt to encourage greater financial intermediation in Georgia. At the same time, the minimum capital adequacy ratio was increased from 8.0% to 10.0% of total assets. In January 1997, the NBG announced its plan to gradually increase the minimum capital requirement for commercial banks to GEL 5.0 million by the end of 2000, in order to promote further consolidation of the banking sector. In 1998, the NBG pursued this objective by revoking the licences of banks that failed to meet minimal capital requirements and other prudential regulations.

The Russian financial crisis, which occurred in 1998, led to the devaluation of the Lari by 40.0%, a reduction in commercial bank deposits, and a significant slowdown in GDP growth. The NBG introduced stricter prudential regulations in order to stabilise the Georgian banking sector and prepared a plan to assist banks to maintain their liquidity by offering short-term liquidity loans.

In 1999, new accounting rules, consistent with international accounting standards, were introduced and minimum capital adequacy requirements were further strengthened. Furthermore, the NBG recommended that banks appoint international firms to carry out external audits with effect from February 1999.

In 2000, the NBG introduced the CAEL (capital, assets, equity and liquidity) methodology for the assessment of the financial position of operating commercial banks. This system, which has evolved into and is now known as the CAMEL (capital, assets, management, equity and liquidity) system, is routinely used by regulators to assess the performance of banks and develop a set of recommendations as to what measures need to be taken to induce improvements to the financial and operating results of the relevant banking institution.

A number of reforms were undertaken by the NBG in 2001 including the introduction of rules for asset classification and provisioning, and the utilisation of loan loss reserves by Georgian commercial banks that defined criteria for, among other things, a risk-weighted classification of bank loans (including contingent liabilities), inter-bank deposits, foreclosed collateral and the provisioning of loan loss reserves. In order to avoid conflicts of interest and prevent improper use of managerial privileges, a decree dealing with conflicts of interest and related party transactions in commercial banks was approved by the NBG in 2001. Furthermore, during the same year, the NBG introduced internal audit requirements for commercial banks, obliging them to conduct internal audits in order to control their banking operations.

In 2002, the NBG adopted a regulation on "Fit and Proper Criteria" for commercial bank administrators. The "Fit and Proper Criteria" was amended several times during the period from 2002 to 2008 to provide further guidance to Georgian banks, and was further revised in 2014.

To gradually increase the level of capitalisation and move towards European standards, in 2003, the NBG increased the minimum amount of required capital for Georgian commercial banks to GEL 12.0 million. During the same year, the NBG circulated an official letter to commercial banks requesting that they begin to introduce the best corporate governance practices based on the Organisation for Economic Cooperating and Development (**"OECD"**) Corporate Governance Principles of 1999.

During 2004 and 2005, the NBG continued to amend various regulations to facilitate the development and stability of the Georgian banking sector. The NBG relied principally on the key principles published by the Basel Committee on Banking Supervision.

In 2006, a restriction on the ownership of more than 25% of a Georgian commercial bank was repealed in order to promote investments in the banking sector, although the acquisition of more than 10%, 25% and 50% of a commercial bank in Georgia still requires the NBG consent and is subject to eligibility criteria. In the same year, certain measures were taken to increase the transparency of the banking sector, including obliging commercial banks to publish quarterly financial reports.

In 2008, the NBG approved comprehensive guidelines on risk management in Georgian commercial banks. As a result of such guidelines, each commercial bank is required to analyse its risk management systems, design a plan of action aimed at compliance with the guidelines and designate a person or group of persons responsible for preparing this action plan.

In March 2008, major reforms were carried out in respect of the Georgian financial sector regulatory system. Based on the amendments to the 1995 NBG Law, the Financial Supervisory Authority (**"Georgian FSA"**) was established to take over all supervisory functions of the NBG related to commercial banks and non-bank deposit institutions, except for the supervision of the minimum reserve requirements. The Georgian FSA also had the authority to supervise the securities market and insurance companies.

On 24 September 2009, the Parliament adopted a new Organic Law of Georgia on the National Bank of Georgia (the **"NBG Law"**) which came into effect on 12 October 2009 and which led to the liquidation of the then recently established Georgian FSA (as of 1 December 2009) and the transfer of the Georgian FSA's regulatory and supervisory functions back to the NBG. The NBG became the legal successor of the Georgian FSA. However, all of the rules, regulations licences, permits and registrations issued by the Georgian FSA remained valid. In September 2015, the Government proposed a banking supervision bill, which would move the Georgian FSA away from NBG to a new agency. The proposed amendments were largely criticised by various interested groups. Despite a presidential veto, the bill was approved by the Parliament in September 2015. The Constitutional Court, however, suspended the application of this disputed legislation until a final adjudication over the compliance of the adopted legislation to the Constitution, and the NBG continued to carry out its functions. On 10 March 2017, the Parliament adopted amendments to the relevant laws of Georgia (including the NBG Law and the Banking Law), based on which regulatory and supervisory functions of the Georgian FSA have been assigned back to the NBG.

In 2010, various bylaws were revoked and replaced as the NBG tried to revise legislation that it, and other former regulators of the financial sector, had passed. In May 2010, a new settlement system was introduced in IBAN (International Bank Account Number) format, which became mandatory for payments from 1 January 2013. In addition, in December 2010, a new payment and securities system (GPSS) was introduced, which comprises a real time settlement (RTGS) and securities settlement (CSD) module. Among other initiatives, the NBG has continued its efforts to harmonise commercial banks' financial reporting with international standards. A new rule on the External Audit of Commercial Banks was adopted in October 2010, which aimed to bring audit standards in line with international audit standards and regulate relations between regulators and external auditors.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. In 2013 the NBG introduced the new combined regulation on capital adequacy requirements based on Basel II and Basel III which become effective for Pillar I on 30 June 2014 and for Pillar II on 30 September 2014. The NBG is currently in the process of full implementation of Basel II/III in Georgia.

In May 2011, the NBG adopted the Rule on Supplying the Customers with Necessary Information During the Provision of Banking Services by Commercial Banks, which was replaced with the new Rule of Customer Rights Protection During the Provision of Services by Financial Institutions and was effective from 1 June 2017. The new Rule applies to commercial banks as well as microfinance organizations, non-bank depositary institutions and qualified credit institutions and, among other things, requires them to provide customers with clear and complete information regarding the financial products, including all costs related to credits and deposits, the method of calculating effective interest rate, information on currency risks and risks associated with specific financial products. It also prescribes the rules for accrual of commission fees on inactive financial products and establishes caps in the amount of 0.5%, 1% and 2% on the credit and loan prepayment fees (the percentage depends on the number of months remaining until the end of the credit agreement) that banks and other financial institutions may charge their customers.

In May 2017, the NBG introduced a liquidity coverage ratio for commercial banks, which became effective from 1 September 2017. Banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. Absent a stress-period, the ratio shall be no lower than 100%.

In May 2017, the Parliament adopted a new law on the System of Deposit Insurance, according to which deposits of individuals are subject to insurance coverage up to the amount of GEL 5,000. From 2020, the Government plans to extend mandatory deposit insurance coverage to legal entities. Commercial banks are obliged to make contributions to the deposit insurance fund.

In June 2017, the NBG adopted a new Regulation on Disclosure Requirements for Commercial Banks under Basel Pillar 3, requiring commercial banks to disclose qualitative and quantitative information about their regulatory capital elements, risk weighted assets, remuneration of senior management and other material issues, within the framework of Basel III.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and introduce: (i) additional capital buffer requirements for commercial banks within Pillar 2; (ii) new requirements on the determination of the countercyclical buffer rates; and (iii) the identification of systematically important banks and determining systemic buffer requirements.

The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel

Committee of Banking Supervision. The NBG designated three commercial banks in Georgia, including the Bank, DSIBs for which a systemic buffer has been introduced, which means that the DSIBs will be required to set aside more Basic Tier 1capital relative to risk-weighted assets (RWAs), with the requirements being phased in from the end of 2018 to the end of 2021. The amendments to Pillar 1 minimum requirements included:

- The separation of the 2.5% conservation buffer in the amount of 2.5%, which used to be merged with minimum capital requirements (Basic Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum regulatory capital requirements are currently 4.5% Basic Tier 1 Capital, 6.0% Tier 1 Capital and 8.0% Total Regulatory Capital (whereas previously the minimum regulatory capital requirements were 7% Basic Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Regulatory Capital); and
- The introduction of a requirement that banks hold an additional 'combined buffer' through Basic Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. See also "*Part XII (Regulation of the Georgian Banking Sector)—Regulatory Capital*"

The NBG also introduced additional capital buffer requirements for commercial Banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency risk buffer and a capital buffer for credit portfolio concentration risk. Capital buffers under Pillar 2 should be should be proportionately incorporated in capital requirements (Basic Tier 1 Capital 4.5%, Tier 1 Capital 6% and Total Regulatory Capital 8%). The additional Pillar 2 buffers will be implemented over a five-year transitional period, during which the required composition of the buffers will become more stringent by increasing the required proportions of Basic Tier 1 and Tier 1 Capital.

Overview of the Georgian Banking Sector

The Georgian banking sector has experienced rapid growth in recent years with banking sector assets increasing from US$6.0 billion in 2010 to US$ 13.3 billion in 2017. However, in 2008, Georgian commercial banks faced certain difficulties, which negatively affected certain performance indicators of the commercial banks, such as net profit and return on assets and equity. According to the IMF, the deterioration of banking sector conditions in 2008 was attributable to the rapid credit growth in the immediately preceding years, the 2008 Conflict, the impact of the global financial crisis and the devaluation of the Lari in November 2008. The Georgian banking sector stabilised over the course of 2009 and has experienced continued growth since late 2009. The devaluation of the Lari against USD in 2015 had a minor negative effect on NPL, and this was not material when measured against overall sector growth.

According to the NBG, the total assets of the Georgian commercial banking sector were GEL 34.6 billion (US$ 13.3 billion) as of 31 December 2017 and GEL 30.1 billion as of 31 December 2016, as compared to GEL 25.2 billion as of 31 December 2015. Aggregate loans granted by Georgian banks were GEL 22.3 billion (US$ 8.6 billion) as of 31 December 2017 and GEL 18.9 billion as of 31 December 2016, as compared to GEL 16.0 billion as of 31 December 2015, and the ratio of loans to GDP as of 31 December 2017 was 58.7%, as compared to 54.4% as of 31 December 2016, as compared to 49.5% as of 31 December 2015. The aggregate statutory shareholders' equity of Georgian banks was approximately GEL 4.4 billion (US$ 1.7 billion) as of 31 December 2017 and GEL 4.0 billion as of 31 December 2016, as compared to GEL 3.5 billion as of 31 December 2015. The aggregate profit of Georgian banks was approximately GEL 869.8 million (US $ 335.5 million) for the year 2017 and GEL 679.1 million as of 31 December 2016, as compared to GEL 537.4 million as of 31 December 2015. The following table sets out certain information regarding the banking sector in Georgia, Russia, Kazakhstan, Ukraine and Turkey as of 31 December 2017.

Country	Loan penetration	Deposit penetration
	(unaudited)	
	(%) GDP	
Georgia	50.5%	45.3%
Russia	54.7%	38.9%
Kazakhstan	44.9%	39.2%
Ukraine	76.1%	52.2%
Turkey	87.6%	63.8%

Source: IMF, Central Banks, Statistical offices

The following table sets out information regarding the Georgian banking sector and the five largest banks in Georgia as a group.

	(unaudited) 2017			*(unaudited)* 2016			*(unaudited)* 2015		
	Five largest Georgian banks	**Total Georgian banking sector**	**Five largest banks as a % of sector**	**Five largest Georgian banks**	**Total Georgian banking sector**	**Five largest banks as a % of sector**	**Five largest Georgian banks**	**Total Georgian banking sector**	**Five largest banks as a % of sector**
GEL thousands									
Total assets	29,229,611	34,593,510	84.5%	24,343,867	30,149,324	80.7%	19,562,748	25,165,414	77.7%
Gross loans	18,699,613	22,300,655	83.9%	15,264,699	18,934,157	80.6%	12,487,312	16,085,900	77.6%
Total deposits, excluding interbank deposits	17,452,905	19,782,019	88.2%	14,007,760	16,968,038	82.6%	11,507,935	14,326,071	80.3%
Shareholders' equity	3,455,112	4,434,654	77.9%	3,041,069	3,978,220	76.4%	2,576,489	3,512,735	73.4%
Net income	760,106	869,798	87.4%	583,606	679,101	85.9%	441,787	537,394	82.2%

Source: NBG

In recent years, the Georgian banking sector has become increasingly competitive. According to the statistics published by the NBG, as of 31 December 2017, there were 16 commercial banks in Georgia (15 of which had foreign capital participation). The Company considers that the Bank's principal competitors are TBC Bank, Liberty Bank, ProCredit Bank and VTB Georgia. The Bank faces particular competition from ProCredit Bank in relation to ProCredit Bank's large market share in SME and micro financing in Georgia. TBC Bank is the Bank's main competitor in the corporate and retail sectors. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. In Belarus, the Bank also competes with a wide range of local (including state-owned) and international banks.

Despite significant competition, Management believes that the Bank is well placed to retain its dominant market position among the top banks in Georgia that offer a wide range of retail and corporate products and services.

Assets and Liabilities, Credit Quality and Interest Rates

The majority of the assets of Georgian banks comprise of loans to private sector borrowers (excluding inter-bank loans). According to information published by the NBG (based on data provided to the NBG by Georgian banks), as at 31 December 2017 loans to private sector borrowers (excluding inter-bank loans) and investment securities represented 64.4% and 9.6% of total assets of Georgian banks respectively, as compared to 62.7% and 8.8% as at 31 December 2016. Aggregate loans amounted to GEL 22.3 billion as of 31 December 2017 representing an increase of 17.9% as compared to 2016. Aggregate loans amounted to GEL 18.9 billion as of 31 December 2016, representing an increase of 18.0% as compared to 2015. According to the NBG, the overall quality of loans granted by Georgian banks in 2017 improved and there was a decrease in the loan loss reserves/gross loans ratio to 5.2%, from a loan loss reserves/gross loan ratio of 6.2% as of 31 December 2016 and 6.3% as of 31 December 2015. Loan loss reserves as of 31 December 2017 amounted to GEL 1,169.2 million, as compared to GEL 1,177.2 million as of 31 December 2016 and GEL 1,015.8 million as of 31 December 2015.

As of 31 December 2017, the majority of aggregate liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 69.2% and borrowings accounted for 25.1% of total liabilities. As of 31 December 2016, non-bank and bank deposits accounted for 69.9% and borrowings accounted for 25.6% of total liabilities, while as of 31 December 2015, non-bank and bank deposits accounted for 71.6% and borrowings for 20.9% of total liabilities, respectively. In 2017, total deposits grew by 14.1%, while GEL denominated customer deposits increased by 40.7% and foreign currency denominated customer deposits grew by 3.9%. In 2016, total deposits grew by 18.0%, while GEL denominated customer deposits increased by 11.0% and foreign currency denominated customer deposits grew by 22.0%. In 2015, total deposits grew by 23.5%, while GEL denominated customer deposits decreased by 5.4% and foreign currency denominated customer deposits grew by 42.6%.

Based on information published by the NBG (based on data provided to the NBG by Georgian banks), average interest rates on loans granted by commercial banks were 12.2% in the year ended of 31 December 2017, 12.9% in 2016 and 13.2% in 2015. Average interest rates on loans denominated in Lari were 17.3% in the year ended of 31 December 2017, 18.3% in 2016, 17.6% in 2015 and the average interest rate on foreign currency loans was 8.9% of the year ended of 31 December 2017, 10.0% in 2016 and 10.8% in 2015. Average interest rates on foreign currency bank deposits were 2.9% in the year ended 31 December 2017, 3.6% in 2016 and 4.6% in 2015, whereas average interest rates on Lari-denominated bank deposits, were 7.2% in the year ended 31 December 2017, 7.5% in 2016 and 7.7% in 2015.

Based on information published by the NBG, the NBG's gross international exchange reserves were US$3.0 billion as of 31 December 2017, US$2.8 billion as of 31 December 2016 and US$2.5 billion as of 31 December 2015. The official exchange rate of the Lari against the US Dollar appreciated by 2.1% as of 31 December 2017 as compared to 31 December 2016, and depreciated by 10.5% as of 31 December 2016 as compared to 31 December 2015.

Dollarisation of the Georgian Economy

Following the economic and political uncertainties of the early 1990s and subsequent hyper-inflation, the Georgian economy underwent a process of dollarisation, whereby the US Dollar and other freely convertible currencies became the major means of payment and wealth accumulation in Georgia. This process was encouraged by the financial liberalisation of the mid-1990s, which allowed domestic financial intermediation to be conducted in both national and foreign currencies.

Dollarisation (foreign currency deposits as a percentage of total deposits) subsided with the stabilisation of the economy in 1995, only to increase again after the Russian financial crisis of 1998. The dollarisation rate declined between 2004 and 2008, with foreign currency deposits declining from approximately 85.1% of all client deposits and notes as of January 2004 to 64.5% as of January 2008. However, the dollarisation rate then increased as a result of the combined effects of the 2008 Conflict with Russia and the global financial crisis. The dollarisation rate increased to 72.9% as of January 2009, primarily as a result of the devaluation of the Lari by 16.1% in November 2008, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. Since 2011, deposit dollarisation was on a declining trend, however depreciation at end of 2014 pushed deposit dollarisation upward, followed by early signs of deposit de-dollarisation in 2017. The dollarisation rate has since decreased to 62.3% as of January 2014, but increased to 64.0% as of January 2015, 71.3% as of January 2016 and to 71.9% as of January 2017, before decreasing to 64.4% as of January 2018, primarily as a result of the appreciation of the Lari by 7.7% against the US dollar as of 31 January 2018 compared to 31 January 2017.

Based on information published by the NBG, the portion of gross loans denominated in foreign currency was 56.9% as of 31 December 2017, 65.4% as of 31 December 2016 and 64.2% as of 31 December 2015.

The portion of short-term loans denominated in foreign currency in total short-term loan portfolio was 38.7% as of 1 January 2018, 41.8% as of 1 January 2017, and was 44.0% as of 1 January 2016. The portion of long-term foreign currency-denominated loans (with a maturity of one year or more) in total long-term loan portfolio was 62.3% as of 1 January 2018, 70.7% as of 1 January 2017, and was 69.0% as of 1 January 2016. The NBG has taken steps to stimulate demand for the Lari, including the introduction of differentiated reserve requirements for domestic and foreign currencies. Various policies of the Government have also led to increased demand for the Lari. For example, contraction of the shadow economy traditionally served by the US Dollar naturally led to its replacement by the national currency. In 2013, the NBG launched a programme, pursuant to which it provides financing to Georgian banks secured with their GEL-denominated loan portfolio. This programme, which allows the Bank to issue Lari-denominated mortgage loans at rates lower than foreign currency denominated mortgage loan rates, is expected to support the growth of the Bank's overall, and particularly Lari-denominated mortgage loan book. Within this programme, the Bank may, from time to time, need to pledge corresponding portions of its mortgage loans receivables in favour of the NBG.

At the end of 2016, the Government presented the so-called "10-Point Larisation Plan", which is based on three pillars: (i) increased access to the long-term Lari-denominated loans; (ii) adequate sharing of foreign exchange risks; and (iii) pricing in Lari. Based on the 10-Point Larisation Plan, significant changes were made to Georgian legislation, including the Civil Code of Georgia and the NBG Law in January 2017. Changes included introduction of caps on effective interest rates, commissions, penalties and other financial sanctions related to credits/loans, restrictions on issuing small credits/loans in foreign currency, limitations related to attraction of funds from and issuing promissory notes to individuals, requirement of expressing prices in Lari when offering and/or advertising of goods and services (with exception of certain types of goods and services listed in the NBG Order No. 93/04 dated 22 June 2017). The Government's de-dollarisation initiatives included a one-off program, which was in effect from 15 January 2017 until 25 March 2017, allowing qualified borrowers to convert eligible US dollar denominated loans into Lari, at a discount compensated by the Government.

Additionally, in line with recent amendments to Georgian law, bank credits and loans to individuals in the amount less than GEL 100,000 must be issued in local currency effective from 15 January 2017. Based on the NBG Order No. 4/04 the above restriction does not apply to loans to individuals not having Georgian citizenship. In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, banks being required to hold an additional 'combined buffer' consisting of conservation, countercyclical and systemic buffers. The conservation buffer has been set at 2.5% of RWAs and the countercyclical buffer at 0%. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. Further, the NBG designated three commercial banks in Georgia, including the Bank, as DSIBs for which a systemic buffer has been introduced.

Foreign Investment

Though direct competition from foreign banks is not currently significant, there are currently no legal or regulatory barriers impeding foreign investment in the Georgian banking sector.

The share of the non-residents beneficiary owners in the Banks' assets amounted to 80% as of December 2016. According to information published by the NBG, as of 31 December 2017, there were 16 commercial banks (15 of which had foreign capital participation) operating in Georgia. Furthermore, the shares of the holding company of the Bank and a holding company of TBC Bank are listed on the London Stock Exchange.

Major foreign investors in the Georgian banking sector include the EBRD, FMO, IFC, DEG, EIB, EFSE, ADB, Hualing Group, Kreditanstalt für Wiederaufbau (the German Reconstruction Credit Institution or KfW), Joint Stock Company Procredit Holding, Access Microfinance Holding AG (Germany), Finca Microfinance Coöperatief U.A. (Netherlands), VTB Bank (Russian Federation), Halyk Bank (Kazakhstan), International Bank of Azerbaijan, Development Bank of the Caucasus (Azerbaijan) and Ziraat Bank (Turkey). In October 2017, European Financial Group B.V. (**"EFG"**) acquired a majority shareholding in JSC Liberty Bank.

Concentration within the Banking Sector

Recent years have been marked by increasing consolidation and concentration within the Georgian banking sector. According to information published by the NBG, as of 31 Decemeber 2017, the aggregate assets of all banks in Georgia were approximately GEL 34.6 billion, with the five largest banks accounting for approximately 84.5% of such assets.

Payment Systems

At the end of the 1990s, the Georgian banking sector began to develop real-time settlement systems and implement the centralised system of Society for Worldwide Inter-bank Financial Transactions (SWIFT). Banking card processing companies were established and Georgian banks began to issue international bank cards. The number of ATMs and POS terminals throughout Georgia has significantly expanded over the last few years and a number of initiatives to pay salaries to employees via banking cards (rather than in cash) have been implemented. All major card systems are accepted in Georgia, including VISA, MasterCard, American Express and Diners Club. All bank transfers are now done electronically and a clearing system for VISA card transactions in Lari (known as GNNSS) has been introduced. International and domestic money-transfer systems are widely used in commercial banks. In May 2010, a new settlement system was introduced in IBAN format, which has become mandatory for payments from 1 January 2013. In addition, in December 2010, a new payment and securities settlement system (GPSS) was introduced, which comprises a real time gross settlement (RTGS) and full versus payment (DvP)/free of payment (FoP) securities settlement (CSD) modules. According to the NBG, the total value of bank card transactions carried out using cards issued by resident issuers amounted to GEL 19.0 billion in 2017, GEL 15.3 billion in 2016 and GEL 13.2 billion in 2015. On 1 July 2012, a new Law of Georgia on Payment System and Payment Service (the **"Payment Systems Law"**) came into force. Pursuant to the provisions of that law, a number of concepts are being introduced to the governing statutory framework for the operation of commercial banks, including, among others, the notion of financial collateral (pledge), which, if and to the extent perfected, will be given preferential treatment during the temporary administration and liquidation of a commercial bank. The Payment Systems Law also introduces new principles to payment system regulation, such as the finality of settlement, which signifies a transfer order that is irrevocable, unconditional and enforceable by an account provider or settlement agent in the execution of a transfer instructed by, or on behalf of, an account holder. The Payment Systems Law also regulates the delivery of payment services, which, among other things, include the issuance and acquisition of payment instruments, including electronic money instruments; the issuance and use of electronic money to conduct payment operations via telephone, internet or other electronic means; and the fulfilment of payment transactions through, among others, telecommunication, digital and information technologies. Based on the Payment Systems Law, relevant amendments have also been made to the Banking Law that authorise commercial banks to engage in additional types of banking activity, namely to provide payment services, operate payment systems and act as settlement agents. The NBG has been granted the authority to supervise these matters through the registration of payment system operators and payment service providers, as well as establish minimum requirements, limitations and sanctions.

Credit Ratings

In May 2016, S&P affirmed its 'BB-/B' long and short-term foreign and local currency sovereign credit ratings on the Government, with stable outlook. In September 2017, Fitch affirmed Georgia's long-term foreign and local currency Issuer Default Rating and long-term senior-unsecured foreign currency bonds at 'BB-'; short-term foreign and local currency Issuer Default Ratings and short-term senior-unsecured local currency bonds were affirmed at B with stable outlooks. Fitch also affirmed the country ceiling at 'BB'. In September 2017, Moody's upgraded local and foreign currency issuer and foreign currency senior unsecured ratings for Georgia to 'Ba2' from 'Ba3'. The local currency bond and deposit ceilings were raised to 'Baa1' from 'Baa3'. The foreign currency bond ceiling was raised to 'Baa3' from Ba1 and the foreign currency bank deposit ceiling was raised to Ba3 from B1. In addition, the short-term foreign-currency bond ceiling was raised to 'P-3' from 'Not Prime' and the short-term foreign currency deposit ceiling was maintained at 'Not Prime'.

Fitch is established in the EU and, along with Moody's is registered under the CRA Regulation. S&P is not established in the EU and has not applied for registration pursuant to the CRA Regulation.

Several Georgian banks, including the Bank, have been rated by international rating agencies. In May 2017 Fitch affirmed its long-term foreign and local Issuer Default Ratings at 'BB-', short term foreign and local currency Issuer Default Ratings at 'B', viability rating at 'bb-' and support rating at 4 for the Bank, with a stable outlook. In March and August 2017, Moody's published credit opinions with foreign and local currency deposits rated at 'B1/NP' and 'Ba3/NP' respectively, each with a stable outlook. On 13 September 2017, Moody's upgraded the Bank's credit rating to 'Ba2' from 'Ba3', and the Bank's senior unsecured foreign-currency rating was also upgraded to 'Ba2' from 'Ba3' with a stable outlook.

Role of the National Bank of Georgia

The NBG is the central bank of Georgia, banking institution and fiscal agent of the Government. The main objective of the NBG is to maintain the stability of prices, which implies the existence of a moderate and predictable rate of inflation. The NBG is responsible, amongst other things, for ensuring the stability and transparency of the financial system and promoting sustainable economic growth in Georgia, implementing monetary and foreign exchange policies, supervising the banking sector (including through the setting of minimum reserve requirements) and other non-banking financial institutions and maintaining and managing Georgia's international reserves. The role and responsibilities of the NBG are set out in the Constitution, the NBG Law and other Georgian legislation. In addition, the NBG is expected to be guided by the rules and customs of international banking practice. The NBG is entitled to enter into agreements, acquire, hold and manage property, act as a claimant or defendant in legal proceedings and independently perform its functions.

The supreme body of the NBG is its Council, which has seven members and is responsible for the management and supervision of the NBG's activities. Amongst other things, the Council is responsible for the approval of the main principles of management of the international reserves of Georgia and of the rules of establishing foreign currency exchange rates. The President of the NBG is also Chairman of the Council and is appointed by the President of Georgia upon nomination of the Council. In addition to the Chairman, the Council consists of two Vice-Presidents and other members. Vice-Presidents are nominated by the President of the NBG and appointed by the Council. Members of the Council are elected for a seven-year term by the Parliament based on the nomination of the President of Georgia and are eligible for re-election. A member of the Council can only be removed by a decision of the Parliament by way of impeachment for breaches of the Constitution or the commission of a crime. In the event of impeachment, a new member must be elected to replace the impeached member. The President of the NBG is appointed and dismissed by the President of Georgia.

Under the NBG Law, the NBG has the following major functions:

Issuing Money and Regulating its Circulation

The NBG has the exclusive right to issue bank notes and coins in Georgia. The NBG is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

Monetary Policy

The main direction of the NBG's monetary policy is to attain and maintain the targeted rate of average annual increase of consumer price levels. The NBG implements monetary policy according to the main directions of monetary and foreign exchange policy defined annually by the Parliament.

The NBG is responsible for setting minimum reserve requirements for banks and non-bank depositary institutions and may increase the minimum required amount of reserves as it deems appropriate. These requirements are determined separately in Lari and foreign currencies depending on the average attracted funds, in order to promote the continued development of the domestic interbank market. The NBG has the power to impose fines on banks and non-bank depositary institutions that fail to maintain the minimum reserves.

In the conduct of its monetary policy, the NBG is permitted to issue debt securities and to purchase and sell such debt securities, as well as those issued by the Government, directly or under repurchase agreements in the open market. It is also authorised to issue loans to commercial banks and non-bank depositary institutions with appropriate security, accept deposits and be a lender of last resort to commercial banks for a period not exceeding three months (unless the stability of Georgia's financial system requires issuance of the loans by the NBG on different terms).

Foreign Exchange and International Reserves

The NBG determines the exchange rate for the Lari against the US Dollar according to the average weighted exchange rate calculated on the basis of the inter-bank spot transactions (including those in which the NBG is involved) and transactions between the banks and microfinance organizations registered in the Bloomberg Electronic Trading System within a specified period of time. As to the official exchange rate of the Lari against other foreign currencies, it is determined on the basis of cross-currency calculation of the exchange rates existing in international markets or internal currency markets of the issuer states. The NBG holds and manages the official international reserves.

Acting as Banker, Adviser and Fiscal Agent of the Government

The NBG advises the President and the Government, including the Minister of Finance, on all matters that relate to the activities of the NBG, the main parameters of the annual state budget and amendments to it, including the planning of domestic and external public sector borrowings. It is authorised to act as depository for deposits from the Treasury Service of Georgia and, in such capacity, to receive and disburse monies, maintain accounts and provide related services. The NBG is authorised to act as the fiscal agent of the state agencies in the marketing and administration of debt securities issued by such agencies.

Operation of Clearing and Settlement Facility

The NBG is entitled to establish procedures and issue regulations relating to clearing and non-cash settlement, organise implementation of the payment systems and provide service and administration of such systems to ensure their efficient operation. The NBG has the power to assist banks with organising and supervising payment systems.

Reporting

Not later than 1 October each year, the NBG submits a draft document on the main directions of the monetary and foreign exchange policy for the following three years to the Parliament for approval by the end of that year. If the Parliament fails to approve the draft document on the main directions of the monetary and foreign exchange policy by the end of the respective year, the NBG operates in accordance with its draft proposals. The draft document on the main directions of monetary and foreign exchange policy includes the targeted level of inflation, the main instruments of monetary policy used to attain the targeted inflation rate and a discussion of potential risks.

Within four months of the end of each fiscal year, the NBG submits a report on the implementation of its monetary and foreign exchange policies to the Parliament for its approval.

Role of the NBG as the Supervisor of Georgia's Financial Sector

Under the NBG Law, the NBG has the following major supervisory functions:

Supervision and Licensing

The NBG is responsible for the supervision of the activities of the commercial banks, banking groups, non-bank depositary institutions, brokers (except insurance brokers), securities' registrars, asset management companies, central depository, specialised depository, stock exchange, microfinance organisations, reporting companies, investment funds, payment system operators, payment service providers, credit information bureau, currency exchange offices and lending entities.

The NBG has the power to issue and revoke licences (if applicable), carry out inspections, impose restrictions and sanctions and place banks and non-bank depository institutions (as well as certain other financial institutions) into temporary administration and/or liquidation.

In December 2017, the Parliament of Georgia adopted amendments to the NBG Law, authorising the NBG to carry out supervision of the banking groups (groups of legal entities comprised of a commercial bank and its parent company/companies, subsidiaries of the bank and its parent company/companies, associated entities, joint ventures, including domestic and foreign, being financial institutions and/or entities engaged in banking related activities and/or banking holdings). The NBG has the power to: (i) audit the financial statements and other documents of relevant entities both on an individual and consolidated basis; (ii) have full access to the data and documents relating to the supervisory board, management and staff of each member of the banking groups; (iii) assess the risk profile, risk management framework and internal control mechanisms of the banking groups; (iv) set requirements regarding formation of the banking groups' structures, including to request changes (simplifications) to the ownership structure and/or group structure if the existing structure hinders the implementation of effective supervision and/or threatens or may threaten the stability and healthy functioning of the commercial bank and/or financial sector; (v) set capital adequacy, information disclosure, fit and proper persons criteria, corporate governance, reporting and audit related requirements for each commercial bank / member within the group.

Regulation of Reporting Rules and Capital Requirements

The NBG sets accounting and reporting rules and procedures for entities subject to its supervision, including commercial banks and non-bank depositary institutions and is entitled to carry out an audit of all of the relevant documents of such institutions and their subsidiaries. The NBG has the power to determine the minimum capital requirements, among others, for banks and non-bank depositary institutions and to obtain information about sources of capital, as well as owners and beneficial owners of significant interests in commercial banks. The NBG issues various regulations related to its supervisory functions.

Reporting

The NBG Council reviews, approves and submits an annual activities report and financial report of the NBG to the Parliament.

PART IX

INFORMATION ON BANK OF GEORGIA GROUP PLC

You should read the whole of this Prospectus (and the information incorporated by reference into it) and not just rely on key or summarised information.

This Part IX contains forward-looking statements that involve risks and uncertainties. Bank of Georgia Group PLC's actual results could differ materially from those anticipated in these forward-looking statements as a result of such risks and uncertainties. You should read Part II "Risk Factors" and Part III "Important Information" of this Prospectus for a discussion of the risks and uncertainties related to these statements.

During the period between the Scheme Effective Time and the Demerger Effective Time (which is expected to be a period of three days), Georgia Capital PLC will be part of the Group prior to the Demerger. Information about Georgia Capital PLC is incorporated into this Prospectus by reference to Part X: "Information on Georgia Capital PLC" of the Georgia Capital PLC Prospectus and the related definitions contained in Part XXI of the Georgia Capital PLC Prospectus. Georgia Capital PLC will cease to be part of Bank of Georgia Group PLC with effect from the Demerger Effective Time and therefore the use of the term "Group" in this Part IX is a reference to the Group as it will be following the Demerger.

The terms "loan(s)" and "loans to customers", as used in this section, means the sum of loans to customers and finance lease receiveables.

Overview

Bank of Georgia Group PLC is a Georgia-based banking group which until the Scheme Effective Time has BGEO Group PLC as its ultimate parent company. The Group has an investment arm which will be separated from the Banking Business by means of the Demerger.

With effect from the Scheme Effective Time, Bank of Georgia Group PLC will become the ultimate parent company of BGEO Group PLC and will shortly thereafter be listed on the premium segment of the London Stock Exchange. Prior to the implementation of the Proposals, Bank of Georgia Group PLC will not form part of BGEO Group PLC and therefore references in this Part IX to the Bank of Georgia Group PLC are references to Bank of Georgia Group PLC once the Scheme and the Demerger have become effective. The Bank is the largest asset of the Group and therefore much of the commentary in this Part IX relates to the Bank. See "*Part VII (Information on the Proposals)*" for further details of the Demerger.

The market capitalisation of BGEO Group PLC as of 22 March 2018 was £1.429 billion. The Banking Business accounted for 85.1% and 85.9% of BGEO Group PLC's total assets as of 31 December 2017 and 31 December 2016, respectively.

The Group provides retail banking and corporate investment banking services (CIB), with ancillary business lines including leasing (**"GLC"**), payment businesses and BNB (which provides banking operations in Belarus). The Bank's market share in Georgia was 34.4%, 32.4%, 33.9% and 29.3% based on total assets, total gross loans, total client deposits and notes and total equity, respectively, according to statistics published by the NBG as of 31 December 2017. The Group strives to benefit from the underpenetrated banking sector in Georgia, in particular through providing best in class services in retail banking. The Group focusses on retail banking and corporate investment banking in Georgia, and also provides banking operations in Belarus. For the year ended 31 December 2017, the Group generated profit of GEL 369.5 million (US$ 142.5 million).

The Company believes that recent, and potential future, growth in the Georgian economy provides opportunities in a number of underdeveloped markets and that it is well positioned to capture growth opportunities in the Georgian corporate sector. Bank of Georgia Group PLC aims to deliver on its strategy, targeting a return on average equity (**"ROAE"**) of at least 20% and annual growth of its loan book by 15 to 20%.

The following tables set forth selected combined figures relating to the Group as of the dates and for the periods specified:

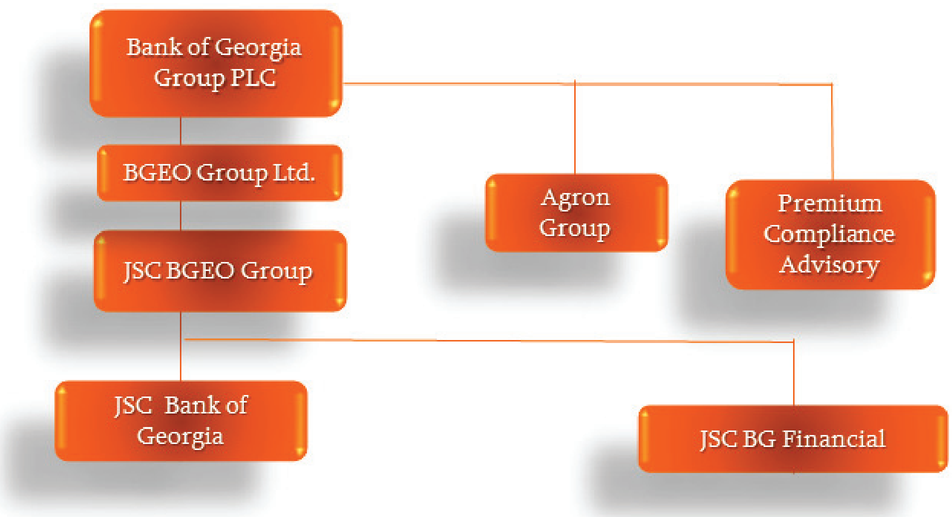
	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	4,979,430	12,907,679	11,123,143	9,051,332
Loans to customers and finance lease receivables, net	2,986,429	7,741,420	6,681,666	5,366,760
Client deposits and notes	2,730,522	7,078,058	5,755,767	5,011,269
Total invested capital	598,991	1,552,708	1,352,288	1,248,663

Notes:
(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Profit for the year	142,550	369,519	295,703	261,795

Notes:
(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The following simplified diagram illustrates the structure of the Group immediately following the Demerger Effective Time, indicating the ownership interests of Bank of Georgia Group PLC in the principal Group companies and investments.



Overview of Main Business Lines

- ***Retail Banking.*** The Group is the leader in retail banking in Georgia in terms of its distribution network, with 281 branches and 850 ATMs as at 31 December 2017. As of 31 December 2017, the Bank had a 34.6% market share based on deposits from individuals and a 35.5% market share in retail loans (based on loans to individuals), according to information published by the NBG. Management believes that the Group offers the most comprehensive range of financial products in the Georgian retail market. Through its client-centric, multi-brand strategy, the Group reaches the entire spectrum of retail customers. The Group's Retail Banking products and services include retail lending, deposit accounts, ATM services, internet, mobile, telephone and SMS banking, utility bill payments and money transfer services. For the years ended 31 December 2017 and 31 December 2016, The Group's Retail Banking business generated profit of GEL 249.7 million (US$96.3 million) and GEL 209.3 million, respectively, corresponding to 67.6% and 70.8%, respectively, of the Group's total profit for the respective periods.

- ***Corporate Investment Banking (CIB).*** The Group's combined corporate banking and investment management unit consists of the Bank's corporate banking unit, the Group's investment management business and the Bank's Georgian leasing subsidiary. The Bank has a market share of 33.1% based on total customer deposits (based on deposits from legal entities) and 28.9% based on total corporate loans (based on loans to legal entities) as of 31 December 2017, according to information published by the NBG. The Bank provides corporate lending and finance leasing (principally in US Dollars), in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. The Group's investment management business consists of the Bank's Wealth Management and the Group's brokerage arm, Galt & Taggart. The Bank's Wealth Management provides private banking services to high net worth individuals from 75 countries and offers investment management products internationally through representative offices in London, Budapest, Istanbul, Tel Aviv and Limassol. Galt & Taggart is a leading provider of investment banking and investment management services in Georgia and offers corporate advisory, private equity and brokerage services under one brand. For the years ended 31 December 2017 and 31 December 2016, the Group's CIB business generated profit of GEL 105.9 million (US$ 40.9 million) and GEL 88.3 million, respectively, corresponding to 28.7% and 29.9%, respectively, of the Group's total profit for the respective periods.

- ***Belarusky Narodny Bank (BNB).*** Through BNB, the Group's majority owned subsidiary (99.98%), the Group provides SME and retail banking services in Belarus. For the year ended 31 December 2017 and 31 December 2016, BNB generated profit of GEL 10.3 million (US$ 4.0 million) and GEL 2.7 million, respectively, corresponding to 2.8% and 0.9%, respectively, of the Group's total profit for the respective periods.

Strengths

Management believe that the Group benefits from the following strengths:

- ***Comprehensive retail banking franchise with opportunities for cross and up-selling.*** Management believes that the Group offers the most comprehensive range of financial products in the Georgian retail market. The Bank's Retail Banking products and services include retail lending, deposit accounts, ATM services, Internet, mobile, telephone and SMS banking, utility bill payments and money transfer services. The Bank's credit card operations serve more than 2.2 million cards, and the Bank is the exclusive issuer of American Express credit cards in Georgia to 2023 (inclusive). The Retail Banking business operates a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers in Georgia through three well-established and recognised brands:

  - ***Mass Retail is a flagship brand***. Mass Retail is a flagship brand in Georgia. Through its network of 113 mass retail branches as of 31 December 2017, it targets the mass retail segment, and had approximately 1.6 million individual clients and 165,781 MSME customers as of 31 December 2017. The Bank has exclusive arrangements to issue American Express cards and provide acquiring services in Georgia, as well as a right to issue Bank-branded contactless cards to users of the Tbilisi municipal metro and bus transport payment system.

- ○ ***Express***. As of 31 December 2017, the Bank's Express brand had 524,366 active emerging retail customers, providing banking services through cost-efficient channels such as ATMs, internet and mobile banking and technology-intensive Express branches. The Bank is the market leader in Georgia in the payment systems market as of the date of this Prospectus. See "*—Strategy*".
- ○ ***Solo.*** In 2015, the Bank introduced the Solo brand to target the emerging mass affluent segment (that is, individuals with a monthly income of at least GEL 3,000). As of 31 December 2017, the Bank had 32,104 active Solo customers, who were served by personal bankers in 12 Solo lounges, where Solo customers have the ability to purchase certain luxury goods at cost and have access to exclusive entertainment events, such as, concerts exclusively for Solo clients. In addition, Solo customers have the opportunity to join Solo Club which gives them priority access to exclusive Solo offers. Solo customers also have exclusive access to new financial products developed by Galt & Taggart, the Company's brokerage business subsidiary, such as bonds with higher yields. The Bank intends to increase the number of Solo customers to approximately 40,000 by the end of 2019.

- ***Strong corporate investment banking franchise***. The Bank had a market share of 33.1% based on total customer deposits of legal entities and 28.9% based on total loans to legal entities as of 31 December 2017, according to information published by the NBG. As of 31 December 2017, the Bank had 4,018 corporate investment banking customers, a corporate investment banking gross loan portfolio of GEL 2,412.6 million (US$ 930.7 million) and client deposits and notes of GEL 3,457.3 million (US$1,333.7million). Of the Bank's corporate investment banking client deposits and notes, as of 31 December 2017, GEL 1,276.4 million (US$ 492.4 million) were Lari-denominated and GEL 2,180.9 million (US$ 841.3 million) were foreign currency denominated, providing it with a strong funding base. The Bank's corporate investment banking business also provides cross-selling opportunities, including non-banking products and services.
- ***Market Share.*** As disclosed above, the Bank had a market share of 33.1% based on total customer deposits of legal entities and 28.9% based on total loans to legal entities as of 31 December 2017, according to information published by the NBG. As of 31 December 2017, the Bank had 4,018 corporate investment banking customers, a corporate investment banking gross loan portfolio of GEL 2,412.6 million (US$930.7 million) and client deposits and notes of GEL 3,457.3 million (US$1,333.7 million). Of the Bank's corporate investment banking client deposits and notes, as of 31 December 2017, GEL 1,276.4 million (US$492.4 million) were Lari-denominated and GEL 2,180.9 million (US$ 841.3 million) were foreign currency denominated, providing it with a strong funding base. The Bank's corporate investment banking business also provides cross-selling opportunities, including non-banking products and services. Management believes that the Bank's brands and extensive distribution network give it a strong platform from which it can cross-sell and up-sell its products and services to new and existing customers across the Bank and achieve its strategic priorities for the next three years (see "*—Strategy"). The NBG has classified the Bank as one of three financial systemically important institutions in Georgia.*
- ***Strong liquidity and regulatory capital at the Bank***. The Bank is well capitalised and maintains strong liquidity positions. According to NBG Basel III standards as applied in Georgia (see "*Regulation of the Georgian Banking Sector—Regulatory Capital*"), on a stand-alone basis, the Bank had a Basic Tier 1 Capital ratio of 12.4%, a Tier 1 Capital ratio of 12.4% and a Total Regulatory Capital ratio of 17.9% as of 31 December 2017. These NBG ratios are in excess of the Basel III minimum ratio requirements of 8.1% for Basic Tier 1 Capital, 9.9% for Tier 1 Capital and 12.4% for Total Regulatory Capital (applicable as of 31 December 2017). During a transitional period from 2014 to 31 December 2017 (in addition to Basel II minimum ratio requirements of 7.0% for Basic Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Regulatory Capital), the Bank was required to comply with certain ratios set by NBG President Order No. 18/04, being a Tier 1 Capital ratio of 6.4% and a Total Regulatory Capital ratio of 9.6% as minimum requirements applicable in 2017 and both calculated pursuant to NBG Presidential Order No. 18/04 (these ratios have been phased out since 1 January 2018). The Bank also maintains a strong liquidity position, with an NBG liquidity ratio (calculated as average liquid assets during the month (as defined by the NBG) compared to liabilities for the same month (with certain exceptions established by the NBG), which include borrowed funds with an effective maturity of less than six months (with certain exceptions established by the

NBG) plus certain off balance sheet commitments maturing within six months) of 34.4% and 37.7% on a stand-alone basis as of 31 December 2017 and 31 December 2016, respectively, in each case, above the NBG requirement of 30%. BNB is also well capitalised. As of 31 December 2017, BNB's Tier 1 ratio (calculated in accordance with NBRB guidelines) was 8.1% and BNB's Total Capital (calculated in accordance with NBRB) was 14.1%, above the minimum required levels of 6.0% and 10.0%, respectively. For further information on NBRB, see "—*Banking Business—Belarus Banking Operations*".

- ***Prudent risk management and focus on sound asset quality***. The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security.

- ***Track record of profitable growth while reducing risk***. The Group's gross loans have increased from GEL 5,567.8 million as of 31 December 2015 to GEL 8,020.8 million, as of 31 December 2017, or by 44.1%, and client deposits and notes have increased from GEL 5,011.3 million as of 31 December 2015 to GEL 7,078.1 million, as of 31 December 2017, or by 41.2%. From the year ended 31 December 2015 to the year ended 31 December 2017, the Group's profit grew from GEL 261.8 million for the year ended 31 December 2015 to GEL 369.5 million for the year ended 31 December 2017 and ROAE increased from 21.7% to 25.6%. From 31 December 2015 to 31 December 2017, the Group's cost of risk decreased from 2.9% to 2.1% and the Group's consolidated currency-blended loan yield decreased from 15.7% to 13.5%. Management believes that the Bank's platform will allow it to continue to increase the scale of its businesses at relatively low marginal costs while further reducing portfolio risk.

- ***Galt & Taggart is a market leader in the region for investment banking.*** Galt & Taggart is a market leader in investment banking. Since 2014, the company has underwritten more than GEL1 billion of local bond issuances.It regularly provides research papers on the Georgian market, as well as Ukraine, Azerbaijan, Armenia and Kazakhstan. It also regularly participates in debt financing syndications.

- ***Experienced management with a deep understanding of the local market***. Bank of Georgia Group PLC's senior management team is comprised of experienced, primarily Western-educated and trained professionals with significant domestic banking and international investment banking expertise. Since the appointment of the majority of the current management team in the fourth quarter of 2004, the Bank has grown approximately 34.0 times in asset size, while maintaining an emphasis on asset quality and conservative risk management policies; increased its total market share, measured by total assets, from 19.0% to 34.4%; diversified its business; established itself as a borrower in the international markets; attracted new institutional equity investors (at the level of its parent company); and strengthened its transparency and corporate governance policies and procedures. Management believes that these factors, together with its strong understanding of the Georgian market and the local financial services sector, have allowed it to respond rapidly and positively to market developments.

- ***Shareholder aligned remumeration policy***. The Company's remuneration policy follows the model implemented by the Existing BGEO Group, and is aligned with its long term development strategy and the value creation interests of its shareholders. The Company's remuneration policy stipulates that the salaries of the Company's senior managers are heavily weighted towards deferred share remuneration and does not allow discretionary bonuses for senior managers to be paid in cash.

- ***Transparency and robust corporate governance***. Following the Demerger the Group will in effect be the successor to the Existing BGEO Group. BGEO Group PLC and the Existing BGEO Group have, and the Group will continue to have, a culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Guidance and Transparency Rules since November 2006, when the Bank became the first Georgian entity to list its global depositary receipts (**"GDRs"**) on the London Stock Exchange. Moreover, BGEO Group PLC has complied in all material respects with the robust corporate governance standards for a premium listed company since 2011, when its shares were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. BGEO Group PLC supplements compliance with these requirements with a robust internal corporate governance policy. The Group's Board is comprised of seven directors, five (with the exception of the CEO and the Chairman, the latter was considered independent on appointment) of whom are considered to be independent non-executive directors. Several members of the Board have experience at the Existing BGEO Group level, including the chairman, CEO and four independent non-executive directors. All members of the Board have relevant backgrounds, including in banking and financial services, asset management, accounting, corporate law and management consulting. The Group sets the strategy for the Bank and its high standards of governance, as well as those ingrained within BGEO Group PLC and the Bank. The Bank therefore also maintains high standards of governance and transparency.

- ***Strong institutional investor support.*** The ultimate parent company of the Existing BGEO Group, BGEO Group PLC has strong institutional investor support with shareholdings of 8.43%, 4.97%, 4.94% and 3.52% held by Harding Loevner LP, Schroder Investment Management, Standard Life Aberdeen plc and LGM Investments Ltd, respectively, as of 31 December 2017. The Group expects this investor support for the Existing BGEO Group and its strategy will continue for the Group.

Strategy

The Company's strategy for its Banking Business remains consistent with that of its predecessor, BGEO Group PLC. It will continue to strive to benefit from the underpenetrated banking sector in Georgia. In particular, it will focus on the following strategic goals:

- ***Increase its product to client ratio.*** The Bank aims to increase its product to client ratio in its mass retail segment from 1.8 in as at 31 December 2017 to 3.0 by the end of 2019 by shifting to a client-centric model, which includes rolling out branches redesigned in consultation with a global management consulting firm; providing a more client-centric service by training front office personnel to sell and service the Group's entire product range and freeing up their time by moving processes that are not client-facing to the back office; and developing client-centric digital channels.

- ***Grow its Solo and SME businesses.*** The Bank currently has over 32,000 Solo clients and intends to increase this number of clients in the mass affluent segment to 40,000 by the end of 2019 and generate customer loyalty by improving the Solo offering. The Bank also intends to increase the number of its SME customers and continue to cross-sell Solo banking services to the owners and executives of its SME customers, and Retail Banking services to their employees. The Bank is in the process of identifying premium SME customers (based on their turnover, size of loans and deposits, payroll and customers with growth potential) and willassign relationship managers to these accounts where appropriate. The Bank is also in the process of mapping its Solo customer relationships and obtaining data to enable it to better tailor its services to customers, improving customer service through its own network and referrals and improving efficiency in terms of the number of customers per banker. It is also considering opening new lounge style branches to appeal to younger customers as well as new digital banking applications, incentives such as health checks for leading clients, platinum American Express cards and separate packages with differential pricing models.

- ***Grow fee income.*** The Bank aims to focus on further increasing fees and commission income from corporate investment banking customers, and in particular from its trade finance franchise, which the Bank believes is the strongest in the region.

- ***Become regional private banking hub.*** Bank of Georgia Group PLC's investment (wealth) management business provides a private banking services to high net worth individuals from up to 75 countries and offers investment (wealth) management products internationally through representative offices in London, Budapest, Istanbul, Tel Aviv and Limassol. This business leverages the Bank's knowledge and capabilities in the Georgian and neighbouring markets in terms of research and expertise. Bank of Georgia Group PLC believes that Georgia is well placed to become the regional private banking hub due to its relatively sophisticated regulatory system (including anti money laundering legislation which requires reporting entities (including commercial banks) to monitor and report suspicious transactions and cash transaction reports which exceed GEL 30,000 (or the foreign currency equivalent)), high standards of customer protection and favourable tax laws.

The key elements of the Bank's business strategy are set out below:

- ***Gain leading position in the growing and still under-penetrated Georgian banking market.*** The Bank intends to continue to focus on growth, with particular emphasis on retail banking, however, with balanced growth both in retail and corporate investment banking. It had set a target loan portfolio comprising 65% retail and 35% corporate loans, which it has already achieved as of December 2017. The Bank believes that the customer acquisition phase of its development is largely completed and is now focused on increasing the "share of wallet", or product to client ratio. The Bank intends to increase its mass retail product-per-client ratio from 1.8 as of 31 December 2017 to 3.0 as of 31 December 2019 through an expanded product offering and cross-selling. See also "—*Retail Banking—Overview*". The Bank plans to continue to invest in Information Technology (**"IT"**) and in its payment business, as demonstrated by the launch of a mobile banking application in May 2017, which enables users to, amongst other things, check their balance and transfer funds on their mobile devices. Management believes that the app will help attract new Express customers and that a significant portion of customers will become Express customers over time, enabling its flagship branches to focus on value-added services. The Group also intends to increase its market share in the mass affluent segment through its Solo offering over the next two to three years. The Group intends to increase the number of Solo customers to approximately 40,000 by the end of 2019.

  The Group's corporate banking business will also seek to increase its ROAE and decrease the cost of credit risk by syndicating its loans and assisting corporate clients to replace bank debt with locally-listed bond issuances through Galt & Taggart. The Bank also aims to focus on further increasing fees from its trade finance franchise, which Management believes is the strongest in the region. As Georgia has a pay-as-you-go pension system, the Company believes that the Bank's international wealth management franchise can benefit by focusing on the distribution of local debt. The Group estimates that approximately 70% of the demand for local debt issuances has come from international wealth management clients. Management believes that further enlarging the Bank's international wealth management franchise will be critical to the Bank's strategy of building local capital markets.

- ***Increase the Bank's loan portfolio while maintaining asset quality***. The Bank will seek to expand its loan portfolio and deposit base by expanding its retail and corporate investment banking portfolios, capturing a part of the previously unbanked or underbanked population and targeting mass affluent customers (that is, customers with a monthly income in excess of GEL 3,000 who are not investment (wealth) management customers) and SME customers (that is, businesses that have a total annual turnover of less than GEL 5.0 million and/or that are applying to borrow up to US$500,000). The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation. The Bank targets ongoing monitoring and control to make efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made. The Bank determines acceptable levels of risk and continuously analyses the efficiency of its risk management system.

- ***Improve cost and operating efficiency***. The Group's cost to income ratio increased from 35.5% in the year ended 31 December 2015 to 37.7% for the year ended 31 December 2017. Bank of Georgia Group PLC is continuing to invest in IT. The Bank has also invested in an automated loan collection system to enable it to manage its overdue loans portfolio effectively and to improve debt collection rates. The system is also able to automatically generate notifications of overdue payments in respect of retail banking customers. Management believes that these developments have led to improvements to its loan monitoring and collection capability and assist the Bank to sell additional products to its customers while further reducing the back office function. In line with the Bank's aim to further improve its cost efficiency, the Bank intends to continue and is focusing on expanding its Express Banking strategy, which entails the roll-out of cost-efficient smaller express branches to further shift towards electronic channels and away from standard and flagship branches. Management considers the acquisition of Privatbank in 2015 to have been in line with the Express growth strategy.

History and Development

The Bank traces its roots to 1903 and is the successor to the former state-owned *Binsotsbank*, which was privatised in 1994. In the period of over 20 years since the Bank's privatisation, the Bank has undergone several stages of development.

In the mid 1990s, the Bank received financing from a number of international financial institutions to fund its growth. In 2000, the Bank became one of the first companies to list its securities on the Georgian Stock Exchange. In 2004, the Bank's senior management was replaced by a team made up predominantly of western-trained and educated professionals. Since 2004, the Bank has grown more than 34.0 times in asset size, diversified its revenue streams, made several acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank revised its credit, loan loss provisioning and human resources policies in line with international best practices and previous risk analyses.

From 2003 to 2006, the Bank made several strategic acquisitions, including its captive broker Galt & Taggart, two insurance companies (which subsequently merged to form JSC Aldagi) and several local banks. In November 2006, the Bank completed its initial public offering of GDRs becoming the first Georgian company to list GDRs on the London Stock Exchange. In 2007, the Bank completed its first Eurobond offering (in the form of loan participation notes). In 2008-2009, the Bank acquired a majority shareholding in BNB; became the exclusive issuer of American Express cards in Georgia; and enhanced its management team by hiring a number of western-educated senior executives with substantial experience operating in the financial services industries in Western Europe and North America. In 2010, the Bank was the first bank in Georgia to open a direct account with Euroclear, allowing the Bank to conduct settlements of international and local securities in over 90 countries and to start offering global custodian services for the first time in the Georgian market. Between 2011 and 2013, the Bank completed two further Eurobond offerings.

In December 2011, Bank of Georgia Holdings PLC (as it was known until 20 November 2015, when it changed its name to BGEO Group PLC), a company incorporated in England and Wales, became the Group's ultimate parent company following a tender offer and its shares were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange in February 2012. The Bank 's GDR programme was cancelled following the tender offer. Since 15 June 2012, BGEO Group PLC's shares have been included in both the FTSE 250 Index and the FTSE All Share Index. In 2014, BGEO Group PLC demerged its insurance business into two separate business units: a healthcare business to provide healthcare services and health insurance products in Georgia (which subsequently became part of GHG); and a property and casualty P&C insurance business to provide life and non-life insurance products in Georgia (which was carried on by JSC Aldagi). GHG was established on 27 August 2015 as a holding company to own and operate the healthcare business. In 2015, BGEO Group PLC completed the acquisition of Privatbank (Georgia) (see "—*Recent Developments—Retail Banking—Privatbank*") and launched its new premium banking service, Solo.

Following changes in banking regulation in Georgia in line with the NBG's stated intention to regulate banks on a standalone basis, thereby limiting investments in non-banking subsidiaries, and also in line with its new business strategy, BGEO Group PLC completed a corporate reorganisation whereby certain investment and financial services assets were demerged from it and a new intermediate holding company, JSC BGEO Group, was established as a wholly owned subsidiary of BGEO Group PLC, to serve as the Georgian holding company of both the Banking Business and the Investment Business segments. JSC BGEO Group's ultimate parent company was renamed BGEO Group PLC to reflect the new structure and strategy. In 2015, BGEO Group PLC completed the transfer of its healthcare business to a newly established UK holding company, GHG, within the BGEO Group PLC's investment business segment.

In 2017, the Bank became the first Georgian issuer in the international capital markets to launch a fully-marketed Lari denominated Eurobond.

Demerger

On 3 July 2017, the board of BGEO Group PLC announced its intention to demerge the Existing BGEO Group into a London-listed banking business and a London-listed investment business, which is intended to deliver additional long-term value to shareholders by creating two distinct entities, each of which will have enhanced growth opportunities in the strongly growing Georgian economy. Both businesses are already leaders in their respective fields, with separate strategic, capital, and economic characteristics and strong and knowledgeable management teams. In particular, the Board believes the Demerger will benefit the two businesses in the following areas:

- *Business flexibility*: Provide greater flexibility for the Group to manage its own capital and human resources and pursue strategic options appropriate to its respective sector, whilst avoiding the potential for conflicts of interest with the Investment Business.
- *Growth opportunities*: Allow the Group independently to actively pursue further consolidation opportunities and value-accretive partnerships and joint ventures in their respective markets.
- *Regulatory clarity and flexibility*: As a separate entity, Georgia Capital PLC would not be subject to the banking regulatory regime thereby improving its ability and flexibility to allocate capital, take advantage of various investment opportunities and better execute its growth strategy.
- *Efficient capital structure*: Enable each business to adopt a capital structure, balance sheet and financing strategy which will more efficiently meet its individual requirements.
- *Improved management focus*: A newly separate management team will allow the Group to sharpen its focus, maximize its performance and make full use of its available resources.
- *Alignment of incentives*: Align management and employee rewards in the Group more directly with business and stock market performance, helping to attract, retain and motivate the best people.
- *Investor clarity and understanding*: Create two separately listed more focused companies offering clear and distinct investment propositions, each with separate market valuations.

The Group will continue to represent one of the largest, best managed and most strongly capitalised banking businesses in Georgia with superior returns. The Investment Business (held through Georgia Capital PLC) will continue to invest in Georgian businesses, raising funds through its own financing relationships and resources. Georgia Capital PLC will be the only professionally managed publicly-listed investment company in Georgia, with a track record of over ten years of successfully investing in and growing companies in the Georgian economy. The Demerger will allow investors to make their own decisions on capital allocations between the Banking Business and the Investment business.

It is expected that shortly after the Demerger Effective Time and prior to admission of Georgia Capital PLC to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange, Bank of Georgia Group PLC will issue 19.90% of its then current issued share capital to the Investment Business in exchange for the transfer of 19.90% of the Banking Business then held by the Investment Business to it. Therefore Georgia Capital PLC, as the ultimate holding of the Investment Business, will indirectly hold 19.90% of Bank of Georgia Group PLC's share capital.

Proportional Voting

On 12 February 2018 it was announced that for so long as Georgia Capital PLC's percentage holding in Bank of Georgia Group PLC, following the Exchange, is greater than 9.9% of the voting rights exercisable at Bank of Georgia Group PLC general meetings (the "**Floor**"), Georgia Capital PLC and any person acting in concert with it for the purposes of the Takeover Code ("**Concert Parties**") will exercise their voting rights in general meetings of Bank of Georgia Group PLC in accordance with the votes cast by all other Shareholders on Shareholder votes.

Georgia Capital PLC (through its subsidiary JSC Georgia Capital) will indirectly hold 19.90% of Bank of Georgia Group PLC following Georgia Capital Admission. For so long as the shareholding in Bank of Georgia Group PLC of Georgia Capital PLC together with its Concert Parties is greater than the Floor (in which case all the Shares held by Georgia Capital PLC and any person acting in concert with it being the "**Proportional Voting Shares**"), Georgia Capital PLC and its Concert Parties will be subject to a proportional voting mechanism in relation to all of the Proportional Voting Shares. The mechanics of the proportional voting mechanism as it will apply to the Proportional Voting Shares at general meetings of Bank of Georgia Group PLC are set out in the Articles and described further below. As at the date of Georgia Capital Admission, other than the 19.90% of Bank of Georgia Group PLC held indirectly by Georgia Capital PLC, being the Proportional Voting Shares, neither Georgia Capital PLC nor any of its Concert Parties will hold any shares in Bank of Georgia Group.

This arrangement has been put in place so that, following the Demerger and for such time as Georgia Capital PLC together with its Concert Parties holds the Proportional Voting Shares, Georgia Capital PLC will not be able to influence the voting outcomes of Bank of Georgia Group PLC shareholder resolutions at general meetings. The results of this arrangement are intended to meet the

U.S. tax requirements for the Demerger to qualify for non-recognition treatment. For information on the Takeover Panel guidanceon the proportional voting arrangements and consequences for Shareholders, see ''Part XXIII (*Additional Information*)—Takeover Bids'' and ''Part XXIII (*Additional Information*)—Other Disclosures''.

For further information regarding the agreements between Bank of Georgia Group PLC and Georgia Capital PLC, see ''*Part XX (Material Contracts)—Separation Agreements'' and Part XX (Material Contracts)—Agreement with JSC Georgia Capital in connection with the exchange of 19.90% of the Banking Business for 19.90% of the Company*''

Recent Developments

On 21 March 2018, JSC BGEO Group extended a US$103 million loan (the ''**Azoti loan**'') to an unrelated third party, JSC EU Investments (the ''**Borrower**''), to fund the purchase by JSC EU Investments of substantially all of the assets of the largest chemical fertiliser plant in Georgia that had previously been owned and operated by Rustavi Azoti LLC (''**Rustavi Azoti**''). Rustavi Azoti, the former owner of the business, had previously defaulted on a loan provided by JSC Bank of Georgia (the ''**Bank**''), and the assets of the plant which had been pledged to secure the loan were sold at a public auction in Tbilisi after the Bank enforced its security in 2016 (see ''—*Litigation and Other Proceedings*'' below).

The Bank has lent US$40 million to JSC EU Investments to fund a partial repayment of the Azoti loan to JSC BGEO Group. On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms (''**GC Loan**''). JSC BGEO Group intends to use the proceeds of the loan by JSC Georgia Capital in order to finance, in part, a transfer of funds by JSC BGEO Group to the Bank in consideration for the assumption by the Bank of JSC BGEO Group's obligations as the issuer of its $350,000,000 6.00 per cent. notes due 2023.

On 9 March 2018, JSC Georgia Capital issued US$300,000,000 6.125% notes due 2024.

Retail Banking

Overview

The Group is the leader in retail banking in Georgia in terms of its distribution network, with 281 branches and 850 ATMs, in each case as of 31 December 2017. As of 31 December 2017, the Bank had a 34.6% market share based on deposits from individuals and a 35.5% market share in retail loans (based on loans to individuals), according to information published by the NBG. Its retail banking products and services include retail lending, deposit accounts, ATM services, internet, telephone and SMS banking, utility bill payments and money transfer services. Its credit card operations serve more than 2.2 million cards, and the Bank is the exclusive issuer of American Express credit cards in Georgia to 2023 (inclusive). As of 31 December 2017, the Bank had over 2.3 million retail banking customers (of which over 2.1 million were individuals and the remainder were legal entities), a gross retail loan portfolio of GEL 5,132.1 million (US$ 1,979.8 million) and client deposits and notes of retail customers of GEL 3,267.3 million (US$ 1,260.4 million). Of the Group's amounts due from retail customers, as of 31 December 2017, GEL 910.9 million (US$ 351.4 million) were Lari-denominated and GEL 2,356.4 million (US$ 909.0 million) were foreign currency denominated (principally in US Dollars). As of the same date, of the Group's client deposits and notes of retail customers, GEL 1,829.4 million (US$ 705.7 million) were time deposits and GEL 1,437.8 million (US$ 554.7 million) were current accounts and demand deposits.

For the years ended 31 December 2017, 31 December 2016 and 31 December 2015, the Group's retail banking business generated profit of GEL 249.7 million (US$96.3 million), GEL 209.3 million and GEL 146.7 million, respectively, corresponding to 67.6%, 70.8%, and 56.0%, respectively, of the Group's profit for the respective years.

The Bank's retail banking business operates a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers in Georgia through three well-established and recognised brands:

Express banking. Express banking services are designed for emerging retail customers (including customers who have not previously used banks). The Bank delivers these services through cost-efficient channels such as ''Express Pay'' terminals, internet and mobile banking, and technology-intensive Express branches, at minimal incremental operating costs. The Bank operates a chain of small branches providing self-service transactional and remote banking facilities. The aim is to provide fast, accessible, cost-effective and competitively priced services through a network of dedicated branches at strategic locations, and transition the Bank's retail banking customers to use remote banking in order to improve efficiency. Express banking is also intended to free up staff at the Bank's existing flagship branches to position the Bank to better acquire new customers and sell higher value-added services and products, and to improve the cross-selling and up-selling of its banking products and services. The Bank is considering incentivising customers to switch to Express banking through bonus awards and similar schemes. As of 31 December 2017, the Bank had 156 Express banking branches and 2,842 Express Pay (self-service) terminals. These Express Pay Terminals are in effect "mini-banks", which provide a wide array of payment services ranging from current account top-ups and loan repayments to utility bill payments and metro ticket purchases. Management believes that the Bank is now the leader in the payment systems market in Georgia. The Bank had 1,258,940 and 1,279,113 Express cards outstanding as of 31 December 2017 and 31 December 2016, respectively.

Mass Retail. The Bank targets the mass retail segment under the Mass Retail brand, serving approximately 1.6 million individual clients. This segment is largely product-driven. The Bank has completed the process of changing this business model to become more client-centric in order to increase its product to client ratio from 1.8 as of 31 December 2017 to 3.0 products per client by the end of 2019 by:

- creating a client-centric physical environment. The Bank's branches were built around products, not clients. The Bank has worked with a global management consulting firm, an independent consultant, to redesign its branches around its clients. The Bank launched its first client-centric branch in April 2017 and completed the redesign of branches by the end of 2017;
- providing a client-centric service. The Bank is training its front office personnel to sell and service its entire product range. By moving processes that are not client facing to the back office, the Bank is also freeing up time for its personnel; and
- developing client-centric digital channels. The Bank's clients use digital channels (such as personal computers and mobile applications) extensively, and this trend has been growing strongly, so that developing client-centric digital channels is no less important than redesigning its branches. Accordingly, the Bank has established a digital banking division and launched new digital channels in 2017, including a fully updated mobile banking application.

Solo. The Bank's Solo banking service is a premier banking service comprising a specially developed package of products and services (including its flagship American Express Gold cards) to serve "mass affluent" Retail Banking customers (see "*—Customers*"). Solo banking customers are offered the services of a relationship banker working at a dedicated Solo banking branch or in the Solo areas in flagship branches. Its recently introduced "Solo Family" package is targeted at family members of Solo customers. The Bank currently has over 32,000 Solo clients and 12 dedicated Solo branches and has a goal to increase the number of clients in the mass affluent segment to approximately 40,000 by the end of 2019 and generate customer loyalty by improving the Solo offering. Solo clients now have access to exclusive products and a concierge-style service at the Bank's specially designed Solo lounges as well as opportunities to participate in exclusive events and enjoy selected lifestyle products. In its Solo lounges, the Bank offers clients for sale a selection of luxury products and accessories that are currently not available elsewhere in the country. Solo clients can also access financial products such as bonds, which generate a significantly higher yield compared to deposits and other securities developed by Galt & Taggart, and participate in exclusive offers through Solo Club.

Micro and SME Banking The Bank serves 165,781 MSME clients in Georgia. MSMEs are an important part of the Georgian economy, and are mainly concentrated in the trade, services, real estate, agriculture and manufacturing sectors. The Bank offers MSME customers tailor-made products and services and a more personalised service through the Bank's retail branches. It cross-sells Solo banking services to the owners and executives of its MSME customers, and retail banking services to their employees. The Bank is considering splitting MSME customers into two sub-segments: micro and small lending (for loans up to US$500,000) and medium size lending (for loans between US$500,000 and US$2,000,000).

Privatbank In December 2014, the Bank decided to acquire Privatbank (Georgia), which at the time of acquisition was the ninth largest bank in Georgia by assets according to data published by the NBG, as part of its strategy of increasing its retail loan portfolio. Privatbank was a mono-line bank focused on retail banking, offering a trademark "all-in-one" debit and credit card, and its large network of 93 branches, which the Bank considered to be complementary to its Express (self-service) branch format. In January 2015, the Bank acquired 100% of the share capital of Privatbank for cash consideration of GEL 92 million, paid to the former shareholders of Privatbank. During the five months following the acquisition, the Bank's specialist integration team focused on integrating Privatbank's information systems, reducing costs and optimising the number of branches, as well as product development and training Privatbank staff. The Bank successfully migrated Privatbank's information systems into its banking software with only 24 hours of downtime for Privatbank clients, including data relating to approximately 400,000 active customers, over 1.1 million cards, approximately 150,000 loans and approximately 75,000 deposits. During this period, the Bank rebranded 35 of the Privatbank branches into self-service Express Banking branches and completed the integration of Privatbank's trademark bank card onto its platform. Former Privatbank customers are able to continue to use their Privatbank cards, which are now serviced by the Bank's card processing platform. Given the popularity of the Bank's Express Pay terminals with the former Privatbank clients, the Bank closed 58 Privatbank branches (out of 93), which was more than initially expected, and reduced former Privatbank employee numbers by approximately 50%. This contributed to a significant reduction in Privatbank's operating costs. The integration was completed in May 2015 and the total cost of integration was GEL 2.6 million (which was below budget). As a result of the acquisition, the Bank increased its market share in retail loans by 4.3% and in retail deposits by 2.5%, in each case according to market data published by the NBG as of 31 March 2015. The acquisition increased the Bank's customer base by approximately 400,000, predominantly emerging mass market, customers. The Bank plans to leverage the enhanced capabilities of its Express Banking franchise to capture increased revenue from cross-selling banking products to these newly acquired customers, who currently have low product to client ratios. See ''*Operating and Financial Review—Factors Affecting Bank of Georgia Group PLCs Financial Statements—Acquisitions*''.

Customers The Bank divides its retail banking customers into four segments: (i) ''mass affluent'' (with monthly incomes of GEL 3,000-15,000 or liquid assets of GEL 20,000-165,000), which represents a portion of the Bank's Solo brand customers; (ii) ''mass market'' (with monthly incomes of GEL 500-3,000 or liquid assets of GEL 1,000-20,000), which represents a portion of the Bank's Mass Retail brand customers; (iii) ''emerging mass market'' (with monthly incomes below GEL 500 or liquid assets below GEL 1,000), which represents a portion of the Bank's Express brand customers; and (iv) MSMEs. The Bank has already achieved its target loan portfolio mix, comprising 65% of retail loans, with a loan portfolio comprising 68.0% retail and 32.0% corporate banking as of 31 December 2017. Management believes that it has completed the customer acquisition phase of its development and is now focused on increasing its ''share of wallet'', or product to client ratio, migrate a significant portion of the existing Bank customers to Express Banking, and increase its market share in the mass affluent segment over the next two or three years (see ''—*Strategy*''). The Bank also aims to expand its product offering through continuous innovation to meet the growing funding and investment needs of its extensive retail customer and corporate client base.

Deposit taking

Retail deposits include current accounts and savings accounts (including demand deposits and time deposits) which pay interest. The Bank's current accounts consist of standard accounts (which are basic bank accounts) and universal accounts (which are multi-currency accounts that are also linked to a debit card and permit online account management services). The Bank charges a monthly fee of GEL 1.00 for each universal account and GEL 1.50 for each standard account. Additional fees are charged for SMS banking, standing orders and direct debit services. Fees are typically waived or reduced for customers in payroll programmes.

As of 31 December 2017, the total client deposits and notes of retail banking customers was GEL 3,267.3 million (US$ 1,260.4 million), or 46.2%, of Bank of Georgia Group PLC's total client deposits and notes, as compared to, GEL 2,413.6 million and GEL 1,880.0 million as of 31 December 2016 and 2015, respectively.

The following table sets out information on the Group's client deposits and notes of retail banking customers, as of the dates indicated (the table excludes retail banking customers of BNB for the periods indicated).

	As of 31 December			
	2017		2016	2015
	(unaudited) *(thousands of US Dollars)*[(1)]	*(unaudited)* *(thousands of Lari)*	*(unaudited)* *(thousands of Lari)*	*(unaudited)* *(thousands of Lari)*
Retail customer client deposits and notes[(2)]	1,260,426	3,267,276	2,413,569	1,880,018

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) Total retail customer client deposits and notes includes current accounts, term deposits, demand deposits, certificates of deposit and promissory notes of Bank of Georgia Group PLC's retail banking clients. This item does not include deposits from individuals who are clients of Bank of Georgia Group PLC's investment (wealth) management business. See "*—Investment (Wealth) Management*". This item also includes deposits from the Group's micro-financing loan clients (non-individuals), which are classified as retail banking deposits by Bank of Georgia Group PLC. Amounts due to SMEs are included in retail.

Retail lending

The Group has increased the size of its gross retail loan portfolio to GEL 5,132.1 million (US$ 1,979.8 million) as of 31 December 2017, as compared to GEL 3,968.8 million and GEL 2,854.2 million as of 31 December 2016 and 2015, respectively. As of 31 December 2017, gross retail loans comprised 68.0% of the Bank's total gross loans.

In line with recent amendments to Georgian law, bank credits and loans up to GEL 100,000 may be issued only in Lari if the borrower is an individual Georgian citizen. This restriction does not apply to loans issued by commercial banks to individuals who are not Georgian citizens. See "*Regulation of the Georgian Banking Sector—Restrictions on Issuing Loans in Foreign Currency*".

The following table sets out the Bank's retail banking loan portfolio (gross of allowances for impairment losses) by type of loan as of the dates indicated:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)* *(unaudited)*	*(thousands of Lari)* *(unaudited)*	*(thousands of Lari)* *(unaudited)*
Micro and agro-financing loans and SME loans[(2)]	631,648	1,637,357	1,346,341	903,864
Mortgage loans	658,171	1,706,112	1,227,556	808,987
General consumer loans	353,018	915,092	732,299	528,560
Credit cards and overdrafts	118,941	308,318	291,324	305,695
POS loans	50,455	130,789	121,233	119,434
SMS loans	71,451	185,216	94,951	70,621
Pawn loans	26,209	67,940	60,685	61,140
Express loans	54,664	141,701	59,345	27,625
Automobile loans	15,277	39,600	35,086	28,237
Total retail loans to customers, gross	**1,979,834**	**5,132,125**	**3,968,820**	**2,854,163**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) Micro and SMEs loans are included in retail.

For the year ended 31 December 2017, the Group had net interest income from retail banking customers of GEL 481.0 million (US$ 185.5 million). The Group had net interest income from retail banking customers of GEL 374.0 million and GEL 322.9 million, respectively, for the years ended 31 December 2016 and 2015. For the years ended 31 December 2017, 2016 and 2015, Bank of Georgia Group PLC had a retail banking NIM of 6.9%, 7.0% and 8.1%, respectively.

The Bank's retail lending products and services primarily comprise:

Micro and SME loans. The Bank offers micro-financing loans to entrepreneurs, micro, small and medium businesses. Micro-financing loans are loans of up to GEL 388,830 million (US$150,000) that are offered to entrepreneurs and micro businesses with a total annual turnover of less than GEL 12.0 million (approximately US$4.6 million). Small enterprises financing loans are loans of more than GEL 388,830 (US$150,000) and less than approximately GEL 1.3 million (US$0.5) that are offered to entrepreneurs and SMEs who have a total annual turnover of less than GEL 12.0 million. Medium size enterprises loans are loans of more than approximately GEL 1.3 million (US$0.5 million) and less than approximately GEL 5.2 million (US$2.0 million) that are offered to entrepreneurs and SMEs who have a total annual turnover of less than GEL 12.0 million. In 2017 the Bank split MSE customers into two sub-segments: micro and small lending (for loans up to US$500,000) and medium size lending (for loans between US$500,000 and US$2,000,000). As of 31 December 2017, Bank of Georgia Group PLC had GEL 1,637.4 million (US$631.6 million) in gross micro and the SME loans outstanding, accounting for 31.9% of the Group's total gross retail loans.

Mortgage loans. The Bank offers mortgage loans with a typical tenor of ten years for the purchase or renovation of real estate. These loans are secured by a first-ranking mortgage of the real estate purchased and/or a mortgage/pledge of alternative property or other collateral. The Bank also offers Hypo+, a packaged product, which is the first and only flexible offset mortgage available to home buyers in Georgia. In 2013, the NBG launched a programme, pursuant to which it provides financing to Georgian banks secured with their GEL-denominated loan portfolio. This programme, which allows the Bank to issue Lari-denominated mortgage loans at rates lower than foreign currency denominated mortgage loan rates, is expected to support the growth of the Group's total loan portfolio and in particular, its Lari-denominated mortgage loan book. To maintain the quality of its mortgage loan book, Bank of Georgia Group PLC from time to time offers restructuring options to certain eligible customers. As of 31 December 2017, the Group had GEL 1,706.1 million (US$ 658.2 million) in gross mortgage loans outstanding, accounting for 33.2% of total gross retail loans. The Bank also provides mortgage loans to its corporate banking customers.

General consumer loans. General consumer loans are fixed-term, fixed-instalment general purpose loans. The maximum principal amount of a consumer loan secured by real estate is capped at GEL 129,610(US$50,000) with a maximum maturity of ten years. The maximum principal amount of an unsecured consumer loan is capped at GEL 50,000 (US$19,289) with a maximum maturity of four years. The Bank offers consumer loans to members of its payroll services programmes, who can withdraw the loans from ATMs following an SMS notification of approval. This enables the Bank to free up front office time to service payroll customers in the Bank's branches. As of 31 December 2017, the Group had GEL 915.1 million (US$ 353.0 million) in gross general consumer loans outstanding, accounting for 17.9% of total gross retail loans.

Pawn loans. Pawn loans are secured by precious metals or gems deposited by the customer. Pawn loans are general purpose fixed-term loans of up to three months with a right of extension at the end of the period. As of 31 December 2017, the Group had GEL 67.9 million (US$ 26.2 million) in gross pawn loans outstanding, accounting for 1.3% of total gross retail loans.

POS loans. POS loans are express loans to purchase consumer goods which are secured by a charge over the goods purchased. As of 31 December 2017, the Bank had a total of 9,934 POS sales desks. As of 31 December 2017, Bank of Georgia Group PLC had GEL 130.8 million (US$ 50.5 million) in gross POS loans outstanding, accounting for 2.5% of total gross retail loans. The average issued loan size and term of each loan for 2017 was GEL 862.0 and 14 months, respectively.

Automobile loans. The Bank has agreements with a number of automobile dealers to finance the purchase of fully-insured vehicles. As of 31 December 2017, Bank of Georgia Group PLC had 21 agreements in place with automobile dealers and maintained a physical presence at seven dealers. These loans are secured by a charge over the vehicle. The Bank provides automobile loans to corporate banking customers as part of its investment (wealth) management business. As of 31 December 2017, the Group had GEL 39.6 million (US$ 15.3 million) in gross automobile loans outstanding, accounting for 0.8% of total gross retail loans.

Express loans. Express loans are small consumer loans (up to GEL 1,000 (US$386)) which are offered through the Bank's branches and approved by an instant scoring system. Express loan borrowers may withdraw the principal amount of the loan at any of the Bank's ATM machines and are required to pay a bi-monthly fee of GEL 10 until the loan is repaid in full. As of 31 December 2017, the Group had GEL 141.7 million (US$ 54.7 million) in gross Express loans outstanding, accounting for 2.8% of total gross retail loans.

SMS loans. SMS loans are pre-approved loans which may be withdrawn from any ATM of the Bank. SMS loan borrowers must be existing Bank customers and their salary must be paid to an account maintained with the Bank. The principal amount of SMS loans available to customers ranges from GEL 400 to GEL 10,000. As of 31 December 2017, the Bank had GEL 185.2 million (US$ 71.5 million) in gross SMS loans outstanding, accounting for 3.6% of total gross retail loans. The Bank also offers its payroll customers short-term unsecured overdraft facilities with repayment required on the maturity date. As of 31 December 2017, the Group had gross credit cards and overdrafts of GEL 308.3 million (US$ 118.9 million) outstanding, accounting for 6.0% of total gross retail loans.

Banking cards. The Bank issues debit cards, often with overdrafts, to retail banking customers with universal current accounts, as well as credit cards. The Bank had over 2.2 million cards outstanding as of 31 December 2017. The Bank offers a range of international debit cards to different retail banking customer segments, including: Maestro, VISA Electron, VISA Classic and MasterCard Standard (for all retail banking customers), VISA Gold and MasterCard Gold (for mass affluent retail banking customers) and OneCard VISA Infinite (for investment (wealth) management customers). The Bank offers American Express Rewards cards (for the mass affluent segment) and "LoveCards", which allow retail banking customers to choose their own personalised card design. The Bank provides overdraft facilities and a variety of additional services to banking card holders, including direct debit, internet banking, telephone banking, SMS banking, payment services, utility bills payment and ATM services.

The Bank is the exclusive partner of American Express for both acquiring and issuing American Express cards in Georgia (until 2023, inclusive). It offers American Express Gold, Green and Blue Cards. It also offers American Express Platinum cards to Solo Club members. The Bank is also the exclusive partner of Diners Club International, acquiring business in Georgia and an ATM processor for Diners Club International and Discover card transactions. All of the Bank's credit card holders are contractually obliged to make minimum payments in respect of at least 10% of the outstanding balance of their monthly credit card statements, subject to a minimum grace period of up to 55 days. Management believes that credit cards will substitute POS lending and other general consumer lending products over time.

The Bank is the market leader in Georgia for payment systems. The Bank has combined the metro card with its contactless banking cards to enable customers to, amongst other things, top up their mobile phones, pay utility fees and carry out personal banking activities. These are known as Express Cards. As of 31 December 2017, the Bank had 1,258,940 Express cards outstanding. For further information on the service for corporates which offer their products through such payment systems, see "*—Corporate Banking Products and Services, Express Technologies*".

In partnership with the Tbilisi municipality, the Bank operates the Georgian capital's metro and bus transport payment system, including its ticket machines. A new contract was entered into in 2017 which is valid until 2028. The Group is gradually phasing out Metro cards and replacing them with Express cards, exclusive contactless cards for metro, minibus and bus transport linked to customers' current accounts. (See "*—Overview—Express Banking*"). The Bank offers loyalty programmes, providing one free ride for every ten rides paid for using an Express card. The Bank's customers can top up their Express cards at any of its Express Pay terminals. As of 31 December 2017, up to 1.3 million Express cards had been issued, replacing the older pre-paid Metro cards. the Bank expects Express cards to fully replace Metro cards over time, further contributing to the growth of current accounts and current account balances.

In addition, the Bank was a co-founder of Georgian Card, the first banking card processing centre in Georgia, which processes and personalises Visa, MasterCard and American Express cards and provides acquiring services to Diners Club International and Discover card. As of 31 December 2017, Georgian Card was majority owned by the Group. Georgian Card currently provides the plastic card transaction processing as well as card transaction processing services for Bank of Georgia Group PLC. Between 2007 and 2009, the Bank invested significantly in the upgrading of Georgian Card's platform.

Internet, telephone, SMS, e-mail and mobile banking. The Bank offers retail banking products and services through the internet, allowing customers to make inter-bank payments to companies or individuals, monitor account balances, transfer funds (within the Bank and to third party accounts), order debit and credit cards and open accounts and savings products. It also offers an SMS-based mobile banking service, allowing automatic delivery of transactional information to customers' mobile phones and selected SMS-based customer queries. Customers can use the mobile banking service to top up mobile phone air time and receive notifications of consumer loan approvals. E-mails can also be used to send instructions to the Bank and receive information on transactions. The Bank was the first bank in Georgia to launch mobile banking applications (on iPhone and Android devices). In April 2016, the Bank launched a new version of Internet Bank, which offers an improved user-interface, higher speed of processing and consolidated client account information and transaction history in one place. The number of active users as of 31 December 2017 reached 219,496 compared to 122,456 as of 31 December 2016 and 88,711 as of 31 December 2015. The number and volume of transactions executed during 2017 amounted to 6.4 million and GEL 1,403.0 million, respectively, compared to 5.8 million and GEL 1,094.3 million in 2016, respectively, and 4.4 million and GEL 765.0 million in 2015, respectively. In May 2017, the Bank launched a new mobile banking application which enables users to, amongst other things, check their balance and transfer funds on their mobile devices. As of 31 December 2017, downloads of the new mobile banking application since its launch reached approximately 261,000 and c.3.88 million online transactions were performed using the application, including transfers and currency exchanges.

Call centre. The Bank has a 24-hour modern customer service call centre to provide retail banking customers with assistance by telephone and by e-mail. The call centre facilitates customers entering into banking transactions over the telephone, including, among other things, paying bills, transferring money and making balance enquiries.

Terminal banking (Express Pay). As of 31 December 2017, the Bank had 2,842 Express Pay terminals in Georgia to enable retail banking customers to pay utility bills, repay loans, top up Express cards and make other payments, open small deposit accounts and receive small cash loans instantly at a wide variety of locations. For the years ended 31 December 2017 and 2016, the terminals handled 104.0 million and 117.5 million transactions, respectively, with a total value of GEL 4,748.0 million (US$ 1,831.7 million) and GEL 3,167.4 million, respectively.

ATM network. As of 31 December 2017, the Bank had the largest ATM network in Georgia, comprising 850 ATMs (801 ATMs as of 31 December 2016 and 746 ATMs as of 31 December 2015). These ATMs also enable the Bank's retail banking customers to pay utility bills and repay loans, receive remittances and make person-to-person transfers. In addition, customers enrolled in the Bank's payroll programmes, which can draw down general purpose consumer loans at its ATMs following notification of approval via SMS. In years ended 31 December 2017, 31 December 2016 and 31 December 2015 the Bank's ATMs handled 23.0 million, 20.7 million and 18.0 million of transactions, respectively, with a total value of GEL 5,343 million GEL 4,377 million and GEL 3,462 million, respectively.

Money remittance systems. The Bank operates ten international remittance systems, which allow retail banking customers to transfer money in and out of Georgia. In the years ended 31 December 2017, 31 December 2016 and 31 December 2015, a total of (US$1,379 million, US$ 1,151 million and US$ 1,080 million, respectively was remitted in Georgia, according to the NBG, of which GEL 1,423 million (US$549 million), GEL 1,230 million and GEL 1,185 million was remitted through the Bank, according to the Bank, representing a 41.0%, 38.6% and a 41.2% market share, respectively. Customers can receive remittances by contacting an operator in the Bank's call centre who will credit the remittance to the customer's account or through ATMs. These services help the Bank to run the branches more efficiently by freeing up front office employees.

Corporate Investment Banking

Overview

The Bank has a market share of 33.1% based on total client deposits of legal entities and 28.9% based on total corporate loans to legal entities as of 31 December 2017, according to information published by the NBG. The Bank provides corporate lending in addition to offering current and term deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. As of 31 December 2017, the Bank had 4,018 corporate investment banking customers, a corporate investment banking gross loan portfolio of GEL 2,412.6 million (US$ 930.7 million) and client deposits and notes of 3,457.3 million

(US$ 1,333.7 million). Of the CIB client deposit and notes as of 31 December 2017, GEL 1,276.4 million (US$ 492.4 million) were Lari-denominated and GEL 2,180.9 million (US$ 841.3 million) were foreign currency denominated. As of the same date, of the CIB client deposits and notes, GEL 1,298.0 million (US$ 500.7 million) were time deposits and GEL 2,159.3 million (US$ 833.0 million) were current accounts and demand deposits.

Corporate Banking

The Bank operates an integrated customer coverage model for its corporate banking customers. Each corporate banking customer is assigned a dedicated relationship banker who facilitates and coordinates the customer's interaction with its product specialists, including in the areas of lending, investment banking, trade finance to corporate banking customers, leasing, insurance and retail banking (with respect to payroll services). The Bank offers combined packages of products and services to its corporate banking customers, enabling them to reduce their banking costs and increase efficiency while generating increased sales. The Bank segments its corporate banking department into three sub-departments: corporate, mid-cap and corporate sales and admin (servicing non borrowing clients).

The key elements of Bank's corporate banking strategy for the short-to medium-term are to: increase its focus on cross-selling, including non-banking products and services to increase its integrated customer coverage; continue to focus on mid-sized corporate banking customers; expand its project finance offering; develop sector expertise by introducing regular in-depth research across different industries; develop investment banking and commodity finance; and finance larger borrowings through participating in syndications and club deals. As of the date of this Prospectus, the Bank is focusing on extending loans in the hospitality, healthcare and hydro-power sectors, which the Bank believes offer the most growth potential as they are underpenetrated.

Corporate Banking products and services

Corporate lending. The Bank's corporate lending activities include the provision of working capital loans, fixed asset financing, revolving credit lines and overdrafts, as well as project finance. Corporate banking loans are loans of over GEL 5.2 million (US$2.0 million) or the equivalent or loans to borrowers whose annual turnover exceeds GEL 12.0 million (US$4.6 million). The Bank offers a wide range of corporate loans in Lari and foreign currencies, principally US Dollars, including short-term loans for working capital purposes and overdrafts in addition to medium-term loans and long-term loans and project finance. As of 31 December 2017, 18.0% of the Bank's corporate loans to customers are working capital revolving credit loans, with a majority of such loans having maturity of one year or less. Subject to general economic conditions, as demand for longer-term financing increases, the Bank intends to increase its maturity limits in respect of existing customers and other high credit quality borrowers commensurate with the availability of longer-term funding. The Bank also provides credit lines to developers to finish construction projects where the sale of the property under development is guaranteed by the Tbilisi municipality.

The following table sets out the Bank's corporate loan portfolio (gross of allowance for impairment losses) by economic sector of borrower, as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*
Manufacturing	288,318	747,379	771,196	595,666
Trade	107,004	277,377	345,055	366,018
Real estate	103,021	267,051	267,894	224,753
Service	57,097	148,008	121,153	195,036
Construction	109,273	283,258	240,484	149,300
Hospitality	78,502	203,494	161,510	115,869
Transport & Communication	21,888	56,738	118,386	129,838
Mining and quarrying	36,724	95,197	104,932	115,832
Electricity, gas and water supply	32,155	83,353	33,495	76,360
Financial intermediation	13,188	34,187	110,440	62,103
Health and social work	29,319	76,000	55,056	56,790
Other	46,348	120,143	184,657	162,439
Total Corporate Banking loans to customers and finance lease receivables, gross	**922,837**	**2,392,185**	**2,514,258**	**2,250,004**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The gross corporate loan portfolio declined to GEL 2,392.2 million (US$ 922.8 million) as of 31 December 2017, or 31.7% of the Bank's total gross loans, as compared to GEL 2,514.3 million, or 38.6% of the Bank's total gross loans as of 31 December 2016, and GEL 2,250.0 million, or 43.4%, of the Bank's total gross loans as of 31 December 2015, respectively.

The Group had net interest income from corporate investment banking customers of GEL 156.2 million (US$ 60.2 million), GEL 147.1 million and GEL 156.1 million, for the years ended 31 December 2017, 2016, and 2015 respectively.

The ten largest corporate investment banking borrowers accounted for 10.7% of total consolidated loans to customers (gross of allowance for impairment losses) as of 31 December 2017, as compared 11.8% and 12.7%, respectively, of its total loans to customers (gross of allowance for impairment losses) as of 31 December 2016 and 31 December 2015.

Deposit taking. The Bank offers a range of corporate deposit products in Lari and in foreign currencies, including multicurrency current accounts, term deposits and demand deposit accounts. As of 31 December 2017, the Group had a total of GEL 2,346.3 million (US$ 905.2 million) in current accounts, term deposits and demand deposits from corporate banking customers, representing 33.1% of total client deposits and notes of the Group's client deposits and notes as of that date, as compared to GEL 1,957.3 million and GEL 1,848.0 million at 31 December 2016 and 31 December 2015 respectively. The ten largest corporate depositors accounted for 14.9% of total consolidated client deposits and notes as of 31 December 2017, as compared to 12.7% and 15.8% of client deposits and notes as of 31 December 2016 and 2015, respectively.

The following table sets out the Group's total client deposits and notes of corporate banking customers, as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*
Corporate customers' client deposits and notes	905,154	2,346,340	1,957,286	1,848,039

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG, on 31 December 2017.

Payroll services. Payroll services enable employers to reduce the cost of paying salaries to their employees by transferring salaries directly to their employees' bank accounts with the Bank. The employees are able to withdraw multiple currencies using plastic payroll cards, all of which are part of either the MasterCard or VISA International system, at any branch of the Bank and any ATM domestically or internationally that accepts Visa or MasterCard cards. As of 31 December 2017, the Bank offered payroll services to up to 2,584 companies. In addition to the fees, which the Bank charges its corporate banking customers for providing payroll services, these services and corporate cards generate income for the Group's retail banking segment and enable it to cross-sell retail banking services and products to its customers' employees. As of 31 December 2017, the Group's retail banking customer base included more than 305,000 individuals who are employees of companies that receive payroll services.

Trade finance. Management believes that the Bank is one of the leading trade finance banks in Georgia. It is active in both domestic and international operations and offers trade finance services worldwide through its network of correspondent banks and international commercial banks, as well as the IFC's Global Trade Finance Programme and Trade Facilitation Programmes with EBRD and ADB. It aims to act as adviser to its customers throughout the lifecycle of a trade finance operation.

The Bank's trade finance products currently include pre-export financing, import financing, issuing, advising, confirming and discounting letters of credits, stand-by letters of credit, and guarantees, documentary collections, local and international factoring. It is focusing on growing its market share and developing innovative products. The Bank participates in IFC and ADB trade finance programmes under which it can issue guarantees of its customers' trade transactions. It is a member of Factors Chain International, which provides easy access to cross-border factoring.

As of 31 December 2017, the Bank had relationships with several export credit agencies, including US Export-Import Bank, SACE, US Department of Agriculture, Sinosur (China), Euler Hermes, ECGD (the Export Credits Guarantee Department (UK)) and EGAP (Czech Export Bank) as well as trade finance limits from a number of non-Georgian banks and IFIs, including Commerzbank, UBS, Citibank, BNP Paribas, ING Bank, Deutsche Bank, UniCredit, SMBC, KBC Bank, Ziraat Bank, Akbank T.A.Ş, Turk Economi Bankasi AS, Raiffeisen Bank International AG, LBBW (Landesbank Baden-Württemberg), ING BANK N.V., AMSTERDAM TRADE BANK N.V, EBRD, IFC and ADB, amounting to, in aggregate, GEL 813.7 million (US$ 313.9 million).

Among its accolades in this area, the Bank was acknowledged as the ''Most Active Issuing Bank in Georgia'' by EBRD and the ''Best Global Trade Finance Program Issuing Bank in Caucasus and Central Asia'' by IFC. The Bank won the EBRD's deal of the year in 2012 for the restoration of the Tbilisi Funicular, the Trade and Forfaiting Review Deal of the Year in 2013 for agro technical services to farmers, an excellent partnership award from Commerzbank in 2013 and in 2014 was named the ''Best Trade Finance Provider in Georgia'' in 2012, 2013, 2014, 2016 and 2017 by the Global Finance.

Remote banking. Corporate banking customers can access a range of remote banking products including internet, telephone and SMS banking, utility bill payments, online payments, direct debits, payroll services and standing orders through a dedicated remote banking platform.

Treasury operations. The Bank offers a range of treasury operations, including foreign currency conversion, trading in securities and other products including hedging.

Business card services. The Bank offers corporate Visa and MasterCard banking cards and American Express Corporate cards to corporate banking customers.

Express Technologies is the leading provider of standalone and integrated solutions for financial institutions, government agencies, telecoms, utility companies, and small and medium-sized companies, including payment platforms, card processing, and automated fare collection systems. Through a combination of mobile banking applications and point of sale payment solutions, Express Technologies assists clients from the banking, utilities and other payment industries (including the Government) receive payments from customers to increase their revenues and ensure timely settlement of amounts owed to them.

Georgian Leasing Company. The Bank is the ultimate owner of Georgian Leasing Company. It offers operating/financial leasing services in Georgia as an alternative to lending. It offers leasing services (such as automobiles) to customers across a diverse range of industries.

Investment (Wealth) Management

The Bank's investment (wealth) management business provides private banking services to high net worth individuals from up to 75 countries and offers investment (wealth) management products internationally through representative offices in London, Budapest, Istanbul, Tel Aviv and Limassol. This business leverages the Bank's knowledge and capabilities in the Georgian and neighbouring markets in terms of research and expertise. The Bank is focusing on growing its wealth management business regionally and internationally, as well as within Georgia, targeting expatriate as well as foreign customers.

The Wealth Management customer base predominantly comprises of:

- High net worth individuals;
- Wealth managers and advisors from the EU, US and Middle East seeking client solutions;
- Funds and trusts seeking yield enhancement;
- Companies seeking efficient cash management;
- Individuals and companies seeking capital preservation solutions; and
- Investors seeking global diversification and frontier market opportunities.

The following table sets out the total amounts due to investment (wealth) management customers as of the dates specified:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*
Total investment management customers' client deposits and notes	428,590	1,110,991	1,101,864	1,023,284
Of which:				
Certificates of deposit	210,138	544,721	638,515	589,752

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The Bank's main investment (wealth) management product is the multi-currency OneCard Infinite (Visa) debit card, which is designed to satisfy all of the current and savings account needs of the customer with a single packaged product. The OneCard Infinite enables cardholders to link the same card to up to four accounts in different currencies (Lari, US Dollars, Euros and Pounds Sterling), with comprehensive online and SMS banking functionality, an attractive interest rate on daily balances, credit limits similar to those of a regular current account and expeditious credit line/ overdraft approval.

Investment (wealth) management products include term and demand deposits and certificates of deposit with maturities of up to 60 months and demand deposits in Lari, US Dollars, Euros, Pounds Sterling and other currencies, global notes and structured products issued by the Bank and traded through clearing systems. Additionally, customers receive custody and portfolio management and brokerage services through Galt & Taggart. The Bank also offers personalised financial planning and lifestyle management services (including information services, utility payment services and travel arrangement services) to its investment (wealth) management customers. In the future there may be a move to offer these services on a fee paying basis. Management believes that this is currently a unique offering among Georgian banks.

The following table sets out Bank of Georgia Group PLC's investment (wealth) management loans (gross of allowance for impairment losses) by type of loan offered as of the dates specified:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*
General consumer loans	4,971	12,887	21,727	74,748
Mortgage loans	2,470	6,403	6,620	5,357
Automobile loans	142	369	364	347
Other (including overdrafts)[(2)]	301	779	747	689
Total investment management loans, gross	**7,884**	**20,438**	**29,458**	**81,141**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) "Other" comprises overdrafts, other plastic banking cards and private banking loans with different terms from the standard terms used by Bank of Georgia Group PLC for Investment Management loans.

Galt & Taggart

Galt & Taggart (**"G&T"**) is an investment, banking and brokerage business which forms part of the Group. It has been extensively involved in the development of the Georgian capital markets and has a focus on, and expertise in, the wider Caucus region.

Investment Banking

G&T offers investment banking services predominantly in Georgia. G&T advises on both domestic and cross border transactions. Its services include assisting clients raising both debt and equity capital on the primary and secondary local markets. It also provides corporate advisory services to a broad range of private and public companies, private equity houses and high net worth individuals with corporate banking matters such as mergers and acquisitions, buyouts and ratings advisory. It also provides mezzanine fund services for high growth companies.

Brokerage

G&T offers sales and trading execution services on all of the major international stock exchanges, such as the LSE, New York Stock Exchange and NASDAQ. G&T has trading capability for approximately 100,000 different investment instruments. As well as trading on prominent stock exchanges, G&T also offers brokerage services for markets which are not readily accessible, such as Ukraine, Armenia and Turkey. G&T is a Euroclear participant. It is licenced and regulated by the NBG.

Research

G&T has a team of economists who cover Georgian economy as well as its most prominent sectors (Tourism, Real Estate, Energy, Wine, Agriculture, and Healthcare). G&T's team also covers the economies of five neighbouring countries (Belarus, Ukraine, Azerbaijan, Armenia and Kazakhstan).It contributes to platforms such as Bloomberg, Thomson Reuters and S&P Capital IQ.

Belarus Banking Operations

In addition to its operations in Georgia, the Group, through BNB, provides SME and retail banking services in Belarus. For the years ended 31 December 2017, 31 December 2016 and 31 December 2015, BNB generated 2.8% , 0.9%, 6.7% respectively, of the Group's total profit.

The Group's Belarus banking business is operated through its subsidiary BNB which, when established in 1992, was one of the first privately owned banks in Belarus. In 2010, the Bank and IFC entered into a put option agreement, in relation to 553,481,041 shares in BNB. Under the terms of the put option agreement, IFC had the option to put these shares back to the Bank. In July 2016, IFC served a put notice under the terms of the put option in relation to 415,318,441 common voting shares in BNB. Following the service of this notice, the Bank and IFC agreed that Benderlock Investments Limited (**"Benderlock"**), a wholly owned subsidiary of Bank, would purchase one third (138,439,480) of these shares in lieu of Bank and that the Bank would purchase the remaining two thirds (415,318,441 shares). Notwithstanding the exercise of the put option, the Group intends to seek an exit from its investment in BNB at the appropriate time. As of the date of this Prospectus, the Bank owns 99.98% of shares in BNB (including 49.99% through Benderlock). Based on its results for the six months ending 30 June 2017, BNB paid its first dividend to the Bank of GEL 1.2 million (US$0.4 million) for that period.

In June 2017, BNB acquired 27,000 active cards held by 25,000 customers from another Belarusian bank following a systems failure at that bank. BNB originally offered that bank transitional support services and that service lead ultimately to a migration of customers.

As of 31 December 2017, BNB had total assets of GEL 624.8 million (US$ 241.0 million), gross loans of GEL 437.3 million (US$168.7 million), client deposits and notes of GEL 310.1 million (US$119.6 million), total equity of GEL 79.5 million (US$30.7 million) and net interest income of GEL 29.4 million (US$11.3 million). BNB accounted for 5.6%, 5.9% and 7.9% of the Group's revenue for the year ended 31 December 2017, 31 December 2016 and 31 December 2015, respectively, 4.8%, 4.9% and 5.2% of its total assets as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively. BNB generated a profit of GEL 10.3 million (US$ 4.0 million) and GEL 2.7 million, respectively, in the years ended 31 December 2017 and 31 December 2016. The Group's operations are affected by the Lari to Belarusian Rouble exchange rate, which affects the value of the Group's equity interests in BNB on a consolidated basis and, although currently in compliance with all related contractual covenants, a depreciation in the Lari to US Dollar exchange rate could affect the Group's ability to comply with its contractual covenants based on the Basel I Total Capital, calculated on a consolidated basis. Management believes BNB is well capitalised. As of 31 December 2017, 31 December 2016, 31 December 2015, BNB's total capital adequacy ratio was 14.1%, 15.5% and 16.5%, respectively, above the 10.0% minimum requirement by the NBRB, and Tier 1 Capital Adequacy Ratio was 8.1%, 9.5% and 8.1%, respectively, above the 6.0% minimum requirements by the NBRB. The Group aims to grow BNB's business with a view to an eventual exit from the business in the future.

Distribution Network

The Bank has a multi-faceted distribution network for its customers, which includes Express Banking branches (including Metro branches), full-service branches, standard branches, Solo lounges, ATMs and remote banking as well as outlets located at various third party businesses, including, for example, supermarkets and auto dealerships.

Branches, Express Pay Terminals and ATMs

The Bank had 281 retail branches in Georgia as of 31 December 2017, including full-service flagship branches, standard branches, Solo lounges and Express Banking branches (including Metro branches), as compared to 273 and 261 branches as of 31 December 2016 and 31 December 2015, respectively. The increase in the number of branches since the end of 2015 primarily reflects the expansion of the Bank's Express Banking service, with 14 Express Banking branches opened in 2016, as compared to five conventional branches closed during 2016. As of 31 December 2017, the Bank had 156 Express banking branches. The Bank operates Express service points that are small-format service points, providing clients with ATM and Express Pay (self-service) terminals and access to internet banking facilities. As of 31 December 2017, the Bank had 2,842 such Express Pay (self-service) terminals. Express Pay (self-service) terminals also enable clients to open small deposit accounts and receive low value cash loans instantly, which reduces the number of low value transactions taking place in branches and allows employees in branches to focus on selling higher value products and services, thereby enhancing branch efficiency. As of 31 December 2017, the Bank had the largest ATM network in Georgia, comprising 850 ATMs.

Management expects that the overall number of branches will decrease by the end of 2019 and it intends to increase the proportion of Express branches relative to full-service and standard branches, in line with its strategy of transitioning Bank of Georgia Group PLC's retail banking customers to use remote banking, in order to improve efficiency and increase the number of Express Banking customers.

Remote Banking

The Bank's universal remote banking platform for multiple communication channels (Internet, telephone, SMS, mobile and e-mail-based banking services) enables customers to perform a wide range of transactions remotely. As of 31 December 2017, 1,079,902 retail customers and 2,065 corporate banking customers were registered to use the Bank's internet banking services. As of 31 December 2017, approximately 261,000 users had downloaded the Bank's new mobile banking application, which was launched in May 2017.

Information Technology

The Bank views IT as an integral part of its daily operations and strategy, and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to improve service and efficiency. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. All major IT infrastructure components used by the Bank are clustered. The Bank's primary data centre is an autonomous facility that runs back-up systems designed to ensure that operations are not disrupted during critical or disastrous events. The Bank also has hardware and software to facilitate parallel operations and protect permanent data. The Bank has modernised its core IT system over recent years in order to increase its capacity, improve fault tolerance and reduce downtime. The Bank currently utilises a number of high-grade software systems, including the Va-Bank core banking system based on Oracle technology, upgraded Mobile and Internet banking solutions, CRIF/Strategy One, a credit-scoring and workflow system used by the Bank for consumer lending and a Human Resource Management system. The Bank develops its core systems software (core banking software, Internet, Mobile banking, and human resources software) internally.

Oracle Exadata hardware is used for the database servers of the Bank's core banking system and all other applications are operating on HP Intel hardware. The Bank was the first institution in Georgia to purchase and implement high resiliency Oracle Exadata systems and it is in the process of upgrading them.

Since January 2015, the Group has implemented a number of new IT projects including:

- a new corporate internet banking platform which provides customers with access to the full range of corporate banking products and services;
- IT internship programmes which provide talented technical and business students with an opportunity to train at and join the IT department;
- the roll-out of a new human resource management and employee 360° evaluation system, and the Bank is currently building additional modules for hiring and talent management process automation;
- a new, customer and digital-centric IT strategy;
- a new universal internet banking platform for various customer segments, based on customised software developed by the Bank's IT team;
- a new disaster recovery site, which in addition to a primary data centre provides a full business continuity and disaster recovery process;
- a mobile banking application which enables users to, amongst other things, check their balance and transfer funds;
- "PLUS", a new customer loyalty programme which allows customers to exchange PLUS reward points for products and services at third party retailers including pharmacies and supermarkets;
- a core banking system redesign project, aimed at optimising the Bank's operational processes and creating a new, user-friendly interface for front office operations; and
- Customer Relationship Management upgrades, ("**CRM**") including operational CRM as well as complaint and call centre management systems optimisation.

The Group spent GEL 24.1 million (US$9.3 million), GEL 21.2 million and GEL 18.2 million on IT in the years ended 31 December 2017, 31 December 2016 and 31 December 2015 respectively, which, in each case, includes capital expenditures on property and equipment, capital expenditures on intangible assets and salary expenses of the information technology department.

Property

As of 31 December 2017, the total net book value of the investment property owned by the Group on a consolidated basis was GEL 202.5 million (US$ 78.1 million), as compared to GEL 152.6 million, GEL 135.5 million as of 31 December 2016 and 31 December 2015, respectively). Foreclosed properties accounted for substantially all of the investment property of the Bank.

The Group either owns or leases all of the premises it uses for its banking and other businesses. On 15 November 2011, the Bank moved to its current head office at 29a Gagarini Street, Tbilisi, 0160, Georgia, following the completion of renovation works which cost GEL 32.7 million. the Bank owns its new head office, as well as its old head office (which is located at Freedom Square, 3 Pushkin Street, Tbilisi, 0105, Georgia).

As of the date of this Prospectus, there are no liens or encumbrances over any material real estate and land owned by the Group.

Intellectual Property

The Bank has registered its principal logos and trademarks in Georgia. In addition, the Bank has registered all principal domain names related to the Bank's business. In September 2008, the Bank applied to the World Intellectual Property Organisation (**"WIPO"**) for registration of its logo (IR 988 561, which is a stylised image of a lion) in all of the WIPO member states, except for the United Kingdom, Belarus, Ukraine and Israel, where the Bank successfully registered its logos separately with each of the relevant authorities in these jurisdictions. As of the date of the Prospectus, 71 WIPO countries have registered the above mentioned logo. In September 2008, the Bank applied to the WIPO for registration of its trademark (IR 987512, logo and name) in Azerbaijan, Belarus, the United Kingdom, Moldova and Ukraine. As of the date of the Prospectus, all of these countries have registered the trademark (logo and name). None of the Group's intellectual property assets are considered to be material to the Group's business.

Litigation and Other Proceedings

Save as disclosed below there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank of Georgia Group PLC is aware) in the 12 months preceding this Prospectus which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

On 13 May 2016, the Bank filed a claim against one of its largest clients and seven of that client's related entities in the Tbilisi City Court. The claim requested payment of principal, accrued interest and damages in respect of overdue loans and other amounts owing to the Bank amounting to approximately US$18.7 million and EUR 1.3 million, and the enforcement of collateral securing the amounts due. On 20 February 2017, the principal defendants filed a counterclaim against the Bank requesting damages of approximately US$64.4 million and EUR 3.9 million. The counterclaim alleged that, as a result of unfair terms and restrictions imposed by the Bank, the claimants had suffered a loss of profit. The counterclaim has since been specified and the total amount of damages claimed by the defendants is approximately US$64.4 million, EUR 3.25 million and GEL 11.0 million (approximately US$ 4.4 million / EUR 3.6 million). The defendants also named BGEO Group PLC as a co-defendant. As of the date of this Prospectus, several preparatory proceedings have been conducted at the Tbilisi City Court, but no date has been set for the first hearing on the merits of the claim and the counterclaim. The Bank considers the counterclaims to be without merit and intends to contest it vigorously.

Rustavi Azoti

In 2016, following the default by Rustavi Azoti LLC ("**Rustavi Azoti**") and its parent company Agrochim S.A. (the "**Borrowers**") on loans made by the Bank, the Bank initiated the sale of collateral pledged by Rustavi Azoti. The collateral assets were sold to a third party unrelated to the Bank at a public auction in Tbilisi. On 15 November 2016, East-West United Bank S.A., and Sistema Holding Limited (which were creditors of Agrochim's holding company) and Agrochim initiated proceedings against the Bank, JSC BGEO Group, the purchaser of the assets, Rustavi Azoti and one individual director of Rustavi Azoti, in the Tbilisi City Court, requesting damages of approximately US$93.6 million and alleging that the Bank used fraudulent agreements to misappropriate the Rustavi

Azoti assets, thereby depriving other creditors of the opportunity to be repaid. The related claims also sought the annulment of the Borrowers' acknowledgment of its debt to the Bank, and the annulment of the results of the auction that resulted in the sale of the collateral. As of the date of this Prospectus, the Tbilisi City Court has not considered the claims on the merits as the first main hearing was held on 12 March 2018, with a further hearing scheduled for 26 March 2018. The Company considers the claims against the Bank to be without merit and intends to vigorously contest them. The Group has not created any reserves in respect of the Rustavi Azoti litigation.

Although the Bank has not been provided with details of the underlying allegations, the Investigation Service of the Ministry of Finance of Georgia financial police are also carrying out investigations, which appear to be related to certain allegations made in relation to the sale of the assets pledged by Rustavi Azoti to secure its obligations in respect of the loans made to it by the Bank. The Bank is fully cooperating with the investigation and has provided all requested and other relevant information and materials. The Company does not believe that there are any grounds under which the Bank or any of its employees or affiliates would be subject to any charges. To the Company's knowledge, as at the date of this Prospectus, no charges have been made against any party.

On 20 March 2018, BGEO Group PLC was served with a notice of claim by Roman Pipia, the previous beneficial owner of Rustavi Azoti. The claim was filed in the High Court of Justice Business and Property Courts of England and Wales Queen's Bench Division Commercial Court. The claim names BGEO Group PLC, JSC BGEO Group, JSC Bank of Georgia, certain of their officers, and JSC EU Investments and its director as defendants. The claim is made under the laws of Georgia and asserts that the defendants are liable to the claimant under the Georgian Civil Code for harm to the claimant in relation to the loss of the Rustavi Azot plant, which he formerly owned as described above. The claimant claims losses and damages of up to US$995 million, or as may be determined by the Court. The claim also refers to the proposed Demerger and states that, to the extent required, the claimant will seek relief against Bank of Georgia Group PLC and Georgia Capital PLC. BGEO Group PLC considers that the claim is without merit and intends to oppose it vigorously. Neither BGEO Group PLC nor its affiliates intend to create any reserves in respect of the claim. Further to the above, the Bank is currently in the process of claiming repayment of approximately US$20 million in respect of outstanding loans owed by Roman Pipia and his affiliated parties in separate proceedings in Georgia.

Material Contracts

For a description of Material Contracts, see Part XX: "*Material Contracts*".

PART X

LENDING POLICIES AND PROCEDURES

The Bank lends to corporate, retail and investment (wealth) management customers. Loans advanced are typically secured by collateral. The Bank has established procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans. These procedures are set out in the Bank's credit policies and procedures and other internal documents (the **"Credit Policies"**), which have been approved by the Supervisory Board and/or the Management Board, and applies to all loans, including those to related parties. The performance of outstanding loans is subject to monitoring by the Bank's Corporate and Retail Banking front offices, Credit Risk Management and Retail Credit Risk Management departments. At the centre of the Bank's lending and approval process are its Credit Committees. The Credit Committees supervise and manage the Bank's credit risks. In particular, the Credit Committees approve individual transactions.

Loan Approval Procedures

Corporate Loans

The Bank evaluates corporate banking customers on the basis of their credit history, business operations, market position, management, level of shareholder support, financial position, proposed business and financing plan and on the quality of the collateral offered.

Applications for loans by corporate banking customers are initially submitted to the corporate bankers responsible for the particular customer. The corporate bankers obtain from the applicant the documents necessary to review the loan application, including confirmation of the applicant's legal status, its financial reports, evidence of its management's authority, a description of the proposed collateral (if any), which is valued by the Bank's valuator, supporting documents, a description of its business plan data or of the project to be funded and evidence of its credit history. A corporate banker then performs an on-site assessment of the customer's business operations and prepares a credit memorandum.

The loan application and/or credit memorandum, together with the supporting documentation and collateral evaluation report (if any), are then submitted by the corporate banker to the Credit Risk Management Department for independent appraisal. The Credit Risk Manager carries out an overall appraisal of the applicant's business, assesses its suitability as a customer of the Bank and appraises its business operations or the project to be funded, as well as the applicant's creditworthiness. The credit risk manager independently carries out a detailed analysis of the credit memorandum, including, in particular, an evaluation of the applicant's financial position, its business operations or the project to be funded, the applicant's sources of repaying or refinancing the loan, the risk of default and the sufficiency of the proposed collateral in case of default. The credit risk manager conducts a detailed review focusing in particular on the possible non-legal risks. Once the credit risk manager's review is complete, the credit risk manager produces a report which is required for the third tier sub-committee and which may be requested by either first or second tier sub-committees. The credit memorandum and, where appropriate, the credit risk manager's report are submitted to the appropriate level of the relevant Credit Committee, depending on the overall exposure. The relevant Credit Committee then makes the final decision, which is signed by all members of that Credit Committee in attendance at the relevant meeting.

Retail Loans

The loan approval procedures for retail banking loans depend on the type of retail lending product. Applications for consumer loans, including credit cards, POS loans and express loans are treated under the "scoring" approval procedure. A loan officer conducts an interview with the applicant, completes an application, collects all relevant documentation and submits it to the Retail Credit Risk Management Department, where the application is subject to a scoring system (which includes an assessment of the applicant's credit history, financial position and ability to service the loan). While the loans are automatically approved by using the scoring system, in certain cases the appropriate Credit Committee will become involved to determine the amount, terms and conditions of other loans. Applications for mortgage loans by retail banking customers are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount and terms and conditions of the loan, which must be approved at the appropriate Credit Committee level. In the case of micro-financing and SME loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the Credit Risk Manager, which makes the final decision.

In 2004, the Bank, jointly with certain other Georgian banks and with JSC Creditinfo, a provider of credit information solutions, established Joint Stock Company Credit Information Georgia (**"CIG"**) to serve as a centralised credit bureau in Georgia. Most Georgian banks have shared negative customer credit information since July 2006. Since 2009, they also share and contribute positive customer credit information with CIG. There is currently no law on credit reporting in Georgia.

Monitoring

The Bank has procedures requiring regular monitoring of its loans and its loan portfolio pursuant to defined procedures. In addition to monitoring of the borrower's compliance with its obligations under the relevant loan, the Bank reviews all available information on the borrower's activities, including financial reports. In relation to its loan portfolio, the Bank also monitors the level of past due loans and the concentration and volume of loans to any particular borrower, group of borrowers or industry sector.

In the event that a payment is not made when due, the borrower is contacted by one of the Bank's officers and employees to ascertain the reason for non-payment. The Bank revises the risk associated with the borrower and adjusts its provisioning accordingly. Default interest accrues until payment is made. If payment is not made within a prescribed period, the loan is assigned to the Credit Debt Management Unit and/or the Problem Assets Management Department and/or the Legal Department for legal proceedings. Certain unsecured consumer loans are outsourced to third party collection companies.

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 the borrower's 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 2017, GEL 6,682.5 million of the Group's loans to customers were collateralised (including guarantees). An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal Department or by the third party asset appraisal company 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.

Under Georgian legislation, enforcement of security requires state registration or perfection through registration, through possession or by means of creating a financial collateral as defined in the Payment Systems Law. The Bank's Legal Department is responsible for registering the collateral taken by the Bank, monitored by the credit administration and documentation unit. Although, to the extent practical, the Bank seeks to register all of its security interests in loan collateral as a matter of policy, if the Bank fails to register any of its security interests in loan collateral, or fails to do so properly, this may result in its security being invalid or it facing unexpected or conflicting claims of other secured creditors. However, charges over moveable property may be impracticable to register due to the incapability of the chargee to restrict the subsequent sale of such moveable property. In addition, the statutory priority of claims against an obligor in Georgia will affect the amount the Bank will be able to realise pursuant to any claim it makes as a secured creditor.

The Bank's requirements, with regard to liquidity and price volatility of collateral, depend on its evaluation of the borrower and the loan transaction. The frequency of a collateral review depends on the type of collateral taken. In practice, it takes on average from six to thirty months to go through court procedures to receive a writ of execution. However, in certain cases the court may require a longer period. It takes an additional one to three months for the Enforcement Bureau to hold a public auction. In normal circumstances, collateral is generally realised within a maximum period of six months after the repossession of the collateral. Recently, certain controversial amendments were adopted by the Parliament in relation to eviction of borrowers. Under current legislation, a court decision is required in order to evict someone from a property, whereas prior to December 2015, it was possible to evict a borrower with the help of police alone (and without a court decision).

The following table sets out the Group's total loans to customers (gross of allowances for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] (unaudited)	*(thousands of Lari)[3] (unaudited)*	*(thousands of Lari)[3] (unaudited)*	*(thousands of Lari)[3] (unaudited)*
Secured by pledge of real estate	2,071,713	5,370,294	4,623,976	3,195,052
Collateralised by pledge of inventory	102,340	265,285	331,560	507,340
Secured by pledge of deposits & securities	73,497	190,518	263,784	253,216
Secured by corporate guarantees	181,794	471,248	337,538	261,142
Collateralised by pledge of transport	61,863	160,360	158,941	224,433
Secured by pledge of gold	26,353	68,313	60,817	61,940
Other collateralised loans[2]	60,383	156,525	71,254	72,676
Unsecured loans	490,038	1,270,276	1,040,664	949,147
Total loans to customers, gross	**3,067,981**	**7,952,818**	**6,888,534**	**5,524,946**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) Other collateralised loans comprise loans to customers collateralised by machinery, equipment and other types of collateral, or by multiple types of (mixed) collateral, excluding real estate.

(3) All balances except for total loans to customers are unaudited.

Assessments of Provisions for Loan Impairment

The Bank establishes provisions for impairment losses of financial assets 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 position 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 judgment of the Management, is adequate to provide for the losses incurred. Provisions are made as a result of individual or collective appraisal(s) of the financial assets. Provisions are made against gross loan amounts.

The change in impairment of interest-earning assets is reflected in the profit and loss account and the total impairment of interest-earning assets is recognised through the use of an allowance account, which is deducted in arriving at net balances, as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include: information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in impairment for similar financial assets, national economic trends and conditions, and the fair value of collateral and guarantees. These, and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain impairment losses that are substantial relative to the allowances, it is the judgment of the Management that the allowance account for interest-earning assets is adequate to absorb losses incurred on the assets at risk. The Bank monitors its loan portfolio on a monthly basis to determine whether estimates of losses should be increased or decreased.

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 exceeding US$150,000 and non-significant loans are defined as loans less than US$150,000. All individually significant loans, for which a default event has been identified, should be individually assessed on a case-by-case basis. All defaulted positions, which cease to be considered individually significant, should be transferred to the portfolio subject to automatic individual assessment. Identification of impairment is performed by the Bank on a monthly basis. The provisioning process considers all credit exposures and results in default events recognition. All exposures classified as defaulted are subject to individual assessment. Positions, for which a default event has not been identified, are subject to collective assessment.

The provisioning process can be divided into three stages:

- identification of default events;
- selection of impairment assessment method (individual assessment on a case-by case basis/ automatic individual assessment/collective assessment); and
- assessment of the impairment.

The Group has completed its IFRS 9 implementation programme and adopted IFRS 9 (Financial Instruments) with effect from 1 January 2018. The Group will recognise an estimated impact from IFRS 9 adoption of approximately GEL 31.5 million, gross of tax, as a reduction to shareholders' equity at the transition date on 1 January 2018. As allowed by IFRS 9, the Group will not be restating any prior-period data. IFRS 9 does not have any impact on regulatory capital and capital adequacy ratios. Through the cycle, cost of risk is expected to remain unchanged. The NPL coverage ratio, adjusted for additional IFRS 9 allowance, was 102.9% as at 31 December 2017.

Loan Restructuring Policy

In response to the changed credit risk environment following the 2008 Conflict and the onset of the global financial crisis in 2008, the Bank established a Corporate Recovery Department, Micro & SME Loan Recovery Unit and retail loan restructuring group in respect of the Bank's operations in Georgia. In addition, the Bank developed and implemented a loan restructuring policy for retail banking, an important tool for enhanced credit portfolio management. The Bank makes an assessment as to whether overdue corporate loans should be restructured or court proceedings initiated on a case-by-case basis.

According to the Bank's loan restructuring policy, a renegotiated loan is a loan for which the terms have been modified or for which additional collateral has been requested that was not contemplated in the original contract in response to a customer's financial difficulties. The Bank's ratio of renegotiated loans to total net loans was 3.1% as of 31 December 2017, as compared to 5.2% as of 31 December 2016 and 3.9% as of 31 December 2015. The Bank considers a loan to be "at risk" when payment is overdue for 30 days or following a critical event, such as the declaration of bankruptcy. The Bank also evaluates the underlying reasons for default in order to mitigate the risk of future loans from becoming at risk loans. In certain circumstances, the Bank may contact the borrower to discuss the options for restructuring the loan by rescheduling interest payments and extending the term of the loan in order to restore the borrower's ability to service or repay the loan, or by trying to obtain additional collateral. The borrower will be liable to pay a penalty at a daily rate of 0.5% for retail and wealth management loans and double the annual interest rate for corporate loans on the total overdue amount, which includes the principal and interest accrued in respect of each day the relevant loan payment is overdue. According to the Bank's policy, if the loan is restructured, 50% (the minimum afforded in all cases), 70% (in cases where the loan is secured by real estate) or 90% (in cases where the borrower is willing to pay the total outstanding amount of principal and interest due in respect of the loan) of the penalties that the borrower has accrued for late payment may be waived by the Bank. The term of a restructured residential mortgage can be increased to a maximum of 180 months and, depending on the borrower's circumstances, a borrower may be granted a maximum grace period of between three and six months. Once a loan has been restructured, the Bank closely monitors the borrower's compliance with the terms of the renegotiated loan.

Write-offs

Under the Bank's internal loan write off policy, loans of up to a principal amount of US$500,000 that are secured by real estate, are subject to be written off automatically, if days past due are more than 365 days. Loans of more than a principal amount of US$500,000 secured by real estate, are written-off based on the judgment of the Deputy CEO (Chief Risk Officer) and the Credit Risk

Management Department, in consultation with the CEO and Deputy CEO, Finance. Unsecured loans or loans secured by other types of collateral (excluding real estate and cash/deposit) are written off automatically, if past due by more than 150 days.

PART XI

RISK MANAGEMENT

Overview

Management of risk is fundamental to the Bank. 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 of those risks.

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

- risk identification;
- qualitative and quantitative assessment of a particular risk;
- determination of an acceptable risk level;
- risk monitoring and mitigation;
- 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 the efficiency of the risk management system.

Risk Management Structure

Risk Management Bodies

The principal risk management bodies of the Bank are: the Supervisory Board, the Audit Committee, the Management Board, the Risk Committee, the Internal Audit Department, the Treasury, the Credit Committee, The Problem Assets Committee, the Corporate Recovery Committee, the Asset and Liability Management Committee (the "**ALCO**"), the AML and Compliance and Legal Department.

Supervisory Board. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principals and is ultimately responsible for identifying and controlling risks. It approves the Bank's Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions, which fall outside the scope of the respective authorities of the Credit Committees (including approvals of single borrower lending exposure exceeding US$25.0 million). The Management Board presents a comprehensive credit risk report and market risk report to the Supervisory Board for their review on a quarterly basis.

Audit Committee. The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy. It is responsible for fundamental risk issues and manages and monitors compliance of relevant risk management decisions with the Bank's risk management policy. The Audit Committee facilitates the activities of the Internal Audit Department and the external auditors of the Bank. The Internal Audit Department also reviews AML policies and procedures and presents audit reports on AML to the Audit Committee on a quarterly basis. The Audit Committee is elected by the Supervisory Board and is usually comprised of the members of the Audit Committee of BGEO Group PLC.

Management Board. The Management Board has overall responsibility for 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 executive bodies within the Bank.

Risk Committee. The Risk Committee has overall responsibility for advising the Supervisory Board on the Bank's overall risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee regularly reviews and approves the parameters and methodology used by the Bank to assess risk and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets standards for accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to, credit risk, market risk and operational risk.

Internal Audit Department. The Internal Audit Department is responsible for the regular review and audit of the Bank's operations, activities, systems and processes, in order to evaluate and provide reasonable, independent and objective assurance and consulting services designed to add value and improve the Bank's operations.

The Bank's Internal Audit Department is entirely independent of the Management Board. The Head of the Bank's Internal Audit Department is appointed by the Supervisory Board and reports directly to the Bank's Audit Committee. The Bank's Internal Audit Department discusses the results of all assessments with the Bank's Management Board, and reports its findings and recommendations to the Bank's Audit Committee.

The purpose of the Internal Audit Department is to determine whether the Bank's risk management, internal control and corporate governance processes that are designed by the Management Board, are adequate and function in order to ensure that:

- material risks including strategic, credit, market, liquidity and operational risks, are appropriately identified, measured, assessed and managed across the Bank, including its outsourced activities;
- interaction with the various governance groups occurs appropriately;
- significant financial, managerial, and operating information is accurate, reliable and timely;
- the Bank and its employees act with integrity and their actions are in compliance with the policies, standards, procedures and applicable laws and regulations;
- resources are acquired economically, used efficiently, and protected adequately;
- programmes, plans and objectives are achieved; and
- significant legislative or regulatory issues that impact the organisation are recognised and addressed timely and properly.

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 responsible for supervising and managing the Bank's credit risk in respect of retail and investment (wealth) management loans, corporate loans and counterparty loans. The three committees are: the Retail Banking Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee (**"FGCRMC"**). FGCRMC manages, monitors and controls counterparty risk in relation to financial and Governmental counterparties of the Bank. Each Credit Committee approves individual loan transactions.

Each Credit Committee is comprised of tiers of subcommittees. The FGCRMC consists of two tiers of subcommittees. The Committee consists of six members – Deputy CEO, Chief Risk Officer, Deputy CEO, Finance, Deputy CEO, Corporate Investment Banking, Head of Quantitative Risk Management Department, Head of Treasury and Head of Trade Finance. A majority of votes is enough for approval. If the potential exposure exceeds US$ 10.0 million, then the decision is deferred to the ALCO. The Credit Committee for retail loans consists of four tiers of subcommittees (for risk management purposes, investment (wealth) management loans are classified as retail loans). The Credit Committee for corporate loans consists of three tiers of subcommittees. Participation of the CEO is required for exposures exceeding US$10 million. All exposures to a single group of borrowers over US$25 million must be approved 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. Since 2017, Micro and SME falls loan applications are approved by credit risk managers.

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

The Corporate Recovery Committee. 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 Investment Banking).

Asset and Liability Management Committee. The ALCO is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and limits, funding liquidity risk and limits, interest rate and prepayment risks and 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. In particular, the 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 and FGCRMC.

The ALCO is chaired by the CEO and meets 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 Investment Banking), Deputy CEO (Retail Banking), Deputy CEO (Solo and MSME), Deputy CEO (Operations), the Head of the Finance Department, and the Head of the Treasury 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 analysis, 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 the NBG and are applied to the Bank on a stand-alone basis. NBG requires the Bank to maintain minimum capital adequacy ratios computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements.

In order to transition to the Basel III framework, the NBG introduced new capital adequacy requirements in December 2017. See "*Part XII (Regulation of the Georgian Banking Sector) - Regulatory Capital*" for further information. As a result of these changes, the Bank became subject to the following Basel III minimum capital requirements as at 31 December 2017:

- Basic Tier 1 Capital ratio of 8.1% (comprising of core Basic Tier 1 Capital requirement of 4.5% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.1%);
- Tier 1 Capital ratio of 9.9% (comprising of core Tier 1 Capital requirement of 6.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.4%); and
- Total Regulatory Capital ratio of 12.4% (comprising of core Total Regulatory Capital requirement of 8.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%).

At 31 December 2017, the Bank's Basic Tier 1 Capital ratio was 12.4%, Tier 1 Capital ratio was 12.4% and Total Regulatory Capital ratio was 17.9%.

As at 31 December 2018, the minimum capital requirements are expected to increase to a Basic Tier 1 Capital ratio of 9.5% (comprising core Basic Tier 1 Capital requirement of 4.5% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.5%), a Tier 1 Capital ratio of 11.4% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%) and a Total Regulatory Capital ratio of 16.0% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 4.5%). Capital requirements that the Bank is subject to, in particular Pillar 2 requirements, are set by the NBG from time to time and therefore there can be no assurance that the expected minimum capital requirements for 2018 set out above will not change. Transition to Basel III is not expected to affect the Bank's growth prospects or its ability to maintain dividend distributions within the existing dividend policy payout range.

The ALCO is the key governing body for the capital adequacy management, as well as for the respective risks identification and management. The ALCO establishes limits and reviews actual performance over those limits for both NBG and Basel capital adequacy regulations. The Finance Department is in charge of regular monthly monitoring and reporting over NBG and Basel capital adequacy compliance 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, Basel capital adequacy actual reports as well as forecasts and budgets and different stress scenarios for both regulations, while the ALCO and the Management Board regularly reviews these, identify risks, issues recommendations and, if applicable, propose action plans.

Anti-Money Laundering ("**AML**"*) and Compliance*. The Bank's AML and 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, directives and requirements of international organisations, including FATF/Basel, European Parliament, US department of treasury on sanctions programs, as well as local regulations. The Bank's Internal Audit Department makes annual assessments of the Bank's AML systems and controls and provides independent assurance of internal controls.

The Bank has adopted a risk-based approach towards money laundering and financing of terror risks, including a general anti-money laundering policy, a customer acceptance policy, financial sanctions compliance policy. The Bank's risk-based approach means that it applies enhanced due diligence towards money laundering and financing of terror risks, high risk of products, customers, services and jurisdictions.

The Bank is obliged to notify the FMS of all transactions that are subject to monitoring in accordance with Georgian legislation. These reports are currently filed in electronic form in an offline mode by the AML and Compliance Department. The reporting process is fully automated and is supported by a special software application. The Bank uses special AML software which meets industry requirements. The software covers every applicable sanctions list, as well as debarred and banned individuals and organisations as identified by OFAC, the EU, UN and similar organisations. It permits fully automated monitoring of all transactions against special lists. In order to identify suspicious transactions, the AML and Compliance Department have implemented a centralised solution that links transactions, accounts and customers so that the Bank can evaluate the enterprise-wide risk associated with each customer.

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.

Bodies implementing the risk management system

The Bank's risk management system is implemented by the Credit Risk Management, Quantitative Risk Management and Risk Analytics, Treasury, Operational Risk Management, Legal, AML and Compliance and Security Departments, Finance and other departments. The Credit Risk Management (CB Portfolio Analysis), Quantitative Risk Management and Risk Analytics Department, and Operational Risk Management Departments report to the Deputy CEO (Chief Risk Officer) and the Legal Department reports to the General Legal Counsel who directly reports to the CEO. The Reporting and Analysis Unit reports to the Head of the Finance Department. The Finance Department and the Treasury Department report to the Deputy CEO (Finance). The AML and Compliance Department reports to the Deputy CEO (Operations).

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, value at risk (**"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 and management of the quality of the Bank's loan portfolio.

The Operational Risk Management Department identifies and assesses operational risk 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 redesign 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 Reporting and Tax Risk Management Unit 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 Management Board or the 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, RB 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 cases of extreme events.

Monitoring and controlling of 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.

The Bank maintains a management reporting system which requires the Credit Risk Management, Quantitative Risk Management and Analytics, Finance and Treasury 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 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 quarterly report of the Supervisory Board 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 Management Board and the 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 to all levels throughout the Bank's in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Management Board and all other relevant employees of the Bank's on the utilisation of market limits, proprietary investments and liquidity, as well as 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 also actively uses collateral to reduce its credit risks.

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. 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 Bank of Georgia Group PLC's performance to developments affecting a particular industry or geographical location. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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.

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 are introduced.

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 collateral obtained during its review 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.

The Credit Committees approve individual transactions and the Credit Risk Management Department establishes credit risk categories and provisioning rates, which are set as provisioning methodology. The Deputy CEO (Chief Risk Officer) and the Credit Risk Management Department review the credit quality of the portfolio and set provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis. See "*Risk Management-Risk Management Structure-Risk Management Bodies-Credit Committee*".

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 a risk rating to each counterparty. 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 makes 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 loan risks and are mitigated by the same control processes and policies as applied to lending.

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 and/or the Management Board. 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 up to GEL 20,000 are approved by the scoring system. Applications for mortgage loans of RB 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, loan 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 2017, 83.3% of the Bank '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 a collective basis and on an 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 Management, is adequate to provide for the 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. For the purposes of provisioning, 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 Infor 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 LGD for each of the loan type, which Management believes allows better allocation of cost of credit risk between different products. The new methodology was developed in consultation with Deloitte, which was a provider of the fineVare IT solution.

Loans up to US$500,000 secured by real estate are subject to write off once overdue for more than 365 days. Unsecured loans or loans secured by collateral other than real estate are subject to write off once overdue for more than 150 days. Corporate loans and loans above US$500,000, secured by real estate, may be written-off based on the judgment of the Deputy CEO (Chief Risk Officer) and the Credit Risk Management Department. Unsecured loans or loans secured by other types of collateral (excluding real estate and cash/deposit) are written off automatically, if 150 days or more past due. The Bank writes-off the gross amount of the loan irrespective of the value of the collateral. Significant loans may be written off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Department, in consultation with the Bank's CEO and the Deputy CEO, Finance.

The Group has completed its IFRS 9 implementation programme and adopted IFRS 9, Financial Instruments from 1 January 2018. For further information see Note 3 to the Group's Historical Financial Information.

Liquidity Risk

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. 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 interbank 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 secure 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 Management Board.

The Treasury and Funding 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 Management Board and approved by the 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 2017, in line with the NBG's requirements, 20% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 7% of its customers' deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding and Certificates of Deposits, the NBG requires the Bank to set aside 20% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 10% for borrowings with a remaining maturity of one to two years and 7% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year. There is no minimum reserves requirement for Georgian Lari Certificates of Deposits.

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;
- interBank deposit agreement;
- debt issuances;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fee and commission income.

As of 31 December 2017, the Group's total client deposits and notes was GEL 7,078.1 million (US$ 2,730.5 million), as compared to GEL 5,755.8 million and GEL 5,011.3 million as of 31 December 2016 and 31 December 2015, respectively, and represented 62.3%, as compared to 58.9% and 64.2% as of 31 December 2016 and 2015, respectively, of the Group's total liabilities. As of 31 December 2017, total amounts due to credit institutions were GEL 2,778.3 million (US$1,071.8 million), as compared to GEL 3,067.7 million and GEL 1,692.6 million as of 31 December 2016 and 31 December 2015, respectively, and represented 24.5%, as compared to 31.4% and 21.7% as of 31 December 2016 and 31 December 2015, respectively, of the Group's total liabilities. As of 31 December 2017, total debt securities issued were GEL 1,386.4 million (US$ 534.8 million), as compared to GEL 858.0 million, and GEL 961.9 million as of 31 December 2016 and 31 December 2015, respectively, and represented 12.2%, as compared to 8.8% and 12.3% as of 31 December 2016 and 31 December 2015, respectively, of the Group's total liabilities. Amounts due to credit institutions and debt securities are taken from a wide range of counterparties.

The Management Board believes that the Group's liquidity is sufficient to meet each of its 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 26 to the Financial Statements.

Market risk

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 Department 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 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 the ALCO to an annual VAR of GEL 50 million for a one-day trading period with a 98.0% "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 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 operating expenses and risk premium. Within limits approved by the Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. The Quantitative Risk Management and Risk Analytics Department analyses duration gap and capital sensitivity to interest rate changes.

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 Bank 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.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank 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 activities, such as cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements.

The Bank's operational risk framework is in compliance with Georgian legislation and international standards. Regular review of and amendments to the policy are carried out by the Risk Committee, which is also responsible for setting the overall risk appetite.

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

The Operational Risk Management Department is responsible for the development of policies, processes and procedures for managing operational risks in relation to all products, activities, processes and systems, consistently implementing the operational risk framework throughout the Bank. The Operational Risk Management Department is responsible for the identification and assessment of operational risks, detecting critical risk areas or groups of operations with an increased risk level, developing escalation processes, considering business recommendations and mitigation action plans.

The Operational Risk Management Committee is responsible for setting and overseeing qualitative and quantitative parameters of operational risk appetite and tolerance.

Operational risks are identified and assessed by using several methodologies, including internal loss database collection and analysis, scenario analysis, Risk and Control Self-Assessment, new products assessment, and Key Risk Indicators (KRIs) analysis. To mitigate an impact of operational risks, the Bank applies a number of approaches, including the implementation of control elements in a business process, segregation of duties, and the development of preventive control tools within operating systems.

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.

PART XII

REGULATION OF THE GEORGIAN BANKING SECTOR

The main laws regulating the Georgian banking sector are the NBG Law and the Banking Law. In addition, the NBG has the power to issue decrees or resolutions on various issues within its competence, including, but not limited to, monetary regulation instruments, banking supervision regulations and payment system regulations. The principal legislative act regulating the activities of banks is the Banking Law, which (among other things) sets out the list of permitted and prohibited activities for banks and establishes the framework for the licensing of banks and the regulation of banking activity by the NBG.

Licensing

A licence must be obtained from the NBG for banks to be permitted to engage in, ''banking activities'' as defined in the Banking Law, which include: (i) receiving interest-earning and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse, trade finance including the granting of guaranties, letters of credit, acceptance finance, and forfeiting; (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) interest-free banking services; (vii) intermediary services on the financial markets; (viii) trust operations on behalf of customers and funds management; (ix) safekeeping and accounting for valuables including securities; (x) credit-information services; (xi) activities of the central depositary as determined by the Law of Georgia on Securities Market; (xii) leasing property; (xiii) providing payment services, operating payment systems and acting as settlement agent; (xiv) leasing property through financial lease; and (xv) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Law of Georgia on Securities Market and that, prior to tendering interest-free banking services, a commercial bank must present to the NBG a description of the relevant service for the NBG's approval. Furthermore, as a result of recent amendments to the Banking Law in December 2017, with effect from January 2019, commercial banks are prohibited from acquiring or possessing property for the purpose of leasing it out. The Bank will be allowed to lease immoveable property only for the purpose of managing the property repossessed by the Bank as a collateral and/or on a condition that during the whole term of the lease the leased property will be used only for banking or banking related activities or other NBG approved activities.

Mandatory Financial Ratios

The NBG is authorised to set mandatory capital adequacy ratios, lending limits and other economic ratios. The ratios listed in the table below are set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (NBG President Order No. 69/04 of 28 June 2013) Capital Adequacy Requirement (NBG President Orders No. 100/04 of 28 October 2013 and No. 18/04 of 12 February 2015, No. 174/04, No. 173/04 and No. 176/04 of 18 December 2017) and Liquidity Coverage Ratio Requirement (NBG President Orders No. 70/04 of 15 may 2017).

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Capital adequacy ratios NBG (Only)		
Tier 1 capital adequacy ratio....................	Tier 1 Capital to Risk-weighted Assets must not be less than 6.4%	This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.
Total capital (Tier 1 and Tier 2) adequacy ratio	Regulatory Capital to Risk-weighted Assets must not be less than 9.6%	This ratio is formulated as a ratio of a sum of a bank's Tier 1 and Tier 2 capital (less certain deductions) to its risk-weighted assets. The risk-weighted assets are calculated under a formula that takes into account, among other things, the bank's

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
		capital, selected categories of assets, their respective reserves and risks relating to off-balance sheet commitments and contingencies.
Capital Adequacy Ratio Basel II-III		
(Pillar 1)		
Basic Tier 1 Capital adequacy ratio.........	Basic Tier 1 Capital to Risk-weighted Assets must not be less than 4.5%	During the transitional period (2014-2017) NBG (Only) and Basel II capital adequacy ratios applied in parallel as described in section (see "*Regulation of the Georgian Banking Sector—Regulatory Capital*"). On 19 December 2017, the NBG adopted amendments to its regulations in relation to Pillar 1 capital requirements; the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements (Basic Tier 1 Capital;, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum Pillar 1 regulatory capital requirements are currently 4.5% Basic Tier 1 Capital, 6.0% Tier 1 Capital and 8.0% Total Regulatory Capital (whereas previously the minimum regulatory capital requirements were 7.0% Basic Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Regulatory Capital) and a requirement that banks hold an additional 'combined buffer' through Basic Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.
Tier 1 Capital adequacy ratio	Tier 1 Capital to Risk-weighted Assets must not be less than 6.0%	
Total Regulatory Capital (Tier 1 and Tier 2) adequacy ratio	Regulatory Capital to Risk-weighted Assets must not be less than 8.0%	
(Pillar 2)		
		In December 2017, in accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency risk buffer and a capital buffer for credit portfolio concentration risk. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Basic Tier 1 Capital 4.5%, Tier 1 Capital 6.0% and Total Regulatory Capital 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Basic Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. Commercial banks have been given appropriate timeframes for the purposes of complying with these requirements, as the additional Pillar 2 buffers will be implemented over a five-year transitional period, during which the required composition of the buffers will become more stringent by increasing the required proportions of Basic Tier 1 Capital and Tier 1 Capital.

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Related party lending ratios		
Related party lending single insider ratio	No credit to an insider (or his or her other liabilities to a bank) to exceed 5.0% of Regulatory Capital.	These ratios are intended to limit a bank's exposure to an insider (*that is,* a person or entity controlling the bank, a senior officer of the bank, an affiliated company or anyone related to any of the above). They are formulated as the maximum ratio of the aggregate amount of the bank's claims against its insiders to its capital base. Exposure encompasses the amount of credit risk arising from both actual claims (including loans, deposits, equities, bonds, etc.) and potential claims of all kinds (e.g., future claims which the bank is committed to provide), as well as contingent liabilities.
Related party lending all insiders ratio	The aggregate of all credits to insiders and their other liabilities to a bank not to exceed 25.0% of Regulatory Capital.	
Lending ratios		
Lending ratio individual borrower...........	No credit to an outsider (or his or her other liabilities to a bank) to exceed 15.0% of Regulatory Capital.	These ratios are intended to limit the exposure of a bank to one borrower or a group of related borrowers. They are formulated as the maximum ratio of the aggregate amount of the bank's various claims to a borrower (or a group of related borrowers) to its capital base.
Lending ratio group of related borrowers	The aggregate of all credits to a group of related outsiders and their other liabilities to the bank not to exceed 25.0% of Regulatory Capital.	
Large loans to customers	Total large loans to customers and other liabilities not to exceed 200.0% of the Regulatory Capital. The NBG defines "Large Loans and Other Liabilities" as loans to a single borrower or a group of related borrowers and other liabilities in excess of 5.0% of Regulatory Capital. This ratio intends to limit the concentration of large borrowings in a bank's loan portfolio and a bank's exposure to single or related large borrowers.	
Unsecured loans		
Uncollateralised loans	Total unsecured loan portfolio not to exceed 25.0% of the total loan portfolio of a bank.	This maximum is intended to limit the bank's credit exposure to unsecured loans.
Average Liquidity ratios		
Average liquid assets: liabilities................	Average liquid assets during the month shall not be less than 30.0% of average liabilities over the course of the month.	This ratio is intended to limit a bank's liquidity risk by ensuring that a bank maintains sufficient reserves of highly liquid assets.
Liquidity Coverage Ratio		
High quality liquid assets: Net cash outflow..	Liquidity coverage ratio shall not be less than 100% for all currency assets cumulatively. In addition liquidity coverage ratio shall be calculated with respect to Lari and foreign currency assets separately and shall be no less than 75% and 100% respectively.	This ratio is intended to ensure that the bank has the ability to withstand the negative impact of liquid asset inflows and outflows during a "30 days stress situation". The minimum requirement is 100% with effect from September 2017.
Investments ratios		
Investments: equity...................................	Total investments in the capital of legal persons not to exceed 50.0% of the difference between total assets and liabilities of the bank.	These ratios are intended to limit the aggregate risk of a bank's investments in legal persons by limiting such investments to a proportion of the share capital.
Investments plus fixed assets: equity	Remaining value of a bank's fixed assets together with the total investments in the capital of legal persons not to exceed 70.0% of the difference between total assets and liabilities of the bank.	
Open currency position		
Cumulative open currency position..........	Not to exceed 20.0% of Regulatory Capital. This ratio applies to both on-balance sheet open currency position and off-balance sheet open currency position.	The cumulative open currency position is the value of foreign currency account balances, meaning on-balance sheet non-GEL assets and liabilities and off balance sheet non-GEL commitments.

The following table sets out information regarding the Bank's compliance on a stand-alone basis with the foregoing mandatory financial ratio requirements, as of 31 December 2017, 31 December 2016 and 31 December 2015.

Mandatory Financial Ratio		Financial Ratio Requirement	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
		(unaudited)[9]			
NBG (Only)					
Tier 1 capital adequacy ratio[1]	⩽	6.4%	7.2%	7.2%	9.3%
Total capital adequacy ratio[2]	⩽	9.6%	13.2%	13.5%	16.9%
New NBG Basel II/III					
(Basel II) Basic Tier 1 capital adequacy ratio[3]	⩽	7.0%	10.3%	9.1%	10.9%
(Basel II) Tier 1 capital adequacy ratio[4]	⩽	8.5%	10.3%	9.1%	10.9%
(Basel II) Total regulatory capital adequacy ratio[5]	⩽	10.5%	14.8%	14.4%	16.7%
(Basel III) Basic Tier 1 capital adequacy ratio[6]		8.1%	12.4%	n/a	n/a
(Basel III) Tier 1 capital adequacy ratio[7]		9.9%	12.4%	n/a	n/a
(Basel III) Total regulatory capital adequacy ratio[8]		12.4%	17.9%	n/a	n/a
Single insider ratio	⩾	5.0%	3.3%	2.6%	2.6%
All insiders ratio	⩾	25.0%	18.7%	11.8%	10.0%
One outsider ratio	⩾	15.0%	7.9%	5.7%	9.2%
Bank of related borrowers ratio	⩾	25.0%	13.3%	11.2%	18.4%
Large loans ratio	⩾	200.0%	34.9%	47.4%	77.8%
Unsecured loans ratio	⩽	25.0%	16.6%	16.5%	17.0%
Average liquidity ratio	⩾	30.0%	34.4%	37.7%	46.2%
Investments/ equity capital	⩽	50.0%	9.7%	7.8%	6.2%
F.A. net value + investments/ equity capital	⩽	70.0%	33.6%	37.0%	36.4%
Total open currency position -20% ⩽ X ⩽ 20%			4.0%	2.7%	-9.3%

Notes:

(1) 7.6% requirement applicable as of 31 December 2015, 7.2% applicable as of 31 December 2016, 6.4% applicable as of 31 December 2017 during the transition period, i.e. the period starting from 30 June 2014 through 31 December 2017. See "Regulation of the Georgian Banking Sector-Regulatory Capital".

(2) 11.4% requirement applicable as of 31 December 2015, 10.8% applicable as of 31 December 2016, 9.6% applicable as of 31 December 2017 during the transition period, i.e. the period starting from 30 June 2014 through 31 December 2017. See "Regulation of the Georgian Banking Sector-Regulatory Capital".

(3) Basic Tier 1 capital adequacy ratio requirements under NBG Basel II comprises core Basic Tier 1 capital requirement of 4.5% and combined buffer of 2.5% .

(4) Tier 1 capital adequacy ratio requirements under NBG Basel II comprises core Tier 1 capital requirement of 6.0% and combined buffer of 2.5%.

(5) Total regulatory capital adequacy ratio requirements under NBG Basel II comprises core Total regulatory capital requirement of 8.0% and combined buffer of 2.5%.

(6) Basic Tier 1 capital adequacy ratio requirements under NBG Basel III comprises core Basic Tier 1 capital requirement of 4.5% and combined buffer of 2.5% (Pillar 1 requirements), and Pillar 2 requirements of 1.1% .

(7) Tier 1 capital adequacy ratio requirements under NBG Basel III comprises core Tier 1 capital requirement of 6.0% and combined buffer of 2.5% (Pillar 1 requirements), and Pillar 2 requirements of 1.4% .

(8) Total regulatory capital adequacy ratio requirements under NBG Basel III comprises core Total regulatory capital requirement of 8.0% and combined buffer of 2.5% (Pillar 1 requirements), and Pillar 2 requirements of 1.9% .

(9) All items are unaudited with the exception of Total regulatory capital adequacy ratio, (Basel II) Total regulatory capital adequacy ratio and (Basel III) Total regulatory capital adequacy ratio.

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. In the past, based on various economic and financial considerations, the NBG has imposed at times identical and at times differentiated reserve requirements for domestic and foreign currencies.

From 1994 until 2003, identical minimal reserve requirements were established for domestic and foreign currencies, with rates ranging from a maximum of 20% to a minimum of 12%. Beginning from September 2003, the NBG established different rate requirements for funds in domestic and foreign currencies. In 2007, the minimal reserve requirements were re-established at identical rates for domestic and foreign currencies (13%). However, in April 2010, the NBG imposed different rates for minimal reserves for funds in domestic and foreign currencies, which were applicable until January 2011, when identical rates were introduced once again (10%).

Based on NBG Order No. 10/04, dated 11 February 2011 (as amended), effective minimal reserve requirements are currently set at 7% for Lari funds with a remaining term of up to 365 days and 20% for foreign currency funds (except borrowed funds in foreign currency with a remaining term of between 365 and 730 days, for which the minimal reserve requirement is 10%). The following liabilities are not subject to minimum reserve requirements: liabilities from swap and repo transactions and secured deposits received from Ministry of Finance (as amended by the NBG Order No. 111/04 dated 28 June 2017), subordinated loans, borrowed funds from the NBG and Georgian commercial banks (inter-bank loans), borrowed Lari funds (including non-standard certificates of deposit (CD)) with a remaining term of over 365 days, borrowed foreign currency funds (including non-standard certificates of deposits (CD)) with the remaining term of more than 730 days and standard certificates of deposits (CDs) (i.e. Lari-denominated CDs with a contractual maturity of three, six, nine, twelve, eighteen or twenty-four months) issued by a bank.

If a bank's licence is revoked, its mandatory reserves are included in the pool of assets available for distribution to the bank's creditors in the order of priority established by law. If the revocation of a banking licence was caused by reorganisation of the bank, the mandatory reserves are transferred to the legal successor of the bank.

Provisioning

Banks are required to set aside adequate provisions to cover potential losses on loans and other risk assets. Pursuant to the Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks, approved by order of the NBG President No. 117/04 of 10 August 2017 (which replaced the order of the NBG President No. 51/04 of 17 June 2014), loans are classified into five risk categories and banks are required to create loan loss reserves at the levels indicated below:

- *Standard Loans*. Where principal and interest are being paid in a timely manner: 2.0% of outstanding principal amount. A commercial bank may classify a loan issued to an individual after 30 November 2017 as being a "*Standard Loan*" where a borrower meets certain financial ratios (LTV, DTI) established by NBG. Otherwise, a commercial bank will have to reclassify the loan to another category or weigh the assets at higher risk category for capital adequacy ratio purposes.
- *Watch Loans.* Where some deficiencies or trends are apparent that represent a minor credit risk, past due interest is unpaid and has been added to principal, or a payment is overdue by less than 60 days: 10.0% of outstanding principal amount.
- *Substandard Loans.* Where the financial capability of the borrower or the value of the collateral has declined to such an extent that it jeopardises repayment, an unsecured or partially secured loan is at least 60 days past due, or a secured loan is at least 90 days overdue: 30.0% of outstanding principal amount.
- *Doubtful Loans*. Where repayment under existing conditions is considered doubtful, an unsecured or partially secured loan is at least 120 days overdue, or a fully secured loan is at least 150 days overdue: 50.0% of outstanding principal amount.
- *Loss Loans.* Where the borrower is insolvent, payments are overdue by at least 180 days, or anticipated recoverable amounts are so small that collection efforts will be more expensive than the anticipated recoverable amounts: 100.0% of outstanding principal amount.

Where a single borrower has received several loans from a bank, each loan may be categorised individually based on the underlying collateral.

Losses should be recognised in the reporting period in which they are identified as being non-collectable and they should be written off the balance sheet for that period. After loans are written off the books, they should remain on an off-balance-sheet account for five years while the bank makes diligent efforts to collect past due interest and principal.

Restrictions on Issuing Loans in Foreign Currency

At the end of 2016, the Government presented the so-called "10-Point Larisation Plan" aimed at increasing access to long-term Lari-denominated loans, adequate sharing of foreign exchange risks and pricing in Lari. Based on the 10-Point Larisation Plan, changes were made to Georgian legislation, including the Civil Code of Georgia and the NBG Law in January 2017. These changes included restrictions on issuing small credits and loans in foreign currency, limitations relating to attraction of funds from and issuing promissory notes to individuals, requirement of expressing prices in Lari in offering and/or advertising of goods and services.

Bank credits and loans up to GEL 100,000 may be issued only in Lari if the borrower is an individual. The creditor loan will not be deemed to be issued in Lari if it is indexed or linked to a foreign currency. This restriction does not apply to the credits and loans issued by commercial banks to individuals who are not Georgian citizens.

Limits on Interest Rates and Financial Sanctions

Legislative changes carried out in January 2017 introduced caps on effective interest rates, commissions, penalties and other financial sanctions related to credits and loans.

The annual effective interest rates (as defined by NBG rules) established by commercial banks shall not exceed 100% of the loan principal. The same rule applies in case of the extension of the term of the loan (i.e. when the principal of the loan is repaid and, within five business days from such repayment, a new loan is issued). The NBG is entitled to apply additional limitations on monthly interest rates established by commercial banks. The sum of all commissions and financial expenses (that are not included in the calculation of an effective interest rate), as well as penalties accrued for a breach of any contractual provision and any type of financial sanctions (except commissions for prepayment) shall not exceed 150% of the outstanding principal amount of the credit or loan, annually.

Commission and/or penalties and any other financial sanctions for prepayment of a credit or loan may not exceed 2% of its outstanding principal amount. Based on NBG's new 'Rule of Customer Rights Protection During the Provision of Services by Financial Institutions', with effect from 1 June 2017, commercial banks are subject to additional limits on sanctions for prepayment: 0.5%, 1% and 2% of the outstanding principal amount, depending on the number of months remaining until the end of the credit or loan agreement.

Reporting Requirements

All banks are subject to inspection by the NBG. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions. Banks are required to submit annual external audit reports together with the audited annual IFRS financial statements to the NBG and to publish them. Banks are also required to submit different mandatory, NBG rules-based financial reports to the NBG, in a specially designed template on a regular basis (daily, weekly, monthly, quarterly, annual, decade).

As a result of amendments adopted to the Banking Law in December 2017, with effect from 11 January 2018, any amendments to the ownership structure of Georgian banks must be agreed with the NBG in advance in compliance with the rules to be adopted by the NBG.

Corporate Governance

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. International principles of sound corporate governance are included in a number of Georgian banking regulations. The Banking Law imposes certain governance rules in respect of shareholdings in, and management of, commercial banks. Executive officers may not form a majority on the supervisory board of banks. The holders of a significant stake in Georgian banks must comply with certain criteria. The NBG has also established "fit and proper" criteria for the regulation of banks' management and supervisory board (see *"-Regulation of Commercial Bank Employees and Supervisory Board Members"*.).

The Board of the Bank is committed to high standards of corporate governance and has implemented a framework for corporate governance, which it considers to be consistent with the UK Corporate

Governance Code and appropriate for the Bank. This framework is reviewed on an annual basis as part of the performance evaluation process and will be reviewed in light of any changes to the Bank's strategy. The Bank applies the UK Corporate Governance Code standards where possible throughout the entire Bank, subject to the mandatory requirements set by the laws applicable to the relevant entities.

Regulation of Commercial Bank Employees and Supervisory Board Members

Pursuant to the NBG President Order No. 50/04 dated 17 June 2014 on Regulation on Compatibility Criteria of Administrators of Commercial Banks (the **"Regulation on Compatibility Criteria"**), persons discharging managerial or supervisory functions of commercial banks must fulfil the "fit and proper" compatibility criteria in order to ensure they are fit for their position.

The "fit and proper" compatibility criteria apply to the following persons discharging managerial or supervisory functions: members of the supervisory board, audit committee and the management board of commercial banks; and other persons discharging managerial or supervisory functions of commercial banks who are authorised to undertake responsibilities independently or jointly with one or more persons on behalf of such banks (each referred to as **"Administrator"**).

According to the Regulation on Compatibility Criteria, any person to be appointed as an Administrator of a commercial bank must comply with the following compatibility criteria:

- each member of the bank's supervisory board, audit committee and management board must have a university degree in economics, finance, banking, business administration, auditing, accounting or law or other relevant education that is necessary to perform the functions assigned to them;
- a member of a commercial bank's supervisory board must have relevant qualifications and professional experience and the supervisory board as a whole should combine different experience and skills corresponding to the scope and complexity of the activities of the bank;
- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the finance sector, including two years as a senior manager (head or deputy head of a structural unit);
- a person to be appointed as a director may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depositary institution-credit union and/or an Administrator of any other enterprise;
- a person to be appointed as a director or as an administrator with other executive functions must be a Georgian resident as per the Tax Code of Georgia (this requirement shall be fulfilled within seven months after the appointment); and
- a member of the supervisory board, management board or audit committee of a bank may not be first or second degree relation (i.e. spouse, child, close relative) of a member of management or supervisory board of the same bank.

As an additional requirement a person may not be an administrator if he/she:

- has taken part in any operation or transaction that has;
- resulted in substantial damages for a commercial bank or a non-bank depositary institution/ credit union and violated the rights of their depositaries or other creditors; and/or
- caused insolvency or bankruptcy of a commercial bank or a non-bank depositary institution/ credit union;
- has abused his/her authority as an administrator of a commercial bank or a non-bank depositary institution/credit union;
- has previously served as an administrator of a commercial bank or a non-bank depositary institution/credit union and as a result of his/her activities, the commercial bank or the non-bank depositary institution/credit union subsequently became insolvent;
- has failed to fulfil one or more financial obligations towards a commercial bank or a non-bank depositary institution/credit union;
- has been declared insolvent;
- has been convicted of a grave or especially grave offence, terrorism financing, money laundering and/or other economic crime;

- has been declared legally incapable by a court;
- has no relevant skills and qualification required for the position held; and/or
- is an administrator of another commercial bank that does not control or is being controlled by the said bank.

Banking Law further specifies that a person may not be appointed to the management or supervisory board of a bank if he/she is not authorised to hold such a seat pursuant to law.

The NBG is authorised to establish additional compliance criteria for members of the management board and supervisory board of a bank with a normative act.

Regulation of Holders of Commercial Bank Shares

Pursuant to the Banking Law, a person who has been convicted of a serious or extremely serious offence, terrorism financing and/or legalisation of illicit income or other economic crime, may not hold a significant shareholding in a commercial bank. A significant shareholding is defined as more than 10% of either the authorised share capital or of the fully paid-up issued share capital or of voting shares held directly or indirectly by a person or a group of shareholders acting in conert, and/or ability of a person or a group of shareholders acting in concert to exercise significant influence over the activities of the bank, notwithstanding the amount of shares such person or group owns in the capital (significant influence is defined as a right to participate in the financial or operating policy decisions of the bank, without having control or joint control over such policy) of a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of a significant shareholding with a normative act.

Pursuant to the Banking Law, a person or a group of shareholders acting in concert who intend to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration, and other required information, to and obtain prior approval from, the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the NBG, it may extend this term by up to three months.

A transaction by which a person directly or indirectly acquires significant shareholding in a Georgian bank, without submission of a declaration to the NBG or despite the NBG's refusal to grant consent, is deemed to be null and void.

The NBG may request a bank to submit a declaration relating to direct/indirect or beneficial owners of significant shareholdings in the bank. In this case, the NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his or her shareholding to 10%. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Furthermore, as a result of amendments adopted to the Banking Law in December 2017, a person who intends to sell shares in a Georgian bank and, as a result of the relevant sale, has its holding fall below 10%, 25% or 50%, is required to notify the NBG prior to such sale and provide detailed information regarding such transaction.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, commercial banks are required to submit to the NBG, together with the annual report, information on the direct and beneficial holders of more than 10% of their share capital (NBG Order No. 145 of 23 May 2006 sets a lower threshold of 5%). Such information must be prepared in reliance on the information available to the commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10% of shares of a commercial bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as of 31 December of the preceding calendar year.

Regulatory Capital

On 3 May 2017, the NBG issued Decree No. 61/04 setting out new requirements for commercial banks in respect of regulatory capital. Pursuant to the decree, commercial banks are required to have regulatory capital of no less than: (i) GEL 30 million as of 31 December 2017; (ii) GEL 40 million as of 30 June 2018; and (iii) GEL 50 million as of 31 December 2018.

On 28 October 2013, the NBG published Decree No. 100/04 introducing a new capital regulation to replace the NBG capital regulation in place since 2002 (and updated from time to time). The new capital regulation was based on a combination of the Basel II and III, with material regulatory discretions applied by the NBG. According to the Decree No. 100/04, Pillar I requirements under the new regulation came into force on 30 June 2014, by which commercial banks had to start complying with the following minimum capital adequacy requirements:

- Basic Tier 1 Capital adequacy ratio of at least 7.0%;
- Tier 1 Capital adequacy ratio of at least 8.5%; and
- Total Regulatory Capital adequacy ratio of at least 10.5%.

The period starting from 30 June 2014 through 31 December 2017 was declared as a transition period. During the transitional period, the following capital adequacy ratios set by NBG President Order No. 18/04 of 12 February 2015 applied in parallel with the above-mentioned requirements. e.g. the banks were required to comply with both the old and new capital regulations of the NBG:

- Tier 1 Capital adequacy ratio (i.e. in respect of a bank, the ratio of its Tier 1 capital to risk-weighted assets) of minimum 8.0%; and
- Total Regulatory Capital adequacy ratio (i.e. the ratio of bank's regulatory capital to risk-weighted assets) of minimum 12.0%.

Order No. 18/04 phased out gradually and the minimum capital requirements for a particular year were defined by multiplying the above-mentioned ratios by adjustment factors applicable to the relevant year, which was 95% for 2015, 90% for 2016 and 80% for 2017. The capital requirements under Order No. 18/04 have been completely phased out since 1 January 2018.

According to the Decree No. 100/04 by the NBG, Pillar II requirements (the ICAAP) should have been submitted by the commercial banks to the NBG by October 2014. In October of 2014, the Bank submitted its first Pillar II ICAAP Report to the regulator. The Bank has also submitted to NBG a full draft of its internal capital regulation and policies. The entire package has undergone a thorough review process by the regulator and the Bank has received the feedback from NBG regarding the results of the review in May 2015. Based on the feedback from the NBG, the Bank updated its Pillar II draft package and re-submitted for the regulator's review in August 2016.

In June 2017 the NBG adopted a Regulation on Disclosure Requirements for Commercial Banks under Pillar III, requiring commercial banks to disclose qualitative and quantitative information about their regulatory capital elements, risk weighted assets, remuneration of senior management and other material issues, within the framework of Basel III. Pillar III quarterly and annual reporting forms are available on the official website of the NBG.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and the introduction of new requirements (i) on additional capital buffer requirements for commercial banks within Pillar 2; (ii) on the determination of the countercyclical buffer rate; and (iii) on the identification of systematically important banks and determining systemic buffer requirements. The purpose of these amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework.

Pillar 1 requirements (including combined buffer requirements)

The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel Committee of Banking Supervision. The amendments included:

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements (Basic Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum regulatory capital requirements are currently 4.5% Basic Tier 1 Capital, 6.0% Tier 1 Capital and 8.0% Total Regulatory Capital (whereas previously the minimum regulatory capital requirements were 7.0% Basic Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Regulatory Capital); and
- the introduction of a requirement that banks hold an additional 'combined buffer' through Basic Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of risk-weighted assets ("**RWAs**"), while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated three commercial banks in Georgia, including the Bank, as domestic systemically important banks ("**DSIBs**") for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Basic Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2 requirements

In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net general risk assessment programme buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer will be effective from 1 April 2018 and the net stress test buffer will be effective from 1 January 2020. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Basic Tier 1 Capital 4.5%, Tier 1 Capital 6.0% and Total Regulatory Capital 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Basic Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. Commercial banks have been given appropriate timeframes for the purposes of complying with these requirements, as the additional Pillar 2 buffers will be implemented over a five-year transitional period, during which the required composition of the buffers will become more stringent by increasing the required proportions of Basic Tier 1 Capital and Tier 1 Capital.

As a result of the changes to the regulations relating to capital adequacy requirements introduced by the NBG in December 2017, the Bank became subject to the following Basel III minimum capital requirements as at 31 December 2017:

- Basic Tier 1 Capital ratio of 8.1% (comprising core Basic Tier 1 Capital requirement of 4.5% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.1%);
- Tier 1 Capital ratio of 9.9% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.4%); and
- Total Regulatory Capital ratio of 12.4% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 2.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%).

As at 31 December 2018, the minimum capital requirements are expected to increase to a Basic Tier 1 Capital ratio of 9.5% (comprising core Basic Tier 1 Capital requirement of 4.5% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.5%), a Tier 1 Capital ratio of 11.4% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.9%) and a Total Regulatory Capital ratio of 16.0% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 4.5%). Capital requirements that the Bank is subject to, in particular Pillar 2 requirements, are set by the NBG from time to time and therefore there can be no assurance that the expected minimum capital requirements for 2018 set out above will not change.

If the Bank fails to meet the Pillar 1 ratios, it may be subject to different types of supervisory measures. Depending on the seriousness of the violation, the NBG is authorised to impose sanctions, including suspension of the signatory authority of the Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, placing the bank in temporary administration, and in severe cases, withdrawal of the Bank's licence. If the Bank fails to meet the combined buffer requirement (the sum of the conservation buffer, countercyclical buffer and systemic risk buffer), it will be subject to distribution restrictions in relation to Basic Tier 1 Capital, additional Tier 1 Capital instruments, variable remuneration (bonuses) and possibly other distribution constraints imposed by the NBG. In addition, in case of breach of the combined buffer, the Bank must submit a capital conservation plan to the NBG about the steps it will take to ensure compliance with the combined buffer requirements. If the NBG assesses that the capital conservation plan is not adequate, it may request the Bank to implement additional measures and/or impose further sanctions. The decision on the timing and character of sanctions is the discretion of the NBG and depends on the seriousness of a breach and possible risks. It is considered that the breach of systemic risk buffer is a more serious violation and subject to stricter sanctions. If the Bank fails to meet the Pillar 2 requirements, it may be subject to different types of supervisory measures or sanctions from the NBG. The character of such measures or sanctions is the discretion of the NBG and depends on the seriousness of the breach.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating the Prevention of Illicit Income Legalisation (the **"AML/CFT Law"**) was adopted in June 2003 and came into force on 1 January 2004. The law established a new public law body, the FMS. The FMS receives, collects, analyses and transmits information in accordance with the AML/CFT Law. The FMS is an independent legal entity separate from state governance bodies. The head of the FMS is appointed for a four year term by the Prime Minister of Georgia. The law introduced requirements for monitoring entities (which include commercial banks) to carry out AML/CFT measures to identify persons involved in such transactions, collect information on such transactions and report this information to the FMS. Georgia is a member of MONEYVAL (Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism), and the latest assessment of Georgia's anti-money laundering regime and system for combating the financing of terrorism was conducted in 2012.

In accordance with the AML/CFT Law, reporting entities (including commercial banks) are obliged to monitor and report to the FMS suspicious transactions and cash transaction reports (as defined in the law) which exceed GEL 30,000 (or the foreign currency equivalent). In accordance with the AML/CFT Law, the FMS is authorised, after analysing any information which it receives, to disseminate the information and available materials to the Prosecutor's Office and the Ministry of Internal Affairs for investigation or action when there are grounds to suspect money laundering or the financing of terrorism. Georgia has a comprehensive legal framework in place which makes money laundering and the financing of terrorism criminal offenses.

Customer due diligence and record-keeping provisions required under international standards are enshrined in the AML/CFT law. Georgia had no statutory KYC regulations until June 2008. Prior to that, the NBG formally requested banks to conduct their relationships with customers according to the "Core Principles for Effective Banking Supervision" (**"CPEBS"**) published by the Basel Committee on Banking Supervision. Even before statutory KYC regulations were introduced, most banks in Georgia employed compliance officers who adhered to CPEBS. Currently, KYC requirements are defined in the AML/CFT law, the Law on Activities of Commercial Banks, and in the FMS and NBG regulations.

The NBG is a supervisory authority for financial institutions including with respect to AML/CFT issues. The NBG conducts AML/CFT supervision of commercial banks through off-site surveillance and on-site inspections. The NBG has a dedicated AML division and personnel to carry out offsite and on-site monitoring.

In March 2014, the Government approved the Action Plan (as amended) for the implementation strategy for the Fight Against Money Laundering and Terrorist Financing (2014-2017). The document has been developed based on 40 recommendations of the Financial Action Task Force to strengthen the current systems to fight against money laundering and terrorist financing. The body responsible for supervising the implementation of the Action Plan is the Interagency Coordinating Council, comprised of the relevant government bodies.

Insolvency Regime

The NBG is entitled to revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law. If the liquidated commercial bank was a payment system operator or a settlement agent, upon appointment, the liquidator must settle transfer orders received by the system prior to his appointment, establish settlement positions of the system participants and execute settlement in accordance with Payment Systems Law. Upon the liquidation of a commercial bank, creditors holding financial collateral are entitled to the preferential satisfaction of their claim secured by such financial collateral. Liquidation claims will be settled in the following order:

- *first*: all claims of the NBG and other creditors which arose after revocation of the bank's licence (except for the loans issues by other commercial banks during the liquidation process);
- *second*: all claims of the Deposit Insurance Agency;

- *third:* amounts on the accounts and certificates of deposit amounts of natural persons not exceeding GEL 10,000 (or its equivalent in other currency);
- *fourth*: amounts on the accounts and certificates of deposit amounts of legal entities not exceeding GEL 10,000 (or its equivalent in other currency);
- *fifth*: amounts on the accounts and certificates of deposit amounts of natural persons not exceeding GEL 10,000 (or its equivalent in other currency)
- *sixth*: amounts on the accounts and certificates of deposit amounts (in national currency) of natural persons not paid under the third and fifth items above;
- *seventh:* amounts on the accounts and certificates of deposit amounts (in foreign currency) of natural persons not paid under the third, fifth, and sixth items above;
- *eighth:* amounts on the accounts and certificates of deposit amounts (in national currency) of legal entities not paid under the fourth item above;
- *ninth:* amounts on the accounts and certificates of deposit amounts (in foreign currency) of legal entities not paid under the fourth and eighth items above;
- *tenth:* loans issued by other commercial banks during the liquidation period;
- *eleventh*: indebtedness to the State Budget, including claims secured by tax liens; and
- *twelfth*: all other claims against a bank, except for thirteenth to sixteenth items below;
- *thirteenth*: bank's loans from its direct and indirect owners, except for the fourteenth and fifteenth items below;
- *fourteenth*: a fixed-term subordinated loan of a bank;
- *fiftheenth:* subordinated loan (non fixed-term) of a bank; and
- *sixteenth:* other obligations of a bank toward its direct and indirect owners.

If the available funds are insufficient to fully cover all claims listed in the second, third, fourth and fifth categories above, all of the claims of each creditor within the relevant category shall be paid on a *pro rata* basis and the claims of the subsequent category shall be paid only after the claims of the previous category have been fully paid.

Deposit Insurance

According to the EU Association Agreement, the provisions of the Directive 94/19/EC on deposit-guarantee schemes must have been implemented within six years of the entry into force of the EU Association Agreement. Georgia is permitted to consider adopting different thresholds to those outlined in the Directive 94/19/EC and may submit a proposal to the Association Council established pursuant to the EU Association Agreement, taking into account the developments of local market in Georgia, no later than five years after the entry into force of the EU Association Agreement.

In June 2017, the Parliament adopted a new Law on System of Deposit Insurance, according to which deposits of individuals are subject to insurance coverage up to the amount of GEL 5,000. Most provisions of the this new law became effective starting from 1 January 2018, except the provision regarding determination of specific percentage of a monthly premium by Deposit Insurance Agency which will enter into force on 1 January 2020. The insurance premium payable by commercial banks consists of: (i) an initial premium of GEL 100,000; (ii) a monthly premium, which shall not exceed 0.067% of Lari-denominated deposits and 0.1% of foreign currency denominated deposits provided that the specific percentage of the premium for each commercial bank will be determined by the LEPL Deposit Insurance Agency on an annual-basis through a risk-based assessment of the bank; and (iii) a special premium determined by the LEPL Deposit Insurance Agency if upon occurrence of an insurance event there are insufficient funds in the deposit insurance fund to compensate the insured deposits. From 2020 the Government plans to extend mandatory deposit insurance coverage to legal entities.

PART XIII

SELECTED FINANCIAL INFORMATION

The Company was incorporated on 15 August 2017 in preparation for the Demerger. To provide financial results for the Company's business, the following tables set forth, for the periods indicated, selected combined historical financial information derived from the Historical Financial Information included in Part XXVI (Historical Financial Information) of this Prospectus and references to the "Group" are references to the Banking Business as it will be following the Scheme and the Demerger.

Shareholders should read the following information in conjunction with "Presentation of Financial Information", "Operating and Financial Review" and the Historical Financial Information set out in Part XXVI (Historical Financial Information)

Combined Income Statement

The following tables set out the Group's combined profits for the periods indicated.

	For the year ended 31 December					
	2017			2016		2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	439,895	1,140,295	22.3%	932,062	7.0%	870,711
Interest expense	(180,616)	(468,192)	23.7%	(378,452)	5.1%	(360,114)
Net interest income	**259,279**	**672,103**	**21.4%**	**553,610**	**8.4%**	**510,597**
Fee and commission income	74,261	192,499	11.5%	172,629	6.8%	161,574
Fee and commission expense	(23,542)	(61,026)	27.9%	(47,720)	18.3%	(40,355)
Net fee and commission income	**50,719**	**131,473**	**5.3%**	**124,909**	**3.0%**	**121,219**
Net gain from foreign currencies	33,199	86,059	3.4%	83,204	9.6%	75,934
Other income	7,600	19,701	61.7%	12,187	-37.2%	19,400
Revenue	**350,797**	**909,336**	**17.5%**	**773,910**	**6.4%**	**727,150**
Salaries and other employee benefits	(76,465)	(198,213)	17.7%	(168,373)	13.1%	(148,922)
General and administrative expenses	(38,690)	(100,293)	22.1%	(82,112)	12.8%	(72,791)
Depreciation and amortization	(15,807)	(40,974)	10.1%	(37,207)	11.5%	(33,364)
Other operating expenses	(1,334)	(3,457)	-10.3%	(3,854)	20.1%	(3,209)
Operating expenses	**(132,296)**	**(342,937)**	**17.6%**	**(291,546)**	**12.9%**	**(258,286)**
Profit from associates	506	1,311	100.0%	—	—	-
Operating income before cost of credit risk	**219,007**	**567,710**	**17.7%**	**482,364**	**2.9%**	**468,864**
Impairment charge on loans to customers	(59,877)	(155,212)	-2.3%	(158,891)	11.3%	(142,819)
Impairment charge on finance lease receivables	(191)	(496)	-36.2%	(777)	-60.3%	(1,957)
Impairment charge on other assets and provisions	(4,471)	(11,591)	43.4%	(8,083)	34.0%	(6,031)
Cost of credit risk	**(64,539)**	**(167,299)**	**-0.3%**	**(167,751)**	**11.2%**	**(150,807)**
Net operating income before non-recurring items	**154,468**	**400,411**	**27.3%**	**314,613**	**-1.1%**	**318,057**
Net non-recurring items	(1,659)	(4,301)	-90.5%	(45,354)	267.4%	(12,345)
Profit before income tax (expense) benefit	**152,809**	**396,110**	**47.1%**	**269,259**	**-11.9%**	**305,712**
Income tax (expense) benefit	(10,258)	(26,591)	-200.6%	26,444	-160.2%	(43,917)
Profit for the year	**142,550**	**369,519**	**25.0%**	**295,703**	**13.0%**	**261,795**
Total profit attributable to	**142,550**	**369,519**	**25.0%**	**295,703**	**13.0%**	**261,795**
– shareholders of the Parent	141,898	367,829	25.5%	293,180	13.6%	258,004
– non-controlling interests	652	1,690	-33.0%	2,523	-33.4%	3,791
Basic and diluted earnings per share, total	**3.6029**	**9.3394**	**25.5%**	**7.4440**	**13.6%**	**6.5509**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

Combined Statements of Financial Position

The following tables set out the Group's assets, liabilities and equity as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Assets				
Cash and cash equivalents	584,986	1,516,402	1,480,784	1,378,301
Amounts due from credit institutions	469,235	1,216,350	940,486	718,676
Investment securities	622,544	1,613,759	1,283,902	904,146
Loans to customers and finance lease receivables	2,986,429	7,741,420	6,681,666	5,366,760
Prepayments	23,725	61,500	18,715	20,485
Investment properties	78,132	202,534	152,597	135,454
Property and equipment	124,576	322,925	296,677	293,133
Goodwill	12,866	33,352	33,352	33,352
Intangible assets	21,420	55,526	39,942	33,976
Income tax assets	355	920	19,324	14,759
Other assets	55,162	142,991	175,698	152,290
Total assets	**4,979,430**	**12,907,679**	**11,123,143**	**9,051,332**
Liabilities				
Client Deposits and notes	2,730,522	7,078,058	5,755,767	5,011,269
Amounts owed to credit institutions	1,071,807	2,778,337	3,067,651	1,692,557
Debt securities issued	534,840	1,386,411	858,035	961,944
Accruals and deferred income	16,280	42,202	21,778	17,545
Income tax liabilities	7,754	20,099	22,529	84,964
Other liabilities	19,236	49,864	45,095	34,390
Total liabilities	**4,380,439**	**11,354,971**	**9,770,855**	**7,802,669**
Invested capital attributable to shareholders of the parent	**596,335**	**1,545,822**	**1,332,616**	**1,230,971**
Non-controlling interests	2,656	6,886	19,672	17,692
Total Invested Capital	**598,991**	**1,552,708**	**1,352,288**	**1,248,663**
Total liabilities and Invested Capital	**4,979,430**	**12,907,679**	**11,123,143**	**9,051,332**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

	(unaudited)[23]		
	As of and for the year ended 31 December		
	2017	2016	2015
Selected Financial Ratios			
Profitability ratios			
ROAA[1], Annualised	3.1%	2.9%	3.3%
ROAE[2], Annualised	25.6%	22.9%	21.7%
Net Interest Margin[3], Annualised	6.9%	7.0%	8.1%
Loan Yield[4], Annualised	13.5%	13.3%	15.7%
Loan Yield[4] Annualised, Lari	21.7%	21.8%	25.0%
Loan Yield[4], Annualised, Foreign Currency	9.3%	10.0%	11.9%
Retail Banking Loan Yield[4], Annualised, Currency Blended	15.5%	15.7%	19.2%
Retail Banking Loan Yield[4], Annualised, Lari	23.5%	24.1%	27.2%
Retail Banking Loan Yield[4], Annualised, Foreign Currency	8.5%	9.5%	12.0%
CIB Loan Yield, Annualised, Currency Blended	10.0%	9.7%	11.1%
CIB Loan Yield, Annualised, Lari	12.5%	11.2%	13.3%
CIB Loan Yield, Annualised, Foreign Currency	9.5%	9.5%	10.7%
Liquid assets yield[5], Annualised	3.7%	3.4%	3.9%
Cost of Funds[6], Annualised	4.5%	4.4%	5.4%
Cost of Client Deposits and Notes [7], Annualised, Currency Blended	3.4%	3.6%	4.5%
Cost of Client Deposits and Notes [7], Annualised, Lari	5.6%	5.4%	5.4%
Cost of Client Deposits and Notes [7], Annualised, Foreign Currency	2.5%	3.0%	4.1%
Retail Banking Cost of Client Deposits and Notes [7], Annualised, Currency Blended	2.8%	3.1%	4.3%
Retail Banking Cost of Client Deposits and Notes [7], Annualised, Lari	4.3%	4.3%	5.4%
Retail Banking Cost of Client Deposits and Notes [7], Annualised, Foreign Currency	2.2%	2.7%	3.9%
CIB Cost of Client Deposits and Notes [7], Annualised, Currency Blended	3.8%	3.7%	4.1%
CIB Cost of Client Deposits and Notes [7], Annualised, Lari	6.5%	6.0%	5.4%
CIB Cost of Client Deposits and Notes [7], Annualised, Foreign Currency	2.6%	2.9%	3.5%
Cost of Amounts Due to Credit Institutions[8], annualised	5.8%	5.2%	6.7%
Cost of Debt Securities Issued[9]	7.3%	6.6%	7.7%
Efficiency ratios			
Cost to income[10]	37.7%	37.7%	35.5%
Liquidity ratios (at period end)			
NBG Liquidity[11]	34.4%	37.7%	46.2%
Liquid Assets To Total Liabilities[12]	38.3%	37.9%	38.5%
Net Loans To Client Deposits and Notes	109.4%	116.1%	107.1%
Leverage (Times)[13]	7.3	7.2	6.2
Asset quality			
Non-performing Loans to customers	301,268	294,787	241,142
Non-performing Loans to Gross Loans to customers	3.8%	4.2%	4.3%
Non-performing Loans to customers Coverage[14]	92.7%	86.7%	83.4%
Non-performing Loans to customers Coverage, Adjusted for Discounted Value of Collateral[15]	130.6%	132.1%	120.6%
Allowance at period end for loans impairment to gross loans	3.5%	3.7%	3.6%
Cost of Risk, Annualised[16]	2.1%	2.6%	2.9%
Capital adequacy (at period end)			
NBG (Basel II) Tier 1 Capital Adequacy Ratio[17]	10.3%	9.1%	10.9%
NBG (Basel II) Total Regulatory Capital Adequacy Ratio[18]	14.8%	14.4%	16.7%
NBG (Basel III) Tier I Capital Adequacy Ratio[19]	12.4%	N/A	N/A
NBG (Basel III) Total Regulatory Capital Adequacy Ratio[20]	17.9%	N/A	N/A
NBG (Only) Tier1 Capital Adequacy Ratio[21]	7.2%	7.2%	9.3%
NBG (Only) Total Regulatory Capital Adequacy Ratio[22]	13.2%	13.5%	16.9%

Notes:

(1) Profit for the period divided by average totals assets of the period.

(2) Profit for the period attributable to the Issuer's shareholders divided by average total invested capital of the period attributable to the Issuer's shareholders.

(3) Net interest income divided by average-interest-earning assets of the period. Interest-earning assets include amounts due from credit institutions, loans to customers (net), finance lease receivables (net) and investment securities (interest-earning securities only).
(4) Interest income from loans and finance lease receivables for the period divided by average gross loans and finance lease receivables of the period.
(5) Interest income from liquid assets for the period divided by average interest-earning liquid assets of the period. Interest-earning liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities but exclude cash on hand from cash and cash equivalents, and corporate shares from investment securities.
(6) Interest expense for the period divided by average interest-bearing liabilities of the period. Interest-bearing liabilities include client deposits and notes, amounts owed to credit institutions and debt securities issued.
(7) Interest expense on client deposits and notes for the period divided by average client deposits and notes of the period.
(8) Interest expense on amounts owed to credit institutions for the period divided by average amounts owed to credit institutions of the period.
(9) Interest expense on debt securities issued for the period divided by average debt securities issued of the period.
(10) Operating expenses divided by revenue.
(11) Average liquid assets (as defined by the NBG) during the month divided by average liabilities (as defined by the NBG) during the same month.
(12) Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities.
(13) Total liabilities divided by total equity.
(14) Allowance at period end for loans impairment divided by non-performing loans.
(15) Allowance at period end for loans impairment divided by non-performing loans (collateral discount is added back to allowance for impairment).
(16) Impairment charges for loans for the period divided by average gross loans of the period.
(17) Tier 1 Capital divided by Risk-Weighted Assets under Basel II as adopted by the NBG.
(18) Total Regulatory Capital divided by Risk-Weighted Assets under Basel II as adopted by the NBG.
(19) Tier I Capital divided by Risk-Weighted Assets under Basel III as adopted by the NBG.
(20) Total Regulatory Capital divided by Risk-Weighted Assets under Basel III as adopted by the NBG.
(21) Tier 1 Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II as adopted by the NBG).
(22) Total Regulatory Capital divided by Risk-Weighted Assets under NBG rules only (and not under Basel II as adopted by the NBG).
(23) All items are unaudited with the exception of NBG (Basel II) Total Regulatory Capital adequacy ratio, NBG (Basel III) Total Regulatory Capital adequacy ratio and NBG (only) Total Regulatory Capital adequacy ratio.

PART XIV

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Part A – Pro Forma Financial Information

The unaudited *pro forma* statement of net assets as at 31 December 2017 set out below has been prepared to illustrate the impact on the net assets of Bank of Georgia Group PLC of (i) the acquisition of BGEO Group PLC; (ii) the Demerger of the Investment Business; (iii) the expenses incurred by the Company in implementing the Demerger and Admission; and (iv) the repayment of certain borrowings, and (v) borrowings from JSC Georgia Capital, as if each of these events had occurred on 31 December 2017.

The unaudited *pro forma* income statement for the year ending 31 December 2017 set out below has been prepared to illustrate the impact on the financial performance of Bank of Georgia Group PLC of (i) the acquisition of BGEO Group PLC; (ii) the Demerger of the Investment Business; (iii) the expenses incurred by the Company in implementing the Demerger and Admission; (iv) the repayment of certain borrowings, and (v) borrowings from JSC Georgia Capital, as if each of these events had occurred on 1 January 2017.

The unaudited *pro forma* statement of net assets and income statement have been prepared on a basis consistent with the accounting policies of Bank of Georgia Group PLC as applied in preparing its financial statements as at and for the period ending 31 December 2017 set out in Part XXVI and on the basis set out in the notes below and in accordance with Annex II to the Prospectus Directive Regulation.

The unaudited *pro forma* statement of net assets and *pro forma* income statement have been prepared for illustrative purposes only and, because of their nature, address a hypothetical situation and, therefore, do not represent Bank of Georgia Group PLC's actual financial position or results. They may not, therefore, give a true picture of Bank of Georgia Group PLC's financial position or results nor are they indicative of the financial position and performance that may or may not be expected to be achieved in the future.

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS AS AT 31 DECEMBER 2017

All amounts are in thousands of Georgian Lari

		Adjustments						
	Company as at 31 Dec 2017	**Acquisition of BGEO Group PLC**	**Demerger of Investment Business**	**Removal intra-group eliminations**	**Demerger and Admission expenses**	**Repayment of borrowings**	**Borrowing from JSC Georgia Capital**	**Pro-forma net assets at 31 Dec 2017**
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
Assets								
Cash and cash equivalents	—	1,582,435	(374,301)	308,267	(19,286)	279,608	129,610	1,906,333
Amounts due from credit institutions	—	1,225,947	(38,141)	28,543	—	—	—	1,216,349
Investment securities	—	1,564,869	(33,059)	81,949	—	—	—	1,613,759
Loans to customers and finance lease receivables	—	7,690,450	—	50,970	—	—	—	7,741,420
Insurance premiums receivable	—	30,573	(30,854)	281	—	—	—	—
Prepayments	—	149,558	(88,057)	—	—	—	—	61,501
Investment properties	—	353,565	(155,367)	4,335	—	—	—	202,533
Property and equipment	—	988,436	(661,176)	(4,335)	—	—	—	322,925
Goodwill	—	55,276	(21,925)	—	—	—	—	33,351
Intangible assets	—	60,980	(5,455)	—	—	—	—	55,525
Income tax assets	—	2,293	(1,374)	—	—	—	—	919
Other assets	175	327,870	(189,022)	4,147	—	—	—	143,170
Assets of disposal group held for sale	—	1,136,417	(1,165,182)	28,765	—	—	—	—
Total assets	**175**	**15,168,669**	**(2,763,913)**	**502,922**	**(19,286)**	**279,608**	**129,610**	**13,297,785**
Liabilities								
Client deposits and notes	—	6,712,482	—	365,576	—	—	—	7,078,058
Amounts owed to credit institutions	—	3,155,839	(377,501)	—	—	—	129,610	2,907,948
Debt securities issued	—	1,709,152	(357,442)	34,702	—	279,608	—	1,666,020
Accruals and deferred income	—	132,669	(90,462)	—	—	—	—	42,207
Insurance contract liabilities	—	46,402	(46,402)	—	—	—	—	—
Income tax liabilities	—	20,959	(859)	—	—	—	—	20,100
Other liabilities	—	142,133	(92,553)	281	—	—	—	49,861
Liabilities of disposal group held for sale	—	516,663	(619,026)	102,363	—	—	—	—
Total liabilities	**—**	**12,436,299**	**(1,584,245)**	**502,922**	**—**	**279,608**	**129,610**	**11,764,194**
Net Assets	**175**	**2,732,370**	**(1,179,668)**	**—**	**(19,286)**	**—**	**—**	**1,533,591**

UNAUDITED PRO FORMA INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

All amounts are in thousands of Georgian Lari

		Adjustments						
	Company income statement for the period ended 31 Dec 2017	**Acquisition of BGEO Group PLC**	**Demerger of Investment Business**	**Removal of intra-group eliminations**	**Demerger and Admission expenses**	**Repayment of borrowings**	**Borrowings from JSC Georgia Capital**	**Pro-forma income statement for the year ended 31 Dec 2017**
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
Revenue	**3**	**1,080,631**	**(181,369)**	**10,073**	**—**	**(16,706)**	**(11,665)**	**880,967**
Salaries and other employee benefits	—	(230,542)	34,548	(2,219)	—	—	—	(198,213)
Administrative expenses	—	(136,177)	38,350	(2,464)	—	—	—	(100,291)
Banking depreciation and amortization	—	(40,974)	—	—	—	—	—	(40,974)
Other operating expenses	—	(5,352)	1,894	—	—	—	—	(3,458)
Operating expenses	**—**	**(413,045)**	**74,792**	**(4,683)**	**—**	**—**	**—**	**(342,936)**
Profit from associates	—	1,311	—	—	—	—	—	1,311
Operating income before cost of credit risk	**3**	**668,897**	**(106,577)**	**5,390**	**—**	**(16,706)**	**(11,665)**	**539,342**
Investment Business related income statement items	—	(57,417)	50,216	7,201	—	—	—	—
Operating income before cost of credit risk	**3**	**611,480**	**(56,361)**	**12,591**	**—**	**(16,706)**	**(11,665)**	**539,342**
Impairment charge on loans to customers	—	(155,210)	—	—	—	—	—	(155,210)
Impairment charge on finance lease receivables	—	(496)	—	—	—	—	—	(496)
Impairment charge on other assets and provisions	—	(15,005)	3,415	—	—	—	—	(11,590)
Cost of credit risk	**—**	**(170,711)**	**3,415**	**—**	**—**	**—**	**—**	**(167,296)**
Net operating income before non-recurring items	**3**	**440,769**	**(52,946)**	**12,591**	**—**	**(16,706)**	**(11,665)**	**372,046**
Net non-recurring items	—	(4,923)	623	—	(19,286)	—	-	(23,586)
Profit before income tax expense from continuing operations	**3**	**435,846**	(52,323)	12,591	(19,286)	(16,706)	(11,665)	348,460
Income tax (expense) gain	—	(32,340)	5,748	—	—	—	—	(26,592)
(Loss) profit for the year from continuing operations	**3**	**403,506**	(46,575)	12,591	(19,286)	(16,706)	(11,665)	321,868
Profit from discontinued operations	—	59,943	(47,352)	(12,591)	—	—	—	—
Profit for the year	**3**	**463,449**	**(93,927)**	—	(19,286)	(16,706)	(11,665)	321,868

Notes:

(1) The net assets and income statement for Bank of Georgia Group PLC as at and for the period ended 31 December 2017 have been extracted without material adjustment from the financial statements of Bank of Georgia Group PLC, set out on pages F-88 to F-93 of Part XXVI.

(2) The net assets and income statement of BGEO Group PLC as at and for the year ended 31 December 2017 have been extracted without material adjustment from the BGEO Group Annual Report 2017 incorporated by reference into this prospectus as set out in Part XXIV. This adjustment is expected to have a continuing impact on the Group income statement.

(3) The net assets and income statement for the Investment Business of BGEO Group PLC as at and for the year ended 31 December have been extracted without material adjustment from the BGEO Group Annual Report 2017 incorporated by reference into this prospectus as set out in Part XXIV. This adjustment is expected to have a continuing impact on the Group income statement.

(4) The net assets and income statement for the intra-group eliminations with Investment Business of BGEO Group PLC as at and for the year ended 31 December have been extracted without material adjustment from the BGEO Group Annual Report 2017 incorporated by reference into this prospectus as set out in Part XXIV. This adjustment is expected to have a continuing impact on the Group income statement.

(5) The total expected expenses in relation to the Demerger and Admission are GEL 28.8 million. These have been incurred in the following proportion: GEL 19.3 million by Bank of Georgia Group PLC and GEL 9.5 million to Georgia Capital PLC. The expenses incurred by Bank of Georgia Group PLC are included in the unaudited *pro forma* statement of net assets as a cash outflow and in the unaudited *pro forma* income statement as an expense. This adjustment is not expected to have a continuing impact on the Group income statement.

(6) The legal entity JSC BGEO Group has external borrowings of US$350 million. Of this amount, US$100 million was lent to the investment business as described in page 163, Part XIX Related Party Transactions, with the remaining balance of US$250m included in debt securities issued in the HFI. As part of the demerger process, in March 2018, this amount together with accrued interest was repaid by the investment business. The amount shown in the unaudited *pro forma* income statement represents the interest expense on the additional borrowings in the Banking Business as if the repayment of the external borrowings had occurred at 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

(7) In March 2018, the Group received a US$50 million 9% Loan from JSC Georgia Capital. The adjustment to net assets reflects the cash inflow of the respective amount. The amount shown in the unaudited *pro forma* income statement represents the respective interest expense, as if the transaction occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

(8) In preparing the unaudited *pro forma* income statement, no account has been taken of the trading or transactions of the Bank of Georgia Group PLC or the Banking Business since 31 December 2017.

Part B – Accountant's report on the unaudited pro forma financial information

The Directors
Bank of Georgia Group PLC
84 Brook Street
London
W1K 5EH

26 March 2018

Dear Sirs

We report on the unaudited *pro forma* financial information (the "Pro Forma Financial Information") set out in Section A of Part XIV of the Prospectus dated 26 March 2018, which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the acquisition of BGEO Group PLC, the demerger of the investment business of BGEO Group PLC, transaction costs in connection with the demerger and in connection with the admission of Bank of Georgia Group PLC, the repayment of certain borrowings and the borrowings from JSC Georgia Capital might have affected the financial information presented on the basis of the accounting policies adopted by Bank of Georgia Group PLC in preparing the financial statements for the period ending 31 December 2017 in Part XXVI of the Prospectus. This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I of the PD Regulation, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of Bank of Georgia Group PLC (the "Company") to prepare the Pro Forma Financial Information in accordance with items 1 to 6 of Annex II of the PD Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulation, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the UK. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Bank of Georgia Group PLC.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Bank of Georgia Group PLC.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of the PD Regulation.

Yours faithfully

Ernst & Young LLP

PART XV

FUNDING

The Company was incorporated on 15 August 2017 in preparation for the Demerger. To provide financial results for the Company's business, the following tables set forth, for the periods indicated, selected combined historical financial information derived from the Historical Financial Information included in Part XXVI (Historical Financial Information) of this Prospectus and references to the "Group" are references to the Banking Business as it will be following the Scheme and the Demerger.

The Group has a diverse funding base comprising short-term sources of funding (including retail, corporate investment banking customer deposits, time-deposits and inter-bank loans, borrowings from the NBG and from the central bank of Belarus, (including sale and repurchase operations with the NBG) and longer-term sources of funding (including borrowings from international credit institutions including DFIs, sale of securities and issuing debt securities. The Group has issued promissory notes denominated in US Dollars, Euro, Lari and Azerbaijani Manat, as well as loan pass-through notes denominated in US Dollars. The Bank also issues certificates of deposit in Lari and foreign currencies (principally in US Dollars).

As of 31 December 2017, client deposits and notes amounted to GEL 7,078.1 million (US$ 2,730.5 million), as compared to GEL 5,755.8 million and GEL 5,011.3 million as of 31 December 2016 and 2015, respectively. As of 31 December 2017, amounts due to credit institutions amounted to GEL 2,778.3 million (US$ 1,071.8 million), as compared to GEL 3,067.7 million and GEL 1,692.6 million as of 31 December 2016 and 2015, respectively. As of 31 December 2017, debt securities issued amounted to GEL 1,386.4 million (US$ 534.8 million), as compared to GEL 858.0 million and GEL 961.9 million as of 31 December 2016 and 2015, respectively.

The Group's funding strategy is to continue to diversify its funding sources and reduce its funding costs.The following table sets out an analysis of the Group's liabilities as of the dates indicated:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Client deposits and Notes				
Time deposits	1,292,301	3,349,902	2,843,763	2,617,274
Current accounts	1,409,494	3,653,690	2,837,776	2,393,127
Promissory notes issued	28,727	74,466	74,228	868
Total client deposits and notes	**2,730,522**	**7,078,058**	**5,755,767**	**5,011,269**
Amounts Due to Credit Institutions				
Borrowings from international credit institutions[2]	419,681	1,087,896	1,072,033	618,333
Short-term loans from the National Bank of Georgia	306,121	793,528	1,085,000	307,200
Time deposits and inter-bank loans[3]	101,739	263,728	144,102	279,317
Correspondent accounts	78,895	204,512	329,609	92,617
Subordinated debt	165,370	428,673	436,907	395,090
Total amounts due to credit institutions	**1,071,806**	**2,778,337**	**3,067,651**	**1,692,557**
Debt securities issued				
Eurobonds and notes issued	421,285	1,092,054	655,219	908,183
Other debt securities issued	113,555	294,357	202,816	53,761
Total debt securities issued	**534,840**	**1,386,411**	**858,035**	**961,944**
Total income tax liabilities	7,754	20,099	22,529	84,964
Total other liabilities	35,517	92,066	66,873	51,935
Total liabilities	**4,380,439**	**11,354,971**	**9,770,855**	**7,802,669**

Notes:

(1) US Dollar figures in the table above are unaudited and aren converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) Borrowings from international credit institutions include loans from EBRD, IFC, ADB, OPIC, FMO and EFSE (each as defined below), WorldBusiness Capital Inc., Merrill Lynch & Co. Inc., Citibank International plc, BG Finance B.V., Semper Augustus HBK and others.

(3) Time deposits and inter-bank loans represent advances from credit institutions used by the Group to manage its short-term liquidity needs.

Client deposits and notes

Client deposits and notes include current accounts and time deposits from retail banking, corporate investment banking customers and BNB customers, as well as issued promissory notes and certificates of deposit. Client deposits and notes increased to GEL 7,078.1 million (US$ 2,730.5 million) as of 31 December 2017, having increased to GEL 5,755.8 million as of 31 December 2016 from GEL 5,011.3 million as of 31 December 2015. The GEL 1,322.3 million, or 23.0%, increase in client deposits and notes as of 31 December 2017, as compared to 31 December 2016, was primarily due to GEL 815.9 million, or 28.8%, increase in current accounts and GEL 506.1 million, or 17.8%, increase in time deposits. As of 31 December 2017, client deposits and notes in the amount of GEL 1,066.6 million (US$411.5 million), representing 15.1% of total client deposits and notes, were attributable to the Group's ten largest deposit customers. The Group accepts deposits in Lari and foreign currencies. As of 31 December 2017, 69.5% of the Group's total client deposits and notes were in foreign currencies, compared to 76.4% as of 31 December 2016 and 74.7% as of 31 December 2015.

The following table sets out client deposits and notes by currency as of the dates indicated:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Foreign client deposits and notes:				
Foreign currencies (freely convertible being primarily USD, EUR and GBP)	1,834,462	4,755,293	4,261,585	3,639,479
Other currencies (non-convertible))	63,555	164,747	137,343	103,375
Total foreign currency client deposits and notes	**1,898,017**	**4,920,040**	**4,398,928**	**3,742,854**
Lari client deposits and notes	832,505	2,158,018	1,356,839	1,268,415
Total client deposits and notes	**2,730,522**	**7,078,058**	**5,755,767**	**5,011,269**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The following table provides information on client deposits and notes by type of customer as of the dates indicated:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	1,498,318	3,883,940	3,134,250	2,615,774
Private Enterprise	1,053,094	2,729,831	2,484,045	2,205,115
State and state-owned entities	179,109	464,287	137,472	190,380
Total client deposits and notes	**2,730,521**	**7,078,058**	**5,755,767**	**5,011,269**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

Amounts Due to Credit Institutions

Amounts due to credit institutions include correspondent accounts and term deposits and inter-bank loans from the inter-bank market, short-term loans from the NBG, which the Bank uses to manage short-term liquidity needs, as well as borrowings from international credit institutions (including DFIs) and non-convertible subordinated debt, which provide a source of long-term funding. Total amounts due to credit institutions were GEL 2,778.3 million (US$ 1,071.8 million), GEL 3,067.7 million and GEL 1,692.6 million as of 31 December 2017, 2016 and 2015, respectively, representing 24.5%, 31.4% and 21.7% of total liabilities as of the same dates, respectively. The GEL 289.3 million, or 9.4%, decrease in amounts due to credit institutions as of 31 December 2017 compared to 31 December 2016 was primarily due to GEL 291.5 million, or 26.9%, decrease in short term loans from the National Bank of Georgia, a GEL 125.1 million, or 38.0%, decrease in correspondent accounts, and a GEL 8.2 million, or 1.9%, decrease in subordinated debt, partially offset by a

GEL 119.6 million, or 83.0%, increase in time deposits and inter-bank loans and GEL 15.9 million, or 1.5%, increase in borrowings from international credit institutions.

As of 31 December 2017, 31 December 2016 and 31 December 2015, 67.1%, 75.5% and 83.4% of borrowings from international credit institutions (including subordinated debt), respectively, were denominated in US Dollars. As of the same dates, 34.9%, 33.5% and 28.6% of borrowings from international credit institutions (including subordinated debt) had a maturity of less than one year.

The following table lists the composition of total amounts due to credit institutions as of the dates indicated:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Borrowings from international credit institutions[(2)]	419,681	1,087,896	1,072,033	618,333
Short-term loans from the National Bank of Georgia	306,121	793,528	1,085,000	307,200
Time deposits and inter-bank loans[(3)]	101,739	263,728	144,102	279,317
Correspondent accounts	78,895	204,512	329,609	92,617
Subordinated debt	165,370	428,673	436,907	395,090
Total amounts due to credit institutions	**1,071,806**	**2,778,337**	**3,067,651**	**1,692,557**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) Borrowings from international credit institutions include loans from EBRD, IFC, ADB, OPIC, FMO, DEG, KfW, EIB, Black Sea Trade and Development Bank, responsibility SICAV (Lux), GGF and EFSE (each as defined below), WorldBusiness Capital Inc. and others.

(3) Time deposits and inter-bank loans represent advances from credit institutions used by the Group to manage its short-term liquidity needs.

The Group has obtained a number of loans from credit institutions, including commercial banks and international development financial institutions. The increase in total amounts due to credit institutions between 31 December 2015 and 31 December 2017, particularly in short-term loans from NBG and borrowings from international credit institutions, was primarily to support the local currency lending. The following are the most significant of these loans, which were outstanding as of 31 December 2017:

- In December 2008, the Bank obtained a US$10.0 million, 10-year subordinated loan facility from the Overseas Private Investment Corporation (**"OPIC"**). As of 31 December 2017, the principle amount outstanding under these loan facilities was US$10 million (GEL 25.9 million). The loan bears a fixed interest rate per annum (with respect to a note) which is payable quarterly, with a premium payable by the Bank on any early prepayment of the loan. The loan is governed by New York law.
- On 11 November 2010, the Bank entered into a framework agreement (amended in 2014) under three individual loan agreements with maturity of three to ten years with the European Fund for Southeast Europe. The individual loan agreements related to three loan facilities in the aggregate amount of US$67.8 million for MSE and housing financing. As of 31 December 2017, the principle amount outstanding under these loan facilities was US$53 million (GEL 137.3 million). Loans bear an interest rate of LIBOR/EURIBOR plus margin which is payable semi-annually. Both loans are governed by English law.
- On 11 July 2012, the Bank entered into EUR 25 million with Kreditanstalt für Wiederaufbau (**"KfW"**), a German development bank acting on behalf of the German government, within the framework of the Renewable Energy Programme, entered into by the Government of the Federal Republic of Germany and the Government of Georgia on Financial Cooperation, pursuant to an agreement dated 31 May 2012. The facility, which matures in 2022, is used to

finance investments in renewable energies, mainly the construction or rehabilitation of small size hydropower plants. In addition, the agreement envisages the provision of technical support from KfW with co-financing from the Austrian Development Bank, for the Bank as well as for potential investors. As of 31 December 2017, the principle amount outstanding under the loan facility was EUR8.8 million (GEL 27.2 million). The loan bears a fixed interest rate which is payable semi-annually, and certain information and financial covenants customary in a contract with a development bank. The loan is governed by German law.

- On 26 December 2013, the Bank entered into a US$65 million subordinated loan facility with the IFC Capitalisation Fund. The loan facility has a maturity of ten years and enables the Bank to further optimise its cost of funding. As of 31 December 2017, the principle amount outstanding under the loan facility was US$65 million (GEL 168.5 million). The loan bears an interest rate of LIBOR plus a specified margin which is payable bi-annually and certain information and financial covenants customary in a contract with IFC. The loan is governed by law of England and Wales.

- On 11 September 2014, the Bank entered into a five-year EUR 15 million senior loan facility with the Green for Growth Fund (**"GGF"**). The GGF loan is used to finance mortgages for energy efficient housing (which housing is designed to yield energy savings of more than 20% compared to conventional buildings). This was the first loan extended in Georgia by GGF. As of 31 December 2017, the principle amount outstanding under the loan facility was EUR 10.8 million (GEL 33.6 million). The loan bears an interest rate of EURIBOR plus a specified margin which is payable bi-annually. It also requires the Bank to pay certain fees for each draw down under the loan, including a management fee, a commitment fee, and if the draw down is cancelled, a cancellation fee. The loan is governed by English law.

- On 24 October 2014, the Bank entered into a five-year US$35 million senior loan agreement with DEG. The loan is intended to support the growth of the SME sector in the country. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$17.5 million (GEL 45.4 million). The loan bears an interest rate of LIBOR plus a specified margin which is payable bi-annually. The loan is governed by German law.

- On 30 April 2015, the Bank entered into a seven-year EUR 40.0 million agreement with the European Investment Bank (**"EIB"**). The loan is intended to finance investment projects promoted by SME/midcaps in Georgia and bears a fixed rate. As of 31 December 2017, the principle amount outstanding under this agreement was US$11.1 million (GEL 28.8 million). The loan is governed by English law.

- On 1 May 2015, the Bank entered into a trade finance term loan agreement with the OPEC Fund For International Development (**"OFID"**). Under the terms of the agreement OFID has agreed to provide the Issuer with a principal amount of US$10.0 million. As of 31 December 2017, there was US$10 million (GEL 25.9 million) principle outstanding under the agreement. The loan bears an interest rate of LIBOR plus a specified margin which is payable bi-annually. The loan is governed by English law.

- On May 2015, the Bank entered into a US$90 million subordinated loan agreement with the IFC. The IFC is providing long term financing to help increase the Bank's role in diversifying Georgia's economy, expand access to finance and boost sustainable growth. The loan facility, which includes US$20 million from the EFSE, has a maturity of ten years and qualifies as Tier II capital under the Basel II framework. As of 31 December 2017, the principle amount outstanding under the loan facility was US$90 million (GEL 233.3 million). The loan bears an interest rate of (calculated by adding LIBOR to a rate determined on a specified date) which is payable bi-annually and certain information and financial covenants customary in a contract with a development bank. The loan is governed by the law of England and Wales.

- In August 2016, the Bank entered into a GEL 60 million loan agreement with Black Sea Trade and Development Bank. The loan was provided to the Bank in a single disbursement. The loan bears an interest rate calculated by reference to certificates of deposits of NBG, plus a specified margin, which is payable quarterly. The loan is governed by English law.

- The Bank is the issuer of, in total, four promissory notes purchased by responsibility SICAV (Luxembourg). Two of these promissory notes were issued in December 2016 and mature in December 2021 (one for US$1.625 million and the other for US$3.175 million). The other two were issued in February 2017 and mature in February 2022 (one for US$1.625 million and the other for US$3.175 million). The loan bears an interest rate of USD 6-month LIBOR plus a specified margin which is payable semi-annually. The loan is governed by Luxembourg law.

- The Bank is the issuer of a further two promissory notes which were purchased by responsibility Management Company S.A. These were issued in December 2016 and February 2017, maturing in December 2021 and in February 2022, respectively. Both of the promissory notes issued in favour of Management Company S.A are for US$10.2 million. The loan bears an interest rate of USD 6-month LIBOR plus a specified margin which is payable semi-annually. The loan is governed by Luxembourg law.
- In August 2017, the Bank entered into a one year US$75 million Club Trade Finance Facility ("the Facility") arranged by Citi, in collaboration with the Bank's long-term partner international financial institutions – Asian Development Bank ("ADB") and International Finance Corporation. The loan bears an interest rate of LIBOR plus a specified margin which is payable quarterly. The loan is governed by English law.

As of 31 December 2017, the Group had undrawn long-term loan facilities from credit institutions in the principle amount of EUR 13.7 million (GEL 42.5 million) and was in compliance with the covenants under those agreements.

In October 2014, the Bank and EBRD entered into an amended and restated participation agreement, pursuant to which EBRD has made available US$25.0 million co-financing for the Bank's corporate customers which may be used for term lending for a period of up to eight years from the date of amendment, as well as revolving credit lines for working capital needs. The original participation agreement was entered into in June 2005 and provided financing in an aggregate amount of US$5.0 million. The facility enables EBRD to co-finance the Bank's corporate customers together with the Bank, without recourse to the Bank, fully bearing the Georgian corporate risk. As of 31 December 2017, the aggregate amount utilised under this loan facility was US$ 8.9 million.

In May 2016, the Bank and EBRD entered into three separate loan facilities. Each such loan bears an interest rate of EBRD all in cost rate plus a fixed rate per annum and is repayable in thirteen quarterly instalments, commencing in June 2018. The first facility in an amount up to US$50 million relates to the DCFTA Programme, established to help finance investments in MSMEs. The second facility in an amount up to US$40 million concerns the funding of SME customers in Georgia. The third facility relates to the Women in Business Policy Programme and is in an amount of up to US$10 million. As of 31 December 2017, the principle amount outstanding under these loans was GEL 242 million (US$93.4 million).

As of 31 December 2017, the Bank had trade finance lines from IFC (US$65 million), EBRD (€55 million), Ziraat Bank (US$35 million), Commerzbank (€25 million), Citibank N.A. (US$22 million), Asian Development Bank (**"ADB"**) (US$20 million), UBS (CHF10 million), ING Bank (€5 million), Unicredit Bank Austria (€5 million), Sumitomo Mitsui Banking Corporation (€10 million), Amsterdam Trade Bank N.V.C (€10 million), Deutsche Bank AG (€5 million), KBC Bank (€10 million) and BHF-Bank Aktiengesellschaft (€5 million).

Debt Securities Issued

On 5 July 2012, the Bank issued US$250 million 7.75% notes due 2017 and, on 5 November 2013, the Bank issued a further US$150 million 7.75% notes due 2017, which were consolidated to form a single series. In July 2016, the Bank redeemed all of these outstanding notes due 2017.

On 26 July 2016, JSC BGEO Group issued US$350,000,000 6.00% notes due 2023. On 21 March 2018 JSC BGEO Group was substituted by the Bank as the issuer of the notes.

On 1 June 2017, the Bank issued GEL 500 million 11.00% notes due June 2020. The notes are denominated in GEL. The issuance was the first international local currency bond offering from the wider CIS region (excluding Russia) for ten years.

On 9 March 2018, JSC Georgia Capital successfully issued US$300 million 6.125% notes due March 2024.

PART XVI

OPERATING AND FINANCIAL REVIEW

The Company was incorporated on 15 August 2017 in preparation for the Demerger. To provide financial results for the Company's business, the following tables set forth, for the periods indicated, selected combined historical financial information derived from the Historical Financial Information included in Part XXVI (Historical Financial Information) of this Prospectus and references to the "Group" are references to the Banking Business as it will be following the Scheme and the Demerger.

Shareholders should read the following information in conjunction with "Presentation of Financial Information". The following discussion should be read together with the Historical Financial Information and the notes thereto and the other information included elsewhere in this Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the sections entitled "Risk Factors" and "Forward-Looking Statements". Unless otherwise noted, all information relating to the Bank's market ranking and market share is based on information published by the NBG on 31 December 2017 and based on stand-alone financial information filed with the NBG by various Georgian banks, respectively.

The terms "loan(s)" and "loan(s) to customers", as used in this section, means loans to customers. Translations of Lari amounts as of and for the year ended 31 December 2017 into US Dollars in this Prospectus have been made using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

Overview

The Group provides retail banking and corporate investment banking services, with ancillary business lines including brokerage, leasing, payment services and BNB (which provides banking operations in Belarus). The Bank's market share in Georgia was 34.4%, 32.4%, 33.9% and 29.3% based on total assets, total gross loans, total client deposits and notes and shareholders' equity, respectively, according to statistics published by the NBG as of 31 December 2017. The Group strives to benefit from the underpenetrated banking sector in Georgia, in particular through the provision of retail banking services.

Factors Affecting Group's Financial Results

Key factors affecting the Group's financial results during the period under review and expected to continue to affect the Group's financial results in the future are discussed below.

Macroeconomic Conditions

The Group operates primarily in Georgia with its Georgian operations accounting for 94.4%, 94.1% and 92.1% of its total combined revenue for the years ended 31 December 2017, 2016 and 2015, respectively. Accordingly, the Group's results of operations and financial condition are, and will continue to be, significantly affected by Georgian political and economic factors, including those in the below table.

	(unaudited)		
	As of and for the year ended 31 December		
	2017	**2016**	**2015**
GDP growth (%)	4.8	2.8	2.9
Nominal GDP (US$ millions)	15.127	14,378	13,988
Nominal GDP per capita (US$)	4,069	3,865	3,767
Current account deficit (US$ millions)	784[(1)]	1,840	1,680
Inflation (end of period, %)	6.7	1.8	4.9
Foreign direct investments (US$ millions)	1,346[(1)]	1,584	1,576
Public debt as a % of GDP	44.7	44.4	41.4
Tourist visits	7,554,936	6,360,503	5,901,094

Notes:

(1) Dated of and for the nine months ended 30 September 2017.

Real GDP growth in Georgia accelerated to 4.8% in 2017 from 2.8% in 2016 and 2.9% in 2015. According to the latest IMF forecast, real GDP growth in Georgia will be 4.2% and 4.5% in 2018 and 2019, respectively. The slowdown in 2015-2016 mainly reflected a weak external environment as Georgia's major trading partners' economies have been affected by lower oil prices since the second half of 2014. Economic conditions in Georgia and regionally began to improve in the first quarter of 2017, as foreign earnings from exports, remittances and tourism increased and the Lari appreciated 2.1% against the US Dollar as of 31 December 2017 as compared to 31 December 2016. As of 31 December 2017, the official Lari/US Dollar rate published by the NBG was GEL 2.5922 per US$1.00.

Inflation was 6.7% in December 2017 and remained above the NBG's target of 4.0% for 2017, due to the lagged effects of exchange rate depreciation, higher world commodity prices, and increases of excise taxes on tobacco, cars and fuels to compensate for a shortfall in revenue from new tax exemptions for the corporate sector since the beginning of 2017. The NBG raised its refinancing rate by 25 basis points to 6.75% in January 2017, by 25 basis points to 7.0% in May 2017, and 25 basis points to 7.25% on 13 December 2017, due to increased inflation expectations. As factors affecting inflation are temporary, in January 2018, the NBG stated that it expects inflation to be close to its 3.0% target in 2018.

Inflation remained low in 2016 with end-year inflation at 1.8% (which was below NBG's 5.0% target for 2016, due to weak growth, and low global oil and food prices. This enabled the NBG to lower the refinancing rate gradually from 8.0% to 6.5% in 2016. The decreased refinancing rate positively affected the Group's loan portfolio, as well as its funding costs, as described below.

In 2015, the NBG increased its refinancing rate from 4.0% in 2014 to 8.0% due to depreciation of the Lari and the related price pressures. The increased refinancing rate significantly affected the Group's loan portfolio, as well as its funding costs, in 2015 as described below. As of 31 December 2017, the Group's share of Lari-denominated gross loans and client deposits and notes was 38.3% and 30.5%, respectively. As of 31 December 2015 and 31 December 2016, the Group's share of Lari-denominated gross loans was 28.8% and 28.1%, respectively, and the Group's share of Lari-denominated client deposits and notes was 23.6% and 25.3%, respectively.

Due to the global strengthening of the US Dollar and the related slowdown of growth in Georgia and the economies of its main trading partners, the Lari depreciated by 28.5% against the US Dollar in 2015. In 2016, growing uncertainty in global and regional financial markets, and a stronger US Dollar following the elections in the United States, resulted in resumed pressures and contributed to a further depreciation of the Lari by 10.5%. These depreciations helped Georgia to facilitate adjustment to external shocks as imports decreased by 0.1% in 2016, as compared to 2015, and increased by

9.4% in 2017, as compared to 2016, although exports have shown signs of growth since September 2016. As foreign exchange interventions have been limited to smoothing excessive exchange rate volatility, the NBG's gross foreign reserves have been preserved, although the depreciation of the Lari has contributed to an overall increase in Georgia's public debt as a percentage of GDP.

Despite the regional economic slowdown, tourism revenues increased during the periods under review, with tourism inflows at US$ 1,936 million in 2015, US$ 2,166 million in 2016 and US$ 2,750 million in 2017. Supported by tourism inflows, service exports increased by 20.6% to US$3.1billion in the nine months ended 30 September 2017, increased by 7.0% to US$ 3.4 billion in 2016 from US$3.1 billion in 2015. Moreover, FDI increased by 2.9% to US$1,346 million in the nine months ended September 2017 from US$1,308 billion in in the nine months ended 30 September 2016 and increased by 0.5% to US$1,584 million in 2016.

Changes in the size of the Loan Portfolio

Increases or decreases in the overall size of the Group's loan portfolio and in the mix of its portfolio significantly impact the Group's total interest income and NIM. In addition, the proportion of loans to total interest-earning assets also has an effect, as non-loan interest-earning assets (which are primarily amounts due from credit institutions or investment securities) generally have lower yields. Similarly, the percentage of Lari-denominated loans affects total interest income and NIM as these loans generally have a higher yield.

The table below presents the Group's key loan portfolio metrics for the periods and at the dates indicated.

	As of and for the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars) (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Loans to customers and finance lease receivables, gross	3,094,203	8,020,793	6,937,156	5,567,841
Loans to customers and finance lease receivables, net	2,986,429	7,741,420	6,681,666	5,366,760
Total interest earning assets	4,078,130	10,571,328	8,905,759	6,989,287
Loans to total interest-earning assets (%)	73.2%	73.2%	75.0%	76.8%
Portion of Lari-denominated loans of total loans (%)	38.3%	38.3%	28.8%	28.1%
Net total interest income (GEL millions)	259,279	672,103	553,610	510,597
Total interest income from Loans to customers and finance lease receivables	389,582	1,009,875	832,978	791,571
Loan yield	13.5%	13.5%	13.3%	15.7%
Profit for the year	142,550	369,519	295,703	261,795

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The size of the Group's loan portfolio has continued to increase over the periods under review as a result of growth in lending activity, as well as the acquisition of Privatbank (Georgia) and its loan portfolio in 2015. The increase in the Group's total interest income in 2016 was principally attributable to the continued increase in the size of the Group's loan portfolio as a result of increased lending activity and increase in the proportion of Lari-denominated loans, which bear higher interest rates. However, the increase was partially offset by a decrease in loans as a percentage of total interest-earning assets and a decrease in loan yields in 2016. The size of the Group's total loan portfolio, as well as the portion of its Lari-denominated loans in the total loan portfolio continued to increase in the year ended 31 December 2017 as a result of increased lending. The increases contributed to higher interest income during the period. See also "*Regulation of the Georgian Banking Sector—Restrictions on Issuing Loans in Foreign Currency*".

Cost of Credit Risk

The Group's cost of credit risk is comprised of impairment charges on loans to customers, finance lease receivables and other assets and provisions, such as guarantees and other debts. The Group's cost of credit risk amounted to GEL167.8 million (including GEL 75.7 million in retail banking and GEL 76.3 million in corporate investment banking) and GEL 150.8 million (including GEL 75.4 million in retail banking and GEL 56.2 million in corporate investment banking) in 2016 and 2015, respectively, and GEL 167.3 million (including GEL 110.8 million in retail banking and GEL 47.4 million in corporate investment banking) in the year ended 31 December 2017. The increase in the cost of credit risk in 2016, which primarily related to corporate investment banking loan portfolios, was due to the impact of slower economic growth and the currency devaluation in neighbouring countries as well as the subsequent weakening of the Georgian economic environment, the depreciation of the Lari against the US Dollar and the consequential impact on the Group's clients, including their ability to service their loans. The Group's cost of credit risk decreased in the year ended 31 December 2017, primarily reflecting the appreciation of the Lari against the US Dollar in 2017, as compared to the 9.5% depreciation of the Lari in 2016 and a 28.5% depreciation of the Lari in 2015 and the improvement in the quality of the loan portfolio, particularly in the corporate investment banking segment as a result of achieving the risk de-concentration and repositioning targets in the third quarter of 2017. See "*Risk Factors—Macroeconomic and Political Risks Relating to Georgia*".

The Group has completed its IFRS 9 implementation programme and adopted IFRS 9, (Financial Instruments) with effect from 1 January 2018. The Group will recognise an estimated impact from IFRS 9 adoption of approximately GEL 31.4 million, gross of tax, as a reduction to shareholders' equity at the transition date on 1 January 2018. As allowed by IFRS 9, the Group will not be restating any prior-period data. IFRS 9 does not have any impact on regulatory capital and capital adequacy ratios. Through the cycle, cost of risk is expected to remain unchanged. The NPL coverage ratio, adjusted for additional IFRS 9 allowance, was 102.9% as at 31 December.

Changes in Client Deposits and Notes

Client deposits and notes are the Group's largest source of funding, accounting for 62.3% of total liabilities as of 31 December 2017, as compared to 58.9% as of 31 December 2016 and 64.2% as of 31 December 2015. The Group's client deposits and notes were GEL 5,011.3 million as of 31 December 2015, GEL 5,755.8 million as of 31 December 2016 and GEL 7,078.1 million as of 31 December 2017. See "*—Cost of Funds*". The year-on-year increase in 2016, as compared to 2015 was primarily attributable to the depreciation of the Lari against the US Dollar, and increased attraction of client deposits during the period, while the increases of 31 December 2017 compared to 31 December 2016 was due to strong deposit generation across the Group.

Cost of Funds

The Group's principal liabilities are:

- client deposits and notes (62.3% of total Group liabilities as of 31 December 2017);
- borrowings from international credit institutions, including Development Finance Institutions (**"DFIs"**) and non-convertible subordinated debt (as a source of long-term funding), and deposits and loans from the inter-bank market (to manage short-term liquidity needs) (24.5% of total Group liabilities as of 31 December 2017);
- debt securities issued (12.2% of total Group liabilities as of 31 December 2017); and
- all other liabilities (1.0% of total Group liabilities as of 31 December 2017).

Since 1 January 2015, the Group's total interest expense has been increasing in line with the growth of its business. In 2016, the Group continued to reduce interest rates on foreign currency denominated client deposits and notes, while during the year ended 31 December 2017, the Group partially reversed the decreasing trend of Lari-denominated deposit rates. In particular, interest rates on the Group's foreign currency denominated client deposits and notes with different maturities were reduced by 160 basis points and interest rates on Lari-denominated client deposits and notes increased by 20 basis points from 31 December 2015 to 31 December 2017, respectively. The Group's overall cost of client deposits and notes decreased from 4.5% in 2015 to 3.6% in 2016 and further decreased to 3.4% in the year ended 31 December 2017.

Cost Management

In 2015, the Bank's ultimate parent company announced that cost efficiency would be a strategic priority for the Group, and that it would seek to reduce the Group's cost to income ratio to approximately 35%. In each of 2016 and 2017, the Group's operating expenses increased by 12.9% and 17.6%, respectively, while revenue increased by 6.4% and 17.5%, respectively, resulting in a 37.7% cost to income ratio for both 2016 and 2017. The increase in operating expenses in 2016 and 2017 was primarily driven by strong organic growth in the Group's retail banking operations, a larger branch network and the depreciation of GEL against the US Dollar as most of the Group's branch rental agreements are denominated in US Dollars. The Group is implementing more disciplined budgeting, cost analysis and control procedures across all business lines.

Currency Fluctuations

Fluctuations in the US Dollar to Lari exchange rate affect the value, in Lari terms (the functional currency in which the Group reports results), of the Group's gross loans to customers and, in turn, total assets. As of 31 December 2017, 61.7% of the Group's gross loans to customers were denominated in foreign currencies (mainly US Dollars). An appreciation of the Lari against the US Dollar will decrease the value of these loans in Lari. Conversely, a depreciation of the Lari against the US Dollar will increase the value of these loans in Lari. In addition, the Group incurs expenses that are linked to foreign currencies, primarily rental expenses that are US Dollar-linked. A depreciation of the Lari will increase these costs. The Lari depreciated 28.5% and 15.5% against the US Dollar and Euro, respectively, in 2015. In 2016, the Lari depreciated further by 10.5% and 6.8% against the US Dollar and the Euro, respectively. In 2017, the Lari appreciated by 2.1% and depreciated by 11.1% against the US Dollar and the Euro, respectively.

The Group is also affected by fluctuations in the Belarusian Rouble to Lari exchange rate, as the depreciation of Belarusian Rouble in relation to the Lari tends to reduce the value of the non-monetary assets of BNB, which are fixed in Belarusian Roubles, in Lari terms. The Belarusian Rouble depreciated by 18.0% against the Lari in 2015, appreciated by 4.9% against the Lari in 2016 and depreciated by 3.3% against the Lari in the year 2017.

Although the Group seeks to minimise the effect of currency fluctuations, such fluctuations may affect its results.

The Group Restructuring

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities, the Group completed a legal restructuring in August 2015. As a result, JSC BGEO Group, a new holding company, was established under the laws of Georgia as the intermediate parent of the Group by BGEO Group PLC. The Group's former non-banking subsidiaries that represented separate major lines of business were moved directly under JSC Georgia Capital, formerly JSC BGEO Investments as the Bank's sister companies during the 2015 reorganisation.

Acquisitions

In January 2015, the Bank completed the acquisition of PrivatBank for cash consideration of GEL 92 million. PrivatBank, the ninth largest bank in Georgia by total assets at the time of acquisition with a focus on retail banking, was a strategic match for the Bank and was acquired with the aim of strengthening the Bank's focus on retail banking. PrivatBank's branch format was complementary to the Bank's Express branch (self-service) format, and this acquisition has enabled the Bank to further expand its Express banking business, which has delivered strong retail growth over recent years. See *"Information on Bank of Georgia Group PLC—Retail Banking—Privatbank"*.

Segment Information

The following table sets out the revenue attributable to Bank of Georgia Group PLC's primary segments for the periods indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Retail banking	237,139	614,712	494,136	427,367
Corporate investment banking	92,362	239,420	233,884	242,279
BNB	19,813	51,359	45,949	57,739
Other banking business	1,993	5,167	1,180	1,933
Eliminations	(510)	(1,322)	(1,239)	(2,168)
Revenue	350,797	909,336	773,910	727,150

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

The Group's Retail Banking revenue as a percentage of total revenue, increased to 67.6% in the year ended 31 December 2017 from 63.8% in the corresponding period in 2016, while revenue contributions from the Corporate Investment Banking segment and BNB decreased from 30.2% and 5.9% in 2016 to 26.3% and 5.6% in the year ended 31 December 2017, respectively.

The Group's Retail Banking revenue as a percentage of total revenue increased to 63.8% in 2016 from 58.8% in 2015, while revenue contributions from the Corporate Investment Banking and BNB decreased from 33.3% and 7.9% in 2015 to 30.2% and 5.9% in 2016, respectively.

These changes are in line with the strategic focus on growth in the Retail Banking business and deconcentration efforts in the CIB segment over the last two years.

Combined Income Statement

Years Ended 31 December 2017, 2016 and 2015

The following table sets out a condensed combined income statement for the Group for the periods indicated.

	For the year ended 31 December					
	2017			2016		2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Net interest income	**259,279**	**672,103**	**21.4%**	**553,610**	**8.4%**	**510,597**
Net fee and commission income	**50,719**	**131,473**	**5.3%**	**124,909**	**3.0%**	**121,219**
Net foreign currency gain	33,199	86,059	3.4%	83,204	9.6%	75,934
Other income	7,600	19,701	61.7%	12,187	-37.2%	19,400
Revenue	**350,797**	**909,336**	**17.5%**	**773,910**	**6.4%**	**727,150**
Operating expenses	**(132,296)**	**(342,937)**	**17.6%**	**(291,546)**	**12.9%**	**(258,286)**
Profit from associates	506	1,311	-100%	—	—	—
Operating income before cost of credit risk	**219,007**	**567,710**	**17.7%**	**482,364**	**2.9%**	**468,864**
Cost of credit risk	**(64,539)**	**(167,299)**	**-0.3%**	**(167,751)**	**11.2%**	**(150,807)**
Net non-recurring items	(1,659)	(4,301)	-90.5%	(45,354)	267.4%	(12,345)
Income tax (expense) benefit	(10,258)	(26,591)	-200.6%	26,444	-160.2%	(43,917)
Profit for the year	**142,551**	**369,519**	**25.0%**	**295,703**	**13.0%**	**261,795**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Net interest income

The following table sets out a summary of the Group's net interest income for the years indicated.

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest income	439,895	1,140,295	932,062	870,711
Interest expense	(180,616)	(468,192)	(378,452)	(360,114)
Net interest income	**259,279**	**672,103**	**553,610**	**510,597**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Net interest income increased by GEL 118.5 million, or 21.4%, to GEL 672.1 million (US$259.3 million) in 2017 from GEL 553.6 million in 2016, primarily due to a 22.3% increase in interest income, which was partially offset by a 23.7% increase in interest expense. Net interest income increased by GEL 43.0 million, or 8.4%, to GEL 553.6 million in 2016 from GEL 510.6 million in 2015, primarily due to a 7.0% increase in interest income, which was only partially offset by a 5.1%, increase in interest expense.

The NIM of the Group was 6.9%, 7.0% and 8.1% in 2017, 2016 and 2015, respectively. The loan yield was 13.5%, 13.3% and 15.7% in 2017, 2016 and 2015, respectively, while the cost of funds was 4.5%, 4.4% and 5.4% in 2017, 2016 and 2015, respectively.

The following table sets out the Group's interest income for the years indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest income attributable to:				
Loans to customers	384,126	995,731	822,558	781,843
Investment securities	43,704	113,290	91,099	69,514
Amounts due from credit institutions	6,608	17,130	7,985	9,626
Finance lease receivables	5,456	14,144	10,420	9,728
Total interest income	**439,894**	**1,140,295**	**932,062**	**870,711**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

The following table sets out the amounts of the Group's interest-earning assets by type as of the dates indicted:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest-earning assets:				
Loans to customers and finance lease receivables, net	2,986,429	7,741,420	6,681,666	5,366,760
Investment securities	622,467	1,613,558	1,283,607	903,851
Amounts due from credit institutions	469,235	1,216,350	940,486	718,676
Total interest-earning assets	**4,078,131**	**10,571,328**	**8,905,759**	**6,989,287**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Interest income increased by GEL 208.2 million, or 22.3%, from GEL 932.1 million in 2016 to GEL 1,140.3 million (US$439.9 million) in 2017. This increase in interest income was primarily attributable to a GEL 176.9 million, or 21.2%, increase in interest income from loans to customers and finance lease receivables, which was, in turn, primarily due to a 20.2% increase in average gross loans and finance lease receivables, and a GEL 22.2 million, or 24.4%, increase in interest income from investment securities, reflecting a 25.7% increase in the total amounts of interest-earning investment securities, partially offset by lower interest rates in 2017. Interest income increased by GEL 61.4 million, or 7.0%, from GEL 870.7 million in 2015 to GEL 932.1 million in 2016. This increase in interest income was primarily attributable to a GEL 41.4 million, or 5.2%, increase in interest income from loans to customers and finance lease receivables, which was, in turn, primarily due to a 12.9% increase in average gross loans and finance lease receivables, and a GEL 21.6 million, or 31.1%, increase in interest income from investment securities, reflecting a 42.0% increase in the interest-earning investment securities.

Interest income from amounts due from credit institutions increased by GEL 9.1 million, or 114.5%, to GEL 17.1 million (US$6.6 million) in 2017 from GEL 8.0 million in 2016, after having decreased by GEL 1.6 million, or 17.0% from GEL 9.6 million in 2015. The increase in 2017, and the decrease in 2016, were principally due to respective trends in inter-bank deposit rates for such years in line with the decrease of NBG's refinancing rates to 6.5% as of 31 December 2016 from 8.0% as of 31 December 2015, and following an increase of the NBG's refinancing rates to 7.25% as of 31 December 2017.

Interest income from the investment securities portfolio increased in 2017, as compared to 2016, as well as in 2016, as compared to 2015, as yields on Government treasury bills and treasury bonds and NBG certificates of deposit continued to increase across the period. Interest income on interest-earning investment securities (including debt instruments only) increased by GEL 22.2 million, or 24.4%, to GEL 113.3 million (US$43.7 million) in 2017 from GEL 91.1 million in 2016, after having increased by GEL 21.6 million, or 31.1% from GEL 69.5 million in 2015. These year-on-year increases primarily reflected the continuing increases in the amount of debt investment securities.

Total interest expense

The following table sets out the Group's total interest expense for the years indicated.

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest expense attributable to:				
On client deposits and notes amounts	83,205	215,683	194,047	190,777
Amounts owed to credit institutions	65,629	170,124	124,668	100,704
Debt securities issued	31,782	82,385	59,737	68,633
Total interest expense	**180,616**	**468,192**	**378,452**	**360,114**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

The following table sets out the amounts of the Group's interest-bearing liabilities as of the dates indicated:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Client deposits and notes	2,730,522	7,078,058	5,755,767	5,011,269
Amounts owed to credit institutions	1,071,807	2,778,337	3,067,651	1,692,557
Debt securities issued	534,840	1,386,411	858,035	961,944
Total interest-bearing liabilities	**4,337,169**	**11,242,806**	**9,681,453**	**7,665,770**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Total interest expense increased by GEL 89.7 million, or 23.7%, to GEL 468.2 million (US$180.6 million) in 2017 from GEL 378.5 million in 2016, having increased by GEL 18.3 million, or 5.1%, from GEL 360.1 million in 2015. The increase in 2017 was primarily driven by a GEL 45.5 million, or 36.5%, increase in total interest expense on amounts due to credit institutions as a result of the higher cost of amounts due to credit institutions in 2017 and the change in the NBG refinancing rate, which increased to 7.25% as at 31 December 2017 from 6.5% as at 31 December 2016. In addition, the interest expense increase was driven by a GEL 21.6 million, or 11.1%, increase in the interest expense on client deposits and notes as a result of the increase in client deposits and notes portfolio of both retail banking and corporate banking deposits, and by an increase in total interest expense on debt securities issued by GEL 22.6 million, or 37.9%. The increase in 2016 was driven by a GEL 24.0 million, or 23.8%, increase in total interest expense on amounts due to credit institutions, as a result of an increase in the size of the Group's borrowings portfolio, a GEL 3.3 million, or 1.7%, increase in the interest expense on client deposits and notes as a result of the increase in client deposits and notes portfolio of both retail banking and corporate banking deposits, which was partially offset by a GEL 8.9 million, or 13.0%, decrease in total interest expense on debt securities issued as a result of redemption of Eurobonds in July 2016. See "*Funding—Amounts due to Credit Institutions and other borrowings*".

Net fee and commission income

The following table sets out the principal components of the Group's net fee and commission income for the years indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Settlement operations	59,227	153,529	129,792	112,540
Guarantees and letters of credit	6,897	17,879	19,517	27,360
Cash operations	5,470	14,180	13,752	14,425
Currency conversion operations	172	446	585	1,550
Brokerage service fees	699	1,813	1,055	580
Advisory	—	—	2,535	2,070
Other	1,795	4,652	5,393	3,049
Fee and commission income	**74,260**	**192,499**	**172,629**	**161,574**
Settlement operations	(18,820)	(48,786)	(34,824)	(29,921)
Cash operations	(1,989)	(5,156)	(5,807)	(4,670)
Guarantees and letters of credit	(846)	(2,192)	(2,880)	(3,836)
Insurance brokerage service fees	(1,214)	(3,148)	(2,431)	(625)
Currency conversion operations	(10)	(27)	(20)	(62)
Other	(662)	(1,717)	(1,758)	(1,241)
Fee and commission expense	**(23,541)**	**(61,026)**	**(47,720)**	**(40,355)**
Net fee and commission income	**50,719**	**131,473**	**124,909**	**121,219**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Net fee and commission income increased by GEL 6.6 million, or 5.3%, to GEL 131.5 million (US$50.7 million) in 2017 from GEL 124.9 million in 2016, having increased by GEL 3.7 million, or 3.0%, from GEL 121.2 million in 2015. The year-on-year increases in each of 2017 and 2016 were primarily due to the increase in settlement operations as a result of the expansion of the Group's Express Banking operations, through which the Group delivers fee-earning fee-based self-service transactional and remote banking services. See "*Information on Bank of Georgia Group PLC—Strengths—Express*".

Fee and commission expense increased by GEL 13.3 million, or 27.9%, to GEL 61.0 million (US$23.5 million) in 2017 from GEL 47.7 million in 2016, having increased by GEL 7.4 million, or 18.3%, from GEL 40.4 million in 2015. These increases were primarily due to increases in fee and commission expenses relating to increased settlement operations as described above.

Net gain from foreign currencies

Net foreign currency gain increased by GEL 2.9 million, or 3.4%, to GEL 86.1 million (US$33.2 million) in 2017 from a net gain of GEL 83.2 million in 2016, having increased from a net gain of GEL 75.9 million in 2015. On the back of volatility in the Lari exchange rate, the Bank's foreign exchange gain increased in 2016 and 2017. Both retail banking and corporate banking contributed to the foreign currency gain.

Net other banking income

The following table sets out certain information on the Group's net other banking income for the years indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)* *(unaudited)*[2]	*(thousands of Lari)* *(unaudited)*[2]	*(thousands of Lari)* *(unaudited)*[2]
Net gain from trading securities and investment securities available-for-sale	1,034	2,681	2,887	313
Net loss from other derivative financial instruments..	570	1,478	(634)	—
Net (loss) gain from revaluation of investment properties	2,830	7,336	(1,221)	6,388
Income from operating lease	1,077	2,793	6,203	4,979
Other operating income	1,194	3,095	2,117	1,793
Net gain from sale of PPE and IP.......	894	2,318	2,835	5,927
Other income	**7,599**	**19,701**	**12,187**	**19,400**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

(2) All items are unaudited with the exception of total other income.

Net gain from trading securities and investment securities available-for-sale decreased by GEL 0.2 million to GEL 2.7 million (US$1.0 million) in 2017 from a GEL 2.9 million in 2016, having increased by GEL 2.6 million in 2016, which primarily relate to realised gain from sale of corporate bonds.

The Group recognised a net gain from the revaluation of investment properties in 2017. The Group recorded a net loss from the revaluation of investment properties of GEL 1.2 million in 2016, as compared to a net gain of GEL 6.4 million in 2015. The gain in 2017 and 2015 reflected the revaluation of the Group's investment properties, while the loss in 2016 was due to a decrease of the fair value of investment properties of BNB as a result of a downturn in the Belarussian economy.

Other operating income increased by GEL 1.0 million, or 46.2%, to GEL 3.1 million (US$1.2 million) in 2017 from GEL 2.1 million in 2016, having increased from GEL1.8 million in 2015.

Revenue

As a result of the foregoing, the Group's revenue increased by GEL 135.4 million, or 17.5%, to GEL 909.3 million (US$350.8 million) in 2017 from GEL 773.9 million in 2016, having increased by GEL 46.8 million, or 6.4%, from GEL 727.2 million in 2015.

Operating expenses

The following table sets out the composition of the Group's operating expenses for the years indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Salaries and other employee benefits	76,465	198,213	168,373	148,922
General and administrative expenses	38,690	100,293	82,112	72,791
Depreciation and amortisation	15,807	40,974	37,207	33,364
Other operating expenses	1,334	3,457	3,854	3,209
Operating expenses	**132,296**	**342,937**	**291,546**	**258,286**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

As a result of the overall growth of the Group's businesses, operating expenses increased by GEL 51.4 million, or 17.6%, to GEL 342.9 million (US$132.3 million) in 2017 from GEL 291.5 million in 2016, which in turn increased by GEL 33.3 million, or 12.9%, from GEL 258.3 million in 2015. These increases were principally due to a GEL 29.8 million, or 17.7 %, and a GEL 19.5 million, or 13.1 %, increases in salaries and other employee benefits and the GEL 18.2 million, or 22.1 %, and GEL 9.3 million, or 12.8 %, increases in general and administrative expenses in 2017 and 2016, respectively. As a percentage of revenue, operating expenses increased from 35.5% in 2015 to 37.7% in 2016 and remained at 37.7% in 2017.

Salaries and other employee benefits increased by GEL 29.8 million, or 17.7% to GEL 198.2 million (US$76.5 million) in 2017, having increased from GEL 168.4 million in 2016, having increased from GEL 148.9 million in 2015, primarily due to an increase in headcount in 2016 and 2017 to support the growth in the Group.

General and administrative expenses increased by GEL18.2 million, or 22.1%, to GEL 100.3 million in 2017 from GEL 82.1 million in 2016, having increased by GEL 9.3 million, or 12.8%, from GEL 72.8 million in 2015, largely reflecting increased spending on marketing and rent costs in 2016 and 2017. The increase in general and administrative expenses in 2017 was also attributable to increased spending on personnel training and repair and maintenance costs. The increase was attributable to the combined effect of a larger branch network and, as most branch rental agreements are denominated in US dollars, higher average exchange rates See "*Information on Bank of Georgia Group PLC—Strategy*" and "*Information on Bank of Georgia Group PLC—Strengths*".

Depreciation and amortisation increased by GEL 3.8 million, or 10.1%, to GEL 41.0 million (US$15.8 million) in 2017 from GEL 37.2 million in 2016, having increased by GEL 3.8 million, or 11.5%, from GEL 33.4 million in 2015, in each case, primarily as a result of the increasing number of service centres of the Group.

Other operating expenses decreased by GEL 0.4 million, or by 10.3%, to GEL 3.5 million (US$1.3 million) in 2017 from GEL 3.9 million in 2016, having increased by GEL 0.6 million, or 20.1%, from GEL 3.2 million in 2015.

Operating income before cost of credit risk

As a result of the foregoing factors, the Group's operating income before cost of credit risk increased by GEL 85.3 million, or 17.7%, to GEL 567.7 million (US$219.0 million) in 2017 from GEL 482.4 million in 2016, having increased by GEL 13.5 million, or 2.9%, from GEL 468.9 million in 2015.

Cost of credit risk

The following table sets out the composition of the Group's cost of credit risk for the years indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] (unaudited)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Impairment charge on loans to customers........	59,877	155,212	158,891	142,819
Impairment charge on finance lease receivables	191	496	777	1,957
Impairment charge on other assets and provisions...	4,471	11,591	8,083	6,031
Cost of credit risk...	**64,539**	**167,299**	**167,751**	**150,807**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Cost of credit risk decreased by GEL 0.5 million, or 0.3%, to GEL 167.3 million (US$64.5 million) in 2017 from GEL 167.8 million in 2016, having increased by 11.2% from GEL 150.8 million in 2015. The cost of risk ratio was 2.1%, 2.6% and 2.9% during 2017, 2016 and 2015, respectively.

Impairment charge on loans to customers decreased by GEL 3.7 million, or 2.3%, to GEL 155.2 million (US$59.9 million) in 2017 from GEL 158.9 million in 2016, having increased by GEL 16.1 million, or 11.3%, from GEL 142.8 million in 2015. These increases were primarily due to the growth in the gross loan portfolio, which increased total impairment charges. The currency translation effect on impairment charges for 2016, as a result of the 10.5% depreciation of the Lari against the US Dollar in 2016, also contributed to the increase in the impairment charge on loans to customers in 2016.

Impairment charge on finance lease receivables decreased by GEL 0.3 million, or 36.2%, to GEL 0.5 million (US$0.2 million) in 2017 from GEL 0.8 million in 2016, having decreased from GEL 2.0 million in 2015.

Impairment charge on other assets and provisions increased by GEL 3.5 million, or43.4%, to GEL 11.6 million (US$4.5 million) in 2017 from GEL 8.1 million in 2016, having increased by GEL 2.1 million, or 34.0%, from GEL 6.0 million in 2015, primarily reflecting the impairment of prepayments to suppliers and guarantees issued.

Net non-recurring items

The Group recorded a non-recurring loss of GEL 4.3 million in 2017 as compared to a loss of GEL 45.4 million in 2016, and a loss of GEL 12.3 million in 2015. The loss in 2016 was primarily attributable to a GEL 43.9 million charge arising from the buyback of the Bank's Eurobonds, which took place in July 2016, a GEL 9.8 million expense for management termination benefits and recruiting compensation expenses and GEL 17.7 million expense for other one-off items. The loss was partially offset by a GEL 16.4 million one-off gain from the sale of Class C shares and Class B shares of Visa Inc. and MasterCard, respectively, and a GEL 9.6 million gain on reclassification of AFS investment to the investment in associate. The non-recurring loss in 2015 was primarily attributable to the GEL 3.7 million cost in respect of the Privatbank integration costs, a GEL 4.5 million loss from the early repayment of borrowings due to a loss on a partial buyback of Eurobonds, a GEL 1.6 million expense for management termination benefits and a GEL 2.2 million impairment of certain non-financial assets of the Group.

Income tax benefit / (expense)

The Group had an income tax expense of GEL 26.6 million (US$ 10.3 million) in 2017, as compared to an income tax benefit of GEL 26.4 million in 2016 and an income tax expense of GEL 43.9 million in 2015. The income tax gain in 2016 reflected the change in the current corporate taxation model approved in May 2016 by the Parliament with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of a 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Group considered the new regime as substantively enacted with effect from June 2016 and re-measured its deferred tax assets and liabilities as of 30 June 2016. Subsequently, deferred tax assets and liabilities were re-measured again at 31 December 2016. The Group has calculated the portion of deferred taxes that it utilised before 1 January 2017 for its non-financial businesses and the portion of deferred taxes it expects to utilise before 1 January 2019 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities as of 31 December 2016. The deferred tax liabilities that were reversed significantly exceeded the deferred tax assets written off. The net amount was recognised as an income tax benefit for the Group and amounted to GEL 52.0 million for full year 2016.

Profit for the year

As a result of the factors described above, the Group generated a net profit for the period of GEL 369.5 million in (US$ 142.6 million) 2017 as compared to GEL 295.7 million for 2016 and GEL 261.8 million for 2015.

Analysis of Combined Statements of Financial Position

As of 31 December 2017, 2016 and 2015

The following table sets out the Group's assets, liabilities and equity as of the dates indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Assets				
Cash and cash equivalents	584,986	1,516,402	1,480,784	1,378,301
Amounts due from credit institutions	469,235	1,216,350	940,486	718,676
Investment securities	622,544	1,613,759	1,283,902	904,146
Loans to customers and finance lease receivables	2,986,429	7,741,420	6,681,666	5,366,760
Prepayments	23,726	61,500	18,715	20,485
Investment properties	78,132	202,534	152,597	135,454
Property and equipment	124,576	322,925	296,677	293,133
Goodwill	12,866	33,352	33,352	33,352
Intangible assets	21,420	55,526	39,942	33,976
Income tax assets	355	920	19,324	14,759
Other assets	55,162	142,991	175,698	152,290
Total assets	4,979,431	12,907,679	11,123,143	9,051,332
Liabilities				
Client deposits and notes	2,730,522	7,078,058	5,755,767	5,011,269
Amounts due to credit institutions	1,071,807	2,778,337	3,067,651	1,692,557
Debt securities issued	534,840	1,386,411	858,035	961,944
Accruals and deferred income	16,280	42,202	21,778	17,545
Income tax liabilities	7,754	20,099	22,529	84,964
Other liabilities	19,236	49,864	45,095	34,390
Total liabilities	4,380,439	11,354,971	9,770,855	7,802,669
Invested capital attributable to shareholders of the parent	596,335	1,545,822	1,332,616	1,230,971
Non-controlling interests	2,656	6,886	19,672	17,692
Invested capital	598,991	1,552,708	1,352,288	1,248,663
Total liabilities and invested capital	4,979,430	12,907,679	11,123,143	9,051,332

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Total assets

As of 31 December 2017, the Group had total assets of GEL 12,907.7 million (US$4,979.4 million), as compared to total assets of GEL 11,123.1 million as of 31 December 2016. The GEL 1,784.5 million, or 16.0%, increase was primarily due to increases in cash and cash equivalents, amounts due from credit institutions, loans to customers and finance lease receivables and investment securities. Cash and cash equivalent increased by GEL 35.6 million, or 2.4%, due to GEL 351.3 million, or 85.1%, increase in time deposits with credit institutions with maturities of up to 90 days, partially offset by a GEL 58.5 million, or 38.9%, decrease in current accounts with central banks, excluding obligatory reserves, a GEL 237.5 million, or 52.7%, decrease in current accounts with other credit institutions, and a GEL 19.8 million, or 4.2%, decrease in cash on hand. Loans to customers and finance lease receivables increased by GEL 1,059.8 million, or 15.9%, due to the GEL 478.3 million, or 38.8%, increase in residential mortgage loans, the GEL 282.1 million, or 18.9%, increase in micro and SME loans, GEL 383.9 million, or 28.1%, and the GEL 7.3 million, or 12.0%, increase in consumer loans and gold pawn loans, partially offset by the GEL 87.3 million, or 3.2%, decrease in commercial loans respectively. The increase in loans to customers reflected greater demand for loans as a result of macroeconomic growth in Georgia in 2017. The increase in amounts due from credit institutions from 31 December 2016 to 31 December 2017 was primarily due to the GEL 209.2 million increase in time deposits with maturities of more than 90 days, the GEL 65.6 million, or 7.0% and GEL 4.4 million, or 202.7%, increases in obligatory reserves with central banks and inter-bank loan receivables balances, respectively, partially offset by GEL 3.3 million decrease in deposits pledges as security for open commitments. The GEL 329.9 million, or 25.7%, increase in investment securities from 31 December 2016 to 31 December 2017 was primarily due to the GEL 36.3 million, or 4.5%, increase in Georgian Ministry of Finance treasury bonds held by the Group, the GEL 49.4 million, or 205.7%, increase in certificates of deposit of central banks held by the Group, the GEL 255.2 million, or 71.0%, increase in other debt instruments, partially offset by the GEL 11.0 million, or 12.4%, decrease in Georgian Ministry of Finance treasury bills held by the Group.

The Group had total assets of GEL 11,123.1 million as of 31 December 2016, as compared to total assets of GEL 9,051.3 million as of 31 December 2015. The GEL 2,071.8 million, or 22.9%, increase in total assets was mostly driven by the GEL 1,314.9 million, or 24.5%, increase in loans to customers and finance lease receivables, the GEL 102.5 million, or 7.4%, increase in cash and cash equivalents, the GEL 221.8 million, or 30.9%, increase in amounts due from credit institutions, and the GEL 379.8 million, or 42.0%, increase in investment securities. Loans to customers and finance lease receivables increased by GEL 1,314.9 million, or 24.5%, due to GEL 290.1 million, or 11.9%, increase in commercial loans, the GEL 202.1 million, or 17.3%, increase in consumer loans, the GEL 452.0 million, or 43.4%, increase in micro and SME loans, and the GEL 419.8 million, or 51.6%, increase in residential mortgage loans. The increase in loans to customers reflected greater demand for loans as a result of macroeconomic growth in Georgia in 2016. The increase in amounts due from credit institutions from 31 December 2015 to 31 December 2016 was primarily due to a GEL 314.7 million, or 50.7%, increase in obligatory reserves with central banks, partially offset by the GEL 93.1 million, or 96.6%, decrease in deposits pledged as security for open commitments. The increase in cash and cash equivalents from 31 December 2015 to 31 December 2016 was primarily due to a GEL 25.0 million, or 5.7%, increase in cash on hand, a GEL 29.5 million, or 7.0%, increase in current accounts with other credit institutions and a GEL 50.2 million, 13.9%, increase in time deposits with credit institutions with maturities of up to 90 days, partially offset by the GEL 2.3 million, or 1.5%, decrease in current accounts with central banks, excluding obligatory reserves. The increase in investment securities from 31 December 2015 to 31 December 2016 was primarily due to a GEL 235.9 million, or 41.0%, increase in Georgian Ministry of Finance treasury bonds and GEL 273.7 million, or 318.6%, increase in other debt instruments, partially offset by a GEL 77.1 million, or 46.6%, decrease in Ministry of Finance treasury bills and a GEL 52.8 million, or 68.7%, decrease in certificates of deposit of central banks.

The Group had liquid assets of GEL 4,346.5 million (US$1,676.8 million) as of 31 December 2017, as compared to liquid assets of GEL 3,705.2 million and GEL 3,001.1 million as of 31 December 2016 and 2015, respectively. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

Total liabilities

As of 31 December 2017, the Group had total liabilities of GEL 11,355.0 million (US$ 4,380.4 million), as compared to total liabilities of GEL 9,770.9 million as of 31 December 2016. The GEL1,584.1 million, or 16.2% increase was primarily due to increases in client deposits and notes and debt securities issued, partially offset by the decrease in amounts due to credit institutions. Amounts due to credit institutions decreased by GEL 289.3 million, or 9.4%, due to the GEL 15.9 million, or 1.5%, increase in borrowings from international credit institutions, the GEL 119.6 million, or 83.0%, increase in time deposits and inter-bank loans, offset by the GEL 291.5 million, or 26.9%, decrease in short-term loans from the NBG, the GEL 125.1 million, or 38.0%, decrease in correspondent accounts, and the GEL 8.2 million, or 1.9%, decrease in non-convertible subordinated debt. Client deposits and notes increased by the GEL 1,322.3 million, or 23.0%, due to the GEL 506.1 million, or 17.8%, and the GEL 815.9 million, or 28.8%, increase in time deposits and current accounts, respectively. Debt securities issued increased by GEL 528.4 million, or 61.6%, due to the

GEL 436.8 million, or 66.7%, increase in Eurobonds and notes issued, the GEL 28.8 million, or 112.6%, increase in local bonds and GEL 62.8 million, or 35.4%, increase in certificates of deposits. As of 31 December 2016, the Group had total liabilities of GEL 9,770.9 million, as compared to total liabilities of GEL 7,802.7 million as of 31 December 2015. The GEL 1,968.2 million, or 25.2%, increase was primarily due to the GEL 1,375.1 million, or 81.2%, increase in amounts due to credit institutions and the GEL 744.5 million, or 14.9%, increase in client deposits and notes, partially offset by the GEL 103.9 million, or 10.8%, decrease in debt securities issued and the GEL 62.4 million, or 73.5%, decrease in income tax liabilities. The GEL 744.5 million, or 14.9%, increase in client deposits and notes was due to the growth of the Bank's business and the 10.5% Lari devaluation against the US Dollar in 2016, as 74.7% and 76.4% of client deposits and notes were denominated in foreign currency (primarily the US Dollar) as of 31 December 2015 and 31 December 2016, respectively. The GEL 1,375.1 million, or 81.2%, increase in amounts due to credit institutions was primarily driven by the Lari devaluation against the US Dollar in 2016, as 72.8% and 57.2% of amounts due to credit institutions were denominated in foreign currency (primarily the US Dollar) as of 31 December 2015 and 31 December 2016, respectively, as well as a result of increases in borrowings from international credit institutions, short-term loans from the NBG and other borrowings. See "*—Factors Affecting Bank of Georgia Group PLC's Financial Statements—Cost of Funds*" and "*Funding—Amounts Due to Credit Institutions and other borrowings*".

The decrease in debt securities issued as of 31 December 2016, as compared to as of 31 December 2015, reflected the buyback of the Bank's Eurobonds in July 2016.

Total invested capital

As of 31 December 2017, the Group had total invested capital of GEL 1,552.7 million (US$ 599.0 million), as compared to total invested capital of GEL 1,352.3 million as of 31 December 2016. The GEL 200.4 million, or 14.8%, increase in total invested capital was primarily attributable to GEL 369.5 million profit recorded during 2017.

As of 31 December 2016, the Group had total invested capital of GEL 1,352.3 million, as compared to total invested capital of GEL 1,248.7 million as of 31 December 2015. The GEL 103.6 million, or 8.3%, increase in total invested capital was primarily attributable to GEL 295.7 million profit recorded during 2016.

Liquidity and Capital Resources

The Group's principal sources of liquidity are client deposits and notes, borrowings from international credit institutions, inter-bank deposit agreements, debt securities issues, proceeds from sale of securities, principal repayments on loans, interest income and fees and commissions income.

Analysis of Combined Statements of Cash Flow

Three years ended 31 December 2017, 31 December 2016 and 31 December 2015

The following table summarises the Group's cash flows as of the dates indicated:

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Net cash flow from operating activities	**227,123**	**588,747**	**784,157**	**979,056**
Cash flows from (used in) investing activities				
Acquisition of subsidiaries, net of cash acquired	—	—	—	22,620
Repayment of remaining holdback amounts from previous year acquisitions	—	—	(8,768)	—
Net purchase of investment securities available-for-sale	(123,551)	(320,270)	(313,388)	(158,941)
Purchase of investments in associates	—	—	(819)	—
Proceeds from sale of investment properties	4,269	11,067	4,455	19,813
Proceeds from sale of property and equipment and intangible assets	666	1,727	1,934	5,023
Purchase of property and equipment and intangible assets	(42,617)	(110,471)	(50,522)	(60,326)
Net cash flows used in investing activities	**(161,233)**	**(417,947)**	**(367,108)**	**(171,811)**
Cash flows used in financing activities				
Dividends paid	(39,238)	(101,714)	(97,110)	(82,015)
Purchase of treasury shares	(40,058)	(103,838)	(95,452)	(25,778)
Net capital reduction	33,678	87,301	(142,618)	(23,960)
(Purchase) of proceeds from sale of interests in existing subsidiaries	(8,372)	(21,701)	—	(4,150)
Net cash flows used in financing activities	**(53,990)**	**(139,952)**	**(335,180)**	**(135,903)**
Effect of exchange rates changes on cash and cash equivalents	1,840	4,770	20,614	627
Net increase (decrease) in cash and cash equivalents	**13,740**	**35,618**	**102,483**	**671,969**
Cash and cash equivalents end of year	**584,986**	**1,516,402**	**1,480,784**	**1,378,301**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Net cash flows from operating activities

Net cash flows from operating activities were GEL 588.7 million (US$227.1 million) during the year ended 31 December 2017, as compared to net cash flows from operating activities of GEL 784.2 million during the corresponding period in 2016. The decrease in net cash flows from operating activities during 2017, as compared to 2016, was primarily due to a GEL 170.6 million increase in cash flows from operating activities before changes in operating assets and liabilities, offset by a GEL 401.9 million net decrease in operating assets and liabilities, mostly caused by increased lending activities and increased repayments of borrowings from credit institutions.

Net cash flows from operating activities were GEL 784.2 million during the year ended 31 December 2016 and were GEL 979.0 million during the year ended 31 December 2015 representing a decrease of GEL 194.9, or 19.9%. The decrease in net cash flows from operating activities during 2016, as compared to 2015, was primarily due to a GEL 33.7 million decrease in cash flows from operating activities before changes in operating assets and liabilities and a GEL 148.4 million net decrease in operating assets and liabilities.

Net cash flows used in investing activities

Net cash flows used in investing activities were GEL 417.9 million (US$161.2 million) in the year ended 31 December 2017 and GEL 367.1 million in the year ended 31 December 2016, representing an increase of GEL 50.8 million, or 13.8%. This increase primarily was driven by the purchases of GEL 110.5 million in property, plant and equipment and intangible assets in 2017, as compared to GEL 50.5 million in 2016. Net cash flows used in investing activities were GEL 367.1 million and GEL 171.8 million in 2016 and 2015, respectively. This increase mainly related to the net purchase of GEL 313.4 million in investment securities available-for-sale, as compared to GEL 158.9 million used in the purchase of investment securities available-for-sale in 2015.

Cash flows from (used in) financing activities

Net cash outflows used in financing activities were GEL 140.0 million (US$54.0 million) in the year ended 31 December 2017 and GEL 335.2 million in the year ended 31 December 2016. The Group paid GEL 97.1 million dividends in the year ended 31 December 2016, as compared to GEL 101.7 dividends in the year ended 31 December 2017, the GEL 21.7 million paid for the purchase of additional interest in existing subsidiary in the year ended 31 December 2017, as compared to no such purchases in the year ended 31 December 2016, and the GEL 103.8 million paid to purchase treasury shares in 2017, as compared to GEL 95.5 million paid in 2016.

Net cash flows used in financing activities were GEL 335.2 million in 2016 and GEL 135.9 million in 2015, representing an increase of GEL 199.3 million, or 146.6%. The increase was mainly due to the GEL 97.1 million dividends paid in 2016 as compared to GEL 82.0 million paid in 2015 and the GEL 95.5 million paid to purchase treasury shares in 2016, as compared to GEL 25.8 million paid in 2015.

Off-Balance Sheet Arrangements

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of its business to meet the needs of its clients and for purposes of its treasury operations. These instruments, which include guarantees, letters of credit and undrawn loan facilities, expose the Group to credit risk and are not reflected in the combined statements of financial position. The Group's exposure to such instruments is represented by the maximum contractual amount of these instruments. Off-balance sheet arrangements are included in the table below, which sets out the details of commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated. See "—*Commitments and Contingencies*" below.

Commitments and Contingencies

The Group has commitments and contingent liabilities in respect of, *inter alia*, guarantees and letters of credit on behalf of its clients. These instruments bear a credit risk similar to that of loans granted to customers. The Group also has commitments in respect of operating leases and capital expenditures. The following table sets out the details of commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Guarantees issued	239,668	621,267	456,996	473,839
Letters of credit	15,566	40,350	58,561	43,126
Undrawn loan facilities	100,840	261,397	231,704	273,851
Credit related commitments	**356,074**	**923,014**	**747,261**	**790,816**
Operating lease commitments	30,644	79,436	84,773	49,023
Capital expenditure commitments	979	2,538	2,394	2,422
Provisions	(1,086)	(2,814)	(3,381)	(2,240)
Cash held as security against letters of credit and guarantees	(37,960)	(98,399)	(96,692)	(64,534)
Total Financial commitments and contingencies, net	**348,651**	**903,775**	**734,355**	**775,487**

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

The outstanding contractual amount of any guarantee or letter of credit included in the total credit commitments does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded. In addition to guarantees and letters of credit, as of 31 December 2017, 2016 and 2015 the Group had a total of GEL 261.4 million (US$100.8 million), GEL 231.7 million and GEL 273.9 million in undrawn loan facilities to various borrowers, respectively.

Net financial commitments and contingencies of the Group as of 31 December 2017, 2016 and 2015 were GEL 903.8 million (US$348.7 million), GEL 734.4 million and GEL 775.5 million, respectively. Net financial commitments and contingencies increased by 23.1% between 31 December 2016 and 31 December 2017, primarily due to the increase in guarantees outstanding and undrawn loan commitments, partially offset by the decrease in letters of credit issued. Net financial commitments and contingencies decreased by GEL 41.1 million, or 5.3%, between 31 December 2015 and 31 December 2016 primarily due to the decrease in guarantees outstanding, undrawn loan commitments and increase of cash held as security against letters of credit and guarantees, which were partially offset by the increase in operating lease commitments and letters of credit.

Capital expenditure commitments

As of 31 December 2017, the Group's capital expenditure commitments comprised the commitment for purchase of property and capital repairs of GEL 2.1 million and software and other intangible assets of GEL 0.4 million. As of 31 December 2016, the Group's capital expenditure commitments comprised the commitment for purchase of property and capital repairs of GEL 0.5 million and software and other intangible assets of GEL 1.9 million. As of 31 December 2015, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 0.7 million and software and other intangible assets of GEL 1.7 million.

Maturity Analysis of the Group's 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 as of 31 December 2017.

	As of 31 December 2017		
	Within one year	**More than one year**	**Total**
	(thousands of Lari)		
Financial assets			
Cash and cash equivalents	1,516,402	—	1,516,402
Amounts due from credit institutions	1,205,851	10,499	1,216,350
Investment securities	1,532,185	81,574	1,613,759
Loans to customers and finance lease receivables	3,253,724	4,487,696	7,741,420
Total	**7,508,162**	**4,579,769**	**12,087,931**
Financial liabilities			
Client deposits and notes	6,468,159	609,899	7,078,058
Amounts owed to credit institutions	1,773,767	1,004,570	2,778,337
Debt securities issued	188,664	1,197,747	1,386,411
Total	**8,430,590**	**2,812,216**	**11,242,806**
Net	**(922,428)**	**1,767,553**	**845,125**

Note:

(1) Bank of Georgia Group PLC can obtain a loan(s) from the NBG at any time for an amount equal to 95% of the current market value of the treasury securities and certificates of deposit it holds if it pledges the relevant treasury securities and certificates of deposit as security for such loan(s).

The Group's ability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. In the Georgian marketplace, some 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.

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

Capital Adequacy

The Group is required to comply with the NBG's capital adequacy requirements. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

On 28 October 2013, the NBG adopted new capital adequacy requirements, based on Basel II/III requirements, which became effective on 30 June 2014. A transition period was in place until 1 January 2018, during which the Bank was required to comply with both the new and the existing capital regulations of the NBG. Since 1 January 2018, the Bank is only required to comply with the new NBG requirements.

As the NBG requires the Bank to calculate and comply with capital adequacy in accordance with the NBG's (current) methodology, as well as the new requirements during the transition period, the table below is presented to show the calculation of the Bank's capital adequacy ratios under the NBG methodology only (and not under Basel II/III as adopted by the NBG), for which the minimum requirements for Tier 1 Capital ratio were 8.0% for 2014, 7.6% for 2015 and 7.2% for 2016 and was 6.4% for 2017, while the minimum requirements for Total Capital ratio were 12.0% for 2014, 11.4% for 2015 and 10.8% for 2016 and was 9.6% for 2017. The amounts presented are that of the Bank on a standalone basis calculated in accordance with NBG standards.

The following table provides an analysis of the Bank's regulatory capital based on new NBG regulations, adopted pursuant to Basel II methodology which is also based on the Bank's standalone numbers. The minimum requirements under NBG capital regulations were 8.5% and 10.5%, respectively, for Tier 1 and Total Capital.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*[(2)]	*(thousands of Lari)*[(2)]	*(thousands of Lari)*[(2)]
Ordinary shares	10,733	27,821	27,821	27,821
Additional paid-in capital	65,757	170,455	267,107	295,233
Retained earnings	402,588	1,043,589	664,050	648,581
Deductions from Tier 1 capital	(38,585)	(100,020)	(66,365)	(56,851)
Tier 1 capital	**440,493**	**1,141,845**	**892,613**	**914,784**
General loan loss provisions	38,538	99,898	115,851	98,386
Tier 2 qualifying instruments	155,000	401,791	403,875	380,790
Tier 2 capital	**193,538**	**501,689**	**519,726**	**479,176**
Total capital	**634,031**	**1,643,534**	**1,412,339**	**1,393,960**
Risk-weighted assets	**4,287,985**	**11,115,315**	**9,790,282**	**8,363,369**
Capital adequacy ratios				
Tier 1 ratio	**10.3%**	**10.3%**	**9.1%**	**10.9%**
Total capital adequacy ratio	**14.8%**	**14.8%**	**14.4%**	**16.7%**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

(2) All balances except for all subtotals and totals are unaudited.

The following table provides an analysis of the Bank's regulatory capital based on new NBG regulations, adopted pursuant to Basel III methodology and effective from 31 December 2017.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[1] *(unaudited)*	*(thousands of Lari)*[2]	*(thousands of Lari)*[2]	*(thousands of Lari)*[2]
Ordinary shares	10,733	27,821	N/A	N/A
Additional paid-in capital	65,757	170,455	N/A	N/A
Retained earnings	402,588	1,043,589	N/A	N/A
Deductions from Tier 1 capital	(38,585)	(100,020)	N/A	N/A
Tier 1 capital	**440,493**	**1,141,845**	**N/A**	**N/A**
General loan loss provisions	38,538	99,898	N/A	N/A
Tier 2 qualifying instruments	155,000	401,791	N/A	N/A
Tier 2 capital	**193,538**	**501,689**	**N/A**	**N/A**
Total capital	**634,031**	**1,643,534**	**N/A**	**N/A**
Risk-weighted assets	**3,546,053**	**9,192,078**	**N/A**	**N/A**
Capital adequacy ratios				
Tier 1 ratio	**12.4%**	**12.4%**	**N/A**	**N/A**
Total capital adequacy ratio	**17.9%**	**17.9%**	**N/A**	**N/A**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

(2) All balances except for all subtotals and totals are unaudited.

A subsidiary of the Bank, BNB, is licenced by the NBRB and is accordingly required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. BNB is well capitalised, with capital adequacy ratios well above the requirements of its regulating Central Bank. As of 31 December 2017, the total capital adequacy ratio was 14.1%, above the 10.0% minimum requirement by the NBRB, and Tier 1 Capital Adequacy Ratio was 8.1%, which is above the 6.0% minimum requirement by NBRB. See "*Risk Factors—Risks Relating to the Group—Currency fluctuations have affected, and may continue to affect, the Group*" and "*Regulation of the Georgian Banking Sector*".

Selected Significant Accounting Judgments and Estimates

The notes to the Combined Historical Financial Statements, appearing elsewhere in this Prospectus, contain an overview of the Group's significant accounting policies, including a discussion of changes in accounting policies resulting from adoption of new or revised standards. These policies, as well as estimates and judgments made by Management, are integral to the presentation of the Group's combined statements of financial position and income statement. It is important to note that these accounting policies in certain cases require Management to make difficult, complex or subjective estimates and judgments, often regarding matters that are inherently uncertain. On an ongoing basis, Management evaluates its estimates and judgments, including those related to allowances for impairment of financial assets, acquisition of subsidiaries, goodwill, income taxes, valuation of investment securities, de-recognition of financial assets and liabilities, insurance contract liabilities and other provisions. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. See Note 3and Note 4 in the Combined Historical Financial Information.

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 combined 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.

Measurement of fair value of investment properties

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

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

Allowance for impairment of loans and finance lease receivables

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

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

PART XVII

SELECTED STATISTICAL AND OTHER INFORMATION

The following table sets out weighted average effective annual interest rates, analysed by currencies of denomination, for the principal categories of interest-earning assets and interest-bearing liabilities, for the periods indicated. The weighted average effective interest rate for each financial asset or financial liability in the table below is the Group's interest income or expense, as applicable, for the last month of the applicable period in the relevant currency, divided by the average outstanding balance of the financial asset or financial liability, then divided by the actual number of days in the period multiplied by 365 for 2017, 366 for 2016 and 365 for 2015.

	As of 31 December					
	2017		2016		2015	
	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
			(in percentages)			
Assets						
Loans to customers and finance lease receivables	21.4%	9.9%	23.3%	12.4%	24.8%	11.7%
Investment securities	8.2%	4.7%	8.6%	7.6%	8.9%	6.9%
Amounts due from credit institutions	2.3%	0.9%	2.1%	0.1%	3.0%	0.4%
Liabilities						
Client deposits and notes	5.7%	2.5%	4.7%	3.2%	7.7%	3.6%
Amounts due to credit institutions	7.1%	6.1%	7.4%	5.5%	9.0%	5.9%
Debt securities issued	11.4%	5.8%	—	6.2%	—	7.1%

Average Balance Sheets and Yield Rates

The following table sets out the Group's combined average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of yield rates for the periods indicated. Average balances are based on the Group's combined quarterly balances (as of the end of each quarter) during the period, from the beginning of the period to its end.

	For the year ended 31 December								
	2017			2016			2015		
	Average Balance(3)	Interest Income (Expense)	Yield Rate	Average Balance(3)	Interest Income (Expense)	Yield Rate	Average Balance(3)	Interest Income (Expense)	Yield Rate
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
	(amounts in thousands of Lari, except percentages)								
Average assets:									
Amounts due from credit institutions	1,011,015	17,130	1.7%	816,305	7,985	1.0%	578,313	9,626	1.7%
Investment securities(1) (interest-earning)	1,398,382	113,290	8.1%	1,033,245	91,099	8.8%	869,273	69,514	8.0%
Loans to customers and finance lease receivables, gross	7,156,864	1,009,875	14.1%	5,956,098	832,978	14.0%	5,273,941	791,571	15.0%
Less: reserve for loan and finance lease receivables losses	(271,795)			(222,869)			(166,452)		
Loans to customers and finance lease receivables, net	6,885,069	1,009,875	14.7%	5,733,229	832,978	14.5%	5,107,489	791,571	15.5%
Total average interest-earning assets	**9,294,466**	**1,140,295**	**12.3%**	**7,582,779**	**932,062**	**12.3%**	**6,555,075**	**870,711**	**13.3%**
Cash on hand	486,702			437,534			394,254		
Investment securities (non interest-earning)	257			295			292		
All other assets	1,703,685			1,511,430			1,340,590		
Total average assets	**11,485,110**			**9,532,038**			**8,290,211**		
Average liabilities:									
Client deposits and notes	6,132,218	(215,683)	3.5%	5,094,367	(194,047)	3.8%	4,304,922	(190,777)	4.4%
Amounts due to credit institutions (2)	2,692,328	(170,124)	6.3%	2,110,895	(124,668)	5.9%	1,697,094	(100,704)	5.9%
Debt securities issued	1,136,620	(82,385)	7.2%	897,983	(59,737)	6.7%	946,376	(68,633)	7.3%
Total average interest-bearing liabilities	**9,961,166**	**(468,192)**	**4.7%**	**8,103,245**	**(378,452)**	**4.7%**	**6,948,392**	**(360,114)**	**5.2%**
All other liabilities	92,037			112,421			152,730		
Total average liabilities	**10,053,203**			**8,215,666**			**7,101,122**		
Average invested capital									
Invested capital attributable to shareholders of the Issuer	1,422,824			1,297,839			1,171,246		
Non-controlling interest	9,082			18,532			17,844		
Total average invested capital	**1,431,906**			**1,316,371**			**1,189,090**		
Total average liabilities and invested capital	**11,485,109**			**9,532,037**			**8,290,212**		

Notes:

(1) Comprises available-for-sale investments securities that are debt securities (i.e., interest-bearing securities) only. Includes: treasury bills, central bank certificates of deposits, government bonds, corporate bonds and shares and similar.

(2) Comprises deposits and loans from banks (including NBG loans), borrowings from international credit institutions and subordinated debt.

(3) Calculated as averages of the balances as of quarter end dates of respective periods and last quarter end date of the preceding period.

Loan Portfolio

As of 31 December 2017, 31 December 2016 and 31 December 2015, the Group had GEL 7,676.1 million, GEL 6,635.9 million, and GEL 5,326.1 million, respectively, in loans to customers (net of allowance for impairment losses), representing 59.5%, 59.7%, and 58.8% of the Group's total assets, respectively. The increases between 31 December 2015 and 31 December 2017 were primarily due to the growth in the retail and corporate investment banking loan portfolios.

Loans to Customers by Type of Customer

The following table sets out the Group's combined total loans to customers (gross of allowance for impairment losses) by type of customer as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	1,657,709	4,297,114	3,336,589	2,482,389
Private entities	1,410,271	3,655,704	3,530,324	3,002,791
State entities	—	—	21,621	39,766
Total loans to customers, gross	3,067,980	7,952,818	6,888, 534	5,524,946

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per U.S.$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 December 2017.

Of the Group's total gross loans to customers, 54.0%, 48.4% and 44.9% represented loans to individuals as of 31 December 2017, 31 December 2016, and 31 December 2015, respectively; and 46.0%, 51.2% and 54.3% represented loans to private entities as of 31 December 2017, 31 December 2016, and 31 December 2015, respectively; and 0%, 0.4% and 0.8% represented loans to state entities as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Distribution of Loans by Category of Loan

The following table sets out information on the Group's combined loans to customers by category of loan for the periods indicated.

	As of 31 December		
	2017	2016	2015
	(amounts in thousands of Lari)		
Gross loans to customers, by products			
Commercial loans	2,645,213	2,732,508	2,442,426
Consumer loans	1,751,106	1,367,228	1,165,107
Residential mortgage loans	1,712,515	1,234,176	814,344
Micro and SME loans	1,776,044	1,493,937	1,041,929
Gold – pawn loans	67,940	60,685	61,140
Total loans to customers, gross	**7,952,818**	**6,888,534**	**5,524,946**
Loan loss reserves, by products:			
Commercial loans	(164,088)	(159,577)	(125,311)
Consumer loans	(72,058)	(58,785)	(51,017)
Residential mortgage loans	(4,062)	(3,891)	(6,063)
Micro and SME loans	(36,496)	(30,334)	(16,504)
Gold – pawn loans	—	—	—
Total loan loss reserves	**(276,704)**	**(252,587)**	**(198,895)**
Net loans to customers, by products:			
Commercial loans	2,481,125	2,572,931	2,317,115
Consumer loans	1,679,048	1,308,443	1,114,090
Residential mortgage loans	1,708,453	1,230,285	808,281
Micro and SME loans	1,739,548	1,463,603	1,025,425
Gold – pawn loans	67,940	60,685	61,140
Total loans to customers, net	**7,676,114**	**6,635,947**	**5,326,051**

Of the Group's total gross loans to customers, 33.3%, 39.7% and 44.2% represented commercial loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 22.0%, 19.8% and 21.1%, represented consumer loans as of 31 December 2017, 31 December 2016, and 31 December 2015, respectively; 21.5%, 17.9% and 14.7% represented residential mortgage loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 22.3%, 21.7% and 18.9% represented micro and SME loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; and 0.9%, 0.9% and 1.1% represented Gold – pawn loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

The Group's total loan loss reserves increased by GEL 24.1 million, or 9.5%, as of 31 December 2017, as compared to 31 December 2016, and increased by GEL 53.7 million, or 27.0%, as of 31 December 2016, as compared to 31 December 2015. The increase between 2015 and 2016 was mainly due to an increased loan book and Lari devaluation in 2016. Of the Group's total loan loss reserves 59.3%, 63.2% and 63.0% represented reserves for commercial loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 26.0%, 23.3% and 25.7% represented reserves for consumer loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 1.5%, 1.5% and 3.0% represented reserves for residential mortgage loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; and 13.2%, 12.0% and 8.3% represented reserves for micro and SME loans as of 31 December 2017, 31 December 2016, and 31 December 2015, respectively.

Loan Quality Data

The following table sets out the Group's combined gross NPLs to customers, and net renegotiated loans to customers as of 31 December 2017, 31 December 2016, and 31 December 2015.

	As of 31 December		
	2017	**2016**	**2015**
	(thousands of Lari) (unaudited)[1]	*(thousands of Lari) (unaudited)*[1]	*(thousands of Lari) (unaudited)*[1]
Loans overdue by over 90 days	279,249	294,787	172,208
Other non-performing loans	22,019	—	68,934
Total non-performing loans, of which:	**301,268**	**294,787**	**241,142**
Retail banking	67,782	54,555	45,005
Corporate investment banking	184,931	202,773	166,210
BNB	48,556	37,459	29,927
Allowance for loans to customers and finance lease receivables impairment	279,373	255,490	201,081
Non-performing loans coverage	92.7%	86.7%	83.4%
Total net renegotiated loans	**234,280**	**340,614**	**209,021**

Notes:

(1) All Figures are unaudited with the exception of "Allowance for loans to customers and finance lease receivables impairment"

NPLs comprised 3.8% of total gross loans to customers and finance lease receivables as of 31 December 2017, compared to 4.2% and 4.3% as of 31 December 2016 and 31 December 2015, respectively. Net renegotiated loans comprised net loans that would otherwise be past due or impaired whose terms have been renegotiated. Net renegotiated loans comprised 3.0% of total net loans and finance lease receivables as of 31 December 2017, compared to 5.1% and 3.9% as of 31 December 2016 and 31 December 2015, respectively. The growth in NPLs and net renegotiated loans in absolute terms, and as a percentage of gross and net loans, respectively, from 31 December 2015 to 31 December 2016 was primarily attributable to slower economic growth and the rapid depreciation of the Lari throughout 2016.

Loans by Economic Sector

The following table sets out the Group's combined loans to customers (gross of allowance for impairment losses) by economic sector as of the dates indicated.

	As of 31 December					
	2017		2016		2015	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(thousands of Lari, except percentages					
Individuals	4,297,114	54.0%	3,336,589	48.4%	2,482,389	44.9%
Trade	815,216	10.3%	812,141	11.8%	727,909	13.2%
Manufacturing	935,827	11.8%	925,333	13.4%	711,677	12.9%
Real estate	432,352	5.4%	423,124	6.1%	354,325	6.4%
Service	182,038	2.3%	168,455	2.4%	223,088	4.0%
Construction	368,509	4.6%	304,890	4.4%	178,641	3.2%
Hospitality	283,527	3.6%	233,891	3.4%	168,011	3.0%
Transport & communication	114,926	1.4%	166,288	2.4%	165,330	3.0%
Mining and quarrying	104,799	1.3%	114,115	1.7%	127,706	2.3%
Financial intermediation	51,328	0.6%	129,889	1.9%	77,667	1.4%
Electricity, gas and water supply	84,727	1.1%	34,835	0.5%	77,633	1.4%
Other	282,455	3.6%	238,984	3.6%	230,570	4.2%
Total loans to customers, gross	**7,952,818**	**100.0%**	**6,888,534**	**100.0%**	**5,524,946**	**100.0%**

The Group's loans to individual customers increased by GEL 960.5 million, or 28.8%, between 31 December 2016 and 31 December 2017, having increased by GEL 854.2 million, or 34.4%, between 31 December 2015 and 31 December 2016. The Group's loans in the trade sector increased by GEL 3.1 million or 0.4%, between 31 December 2016 and 31 December 2017, having increased by GEL 84.2 million, or 11.6%, between 31 December 2015 and 31 December 2016. The Group's loans in the manufacturing sector increased by GEL 10.5 million, or 1.1%, between 31 December 2016 and 31 December 2017, having increased by GEL 213.7 million, or 30.0%, between 31 December 2015 and 31 December 2016. The Group's loans in the real estate sector increased by GEL 9.2 million, or 2.2%, between 31 December 2016 and 31 December 2017, having increased by GEL 68.8 million, or 19.4%, between 31 December 2015 and 31 December 2016. The Group's loans in the service sector increased by GEL 13.6 million, or 8.1%, between 31 December 2016 and 31 December 2017, having decreased by GEL 54.6 million, or 24.5%, between 31 December 2015 and 31 December 2016. The Group's loans in the construction sector increased by GEL 63.6 million, or 20.9%, between 31 December 2016 and 31 December 2017, having increased by GEL 126.2 million, or 70.7%, between 31 December 2015 and 31 December 2016. The Group's loans in the hospitality sector increased by GEL 49.6 million, or 21.2%, between 31 December 2016 and 31 December 2017, having increased by GEL 65.9 million, or 39.2%, between 31 December 2015 and 31 December 2016. The Group's loans in the transportation and communication sector decreased by GEL 51.4 million, or 30.9%, between 31 December 2016 and 31 December 2017, having increased by GEL 1.0 million, or 0.6%, between 31 December 2015 and 31 December 2016. The Group's loans in the mining and quarrying sector decreased by GEL 9.3 million, or 8.2%, between 31 December 2016 and 31 December 2017, having decreased by GEL 13.6 million, or 10.6%, between 31 December 2015 and 31 December 2016. The Group's loans in the financial intermediation sector decreased by GEL 78.6 million, or 60.5%, between 31 December 2016 and 31 December 2017, having increased by GEL 52.2 million, or 67.2%, between 31 December 2015 and 31 December 2016. The Group's loans in the electricity, gas and water supply sector increased by GEL 49.9 million, or 143.2%, between 31 December 2016 and 31 December 2017, having decreased by GEL 42.8 million, or 55.1%, between 31 December 2015 and 31 December 2016. The Group's loans in the other sector increased by GEL 43.5 million, or 18.2%, between 31 December 2016 and 31 December 2017, having increased by GEL 8.4 million, or 3.6%, between 31 December 2015 and 31 December 2016. In general, increases in loans to customers between 31 December 2016 and 31 December 2017 were mainly driven by the increase in loans to customers in service, construction, hospitality and electricity, gas and water supply sectors. Increases in loans to customers between 31 December 2015 and 31 December 2016 were mainly driven by the increase in loans to individuals and in loans to customers in the trade manufacturing, real estate, construction and hospitality sectors.

Collateralisation

The following table sets out the Group's combined loans to customers (gross of allowance for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars[1] (unaudited)	*(thousands of Lari)[3]*	*(thousands of Lari)[3]*	*(thousands of Lari)[3]*
Loans secured by pledge of real estate	2,071,713	5,370,294	4,623,976	3,195,052
Loans collateralised by pledge of inventory	102,340	265,285	331,560	507,340
Loans secured by pledge of deposits & securities	73,497	190,518	263,784	253,216
Loans secured by corporate guarantees	181,794	471,248	337,538	261,142
Loans collateralised by pledge of transport	61,863	160,360	158,941	224,433
Loans secured by pledge of gold	26,353	68,313	60,817	61,940
Other collateralised loans[2]	60,383	156,525	71,254	72,676
Unsecured loans	490,038	1,270,276	1,040,664	949,147
Total loans to customers, gross	**3,067,981**	**7,952,818**	**6,888,534**	**5,524,946**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) Other collateralised loans comprise loans to customers collateralised by machinery and equipment and other types of collateral.

(3) All balances except for total loans to customers, gross are unaudited.

Of the Group's combined loans to customers, 67.5%, 67.1%, and 57.8% represented loans were secured by pledges over real estate as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 3.3%, 4.8%, and 9.2% represented loans collateralised by pledges over inventory as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 2.4%, 3.8%, and 4.6% represented loans secured by pledges over deposits and securities as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 5.9%, 4.9% and 4.7% represented loans secured by corporate guarantees as of 31 December 2017, 31 December 2016, and 31 December 2015, respectively; 2.0%, 2.3% and 4.1% represented loans collateralised by pledges over transport as of 31 December 2017, 31 December 2016, and 31 December 2015, respectively; 0.9%, 0.9% and 1.1% represented loans secured by pledges over gold as of each of 31 December 2017, 31 December 2016 and 31 December 2015; 2.0%, 1.0% and 1.3% represented other collateralised loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively; 16.0%, 15.1% and 17.2% represented unsecured loans as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively. Other collateral consists of movable property and assets.

Loans by Currency

The following table sets out the Group's combined loans to customers (including finance lease receivables) (gross of allowance for impairment losses), by currency as of the dates indicated.

	As of 31 December					
	2017 (unaudited)		2016 (unaudited)		2015 (unaudited)	
	Amount	**% of Total Loans**	**Amount**	**% of Total Loans**	**Amount**	**% of Total Loans**
	(thousands of Lari, except percentages)					
GEL	3,068,191	38.3%	1,995,923	28.8%	1,564,880	28.1%
Foreign currencies (freely convertible being USD, EUR and GBP)	4,847,338	60.4%	4,871,920	70.2%	3,953,958	71.0%
Other currencies (non-convertible)	105,264	1.3%	69,313	1.0%	49,003	0.9%
Total loans to customers and finance lease receivables gross	**8,020,793**	**100.0%**	**6,937,156**	**100.0%**	**5,567,841**	**100.0%**

Lari-denominated loans to customers (including finance lease receivables) accounted for 38.3%, 28.8% and 28.1% of total loans to customers as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively, and foreign currency-denominated loans (of which USD, EUR and GBP loans are freely convertible) to customers accounted for 61.7%, 71.2% and 71.9% of total loans to customers as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively. Lari-denominated loans to customers increased by GEL 1,072.3 million, or 53.7%, between 31 December 2016 and 31 December 2017 having increased by GEL 431.0 million, or 27.5%, between 31 December 2015 and 31 December 2016. Loans to customers denominated in and convertible into US Dollars, Euros and Pounds Sterling decreased by GEL 24.6 million, or 0.5%, between 31 December 2016 and 31 December 2017, having increased by GEL 918.0 million, or 23.2%, between 31 December 2015 and 31 December 2016. Loans to customers denominated in other currencies and not convertible into other foreign currencies increased by GEL 36.0 million, or 51.9%, between 31 December 2016 and 31 December 2017, having increased by GEL 20.3 million, or 41.4%, between 31 December 2015 and 31 December 2016.

Concentrations of Loans to Customers

As of 31 December 2017, the Group had no concentration of loans to one borrower that exceeded 3.1% of total combined net loans to customers and finance lease receivables. As of 31 December 2016, the Group had no concentration of loans to customers to one borrower that exceeded 4.2% of total combined net loans to customers and finance lease receivables. As of 31 December 2015, the Group had no concentration of loans to one borrower that exceeded 2.1% of total combined net loans to customers and finance lease receivables.

As of 31 December 2017, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 866,689 accounting for 11% of the gross loans to customers and finance lease receivables of the Group, as compared to GEL 815,363 accounting for 12% of the gross loans to customers and finance lease receivables of the Group and GEL 708,839 accounting for 13% of the gross loans to customers and finance lease receivables of the Group as of 31 December 2015 and 2016, respectively.

Changes in Loan Loss Reserves

The following tables set out information on changes in the Group's combined loan loss reserves for the periods indicated.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro and SME loans	Total
			(thousands of Lari)		
At 1 January 2017	**159,577**	**58,785**	**3,891**	**30,334**	**252,587**
Charge	40,313	80,607	2,700	31,592	155,212
Recoveries	9,979	23,485	8,151	11,177	52,792
Write-offs	(35,053)	(74,027)	(9,912)	(32,267)	(151,259)
Interest accrued on impaired loans to customers	(10,746)	(16,649)	(768)	(4,141)	(32,304)
Currency translation differences	18	(143)	—	(199)	(324)
At 31 December 2017	**164,088**	**72,058**	**4,062**	**36,496**	**276,704**
Individual impairment	153,341	1,019	2,427	23,621	180,408
Collective impairment	10,747	71,039	1,635	12,875	96,296
Total	**164,088**	**72,058**	**4,062**	**36,496**	**276,704**
As % of total reserves	**59.3%**	**26.0%**	**1.5%**	**13.2%**	**100.0%**
Ratio of charge to average gross loans during the period[(1)]	**1.6%**	**5.2%**	**0.2%**	**2.3%**	**2.2%**

Note:

(1) Impairment charge for the period divided by the quarterly average net loans for the same period.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro and SME loans	Total
			(thousands of Lari)		
At 1 January 2016	125,311	51,017	6,063	16,504	198,895
Charge	75,288	64,099	3,899	15,605	158,891
Recoveries	3,525	21,632	4,003	7,085	36,245
Write-offs	(41,624)	(65,597)	(8,597)	(10,317)	(126,135)
Interest accrued on impaired loans to customers	(3,900)	(12,463)	(1,475)	(642)	(18,480)
Currency translation differences	977	97	(2)	2,099	3,171
At 31 December 2016	159,577	58,785	3,891	30,334	252,587
Individual impairment	143,311	1,977	2,272	23,704	171,264
Collective impairment	16,266	56,808	1,619	6,630	81,323
Total	**159,577**	**58,785**	**3,891**	**30,334**	**252,587**
As % of total reserves	63.2%	23.3%	1.5%	12.0%	100.0%
Ratio of charge to average gross loans during the period[(1)]	3.1%	5.2%	0.3%	1.6%	2.7%

Note:

(1) Impairment charge for the period divided by the quarterly average net loans for the same period.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro and SME loans	Total
			(thousands of Lari)		
At 1 January 2015	72,885	23,648	2,993	4,254	103,780
Charge (reversal)	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)
Interest accrued on impaired loans to customers	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation differences	415	(238)	2	1,046	1,225
At 31 December 2015	125,311	51,017	6,063	16,504	198,895
Individual impairment	118,959	1,850	4,382	13,745	138,936
Collective impairment	6,352	49,167	1,681	2,759	59,959
Total	**125,311**	**51,017**	**6,063**	**16,504**	**198,895**
As % of total reserves	63.0%	25.7%	3.0%	8.3%	100.0%
Ratio of charge to average gross loans during the period[(1)]	2.4%	5.9%	0.4%	2.4%	2.7%

Note:

(1) Impairment charge for the period divided by the quarterly average net loans for the same period.

Loans by Maturity

Maturity Structure of the Loans Portfolio

The following table sets out the maturity structure of the Group's combined loans to customers (gross of allowance for impairment losses) as of the dates indicated.

	As of 31 December					
	2017 *(unaudited)[(1)]*		2016 *(unaudited)[(1)]*		2015 *(unaudited)[(1)]*	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(thousands of Lari, except percentages					
On demand and up to one month	858,651	10.7%	814,678	11.7%	423,911	7.6%
One to three months	497,557	6.3%	406,891	5.9%	488,880	8.8%
Three months to one year	2,121,460	26.4%	2,089,912	30.1%	1,614,898	29.0%
More than one year	4,543,125	56.6%	3,625,675	52.3%	3,040,152	54.6%
Total loans to customers and finance lease receivables, gross	8,020,793	100.0%	6,937,156	100.0%	5,567,841	100.0%

(1) All balances except for Total loans to customers and finance lease receivables, gross are un-audited

As of 31 December 2017, loans due within one year or less represented 43.4% of the Group's loans to customers and finance lease receivables portfolio (gross of allowance for impairment losses), as compared to 47.7% and 45.4% as of 31 December 2016 and 31 December 2015, respectively.

Maturity Profile of the Loan Portfolio by Type of Loan

The following table sets out information on the Group's combined loans to customers maturity profile as of 31 December 2017.

	(unaudited)[(1)]				
	Due In				
	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
	(amounts in thousands of Lari)				
Gross loans, by products					
Commercial loans	1,276,869	1,105,696	262,648	—	2,645,213
Consumer loans	975,627	625,492	148,664	1,323	1,751,106
Micro and SME loans	779,969	857,197	137,561	1,317	1,776,044
Residential mortgage loans	341,435	639,182	525,270	206,628	1,712,515
Gold – pawn loans	67,940	—	—	—	67,940
Total gross loans, by products	**3,441,840**	**3,227,567**	**1,074,143**	**209,268**	**7,952,818**
Gross loans due in < 1 year, of which:	3,441,840				
Loans with fixed (pre-determined) interest rates	3,248,116				
Loans with floating or adjustable interest rates	193,724				

(1) All balanced except for total loans by product are unaudited

Of the Group's total loans to customers as of 31 December 2017, 43.3% represented loans with maturities of less than one year, 40.6% represented loans with maturities of between one and five years, 13.5% represented loans with maturities of between five and ten years and 2.6% represented loans with maturities of more than ten years. Of the Group's total commercial loans as of 31 December 2017, 48.3% represented loans with maturities of less than one year, 41.8% represented loans with maturities of between one and five years, 9.9% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Bank's total consumer loans as of 31 December 2017, 55.7% represented loans with maturities of less than one year, 35.7% represented loans with maturities of between one and five years, 8.5% represented loans with maturities of between five and ten years and 0.1% represented loans with maturities of more than 10 years. Of the Group's total micro and SME loans as of 31 December 2017, 43.9% represented loans with maturities of less than one year, 48.3% represented loans with maturities of between one and five years, 7.7% represented loans with maturities of between five and ten years and 0.1% represented loans with maturities of more than 10 years. Of the Group's total residential mortgage loans as of 31 December 2017, 19.9% represented loans with maturities of less than one year, 37.3% represented loans with maturities of between one and five years, 30.7% represented loans with maturities of between five and ten years and 12.1% represented loans with maturities of more than 10 years. Of the Group's total gold pawn loans as of 31 December 2017, 100% represented loans with maturities of less than one year.

Geographical Concentration of Loans to customers

The Group has a significant geographical concentration of loans to customers issued to borrowers in one geographical region. The Group's net loans to customers in Georgia represented 94.8%, 94.6% and 94.0% of the Group's total net loans to customers and finance lease receivables portfolio as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively. The Group's net loans to customers in the Tbilisi region represented 63.6%, 64.9% and 73.2% of the Group's net total loans to customers and finance lease receivables portfolio as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Loans by Amount and Number of Borrowers

As of 31 December 2017, 31 December 2016 and 31 December 2015 the exposure of the Group to its ten largest third-party borrowers amounted to GEL 823.4 million (US$317.6 million), GEL 795.2 million and GEL 706.4 million, representing 10.7%, 12.0% and 13.3% of total loans to customers (in each case net of allowance for impairment losses), respectively.

The following table sets out information on the Group's ten largest borrowers (based on exposure) as of 31 December 2017.

(unaudited)

Rank by borrower exposure	Exposure size (net of allowance for impairment losses) (thousands of Lari)	% of total net loans to customers	Industry sector in which borrower operates
1	233,981	3.0%	Manufacturing
2	130,391	1.7%	Hospitality
3	122,266	1.6%	Manufacturing
4	70,706	0.9%	Mining and quarrying
5	57,908	0.8%	Real estate
6	53,468	0.7%	Manufacturing
7	12,089	0.2%	Manufacturing
8	50,418	0.7%	Construction
9	49,790	0.6%	Health and social work
10	42,339	0.6%	Real estate
Total	823,356	10.7%	

Investment Portfolio

The following table sets out information on the Group's combined investment securities as of the dates indicated.

	As of 31 December		
	2017	**2016**	**2015**
	(amounts in thousands of Lari)		
– Corporate bonds	5,788	6,406	4,563
– Corporate shares	384	261	13
Trading securities, total	**6,172**	**6,667**	**4,576**
– Treasury bills	77,460	88,411	165,545
– Central Banks' CDs	73,415	24,015	76,807
– Government bonds	847,839	811,531	575,590
– Other debt instruments	614,844	359,650	85,909
– Corporate shares	201	295	295
Investment securities – AFS securities, total	1,613,759	1,283, 902	904,146
Investment securities and trading securities, total	**1,619,931**	**1,290,569**	**908,722**

The following table sets out the maturity profile of the Group's combined investment securities as of 31 December 2017.

	(unaudited)[(1)]			
	Due In			
	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Total**
	(amounts in thousands of Lari)			
– Treasury bills	77,460	—	—	77,460
– Central banks' CDs	73,415	—	—	73,415
– Government bonds	274,346	531,861	41,632	847,839
– Other debt instruments	86,925	533,707	—	620,632
– Corporate shares	585	—	—	585
Investment securities, total	512,731	1,065,568	41,632	1,619,931

(1) All figures except for the Investment securities grand total is unaudited.

The following table sets out the components of the Group's combined available-for-sale securities as of the dates indicated.

	As of 31 December		
	2017	**2016**	**2015**
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Ministry of Finance treasury bills	77,460	88,411	165,545
Certificates of deposit of central banks	73,415	24,015	76,807
Ministry of Finance treasury bonds	847,839	811,531	575,590
Other debt instruments	614,844	359,650	85,909
Corporate shares	201	295	295
Available-for-sale securities	1,613,759	1,283,902	904,146

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US $1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The following table sets out the weighted average nominal interest rates and maturities of the Group's combined available-for-sale investment securities as of the dates indicated.

	As of 31 December					
	2017		**2016**		**2015**	
	(unaudited)		*(unaudited)*		*(unaudited)*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Ministry of Finance treasury bills	7.7%	1 months	10.2%	3 Months	7.4%	3 Months
Certificates of deposit of central banks	5.0%	4 months	6.9%	4 Months	9.7%	2 Months
Ministry of Finance treasury bonds	9.6%	2.3 years	9.8%	2 Years	9.0%	2.3 Years
Other debt instruments	7.4%	3.1 years	6.8%	3.2 years	8.5%	1.4 Years

The following table sets out information on the profile of the Group's combined securities held as of 31 December 2017.

(unaudited)

	Balance Sheet Category	Outstanding Balance	Name of Issuer(1)	State / Corporate	Issue Date	Maturity Date	Remaining Maturity (in Days)	Nominal Rate
	(amounts in thousands of Lari)							
Ministry of Finance treasury bonds:								
Contract 1	AFS, T-Bonds	14,666	MoF	State	24-Jan-13	24-Jan-18	24	8.3%
Contract 2	AFS, T-Bonds	29,637	MoF	State	18-Jul-13	18-Jul-18	199	7.9%
Contract 3	AFS, T-Bonds	8,643	MoF	State	2-Aug-12	2-Aug-22	1,675	10.8%
Contract 4	AFS, T-Bonds	8,505	MoF	State	17-Aug-17	17-Aug-27	3,516	9.4%
Contract 5	AFS, T-Bonds	34,078	MoF	State	10-Mar-16	10-Mar-18	69	13.4%
Contract 6	AFS, T-Bonds	28,177	MoF	State	6-Mar-14	6-Mar-19	430	10.1%
Contract 7	AFS, T-Bonds	42,874	MoF	State	31-Aug-17	31-Aug-22	1,704	8.0%
Contract 8	AFS, T-Bonds	67,081	MoF	State	30-Mar-17	30-Mar-22	1,550	9.1%
Contract 9	AFS, T-Bonds	7,991	MoF	State	30-Jan-14	30-Jan-19	395	9.5%
Contract 10	AFS, T-Bonds	53,516	MoF	State	20-Oct-16	20-Oct-21	1,389	7.6%
Contract 11	AFS, T-Bonds	19,951	MoF	State	21-Feb-13	21-Feb-23	1,878	10.4%
Contract 12	AFS, T-Bonds	43,676	MoF	State	13-Jul-17	13-Jul-19	559	7.6%
Contract 13	AFS, T-Bonds	84,920	MoF	State	13-Apr-17	13-Apr-19	468	8.0%
Contract 14	AFS, T-Bonds	3,002	MoF	State	9-Mar-12	9-Mar-22	1,529	12.3%
Contract 15	AFS, T-Bonds	32,428	MoF	State	29-Jan-15	29-Jan-20	759	9.1%
Contract 16	AFS, T-Bonds	37,497	MoF	State	16-Jul-15	16-Jul-20	928	14.4%
Contract 17	AFS, T-Bonds	40,884	MoF	State	28-Apr-16	28-Apr-21	1,214	11.8%
Contract 18	AFS, T-Bonds	45,181	MoF	State	6-Oct-16	6-Oct-18	279	6.8%
Contract 19	AFS, T-Bonds	62,771	MoF	State	14-Jan-16	14-Jan-18	14	13.8%
Contract 20	AFS, T-Bonds	32,285	MoF	State	5-Feb-15	5-Feb-25	2,593	10.5%
Contract 21	AFS, T-Bonds	39,350	MoF	State	12-Jan-17	12-Jan-19	377	8.1%
Contract 22	AFS, T-Bonds	34,739	MoF	State	9-Jun-16	9-Jun-18	160	8.0%
Contract 23	AFS, T-Bonds	6,681	MoF	State	6-Feb-14	6-Feb-24	2,228	11.6%
Contract 24	AFS, T-Bonds	47,953	MoF	State	17-Jul-14	17-Jul-19	563	9.5%
Contract 25	AFS, T-Bonds	20,472	MoF	State	16-Apr-15	16-Apr-20	837	10.3%
Aggregate value of Ministry of Finance treasury bonds			846,958					
Invested capital			1,552,708					
As a % of shareholders' equity			54.5%					

Note:
(1) MoF means Ministry of Finance.

The following table sets out information on the profile of the Group's combined securities held as of 31 December 2016.

	(unaudited)							
	Balance Sheet Category	**Outstanding Balance**	**Name of Issuer(1)**	**State / Corporate**	**Issue Date**	**Maturity Date**	**Remaining Maturity (in Days)**	**Nominal Rate**
			(amounts in thousands of Lari)					
Ministry of Finance treasury bonds:								
Contract 1	AFS, T-Bonds	40,670	MoF	State	9-Jun-16	9-Jun-18	525	8.0%
Contract 2	AFS, T-Bonds	6,425	MoF	State	6-Feb-14	6-Feb-24	2,593	11.6%
Contract 3	AFS, T-Bonds	2,955	MoF	State	9-Mar-12	9-Mar-22	1,894	12.3%
Contract 4	AFS, T-Bonds	37,932	MoF	State	28-Apr-16	28-Apr-21	1,579	11.8%
Contract 5	AFS, T-Bonds	44,909	MoF	State	6-Oct-16	6-Oct-18	644	6.8%
Contract 6	AFS, T-Bonds	8,096	MoF	State	30-Jan-14	30-Jan-19	760	9.5%
Contract 7	AFS, T-Bonds	36,034	MoF	State	10-Mar-16	10-Mar-18	434	13.4%
Contract 8	AFS, T-Bonds	20,498	MoF	State	26-Jan-12	26-Jan-17	26	11.3%
Contract 9	AFS, T-Bonds	29,825	MoF	State	18-Jul-13	18-Jul-18	564	7.9%
Contract 10	AFS, T-Bonds	35,837	MoF	State	16-Jul-15	16-Jul-20	1,293	14.4%
Contract 11	AFS, T-Bonds	22,071	MoF	State	20-Oct-16	20-Oct-21	1,754	7.6%
Contract 12	AFS, T-Bonds	14,852	MoF	State	24-Jan-13	24-Jan-18	389	8.3%
Contract 13	AFS, T-Bonds	41,000	MoF	State	9-Jul-15	9-Jul-17	190	10.8%
Contract 14	AFS, T-Bonds	38,697	MoF	State	8-Apr-15	8-Apr-17	98	7.5%
Contract 15	AFS, T-Bonds	32,263	MoF	State	29-Jan-15	29-Jan-20	1,124	9.1%
Contract 16	AFS, T-Bonds	18,638	MoF	State	26-Jul-12	26-Jul-17	207	8.5%
Contract 17	AFS, T-Bonds	8,403	MoF	State	2-Aug-12	2-Aug-22	2,040	10.8%
Contract 18	AFS, T-Bonds	48,590	MoF	State	12-Feb-15	12-Feb-17	43	7.1%
Contract 19	AFS, T-Bonds	8,733	MoF	State	26-Apr-12	26-Apr-17	116	9.8%
Contract 20	AFS, T-Bonds	15,363	MoF	State	25-Oct-12	25-Oct-17	298	8.0%
Contract 21	AFS, T-Bonds	19,255	MoF	State	21-Feb-13	21-Feb-23	2,243	10.4%
Contract 22	AFS, T-Bonds	28,642	MoF	State	6-Mar-14	6-Mar-19	795	10.1%
Contract 23	AFS, T-Bonds	30,527	MoF	State	5-Feb-15	5-Feb-25	2,958	10.5%
Contract 24	AFS, T-Bonds	67,832	MoF	State	14-Jan-16	14-Jan-18	379	13.8%
Contract 25	AFS, T-Bonds	20,483	MoF	State	16-Apr-15	16-Apr-20	1,202	10.3%
Contract 26	AFS, T-Bonds	48,275	MoF	State	17-Jul-14	17-Jul-19	928	9.5%
Contract 27	AFS, T-Bonds	13,409	NBRB	State	18-Mar-16	17-Mar-17	76	8.4%
Contract 28	AFS, T-Bonds	5,558	NBRB	State	8-Jun-16	7-Jun-17	158	6.5%
Contract 29	AFS, T-Bonds	12,353	NBRB	State	20-Jan-16	20-Jan-17	20	4.5%
Contract 30	AFS, T-Bonds	8,807	NBRB	State	20-Jan-16	20-Jan-17	20	4.3%
Contract 31	AFS, T-Bonds	26,913	NBRB	State	14-Dec-16	18-Jan-17	18	11.5%
Contract 32	AFS, T-Bonds	10,929	NBRB	State	14-Dec-16	14-Dec-17	348	6.2%
Contract 33	AFS, T-Bonds	6,757	NBRB	State	28-Dec-16	4-Jan-17	4	12.5%

Aggregate value of Ministry of Finance treasury bonds	811,531
Invested capital	1,352,288
As a % of shareholders' equity	60%

Note:
(1) MoF means Ministry of Finance

Deposits and Other Liabilities by Maturity

The following table sets out an analysis of the Group's combined client deposits and notes, amounts due to credit institutions, debt securities issued, other liabilities and total liabilities by maturity as of the dates indicated.

	As of 31 December		
	2017	2016	2015
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Three months or less, of which	4,915,225	3,718,468	3,207,246
On demand (unaudited)	3,653,690	2,837,776	2,393,127
One month or less (unaudited)	485,920	309,372	263,516
More than one month, but less than three months (unaudited)	775,615	571,320	550,603
More than three months, but less than or equal to one year (unaudited)	1,552,934	1,547,761	1,256,887
More than one year (unaudited)	609,899	489,538	547,136
Total client deposits and notes	**7,078,058**	**5,755,767**	**5,011,269**
Amounts due to credit institutions and other borrowings	2,778,337	3,067,651	1,692,557
Debt securities issued	1,386,411	858,035	961,944
All other liabilities (maturity undefined)	112,165	89,402	136,899
Total liabilities	11,354,971	9,770,855	7,802,669

Note:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The following tables sets out an analysis of the Group's combined short-term and long-term client deposits and notes, amounts due to credit institutions and debt securities issued (i) in Lari equivalents and (ii) as a percentage of their total as of the dates indicated.

	As of 31 December		
	2017	2016	2015
	(thousands of Lari) (unaudited)	*(thousands of Lari) (unaudited)*	*(thousands of Lari) (unaudited)*
Short-term(2)	8,430,590	7,419,576	5,514,589
Long-term(3)	2,812,216	2,261,877	2,151,181
Total client deposits and notes, amounts due to credit institutions and other borrowings, debt securities issued	**11,242,806**	**9,681,453**	**7,665,770**

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

(2) "Short-term" means due within one year of the relevant date.

(3) "Long-term" means due after more than one year from the relevant date.

	As of 31 December		
	2017	2016	2015
	(unaudited)	(unaudited) (in percentages)	(unaudited)
Short-term[1]	75.0%	76.6%	71.9%
Long-term[2]	25.0%	23.4%	28.1%

Notes:
(1) "Short-term" means due within one year of the relevant date.
(2) "Long-term" means due after more than one year from the relevant date.

Deposits and Other Liabilities by Currency

The following table sets out Lari versus foreign currency denomination of the Group's combined client deposits and notes, amounts due to credit institutions, debt securities issued and total liabilities as of the dates indicated.

	As of 31 December		
	2017	2016	2015
	(thousands of Lari)	(thousands of Lari)	(thousands of Lari)
Client deposits and notes:			
Lari (unaudited)	2,158,018	1,356,839	1,268,415
Foreign currency (unaudited)	4,920,040	4,398,928	3,742,854
Total client deposits and notes	7,078,058	5,755,767	5,011,269
Amounts due to credit institutions and other borrowings:			
Lari (unaudited)	1,242,768	1,313,277	461,122
Foreign currency (unaudited)	1,535,569	1,754,374	1,231,435
Total amounts due to credit institutions	2,778,337	3,067,651	1,692,557
Debt securities issued:			
Lari (unaudited)	454,609	—	—
Foreign currency (unaudited)	931,802	858,035	961,944
Total debt securities issued	1,386,411	858,035	961,944
Other liabilities, provisions and income tax liability:			
Lari (unaudited)	107,904	84,268	132,902
Foreign currency (unaudited)	4,261	5,134	3,997
Total other liabilities, provisions and income tax liability	112,165	89,402	136,899
Total liabilities	11,354,971	9,770,855	7,802,669

Note:
(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL 2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

The following table sets out the Group's combined total liabilities in Lari and foreign currency, each as a percentage of total liabilities.

	As of 31 December		
	2017	2016	2015
	(unaudited)	*(unaudited)*	*(unaudited)*
		(in percentages)	
Lari	34.9%	28.2%	23.9%
Foreign currency	65.1%	71.8%	76.1%
Total liabilities	100%	100.0%	100.0%

The following table (extracted from management accounts) sets out the Group's gross loans to retail banking and investment (wealth) management customers by underlying currency, as of the dates indicated.

	As of 31 December					
	2017		2016		2015	
	Amount	Percentage of Total Retail and Investment Management Loans	Amount	Percentage of Total Retail and Investment Management Loans	Amount	Percentage of Total Retail and Investment Management Loans
	(unaudited)		*(unaudited)*		*(unaudited)*	
			(thousands of Lari, except percentages)			
GEL	2,660,065	51.6%	1,586,153	39.7%	1,324,892	45.1%
US Dollar	2,343,585	45.5%	2,351,188	58.8%	1,528,863	52.1%
Euros	148,092	2.9%	58,986	1.5%	20,334	0.7%
GBP	821	0.0%	1,951	0.0%	61,215	2.1%
Total loans to retail banking and investment management customers, gross	**5,152,563**	**100%**	**3,998,278**	**100.0%**	**2,935,304**	**100.0%**

The Group's top 10 deposits in Retail Banking accounted for 1.6%, 1.6%, and 1.2% of the Group's combined client deposits and notes as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

The Group's top 10 deposits in CIB accounted for 15.1%,13.2% and 16.6% of total client deposits and notes as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Returns on Equity and Assets

The following table sets out certain selected financial ratios of the Group for the periods indicated.

	(unaudited)[1]		
	For the year ended 31 December		
	2017	2016	2015
	(amounts in thousands of Lari, unless otherwise specified)		
Profit for the period	369,519	295,703	261,795
Average total assets of the period (based on quarterly averages)	11,485,110	9,532,038	8,290,211
Return on assets	**3.2%**	**3.1%**	**3.2%**
Profit for the period attributable to shareholders of the Issuer	367,829	293,180	258,004
Average invested capital attr. to shareholders of the Issuer of the period (based on quarterly averages)	1,422,824	1,297,839	1,171,246
Return on invested capital	**25.9%**	**22.6%**	**22.0%**
Per Share Dividends declared in the period	2.6000	2.4000	2.1000
Earnings Per Share of the period (previous year)	7.4440	6.5509	5.3566
Dividend payout ratio	**34.9%**	**36.6%**	**39.2%**
Average total equity of the period (based on quarterly averages)	1,431,907	1,316,371	1,189,090
Average total assets of the period (based on quarterly averages)	11,485,110	9,532,038	8,290,211
Invested Capital to Assets ratio	**12.5%**	**13.8%**	**14.3%**

(1) All figures are unaudited except for profit for the period, profit for the period attributable to Shareholders of the Issuer and Earnings per Share of the period.

PART XVIII

CAPITALISATION AND INDEBTEDNESS

Bank of Georgia Group PLC

The Company was incorporated on 15 August 2017 as a private limited company and will be the holding company of the Group from the Scheme Effective Time. Since incorporation it has not incurred any indebtedness and has no material equity reserves. The issued and fully paid up capital of the Company was 50,001 (being the Bank of Georgia Group Subscriber Shares and the Bank of Georgia Group Redeemable Deferred Shares) as at the date of this Prospectus.

Banking Business of BGEO Group PLC

The following table sets out the capitalisation and indebtedness of the Banking Business and has been extracted without material adjustment from the Historical Financial Information set out in Part XXVI (*Historical Financial Information*), section "*Combined Historical Financial Information for the Banking Business of BGEO Group PLC, as at and for each of the years ended 31 December 2015, 31 December 2016 and 31 December 2017*".

Capitalisation and Indebtedness

	As at 31 December 2017
	(thousands of Lari)
Long-term debt	
Senior long term debt	1,773,644
Subordinated long-term debt	428,673
Total Non-Current debt (excluding current portion of long -term debt)	**2,202,317**
Invested capital attributable to shareholders of the parent	**1,545,822**
Non-controlling interests	6,886
Total invested capital	1,552,708
Total capitalisation	**3,755,025**

Net Indebtedness

	31-Dec-17	Transactions[2] after 31 December 2017[1]	As adjusted[2]
	(thousands of GEL)	*(thousands of GEL)*	*(thousands of GEL)*
Cash on hand	447,180	409,218	856,398
Cash equivalents	1,069,222	—	1,069,222
Amounts due from credit institutions	1,216,350	—	1,216,350
Investment securities	1,613,759	—	1,613,759
Liquidity	**4,346,511**	**409,218**	**4,755,729**
Current financial receivables	**3,253,724**	—	**3,253,724**
Current client deposits and notes	6,468,159	—	6,468,159
Current amounts owed to credit institutions	1,773,767	—	1,773,767
Current debt securities issued	188,664	—	188,664
Current Financial Debt	**8,430,590**	**—**	**8,430,590**
Net Current Financial Indebtedness	**(830,355)**	**409,218**	**(421,137)**
Non-current client deposits and notes	609,899	—	609,899
Non-current amounts owed to credit institutions	1,004,570	129,610	1,134,180
Non-current debt securities issued	1,197,747	279,608	1,477,355
Guarantees issued	621,267	—	621,267
Undrawn loan facilities	261,397	—	261,397
Letters of credit	40,350	—	40,350
Total net indebtedness	**(4,565,585)**	**—**	**(4,565,585)**

Notes:

(1) The transactions after 31 December 2017 column reflects the following changes:

a. On 21 March 2018, as part of the Demerger US$ 108 million (GEL 280 million) JSC BGEO debt securities issued that was lent to the Investment Business were repaid to the Banking Business.

b. On 21 March 2018, Group received a US$ 50 million (GEL 130 million) loan from JSC Georgia Capital.

(2) Unaudited.

Save as disclosed above, there has been no material change in the total capitalisation and indebtedness of the Group since 31 December 2017.

See ''*Funding—Amounts due to Credit Institutions and other borrowings*''.

There have been no material changes to Banking Business' capitalisation and indebtedness since 31 December 2017.

PART XIX

RELATED PARTY TRANSACTIONS

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. Members of the Group are, and have been, party to various agreements and other arrangements with certain related parties, all of which have been conducted on an arm's length basis.

JSC GEORGIA CAPITAL'S LOAN AGREEMENTS WITH JSC BGEO GROUP

On 11 July 2016, JSC Georgia Capital entered into two year GEL56,000,000 loan agreement (as amended by Amendment Agreement dated 11 July 2017) with JSC BGEO Group. The financing was used in connection with the acquisition of the remaining 75% interest in GGU. As of 31 December 2017, the aggregate amount outstanding under the loan facility was GEL59,975,682 million.

On 15 July 2016, JSC Georgia Capital entered into two year GEL79,799,000 loan agreement (as amended by Amendment Agreement dated 15 July 2017) with JSC BGEO Group. The financing was used in connection with the acquisition of the remaining 75% interest in GGU. As of 31 December 2017, the aggregate amount outstanding under the loan facility was GEL92,957,636 million.

On 28 December 2017, JSC Georgia Capital entered into a seven month US$ 46,000,000 loan agreement with JSC BGEO Group. The JSC BGEO Group financing is used for general corporate purposes. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$46,040,329 million.

INTERNATIONAL INSURANCE COMPANY IMEDI-L'S CREDIT LINE AGREEMENT WITH JSC BANK OF GEORGIA

In September 2010, JSC International Insurance Company Imedi-L, Unimed Adjara LLC, Unimed Kakheti LLC, Unimed Samtskhe LLC, collectively as the borrowers, entered into US$15 million general credit line agreement with JSC Bank of Georgia. Subsequently, JSC Medical Corporation EVEX and GHG also joined the general credit line agreement and the amount of the credit facility was increased up to US$90 million. The general credit line matures in September 2030. The agreement imposes certain non-financial and financial restrictions on the borrowers. Each of the borrowers has covenanted not to undertake additional credit and/or other financial obligations in excess of US$1 million without the prior written consent of JSC Bank of Georgia. The agreement is governed by Georgian law.

ISSUE OF USD 300 MILLION NOTES DUE IN 2024 BY JSC GEORGIA CAPITAL

On 9 March 2018 JSC Georgia Capital successfully issued US$300 million 6.125% notes due 2024, denominated in US Dollars, which were admitted to the official list of the Irish Stock Exchange and to trading on The Global Exchange Market (the "**Notes**"). Notes were sold at the price of 98.770% of par value in the initial offering. Members of the BGEO Group purchased an aggregate amount of US$27 million of the Notes; as at the date of this Prospectus the Bank holds US$10.7 million and JSC Georgia Capital holds US$14.8 million of this amount. Certain of the directors and their affiliates and senior managers of the Georgia Capital Group and the BGEO Group purchased an aggregate amount of US$16.1 million of the Notes. For more detailed information about the Company's related party transactions, see Note 31 to the Historical Financial Information included in this Prospectus.

JSC BGEO GROUP LOAN AGREEMENT WITH JSC GEORGIA CAPITAL

On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms. JSC BGEO Group intends to use the proceeds of the loan by JSC Georgia Capital in order to finance, in part, a transfer of funds by JSC BGEO Group to the Bank in consideration for the assumption by the Bank of JSC BGEO Group's obligations as the issuer of its $350,000,000 6.00 per cent. notes due 2023.

PART XX

MATERIAL CONTRACTS

PAYMENT SUPPORT SERVICES CONTRACT

In September 2017, the Bank entered into a payment support services contract with the wholly-owned subsidiary of Tbilisi municipality pursuant to which the Bank provides, installs and operates the public transportation payment system in Tbilisi, Georgia. As a result, the Bank continues to be the sole provider of payment support services to the public transportation network and operates the payment system in an environment which fully meets the Payment Card Industry Data Security Standard (PCI DSS). The Bank will modernise the public transportation payment system by September 2018 and exclusively operate the public transportation payment system for the term of ten years. In addition, the Bank has an exclusive right to lease and provide banking services through mass retail branches in Tbilisi metro (i.e. subway) stations for the annual rent of GEL 981,720 (US$ 393,285). The Bank has paid a total consideration of GEL 22.2 million. The contract is governed by the laws of Georgia.

DEMERGER AGREEMENT

1. Overview of the Demerger Agreement

The Demerger Agreement sets out the agreement between BGEO Group PLC, Georgia Capital PLC and the Company regarding the principal transactions necessary to effect the Scheme and the Demerger and other provisions that will govern certain aspects of the Company's relationship with Georgia Capital PLC after the Demerger Effective Time.

2. Implementation of the Proposals

Each party has agreed to use its reasonable endeavours to ensure that the Reorganisation, the Scheme, the Capital Reduction, the Georgia Capital Capital Reduction and all other steps in connection with the Demerger, Admission and Georgia Capital Admission become effective as contemplated by, and in accordance with, the Reorganisation steps plan and the timetable set out in this Circular.

3. Mechanics of the Demerger and settlement

The Demerger Agreement sets out in detail the mechanics for implementing the transfer of the Investment Business to Georgia Capital PLC and the allotment and issue of the Georgia Capital Shares and Shares. These mechanics are subject to a number of conditions precedent including the successful implementation of the Scheme and the approval of the Capital Reduction. Should the Capital Reduction be sanctioned by the High Court, the Company will repay capital to its shareholders by transferring the Investment Business to Georgia Capital PLC in consideration for Georgia Capital PLC issuing shares to Shareholders who are shareholders at the Demerger Record Time on a 1 for 1 basis.

3. Releases and indemnities

The Company indemnifies Georgia Capital PLC against any losses incurred by any member of Georgia Capital PLC after the Demerger Effective Time to the extent such losses relate to the operation of the Banking Business prior to the Demerger Effective Time. Georgia Capital PLC similarly indemnifies the Company in respect of losses incurred in relation to the operation of the Investment Business prior to the Demerger Effective Time. Both of the Company and Georgia Capital PLC also indemnify each other in relation to any untrue, inaccurate or misleading statement (or omission) contained in their respective prospectuses. These indemnities do not have a fixed time period or monetary cap. Should there be an instance where a claim must be split between the two businesses as any claim does not related directly to the operation of the Banking Business or the Investment Business, this will be allocated proportionately based on the size of the two businesses on a two thirds to one third basis between the Banking Business, and the Investment Business, respectively.

4. Transfer of assets

Georgia Capital PLC agrees that if, following the Demerger, any property, right or asset forming part of the Bank of Georgia Group Business is found to have been transferred to Georgia Capital PLC in error, Georgia Capital PLC shall transfer or procure the transfer of such property, right or asset to Bank of Georgia Group and pending such transfer shall, so far as legally possible, hold such assets on trust for the relevant member of Bank of Georgia Group. The Company similarly agrees in relation to any property, right or asset which forms part of the Georgia Capital Business and which remains legally owned by any member of the Group following the Demerger.

5. Release of guarantees etc.

The Company and Georgia Capital PLC agree to procure, as soon as reasonably practicable following the Demerger Effective Time, the release of any securities, guarantees or indemnities which remain in place between the two groups following the Demerger Effective Time and to indemnify the other pending the release of such securities, guarantees or indemnities. This provision does not apply to the guarantees in this agreement.

The Company and Georgia Capital PLC also agree that if they become aware of any guarantees with third parties that involve any member of the other's group guaranteeing any obligation of its group, they will, subject to certain exceptions, use their reasonable endeavours to procure the release of such member of the other's group from its obligations under such guarantees and shall indemnify such member of the other's group from and against all losses it incurs in connection with any such guarantee.

6. Proportional Voting

Under the terms of the Demerger Agreement while there are any Proportional Voting Shares:

- each of BGEO Group PLC, the Company and Georgia Capital PLC has agreed that for so long as there are Proportional Voting Shares they will use all reasonable endeavours to procure (so far as they are reasonably able) that the Proportional Voting Shares are voted in general meetings of the Company in accordance with the Proportional Voting Mechanism;
- The Company has agreed it will conduct all shareholder votes on a poll in a general meetings and the poll will be taken in accordance with the Proportional Voting Mechanism set out in Bank of Georgia Group Articles; and
- Georgia Capital PLC has agreed that it, and its Concert Parties, will:
- vote the Proportional Voting Shares in general meetings of The Company in accordance with the Proportional Voting Mechanism;
- notify The Company of any acquisition or disposal of Bank of Georgia Group Shares by them irrespective of whether any such acquisition or disposal would trigger a public disclosure obligation for them; and
- procure that ahead of any general meeting of the Company that the Company is notified of the shareholdings representing Georgia Capital PLC and its Concert Parties.

7. Other matters

Other matters governed by the Demerger Agreement include:

- the transfer of assets or novation of contracts belonging to the Banking Business or the Investment Business which have been transferred to the wrong business back to the correct business;
- allocation of expenses arising pre-Demerger so that the Banking Business pays all costs and expenses which relate to its business and the Investment Business pays all costs and expenses which relate to its business. Should there be an instance where a cost or expense must be split between the two businesses, this will be allocated proportionately based on the size of the two businesses on a two thirds to one third basis between the Banking Business, and the Investment Business, respectively;
- administration of the employee share plans, including undertakings to administer any awards between for employees of the Banking Business or the Investment Business in the other businesses trust;
- confidentiality (save where required to disclose under applicable law or regulation);
- resolution of disputes between the parties relating to the Demerger Agreement through a process whereby the directors of each entity can resolve any disputes directly.

TAX SHARING AND INDEMNIFICATION AGREEMENT

1. Overview of the Tax Sharing and Indemnification Agreement

Georgia Capital PLC and the Company have entered into the Tax Sharing and Indemnification Agreement which sets forth the rights and obligations of Georgia Capital PLC and the Company with respect to taxes.

This includes:

- the apportionment of tax liabilities relating to taxable periods before and after the Demerger; and
- the responsibility for payment of those tax liabilities (including any subsequent adjustments to such tax liabilities).

2. General division of responsibility

In general, under the terms of the Tax Sharing and Indemnification Agreement, Georgia Capital PLC and the Company will each be responsible for taxes imposed on their respective businesses for all taxable periods, whether ending on, before or after the date of the Demerger.

There are, however, some specific allocations of tax liabilities between Georgia Capital PLC and the Company for certain circumstances.

3. The Company's indemnity for restructuring transactions undertaken prior to the Scheme and the Demerger

Georgia Capital PLC and the Company will undertake certain restructuring transactions in anticipation of the Scheme and the Demerger (including the Reorganisation).

The Company and Georgia Capital PLC will indemnify each other in respect of any tax liabilities arising from these transactions, such that any such liabilities are allocated proportionately on a two thirds to one third basis between the Company and Georgia Capital PLC, respectively.

4. Georgia Capital PLC's indemnity for US tax liabilities triggered by activities of Georgia Capital PLC

It is anticipated that non-recognition treatment for US federal income tax purposes should apply in respect of the Scheme, the Demerger and the preceding restructuring transactions.

Such non-recognition treatment may, however, not apply if members of Georgia Capital PLC engage in certain activities following the Demerger. In that case, Georgia Capital PLC will be required to indemnify rhe Company generally for any liabilities, taxes and other charges that are imposed on The Company, to the extent such liabilities, taxes or other charges are attributable to those activities.

In particular, the activities of members of Georgia Capital PLC which could, potentially, give rise to such an indemnification obligation include (i) Georgia Capital PLC discontinuing the active conduct of its historic business or liquidating, merging or consolidating members of Georgia Capital PLC conducting such active business or (ii) undertaking certain change-of-control transactions.

5. Tax administration

The Tax Sharing and Indemnification Agreement sets forth the rights of the parties in respect of the preparation and filing of tax returns, the control of audits or other tax proceedings and assistance and co-operation in respect of tax matters, in each case, for taxable periods ending on or before, or that otherwise include, the date of the Demerger. For taxable periods ending after the Demerger Effective Date which do not include the Demerger Effective Date, this provision will not apply.

TRANSITIONAL SERVICES AGREEMENT

1. Overview of the Transitional Services Agreement

This agreement between the Company and Georgia Capital PLC sets out the arrangement between the Company and Georgia Capital PLC regarding the provision by the Group to Georgia Capital Group of ongoing transitional services following the Demerger Effective Time.

2. Conditionality

The Transitional Services Agreement is conditional upon the Demerger becoming effective.

3. Duration

Services will be provided under the Transitional Services Agreement for a duration of 12 months (or such longer period as the parties may agree).

4. Services

The services to be provided under the Transitional Services Agreement are IT support services for an initial period of 12 months to afford the Investment Business time to develop its own IT infrastructure at holding company level.

5. Fees

For any service provided under the Transitional Services Agreement there will be a set fee payable monthly on arms lengths terms by the relevant Investment Business entity to JSC BGEO Group. For the first month following the Demerger Effective Date a maximum fee of GEL 1,000 will be payable by Georgia Capital PLC to the Company for the IT support services described at paragraph 4, above.

6. Termination

The Transitional Services Agreement will terminate 12 months after coming into effect, by which time Georgia Capital PLC will have its own IT operations, unless extended by the parties. Either party may terminate the agreement following a material breach (which is not capable of being remedied within 30 days) by the other.

EXCHANGE AGREEMENT

1. Overview of the Exchange Agreement

This agreement between JSC Georgia Capital and the Company will set out the terms and conditions for the transfer of the stakes in JSC Bank of Georgia and JSC BG Financial held by JSC Georgia Capital (the "**Stakes**") in exchange for a number of Shares as is equal to 19.90% of the enlarged issued share capital (on a fully diluted basis) of the Company.

2. Conditionality

The Exchange Agreement will be conditional upon the Scheme having become effective, Bank of Georgia Group Admission and the Demerger Agreement having become unconditional in all respects. No condition is capable of being waived.

3. Completion

The Exchange Agreement will complete once the conditions, set out at 2 above, have been satisfied. At completion, the Company shall determine the number of Shares that it will issue to JSC Georgia Capital in exchange for the Stakes. The Company will credit the CREST account of JSC Georgia Capital with such number of shares and JSC Georgia Capital will effect the transfer of the Stakes to it simultaneously.

4. Price

The subscription value for the Stakes shall be their market value calculated as being an amount equal to the aggregate of the closing price per ordinary share in The Company on the business day prior to the issue of such shares multiplied by the number of Bank of Georgia Group Shares which will be issued (which will be such number of new ordinary shares as will represent 19.90% of the enlarged issued share capital of the Company (on a fully diluted basis)).

5. Warranties

Each of the Company and JSC Georgia Capital will warrant to the other that they have full power and authority to enter into the Exchange Agreement. The Company will warrant that it is validly authorised to issue the consideration shares to JSC Georgia Capital. JSC Georgia Capital warranties that it has full title and interest in the Stakes.

See also "*Part XV – Funding*" of this Prospectus.

PART XXI

TAXATION

United Kingdom Taxation

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HMRC practice (which may not be binding on HMRC) as of the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to shareholders resident, and in the case of an individual, domiciled, for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold the Shares as an investment and who are the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the Shares. Certain categories of shareholders, such as traders, brokers, dealers, banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons connected with the Group or the Bank, persons holding the Shares as part of hedging or conversion transactions, shareholders who are not domiciled in the United Kingdom, shareholders who have (or are deemed to have) acquired their Shares by virtue of an office or employment, and shareholders who are or have been officers or employees of Bank of Georgia Group PLC, BGEO Group PLC or a company forming part of the Group, may be subject to special rules and this summary does not apply to such shareholders.

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers.

Shareholders are also referred to Part IX of the BGEO Group PLC Circular which contains further considerations as to the UK tax consequences of the receipt of the Shares pursuant to the Scheme and the Demerger.

Taxation of dividends

Bank of Georgia Group PLC will not be required to withhold tax at source when paying a dividend.

A United Kingdom resident individual shareholder who receives a dividend from the Company will be entitled to a tax-free annual allowance of £5,000 in the tax year 2017/18 (note that this allowance will decrease to £2,000 with effect from 6 April 2018). Any dividend income received by such individual shareholder in excess of this tax-free allowance in the tax year 2017/18 will be taxed at the rates of 7.5%, 32.5%, and 38.1% for basic rate, higher rate, and additional rate taxpayers respectively. Dividend income that is within the allowance will count towards an individual's basic or higher rate limits. Dividend income will be treated as the top slice of individual shareholder's income.

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company at the rate of 19%, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. It is expected that the dividends paid by the Company would generally be exempt for such shareholders. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

Taxation of capital gains

A disposal or deemed disposal of the Shares by an individual shareholder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of UK capital gains tax. The principal factors that will determine the capital gains tax liability of an individual shareholder on a disposal of the Shares are the extent to which the shareholder realises any other chargeable gains in the tax year in which the disposal is made, the extent to which the shareholder has incurred allowable losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the **"Annual Exemption"**). The Annual Exemption for the 2017/18 tax year is £11,300, meaning the first £11,300 of capital gains realised do not fall within the charge to capital gains tax. If, after all allowable deductions, an individual shareholder's taxable income for the year exceeds the basic rate income tax limit, taxable chargeable gains arising on a disposal or deemed disposal of the Shares by an individual shareholder will be taxed at 20%. In other cases, taxable chargeable gains may be taxed at 10% or 20% or at a combination of both rates.

An individual shareholder who ceases to be resident for tax purposes in the United Kingdom or is treated as resident outside the United Kingdom for the purposes of a double tax treaty for a period of five years or less and who disposes of his or her Shares during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of the Shares by a UK tax resident corporate shareholder may give rise to a chargeable gain or an allowable loss for the purpose of UK corporation tax. Such a shareholder should be entitled to an indexation allowance, which (broadly) applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

An individual or corporate holder of the Shares resident outside the UK may be subject to foreign taxation on disposal of the shares under applicable local law. If potential investors are in any doubt as to their position, they should consult their own professional advisers

Inheritance tax

The Shares in certificated form will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. As a matter of United Kingdom law and HMRC practice, the situs of securities dealt with through computerised clearing systems is unclear, but the Shares in uncertificated form in CREST should also be assets situated in the United Kingdom for these purposes.

A gift of such United Kingdom situs assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there (under certain rules relating to long residence or previous domicile). Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold the Shares bringing them within the charge to inheritance tax.

Holders of the Shares should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Shares through such a company or trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

General

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), no stamp duty or SDRT will arise on the issue of the Shares in registered form by the Company.

An agreement to transfer the Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Transfers of the Shares will generally be subject to stamp duty at the rate of 0.5 per cent. of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is generally repayable, normally with interest, and otherwise the SDRT charge is cancelled.

CREST

Paperless transfers of the Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

Depositary receipt systems and clearance services

Following the ECJ decision in C-569/07 HSBC Holdings Plc, Vidacos Nominees Limited v The Commissioners of Her Majesty's Revenue & Customs and the First-tier Tax Tribunal decision in HSBC Holdings Plc and The Bank of New York Mellon Corporation v The Commissioners of Her Majesty's Revenue & Customs HMRC has confirmed that 1.5 per cent. SDRT is no longer payable when new shares are issued to a clearance service or depositary receipt system.

Where the Shares are transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the shares.

There is an exception from the 1.5 per cent charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5 per cent of the amount or value of the consideration payable for the transfer will arise on any transfer of the Shares into such an account and on subsequent agreements to transfer such Shares within such account.

Any liability for stamp duty or SDRT, in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

US Federal Income Tax Considerations

US Holders are hereby informed that (a) any US federal tax advice contained herein (including any attachments or enclosures) was not intended or written to be used for the purpose of avoiding US federal tax penalties, (b) any such advice was written to support the promotion or marketing of the transactions or matters addressed herein and (c) holders should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain material US federal income tax consequences to US Holders (as defined below) of the ownership and disposition of the Shares. This summary does not cover all aspects of US federal income taxation that may be relevant to the ownership or disposition of the Shares and does not address the effects of any state, local, or foreign tax laws. nor does it address the 3.8 per cent. US federal Medicare tax on net investment income, or the US federal gift and estate tax consequences of the ownership and disposition of the Shares. In particular, this summary does not address all of the tax considerations that may be applicable to investors subject to special treatment under US federal income tax laws (including, without limitation, as financial institutions, insurance companies, holders subject to the alternative minimum tax or the wash sale rules, investors that own or will own (directly, indirectly or constructively) 5 per cent. or more of the share capital or voting shares of the Company, pass-through entities or holders of interests in such entities, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders that elect to mark to market, holders who acquired their Shares upon the exercise of employee stock options or otherwise as compensation, holders whose functional currency is not the US dollar, or holders that will hold their Shares, as part of straddles, hedging transactions, or conversion transactions for US federal income tax purposes). This summary assumes that US Holders will hold the Shares, as capital assets within the meaning of section 1221 of the IRS Code.

As used herein, the term "US Holder" means a beneficial owner of the Shares that is, for US federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof; (iii) an estate the income of which is subject to US federal income tax without regard to its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in an entity treated as a partnership for US federal income tax purposes that will hold the Shares will depend on the status of the partner and the activities of the entity. Holders that are partnerships for US federal income tax purposes should consult their tax advisers concerning the US federal income tax consequences to their partners of owning Shares in Bank of Georgia Group PLC.

This summary also assumes that the Company will not be a passive foreign investment company (**"PFIC"**) for US federal income tax purposes. If the Company were to be a PFIC in any year, special, possibly materially adverse, consequences could result for US Holders.

This summary is based on the US federal income tax laws, including the IRS Code, its legislative history, final, temporary and proposed regulations thereunder, published rulings, court decisions, and the current US-UK income tax treaty (the "**Treaty**") and interpretations thereof, all as of the date hereof and all of which are subject to change, possibly with retroactive effect. A change in law or any of these authorities upon which this summary is based could adversely affect the US federal income tax consequences set out below.

The summary of US federal income tax consequences set out below is for general information only and is subject to the limitations and qualifications set forth herein. US holders are urged to consult their own tax advisers as to the particular tax consequences to them of owning and disposing of Shares.

US Holders are also referred to the BGEO Group PLC Circular, which contains further considerations as to the US federal income tax consequences of the receipt of the Shares in the Scheme.

Taxation of Dividends

Distributions made after the Demerger by the Company out of current or accumulated earnings and profits (as determined for US federal income tax purposes) generally will be taxable to a US Holder as foreign-source dividend income, and will not be eligible for the dividends-received deduction allowed to corporations. To the extent the amount of aggregate distributions exceed current and accumulated earnings and profits the distributions will be treated as a non-taxable return of capital, reducing the US Holder's adjusted tax basis in its Shares. To the extent the distributions in excess of earnings and profits exceed the US Holder's adjusted tax basis, the excess will be taxed as capital gain. Because the Company does not maintain calculations of its earnings and profits under US federal income tax principles, however, it is expected that distributions with respect to Shares generally will be reported to US Holders as dividends.

Subject to applicable limitations, dividends paid to a non-corporate US Holder may be eligible for taxation as "qualified dividend income" and therefore may be taxable at favourable tax rates. Dividends will be treated as qualified dividends if (a) certain holding period requirements are satisfied, (b) the Company is eligible for the benefits of the Treaty, which it expects will be the case provided that its Shares are regularly traded on the London Stock Exchange, and (c) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC.

Dividends paid in pounds sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the pounds sterling are converted into US dollars at that time. If dividends received in pounds sterling are converted into US dollars on the day they are received, the US Holder generally will not be required to recognise foreign-currency gain or loss in respect of the dividend income. A US Holder who elects to receive dividends from the Company in US dollars will not recognise any foreign-currency gain or loss in respect of any such dividends.

Disposition of the Shares

Upon a sale or other disposition of the Shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the Shares. This capital gain or loss generally will be US-source income and will be long-term capital gain or loss if the US Holder's holding period in the Shares exceeds one year. The amount realised on a sale or other disposition of the Shares for an amount in foreign currency will be the US dollar value of this amount on the date of sale or disposition. On the settlement date, the US Holder will recognise US-source foreign-currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of the Shares traded on an established securities market that are sold by a cash-basis US Holder (or accrual-basis US Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

Backup Withholding and Information Reporting

Dividend payments with respect to the Shares, and proceeds from the sale, exchange, or redemption of such shares may be subject to (i) information reporting to US Internal Revenue Service and to US Holders, and (ii) possible US backup withholding tax. Backup withholding will not apply, however, to a US Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. US Holders should consult their tax advisers regarding the application of the US information reporting and backup withholding rules.

Backup withholding is not an additional tax. Rather, any amounts withheld as backup withholding may be credited against a US Holder's US federal income tax liability, and the US Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Foreign Financial Asset Reporting

Certain individual US Holders (and certain specified entities) may be required to report to the IRS information with respect to their investment in the Shares not held through an account with a US financial institution. US Holders that fail to report required information could become subject to substantial penalties. US Holders are encouraged to consult with their own tax advisers regarding foreign financial asset reporting requirements with respect to their investment in the Shares.

Georgian Taxation

The analysis below is a general overview of certain Georgian tax implications related to Bank of Georgia Group PLC shareholders that are Georgia resident company or a non-Georgia resident company with a Georgian permanent establishment. As with other areas of Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is therefore possible that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to a Bank of Georgia Group PLC shareholder could become subject to taxation, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of this Prospectus. These sections are based on Georgia tax law and practice in force as of the date of this document. The sections are intended as a general guide only and do not constitute legal or tax advice. If you are in any doubt as to your tax position, you should consult an independent professional adviser immediately.

Except where otherwise expressly stated, the analysis below is based on the assumption that Bank of Georgia Group PLC is a UK resident for taxation purposes.

Taxation of dividends

Pursuant to the Tax Code of Georgia, payments of dividends on Shares to Bank of Georgia Group PLC shareholders (whether they are resident legal entities or non-resident legal entities having a permanent establishment ("PE") in Georgia) will not be subject to taxation in Georgia.

Taxation of sale of Shares

Georgian resident legal entities and non-resident legal entities having the PE in Georgia (except commercial banks, credit unions, insurance organizations, micro finance organizations and pawnshops until 1 January 2019) will be liable to pay 15% corporate profit tax upon the disposal of Shares on the difference between the initial purchase and subsequent sale price after the distribution of the profit.

Until 1 January 2019, surplus income (the difference between the initial purchase and subsequent sale price of the Notes) received from the sale of Shares by commercial banks, credit unions, insurance organisations, micro finance organisations and pawnshops will be included in their gross taxable income and after the permitted deductions will be subject to profit tax at the rate of 15%.

Value Added Tax

Sale (supply) of Shares is exempt from Value Added Tax in Georgia. Georgian VAT payers will be obliged to report in their VAT returns the sale of Shares on the territory of Georgia.

Other considerations

Under the Tax Code of Georgia, the tax authorities are entitled to re-examine the transaction price indicated by the parties buying and selling securities, subject to certain requirements.

PART XXII

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

Directors

The following table sets out the name, date of birth and position of each of Bank of Georgia Group PLC's Directors.

Name	Date of birth	Position
Neil Janin	12 February 1955	Chairman
Kaha Kiknavelidze	12 December 1972	CEO
Hanna Loikkanen	31 May 1969	Senior Independent Non-Executive Director
Alasdair Breach	24 October 1970	Independent Non-Executive Director
Tamaz Georgadze	2 August 1978	Independent Non-Executive Director
Jonathan Muir	16 January 1963	Independent Non-Executive Director
Cecil Quillen	15 August 1963	Independent Non-Executive Director

The term of appointment of all of the non-executive directors commenced on 24 February 2018. All Directors will be required to seek election by the Shareholders at the next annual general meeting of the Company (**AGM**). Continued appointment is contingent on continued satisfactory performance and re-election by the Shareholders at each AGM. Continued appointment is also subject to any relevant statutory provisions relating to removal of a Director. The non-executive Directors will also be required to adhere to any succession plan adopted by the Board.

The business address of each of the Directors is 29a Gagarini Street, Tbilisi 0160, Georgia. Biographical details of each of the Directors, together with details of their responsibilities within the Group are set out below.

Neil Janin (Chairman)

Neil Janin was appointed as an Independent Non-Executive Directive and Chairman of Bank of Georgia Group PLC on 24 February 2018. Mr Janin serves as Chairman of Bank of Georgia Group PLC's Nomination Committee, as well as a member of the Remuneration Committee.

He was appointed Non-Executive Chairman of the Supervisory Board on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr. Janin serves as Chairman of BGEO Group PLC's Nomination Committee as well as a member of BGEO's Group PLC Remuneration Committee. Mr. Janin also served as Chairman of the Bank's Supervisory Board, having stepped down as Chairman in July 2015, a position he had held since 2010. Mr Janin also serves as a Non-Executive Director of GHG and a member of the Supervisory Board of JSC GHG. 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 regards 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 LTD, a company through which he provides his ongoing consulting services. Mr. Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

Kaha Kiknavelidze (CEO)

Kaha Kiknavelidze was appointed as an Executive Director and CEO of Bank of Georgia Group PLC on 24 February 2018. Mr. Kiknavelidze also serves as a member of the Risk Committee.

Mr. Kiknavelidze previously served as an Independent Non-Executive Director of BGEO Group PLC since 24 October 2011, which included positions on BGEO Group PLC's Audit, Risk and Nomination Committees. Mr. Kiknavelidze also served as a member of the Supervisory Board and Audit Committee, positions he has held since 2008 and has taken a very active role over the last few years in mentoring many of the current members of the Bank's management team. Kaha has over 15 years of experience in the financial services including a number of roles at UBS and Troika Dialog. He is the founder and managing partner of Rioni Capital Partners LLP, a London-based investment management company, the role he stepped down from at the end of 2016. 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, specialising in Finance and Credit.

Hanna Loikkanen (Senior Independent Non-executive Director)

Hanna Loikkanen was appointed as an Independent Executive Director and Senior Independent Director of Bank of Georgia Group PLC on 24 February 2018. Ms Loikkanen also serves as a member of the Audit Committee and Nomination Committee.

She was appointed as an Independent Non-Executive Director of BGEO Group PLC by the Board in June 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 AGM. Ms Loikkanen is also a member of BGEO Group PLC's Nomination Committee as well as the Risk Committee, and was appointed to BGEO Group PLC'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 Group PLC from 2011 until 2013 and as a member of the Bank's Supervisory Board from 2010 until 2013. 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 PLC 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. In 2017 she was also appointed as a Non-Executive Director of PJSC Rosbank, a universal bank listed on the Moscow Exchange and part of the Societe General Group. 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.

Alasdair Breach (Independent Non-executive Director)

Alasdair Breach was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Breach serves as Chairman of Bank of Georgia Group PLC's Remuneration Committee, as well as a member of the Risk Committee and Nomination Committee.

He was appointed as an Independent Non-Executive Director of BGEO Group PLC on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Breach serves as Chairman of BGEO Group PLC's Remuneration Committee and serves as a member of BGEO Group PLC's Risk and Nomination Committees. Mr Breach also serves as a member of the 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. 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 Former Soviet Union (FSU) 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. Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

Tamaz Georgadze (Independent Non-executive Director)

Tamaz Georgadze was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Georgadze serves as Chairman of Bank of Georgia Group PLC's Risk Committee, as well as a member of the Audit Committee, Remuneration Committee, Nomination Committee.

He was appointed as an Independent Non-Executive Director of BGEO Group PLC on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Georgadze serves as a member of BGEO Group PLC's Risk and Nomination Committees and was appointed as a member of BGEO Group PLC's Audit Committee in September 2016. 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 and Audit Committee. In 2013, Mr Georgadze founded Raisin GmbH (formerly 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 ten-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. 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 honors.

Jonathan Muir (Independent Non-executive Director)

Jonathan Muir was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Muir serves as Chairman of Bank of Georgia Group PLC's Audit Committee, as well as a member of the Nomination Committee and Risk Committee.

He was appointed as an Independent Non-Executive Director to BGEO Group PLC's Board of Directors in June 2017 after previously serving as an advisor to BGEO Group PLC's Board since December 2016. Jonathan is the member of the Group's Nomination and Audit Committees. Mr. Muir was appointed to the Bank's Supervisory Board in August 2017. Mr Muir has over 30 years' experience working as a professional in accounting and finance. He is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Prior to joining LetterOne, Mr Muir was CFO (2008-2013) and Vice President of Finance and Control (2003-2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985-2000). Mr Muir graduated with first class honours from St. Andrews University in the UK. He is a British qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

Cecil Quillen (Independent Non-executive Director)

Cecil Quillen was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Quillen also serves as a member of Bank of Georgia Group PLC's Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Quillen is a lawyer and a London-based U.S. partner of Linklaters LLP, the global law firm. He is the leader of the firm's U.S. securities practice. With nearly 29 years of experience in private practice, Mr. Quillen works on a broad spectrum of securities and finance matters and has wide expertise in offerings of debt, equity, regulatory capital and structured securities in established and emerging markets, as well as in liability management transactions and restructurings. He regularly advises non-U.S. public companies with respect to transactional, disclosure, reporting, governance and compliance matters relating to exchanges and markets in the United States and the U.S. federal securities laws. Mr. Quillen is especially experienced in advising on transactions and regulatory matters involving financial institutions. In addition, a particular focus of his practice has been securities offerings involving U.S. market access by transaction participants in the CIS and in central and eastern Europe. Mr. Quillen regularly speaks at a variety of professional conferences, is an officer of the Securities Law Committee of the International Bar Association and chairs its Underwriting and Distribution Subcommittee, and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. Mr. Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. Before joining Linklaters, he practiced for a number of years at a large New York-based law firm and was a law clerk to a U.S. federal appeals court judge. He is admitted to practice in New York and the District of Columbia, and is a registered foreign lawyer in England and Wales. Mr. Quillen received his undergraduate degree from Harvard and his law degree from the University of Virginia.

Senior Managers

The following table sets out the name, date of birth, position and term of appointment of each of Bank of Georgia Group PLC's Senior Managers.

Name	Date of birth	Position	Term of appointment/ Reappointment
Kaha Kiknavelidze	12 December 1972	CEO	1 September 2019
Mikheil Gomarteli	31 July 1975	Deputy CEO (Retail Banking-Express Banking and Brand Operations)	1 May 2019
George Chiladze	11 May 1971	Deputy CEO (Chief Risk Officer)	1 May 2019
David Tsiklauri	1 September 1981	Deputy CEO (Chief Financial Officer)	1 January 2020
Levan Kulijanishvili	7 November 1974	Deputy CEO (Operations)	1 September 2018
Vasil Khodeli	27 November 1976	Deputy CEO (Corporate Investment Banking)	1 March 2020
Ramaz Kukuladze	29 July 1971	Deputy CEO (MSME and Premium Retail business)	1 February 2020

Each of Bank of Georgia Group PLC's Senior Managers can be contacted through Bank of Georgia Group PLC's head office at 29a Gagarini Street, Tbilisi, Georgia, 0160. Biographical details of the Senior Managers are set out below.

Kaha Kiknavelidze (CEO)

Kaha Kiknavelidze was appointed as CEO of BGEO Group PLC in September 2016, having previously served as an Independent Non-Executive Director of BGEO Group PLC since 24 October 2011, which included positions on BGEO Group PLC's Audit, Risk and Nomination Committees. Mr. Kiknavelidze also served as a member of the Supervisory Board and Audit Committee, positions he has held since 2008 and has taken a very active role over the last few years in mentoring many of the current members of the Bank's management team. Kaha has over 15 years of experience in the financial services including a number of roles at UBS and Troika Dialog. He is the founder and managing partner of Rioni Capital Partners LLP, a London-based investment management company, the role he stepped down from at the end of 2016. 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 in Finance and Credit.

Mikheil Gomarteli—Deputy CEO (Retail Banking—Express Banking and brand operations)

Following the split of retail banking into two segments in February 2017, due to significant growth in the retail banking business, Mr Gomarteli assumed the role of Deputy CEO responsible for Express Banking and Brand Operations. Prior to this, Mr Gomarteli had served as the sole Deputy CEO of Retail Banking since February 2009. He 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 (March 2007 to February 2009), Head of Business Development (March 2005-July 2005), Head of Strategy and Planning (2004 to 2005), Head of Branch Management and Sales Coordination (2003 to 2004), Head of Branch Management and Marketing (2002 to 2003) and Head of Banking Products and Marketing (2000 to 2002). Mr Gomarteli received an undergraduate degree in Economics from Tbilisi State University.

Levan Kulijanishvili (Deputy CEO, Operations)

Levan Kulijanishvili was appointed as Deputy CEO (Operations) in September 2017, prior to which he served as BGEO Group PLC's CFO and as Deputy CEO (Finance) of the Bank from February 2016. He has been with the Bank since 1997. During his 20 years of service, Mr Kulijanishvili has held various senior positions, including Head of Compliance and Internal Control from 2009 until his appointment as Deputy CEO (Finance), Head of the Internal Audit department (2000 to 2009), Manager of the Financial Monitoring, Strategy and Planning department (1999 to 2000) and Head of the Financial Analysis division (1997-1999). He received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

George Chiladze—Deputy CEO (Chief Risk Officer)

George 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 was Deputy CEO at the Partnership Fund, and he 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 Programme 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.

David Tsiklauri—Deputy CEO (Chief Financial Officer)

David Tsiklauri was appointed as Deputy CEO (Finance) in September 2017, prior to which he served as Deputy CEO (Corporate Investment Banking) from July 2017. David has extensive experience in banking as well as the corporate segment in Georgia, having worked as the Deputy CEO in charge of Corporate Banking at TBC Bank since 2014. Prior to that he served as the Vice President of the Capital Markets and Treasury Solutions team at Deutsche Bank since 2011, where he started as an associate in the Debt Capital Markets Department in 2008. David has an MBA degree from London Business School.

Ramaz Kukuladze—Deputy CEO (MSME and Premium Retail business)

Ramaz Kukuladze was appointed as Deputy CEO (MSME and Premium Retail banking businesses) in February 2017. Ramaz rejoins Bank of Georgia, having worked as Deputy CEO of the Bank prior to leaving for Silknet (telecommunications company in Georgia) where he spent two years in the capacity of Deputy CEO, in charge of commercial business. Later, Ramaz joined Bank Republic Société Générale where he led the bank's corporate and retail business as Deputy CEO since 2011. While at Bank of Georgia, Ramaz was responsible for Corporate Banking. Prior to that, he served as Chief Executive Officer of BCI, an Insurance Company founded by him in 1998, which later was acquired by the Group. Ramaz has an executive MBA degree from IE Business School.

Vasil Khodeli—Deputy CEO (Corporate Investment Banking)

Vasil Khodeli was appointed as Deputy CEO (Corporate Investment Banking) in September 2017, prior to which he served as Head of Corporate Banking of the Bank. Vasil has more than 20 years of banking experience and has held various roles with the Bank since 2004. He has been actively involved in shaping the Bank's Corporate Banking business platform since its launch. Vasil holds an MBA degree from Grenoble Business School.

Vakhtang Bobokhidze – Deputy CEO (Chief Information Officer)

Mr Bobokhidze was appointed as the Head of IT Department in April 2016. Mr Bobokhidze joined the Bank in late 2005 as a Quality Control Manager through a progression of positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position Head of IT Department/Chief Information Officer. Mr Bobokhidze received his undergraduate and MBA degree from Tbilisi State University.

Corporate Governance Policy and Board Committees

The Board recognises the importance of maintaining sound corporate governance practices and supports high standards of corporate governance. In considering Board policies and composition the Board has carefully considered the requirements of the UK Corporate Governance Code published in April 2016 by the Financial Reporting Council (the "**Corporate Governance Code**"). In addition, the Board has considered a number of other factors including in particular the experience and independence of the Company's executive and non-executive directors and the value they can bring to the Board and its committees.

Given that the Group's operations are predominantly based in Georgia, the Company considers that it is an advantage for the Board to include non-executive directors who have deep familiarity with Georgia. However, since it is an emerging market with few companies listed on international markets, there are a limited number of potential candidates who have the relevant knowledge and experience of the market and of being a director of a UK listed company.

The Corporate Governance Code provides that the board of directors of a UK public company should include a balance of executive and non-executive directors, with at least half of the board (excluding the Chairman) being independent non-executive directors. The Board comprises seven directors, one is an executive director, while the other six are non-executive directors. This model, of having one executive director on the Board, complies with the Corporate Governance Code and has been successfully used by BGEO Group PLC. It has allowed the Company to bring a wealth of external experience to its board through its non-executive directors, while keeping it appropriately sized.

The Corporate Governance Code states that the Board should determine whether non-executive directors are "independent", meaning whether they are independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The Board has therefore considered the independence of the Company's non-executive directors and the Board has determined that all non-executive directors are independent (except for Kaha Kiknavelidze).

The Corporate Governance Code recommends that the board of directors of a UK public company shall appoint one of its independent non-executive directors as the Senior Independent Director. Given her experience, the Board has appointed Hanna Loikkanen to fill this role. The Senior Independent Director will be available to Shareholders if they have concerns which contact with the Chairman or CEO has failed to resolve or for which such contact is inappropriate.

As of Admission, the Company will be in compliance with all of the requirements of the Corporate Governance Code.

The Board is assisted in fulfilling its responsibilities by four principal committees, being the audit, nomination, remuneration and risk management committees. The terms of reference for each of these committees are summarised below. The members of such committees are appointed by the Board.

Audit committee

The members of the Company's audit committee are, Jonathan Muir (Chairman), Hanna Loikkanen, Tamaz Georgadze and Cecil Quillen all of whom are considered by the Board to be independent. The Board is satisfied that all of the members have recent and relevant financial experience. See *"Senior Managers"* above.

The Company's audit committee will have responsibility for, amongst other matters: (i) recommending the financial statements to the Board and for reviewing the Company's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance; (ii) the relationship with the internal and external auditors and for assessing the role and effectiveness of the internal audit function; (iii) reviewing the Company's procedures for detecting, monitoring and managing the risk of fraud; (iv) recommending to the Board the appointment, re-appointment and removal of the external auditors; (v) reviewing the nature, scope and results of the annual external audit; (vi) approving the audit fee and on an annual basis assessing the effectiveness and independence of the external auditors; and (vii) keeping under review the Company's internal controls and systems for assessing and mitigating financial and non-financial risk.

Nomination committee

The members of the Company's nomination committee are Neil Janin (Chairman), Al Breach, Hanna Loikkanen,Tamaz Georgadze, Jonathan Muir and Cecil Quillen, all of whom are considered by the Board to be independent. The nomination committee will normally meet at least twice per year.

The nomination committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations for new appointments of executive and non-executive directors and on the membership of board committees to the Board. The committee will also oversee the annual review of board effectiveness.

Remuneration committee

The members of the Company's remuneration committee are Al Breach (Chairman), Neil Janin, Tamaz Georgadze, Cecil Quillen and, all of whom are considered by the Board to be independent.

The remuneration committee is constituted to determine and make recommendations to the Board regarding the framework or broad policy for the remuneration of the Company's Chairman, the CEO, the Group Company Secretary and such other members of the Company's executive management as it is designated to consider. The remuneration committee shall also oversee any major changes in the Group's employee benefits structures. The remuneration committee is also required to produce a report of the Group's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval.

Share Dealing Code

The Company will adopt, with effect from Admission, a share dealing code which ensures compliance with the Market Abuse Regulation and the Listing Rules. This share dealing code will apply to the Board, other persons discharging managerial functions and certain employees of the Group.

Inside Information Disclosure Policy

The Company has adopted an Inside Information Disclosure Policy. The policy is designed to prevent market abuse, insider dealing and other similar offences by ensuring the timely identification and escalation of inside information as well as co-ordinating the announcement of inside information using appropriate information services. The policy applies to all members of the Group and their respective directors, officers and employees.

Conflicts of Interest

Save as set out above and in paragraph 15 of Part XXIII (*Additional Information*), there are no actual or potential conflicts of interest between any duties owed by the Directors or senior management to the Company and their private interests or other duties and there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management.

PART XXIII

ADDITIONAL INFORMATION

1. Persons Responsible

The Directors, whose names appear on page 37 of the Prospectus and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The Georgia Capital PLC Directors and Georgia Capital PLC accept responsibility for the information about Georgia Capital PLC contained in this prospectus. To the best of the knowledge of the Georgia Capital PLC Directors and Georgia Capital PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

The BGEO Group PLC Directors and BGEO Group PLC accept responsibility for the information about BGEO Group PLC contained in this prospectus. To the best of the knowledge of the BGEO Group PLC Directors and BGEO Group PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

2. Bank of Georgia Group PLC

The Company was incorporated as a private limited company on 15 August 2017 with the name Bank of Georgia Group Limited and registered in England and Wales with registered number 10917019, and registered as a public limited company on 7 February 2018 with its current name (Bank of Georgia Group PLC).Since the date of its incorporation, the Company has operated in conformity with its constitution. The Shares conform with the laws of England and Wales and the issuance of the Shares was duly authorised according to the requirements of the Company's constitution. All necessary statutory and other consents have been obtained.

The Company's registered office and principal place of business is at 84 Brook Street, London, United Kingdom, W1K 5EH and its telephone number is +44(0)20 3178 4052. The principal laws and legislation under which the Company operates and under which the Shares have been allotted and issued are the Companies Act and regulations made thereunder.

Ernst & Young LLP is the auditor of the Company, and has been the only auditor of the Company since its incorporation. Ernst & Young LLP is registered to perform audit work by the Institute of Chartered Accountants in England and Wales and its registered office is 1 More London Place, London, SE1 2AF.

3. Corporate Resolutions and Share Capital

Share Capital

On incorporation, the Bank of Georgia Group's share capital consisted of one ordinary share with a par value of £1.00 which was issued, fully paid. The Company also issued one additional ordinary share with a par value of £1.00 shortly after incorporation (together, the "**Bank of Georgia Group Subscriber Shares**").

On 15 December 2017, 49,999 redeemable deferred shares of £1.00 each (the "**Bank of Georgia Group Redeemable Deferred Shares**") were issued at par value credited as fully paid.

Following the Scheme Effective Time, it is intended that the Bank of Georgia Group Subscriber Shares will be bought back and cancelled, and the Bank of Georgia Group Redeemable Deferred Shares will be redeemed. The requisite authorities for such steps were approved by the Initial Bank of Georgia Group Shareholders.

Authorities

At a general meeting of the Company held on 26 March 2018, the Initial Shareholders resolved, *inter alia*, that:

1. the demerger of the banking business and the investment business of BGEO Group PLC, effected by the insertion of the Company as the new holding company of BGEO Group PLC pursuant to the Scheme and subsequent transfer by the Company of the investment business to Georgia Capital PLC be approved and, in connection with the Scheme and the Demerger:

   (i) the directors of the Company be authorised and instructed to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as they consider necessary or expedient for the purpose of giving effect to the Scheme and the Demerger; and

   (ii) the entry by the Company into any such documents as the directors of the Company deem to be necessary or desirable for the purpose of giving effect to the Scheme and the Demerger be and are hereby approved and the directors of the Company (or a duly authorised committee of the directors of the Company) be authorised to carry the same into effect;

2. the directors of the Company be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 ("CA 2006") to allot shares in the Company, at a nominal value to be determined by the directors, as required in connection with the scheme of arrangement proposed to be made under Part 26 of CA 2006 between BGEO Group PLC and its shareholders and approved by BGEO Group PLC and the Company, provided that this resolution 2 will expire on 31 December 2019.

3. subject to and conditional on the Demerger becoming effective and JSC Georgia Capital being transferred to Georgia Capital PLC and in addition to the authority granted in resolution 2, the directors of the Company be generally and unconditionally authorised for the purposes of section 551 of CA 2006 to allot shares in the Company up to an aggregate nominal amount of £100,000.00 in connection with the transfer to the Company of the shares in JSC Bank of Georgia and JSC BG Financial held by JSC Georgia Capital in exchange for the issue of new shares in the Company to JSC Georgia Capital, provided that this resolution 3 will expire on 31 December 2019.

4. in addition to all existing authorities, and conditional and with effect from, the Scheme becoming effective, the directors of the Company be and are hereby generally and unconditionally authorised to capitalise the full amount standing to the credit of the merger reserve (if any) established by the Company in connection with the Scheme and the directors be and are hereby unconditionally authorised to apply the sum so capitalised in issuing Class C Shares to the registered holders of ordinary shares of the Company in the same proportions in which sum would have been divisible among them if it were distributed by way of a dividend and applying such sum on their behalf in paying up in full such Class C Shares and to allot such shares at a nominal value of £0.01 *pro rata* to such holders (or if the Company so determines, to such person as the Company may procure as a nominee for such holders) credited as fully paid with fractional entitlements to Class C Shares to be aggregated into whole Class C Shares and dealt with by the directors as they see fit, with the Class C Shares having the rights and subject to the conditions below:

   (i) the holder(s) of Class C Shares shall have no right to receive any dividend or other distribution whether of capital or income;

   (ii) the holder(s) of Class C Shares shall have no right to receive notice of or to attend or vote at any general meeting of the Company's shareholders;

   (iii) the holder(s) of Class C Shares shall, on a return of capital on a liquidation, but not otherwise, be entitled to receive the nominal amount of each such share but only after the holder of each ordinary share shall have received the amount paid up or credited as paid up on such ordinary share together with the sum of £100,000 on each such ordinary share;

   (iv) except as provided by (iii), the holder(s) of Class C Shares shall not be entitled to any further participation in the assets or profits of the Company;

   (v) the holder(s) of Class C Shares shall not be entitled to and shall not receive a share certificate in respect of the Class C Shares;

(vi) the Company may at its discretion and any time, without prior notice, redeem some or all of the Class C Shares then in issue, in each case for a total aggregate price not exceeding £0.01 per Class C Share so redeemed. Upon redemption all such Class C Shares shall be immediately and automatically cancelled;

(vii) a reduction by the Company of the capital paid up or credited as paid up on the Class C Shares and the cancellation of such shares will be treated as being in accordance with the rights attaching to the Class C Shares and will not involve a variation of such rights for any purpose. The Company will be authorized at any time without obtaining the consent of the holder(s) of Class C Shares to reduce its capital (in accordance with the CA 2006).

5. in addition to all existing authorities and conditional on and with effect from the Scheme, (as defined above) becoming effective, the directors be and are generally and unconditionally authorised for the purpose of section 551 of CA 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company ("**Rights**"):

(a) up to an aggregate nominal amount of £593,638,894.05 before the Reduction of Capital (defined below) has become effective and £163,898.09 thereafter (representing 16,389,809 ordinary shares, which represents approximately one-third of the Company's expected issued ordinary share capital following the exercise of the authorities granted pursuant to resolutions 2 and 3, above); and

(b) in addition to the amount referred to in paragraph (a) above up to an aggregate nominal amount of £593,638,894.05 before the Reduction of Capital (defined below) has become effective and £163,898.09 thereafter (representing 16,389,809 ordinary shares, which represents approximately one-third of the Company's expected issued ordinary share capital following the exercise of the authorities granted by resolutions 2 and 3, above) in connection with an offer by way of a rights issue to:

(i) holders of ordinary shares made in proportion (as nearly as practicable) to their respective existing holdings of ordinary shares; and

(ii) holders of other equity securities of any class if this is required by the rights attaching to those securities or, if the directors consider it necessary, as permitted by the rights attaching to those securities,

subject to the directors having a right to make such exclusions or other arrangements as they consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems arising in, or under the laws of, any territory or any other matter,

for a period expiring at the conclusion of the Company's next annual general meeting (or at close of business on 23 June 2019, if earlier) save that the Company may before the expiry of this authority make an offer and/or enter into an agreement which would, or might, require shares to be allotted or Rights to be granted after the authority granted by this resolution 5 expires and the directors may allot shares or grant Rights to subscribe for or convert a security into shares as if the authority conferred by this resolution had not expired.

6. conditional on and with effect from the Scheme becoming effective, in accordance with section 366 and 367 of the CA 2006, the Company and all of its subsidiaries at any time during the period for which this resolution has effect, be generally and unconditionally authorised to:

(i) make donations to political parties or independent election candidates, not exceeding £100,000 in total;

(ii) make donations to political organisations other than political parties, not exceeding £100,000 in total; and

(iii) incur political expenditure, not exceeding £50,000 in total,

during the period beginning with the date of the passing of the resolution and expiring at the conclusion of the Company's annual general meeting in 2019 (unless this authority has been otherwise renewed, revoked or varied by the Company in a general meeting) and provided that the aggregate amount of political donations and political expenditure so made or incurred by the Company and its subsidiaries shall not exceed £100,000.

Any terms used in this resolution 6 which are defined in part 14 of CA 2006 shall have the same meaning in this resolution 6.

7. conditonal on and with effect from the Scheme, the establishment of the Share Plan be approved and:

   (i) the directors of the Company and/or the remuneration committee of the Company be and are hereby authorised to make such amendments to the Share Plan as they consider necessary or desirable and to do all things necessary or expedient to carry the Share Plan into effect; and

   (ii) the remuneration committee of the Company be and is hereby authorised to recommend awards be granted over shares in the Company pursuant to and in accordance with the Share Plan or any part of it; and

   (iii) the directors of the Company and/or the remuneration committee of the Company be and are hereby approved to make recommendations to JSC Bank of Georgia on the administration of the Share Plan; and

   (iv) the directors of the Company be and are hereby authorised to establish further employee share plans based on the Share Plan, but modified to take account of local tax, exchange control or securities laws in any overseas jurisdiction provided that the shares made available under such further employee share plans are treated as counting towards the limits on participation in the Share Plan.

8. the Company be authorised to appear by Counsel at all necessary Court hearings and to undertake to the Court to be bound by the Scheme and the directors be authorised to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or done by it for the purposes of giving effect to the Scheme.

9. conditional on and with effect from immediately prior to Admission, the articles of association of the Company contained in the document produced to the general meeting and initialled by the chairman of that meeting be adopted as the new articles of association of the Company in substitution for, and to the exclusion of, all the Company's existing articles of association.

10. subject to the passing of resolution 5 above, the directors be generally empowered pursuant to sections 570 and 573 of CA 2006 to allot equity securities (within the meaning of section 560(1) of CA 2006) for cash pursuant to the authority conferred by resolution 5, and/or to sell treasury shares, as if section 561 of CA 2006 did not apply to any such allotment or sale, provided that the power conferred by this resolution 10 shall be limited to:

    (a) to the allotment of equity securities for cash and/or sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities:

        (i) to ordinary shareholders in proportion (as nearly as practicable) (to their respective existing holdings of ordinary shares held by them on the relevant record date); and

        (ii) to holders of other equity securities, as required by the rights attaching to those securities, or if the directors otherwise consider it necessary as permitted by the rights attaching to those securities,

        but so long as the directors may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter whatsoever; and

    (b) the allotment of equity securities for cash and/or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £89,045,834.11 before the Reduction of Capital (defined below) has become effective and £24,584.71 thereafter (being approximately 2,458,471 ordinary shares, which represent approximately 5% of the Company's expected issued ordinary share capital following the exercise of the authorities granted resolutions 2 and 3 above),

    such authority to expire at the conclusion of the Company's next annual general meeting ("**AGM**") in 2019 or, if earlier, at the close of business on 23 June 2019, being 15 months after the date of the forthcoming AGM), save that in each case, prior to its expiry, the Company may make an offer, and/or enter into an agreement, which would, or might, require equity securities to be allotted (and/or treasury shares to be sold) after this authority expires and the directors may allot equity securities (and/or sell treasury shares) under any such offer or agreement as if the authority given by this resolution had not expired.

11. subject to the passing of resolution 5 above, the directors be generally empowered, in addition to any authority granted under resolution 5, pursuant to sections 570 and 573 of CA 2006 to allot equity securities (within the meaning of section 560(1) of CA 2006) for cash pursuant to the authority conferred by resolution 5, and/or to sell treasury shares, as if section 561 of CA 2006 did not apply to any such allotment or sale provided that the power conferred by this resolution shall be:

(a) limited to the allotment of equity securities for cash and/or sale of treasury shares, up to a nominal amount not exceeding in aggregate £89,045,834.11 before the Reduction of Capital (defined below) has become effective and £24,584.71 thereafter (representing 2,458,471 ordinary shares, which represents approximately 5% of the Company's expected issued ordinary share capital following the exercise of the authorities granted by resolutions 2 and 3 above); and

(b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

provided that the powers conferred by this resolution 11 will expire at the Company's next AGM (or at close of business on 23 June 2019, if earlier) save that, in each case, the Company may before the expiry of such powers make an offer or agreement which would or might require equity securities to be allotted and/or treasury shares to be sold after such authority expires and the directors may allot equity securities and/or sell treasury shares in pursuance of such offer or agreement as if the powers conferred by this resolution 11 had not expired.

12. conditional on and with effect from the Scheme becoming effective in accordance with its terms, the share capital of the Company be reduced by:

(i) cancelling and extinguishing paid-up capital on each of the Company shares in issue immediately prior to the confirmation by the court of the capital reduction to the extent that the amount paid up on each such Company share immediately following such cancellation shall be £0.01; and

(ii) reducing the nominal value of each of the shares to £0.01;

and in respect of the paid up capital cancelled pursuant to paragraph (i) above:

(A) part thereof be repaid, which repayment shall be satisfied by the transfer by the Company to Georgia Capital PLC of the entire issued share capital of JSC Georgia Capital Group, in consideration of the allotment and issue by Georgia Capital PLC of 1 Georgia Capital share credited as fully paid for every 1 share held by the Company shareholders at the time the Demerger becomes effective; and

(B) the balance (if any) thereof be retained by the Company and transferred to the reserves of the Company to be available for future distributions by the Company from time to time or applied by the Company from time to time toward any other lawful purpose to which such reserves may be applied;

(iii) cancelling the Class C Shares in issue (if any) immediately prior to the confirmation by the court of the capital reduction issued and allotted pursuant to the authority conferred by resolution 5 without payment of any amount in respect thereof to the holders of such Class C Shares,

(i) to (iii) being the "**Reduction of Capital**".

13. conditional on and with effect from the Scheme becoming effective, pursuant to the Company's articles of association, the Company be generally and unconditionally authorised for the purpose of section 701 of the CA 2006 to make market purchases (as defined in section 693 of the CA 2006) of Company's shares, on such terms and in such manner as the directors of the Company may from time to time determine, and where such shares are held as treasury shares, the Company may use them for the purposes of its employee share schemes, provided that:

(i) the maximum number of shares which may be purchased is 4,916,943 (representing approximately 10% of the Company's expected issued ordinary share capital following the exercise of the authorities granted by resolutions 2 and 3, being 49,169,431);

(ii) the minimum price (exclusive of expenses) which may be paid for each ordinary share is £0.01;

(iii) the maximum price (exclusive of expenses) which may be paid for each share is the higher of:

(A) 105 per cent. of the average of the middle-market price of an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased; and

(B) an amount equal to the higher of the price of the last independent trade of shares and the highest current independent purchase bid for an ordinary share as derived from the London Stock Exchange Trading System at the time the purchase is carried out,

such authority to expire (unless varied, revoked or removed prior to such time) at the conclusion of Company's AGM in 2019 or, if earlier, at the close of business on 23 June 2019, being 15 months after the date of the resolution save that the Company may before the expiry of this authority make a contract to purchase ordinary shares which will or might be expected wholly, or partly, after the expiry of this authority and may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred by this resolution had not expired.

Bank of Georgia Group PLC share capital

At the date of this Prospectus, the issued and fully paid share capital of the Company is as follows:

	(unaudited)	
Class of share	**Number of shares in issue**	**Total nominal value**
Shares with a par value of £1.00	2	£2.00
Redeemable Deferred Shares with a par value of £1.00	49,999	£49,999

Pursuant to the Scheme, the Company will issue the Shares, credited as fully paid, to BGEO Group PLC Shareholders on the basis of 1 Share for every 1 BGEO Group PLC Share held at the Scheme Record Time. Accordingly, the issued and fully paid share capital of the Company, following Admission (before the Bank of Georgia Group PLC Capital Reduction becomes effective pursuant to the Demerger), is expected to be as follows (on the assumption that no new BGEO Group PLC or the Shares will be issued between the date of this Prospectus and the Scheme Effective Time):

	(unaudited)	
Class of share	**Number of shares in issue**	**Total nominal value[(1)]**
Ordinary	39,384,714	£1,426,514,341
Redeemable Deferred	49,999	£ 49,999

(1) Indicative only.

Pursuant to the Demerger, the share capital of the Company will be reduced and Georgia Capital PLC will issue Georgia Capital PLC Shares, credited as fully paid, to the holders of the Shares in consideration for the transfer to Georgia Capital PLC of the Investment Business.

As at the date of this Prospectus, BGEO Group PLC does not hold any BGEO Group PLC Shares in treasury. As at the date of this Prospectus, the Company does not hold any Shares in treasury.

In the event that a merger reserve is created in connection with the Scheme, the Class C Shares resulting from the capitalisation of that merger reserve shall be allotted *pro rata* to holders of Shares (or, if the Company so determines, to such person as the Company may procure as nominee for such holders) and are to be cancelled shortly thereafter pursuant to the Reduction of Capital. The sole purpose of the Class C Shares is to enable the capitalisation of the merger reserve, and they will not be listed nor do they carry any voting or dividend rights.

No commissions, discounts, brokerages or other special terms have been granted in respect of the issue of any share capital of Bank of Georgia Group PLC. The Company will be subject to the continuing obligations of the FCA and UK company law with regard to the issue of shares for cash. The provisions of section 561(1) of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Companies Act) apply to the issue of shares in the capital of the Company except to the extent such provisions have been disapplied.

Application will be made to the UK Listing Authority and the London Stock Exchange for up to 49,169,428 Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's market for listed securities, respectively. As at the date of this Prospectus, no Shares are admitted to trading on a regulated market. If the Scheme proceeds as currently envisaged, it is expected that Admission will become effective, and that dealings in the Shares will commence on the London Stock Exchange, at 8.00 a.m. (London time) on 21 May 2018. The Shares have not been marketed to, and are not available in whole or in part for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the Shares to the premium listing segment of the Official List. No application has been or is currently intended to be made for the Shares to be admitted to listing elsewhere or dealt in on any other exchange.

The Shares are in registered form and capable of being held in certificated or uncertificated form. Application has been made to Euroclear for the Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. The International Securities Identification Number (ISIN) for the Shares is GB00BF4HYU85. The rights attaching to the Shares are set out in paragraph 4 below.

4. Articles of Association

The following summary description of the Company's share capital and corporate structure is based on, and qualified by reference to, the Articles. This summary does not purport to give a complete overview and should be read in conjunction with the Articles, the Companies Act and regulations made thereunder, and the relevant provisions of English law, and should not be considered legal advice regarding these matters. This summary is subject to the provisions of the Companies Act, so far as they apply to or affect the Company.

The Articles contain, among others, provisions to the following effect:

Voting Rights

Subject to any special rights or restrictions as regards voting for the time being attached to any class of the Shares and certain other provisions of the Articles, on a show of hands, every Shareholder present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote, and on a poll every Shareholder present in person or by proxy shall have one vote for each Share of which he or she is the holder.

In the case of joint holders, unless such joint holders shall have chosen one of their number to represent them and have so notified the Company in writing, the vote of the most senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names of the holders stand in the register.

Unless the Directors otherwise decide, no Shareholder shall be entitled to vote at any general meeting, unless all calls or other sums presently payable by him or her in respect of any Shares, of which he or she is holder or one of the joint holders, have been paid.

Proportional voting mechanism

The proportional voting mechanism will operate in respect of all votes at general meetings of the Company other than in relation to Excluded Resolutions (defined below), as follows:

(a) on a resolution proposed to a general meeting, all Shareholders su(other than Georgia Capital PLC and its Concert Parties) will be entitled to vote their shares in the Company at their discretion on a poll vote (each an "**Initial Vote**"); and

(b) following the closing of the Initial Vote(s), the poll will as soon as possible thereafter reopen for the sole purpose of enabling the Proportional Voting Shares to be voted in each case proportionally (calculated to two decimal places) in accordance with the votes cast on each resolution on an Initial Vote (the "**Proportional Voting Mechanism**").

Irrespective of the percentage of Shares voted on any Initial Vote, all of the Proportional Voting Shares will be voted in accordance with the Proportional Voting Mechanism. Under the terms of the Demerger Agreement while there are any Proportional Voting Shares:

(a) each of BGEO Group PLC, the Company and Georgia Capital PLC has agreed that for as long as there Proportional Voting Shares they will use all reasonable endeavours to procure (so far as they are reasonably able) that the Proportional Voting Shares are voted in general meetings of the Company in accordance with the Proportional Voting Mechanism;

(b) the Company has agreed it will conduct all shareholder votes on a poll at a general meetings and the poll will be taken in accordance with the Proportional Voting Mechanism set out in the Articles; and

(c) Georgia Capital PLC has agreed that it, and its Concert Parties, will:

  (i) vote the Proportional Voting Shares in general meetings of the Company in accordance with the Proportional Voting Mechanism; and

  (ii) notify the Company of any acquisition or disposal of the Shares by them irrespective of whether any such acquisition or disposal would trigger a public disclosure obligation for them.

The requirement for Georgia Capital PLC and its Concert Parties to vote the Proportional Voting Shares in general meetings of the Company in accordance with the Proportional Voting Mechanism, will only apply for so long as the aggregate shareholding of Georgia Capital PLC and its Concert Parties in the Company is greater than the Floor. If, for any reason whatsoever, their aggregate shareholding falls to or below the Floor, their shareholding will cease to constitute Proportional Voting Shares, the Proportional Voting Mechanism will cease to apply, and Georgia Capital PLC and its Concert Parties will be entitled to vote their shares at their discretion at a general meeting of the Company.

Excluded Resolutions

Shareholders should note that the requirement to vote the Proportional Voting Shares in general meetings of the Company in accordance with the Proportional Voting Mechanism will not apply where Georgia Capital PLC and its Concert Parties would themselves be prohibited from voting on the relevant resolution (an "**Excluded Resolution**") under applicable law or regulation, in which case the Proportional Voting Shares will not be voted at all. For example Georgia Capital PLC will be a related party of the Company on Admission under Listing Rule 11. If the Company and Georgia Capital PLC were to enter into any agreement which would be a related party transaction, and which required a shareholder vote in accordance with LR11.1.7(3), Georgia Capital PLC and its Concert Parties would be prohibited from voting their shares on the relevant resolution by virtue of LR11.1.7(4), the Proportional Voting Mechanism would not apply, and, the Proportional Voting Shares would not be voted on that resolution. In addition to Excluded Resolutions, the Proportional Voting Mechanism will not apply in respect of votes on a takeover offer for the Company implemented by Scheme of Arrangement. In addition to Excluded Resolutions, the Proportional Voting Mechanism will not apply on any vote of Shareholders at a Court Meeting for a takeover offer implemented by way of a Scheme of Arrangement.

Dividends

The Company may by ordinary resolution declare dividends, but no such dividend shall exceed the amount recommended by the Directors. The Directors may pay fixed and interim dividends as appears to be justified by the profits of the Company available for distribution. If the Directors act in good faith, the Directors shall not incur any liability to Shareholders for any loss they may suffer by the lawful payment on any other class of the Shares having no preferred or deferred rights of any such fixed or interim dividend.

The Directors may, with the prior authority of an ordinary resolution of the Company, direct payment of a dividend in whole or in part in specie and the Directors shall give effect to such resolution. No dividend or other monies payable in respect of a share in Bank of Georgia Group PLC shall bear interest against the Company unless interest is provided by the rights attached to those shares.

The Directors may deduct from any dividend or other moneys payable to a Shareholder, on or, in respect of such Shares all sums of money (if any) presently payable by the holder to the Company on account of calls or otherwise in relation to such shares.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Any dividend unclaimed after a period of twelve years from the date on which such dividend was declared or became due for payment shall be forfeited and revert to the Company.

The Directors may, if authorised by an ordinary resolution of the Company, offer those holders of a particular class of the Shares that have elected to receive them further Shares of that class or Shares by way of scrip dividend instead of cash.

The Directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made.

Capitalisation of Reserves

The Directors may, with the authority of an ordinary resolution of the Company: (i) resolve to capitalise any sum standing to the credit of any reserve account of the Company (including share premium account, capital redemption reserve, merger reserve and profit and loss account) or any sum standing to the credit of profit and loss account (whether or not it is available for distribution); and (ii) appropriate that sum as capital to Shareholders in proportion to the nominal amount of share capital held by them respectively and apply that sum on their behalf in paying up in full any unissued shares or debentures of the Company of a nominal amount equal to that sum and allot shares or debentures credited as fully paid to those Shareholders, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued the Shares held by them respectively, or otherwise deal with such sum as directed by the resolution.

Bank of Georgia Group PLC Shares

Subject to any relevant authority given by the Company in a general meeting, the Directors may exercise any power of the Company to allot the Shares, or to grant rights to subscribe for or to convert any security into the Shares, to such persons, at such times and on such terms as the Directors may decide.

Subject to any rights attached to any existing shares, any share in the Company may be allotted or issued with, or have attached to it, such rights or restrictions as the Company may by ordinary resolution determine, or, subject to and in default of such determination, as the Directors may determine.

Subject to any rights attached to any existing shares, the Shares may be issued which are to be redeemed or are liable to be redeemed at the option of the Company or the holder, and the Directors may determine the terms, conditions and manner of redemption of any redeemable Shares so issued.

The Company may exercise all the powers conferred or permitted by the provisions of the Companies Act and regulations made thereunder of paying commission or brokerage. Subject to the provisions of the Companies Act, any such commission or brokerage may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or other securities or by the grant of an option to call for such an allotment or by any combination of such methods as the Directors think fit.

Variation of Rights

The rights attached to a class of the Shares may be varied or abrogated either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued Shares of that class (excluding any share in the Company of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the issued Shares of that class validly held in accordance with the relevant provisions of the Articles.

The rights attached to a class of the Shares are not, unless otherwise expressly provided for in the rights attaching to those Shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company its own shares in accordance with the provisions of the Companies Act.

Interests in the Shares/Failure to disclose interests in the Shares

Where notice is served by the Company under section 793 of the Companies Act (a "**section 793 notice**") on a Shareholder, or another person appearing to be interested in Shares held by that Shareholder, and the Shareholder or other person has failed in relation to any Shares (the "**default**

shares''), to give the Company the information required within 14 days from the date of service of the section 793 notice, the following sanctions apply, unless the Directors otherwise decide:

(a) The Shareholder shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of the Shares or on a poll; and

(b) where the default shares represent at least 0.25% in nominal value of the issued Shares of their class (excluding any share in Bank of Georgia Group PLC of their class held as treasury shares):

  (i) a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it, and the Shareholder shall not be entitled to elect, pursuant to the Articles, to receive the Shares instead of a dividend; and

  (ii) no transfer of any certificated default shares shall be registered, unless the transfer is an excepted transfer, or the Shareholder is not himself or herself in default in supplying the information required; and the Shareholder proves to the satisfaction of the Directors that no person in default in supplying the information required is interested in any of the Shares that are the subject of the transfer.

Ownership Restrictions and Related Reporting Obligations

Each Shareholder acknowledges that the Company may from time to time directly or indirectly hold interests in shares or otherwise have the direct or indirect ability to exercise voting rights in any subsidiary undertaking of the Company from time to time, which is licensed and/or supervised by a regulatory authority (a **"regulated group company"**) and that such holding or ability to exercise voting rights may impose regulatory requirements on the Shareholder or any other person (as a person indirectly interested in such a regulated group company).

No person may directly or indirectly acquire (through a transaction or series of transactions), hold and/or otherwise have the direct or indirect ability to exercise voting rights in respect of interests in the Shares, which would result in such person directly or indirectly, alone or together with any of its related person(s), having a direct or indirect interest in shares of or ability to exercise voting rights over at least 10 per cent., 25 per cent. or 50 per cent. (or such other percentages as a regulatory authority may determine from time to time) in any regulated group company (a **"significant interest"**) without the prior satisfaction of, or timely compliance with, all regulatory requirements. If a person acquires or otherwise holds a significant interest he or she shall be required to:

(a) disclose to the Company the identity of the ultimate beneficial owner(s) of such significant interest; and

(b) certify to the Company that such person(s) (or such ultimate beneficial owner(s)) has/ have complied with all regulatory requirements in respect of the acquisition and/or holding (as applicable) of such significant interest.

If the Company knows or has reasonable cause to believe that a person has failed to comply with the above requirements and the Company determines (based on a notification by a regulatory authority or on legal advice) that such failure has, will or may cause the Company and/or any of its subsidiaries to be unable to exercise, directly or indirectly, voting rights in any regulated group company and/or a regulatory authority has, will or may impose any material penalties on the Company and/or any of its subsidiaries and/or any regulated group company, the Company shall forthwith either:

(c) send a notice (a **"default notice"**) to the person(s) requiring such person(s), to disclose within 30 days of the date of the default notice the identity of the ultimate beneficial owner(s) of any significant interest held by him and/or any of his related persons and certify that all regulatory requirements in respect of the relevant holding have been satisfied; or

(d) send a notice (a **"disenfranchisement notice"**) to the relevant Shareholder informing him/ them that in respect of such part of his/ their holding of interests in the Shares (including, for the avoidance of doubt, any interests in the Shares allotted or issued after the date of the disenfranchisement notice in respect of that holding) he/ they shall not be entitled to vote (either in person or by proxy) that holding at a general meeting or at a separate meeting of the holders of a class of shares or on a poll until 7 days after the earlier of: (i) any holding subject to a default notice is transferred pursuant to an excepted transfer (as defined in Article 66 of the Articles); or (ii) the Company is reasonably satisfied that the above provisions have been complied with.

Where a default notice is served by the Company and the Shareholder, or other person, fails to give the Company the required disclosures and certifications in an acceptable form within 30 days of the date of the default notice and the Company determines (based on a notification by a regulatory authority or on legal advice) that such failure has, will or may cause the Company and/or any of its subsidiaries to be unable to exercise, directly or indirectly, voting rights in any regulated group company and/or a regulatory authority has, will or may impose any material penalties on the Company and/or any of its subsidiaries and/or any regulated group company, the Company shall forthwith send a disenfranchisement notice to the relevant member(s).

For the purpose of enforcing these sanctions, the Company may give notice to a Shareholder requiring the Shareholder to convert the shares subject to a disenfranchisement notice held in uncertificated form to certificated form by the time stated in the notice. For the purposes of these provisions in the Articles:

"**regulatory authority**" means the relevant regulator in relation to a regulatory requirement being, at the date of adoption of the Articles, the National Bank of Georgia and/or the National Bank of the Republic of Belarus (or, in either case, any successor body(ies) thereto or other entity with the authority to regulate the relevant regulatory requirement); and

"**regulatory requirement**" means a requirement pursuant to the Law of Georgia on Activities of Commercial Banks, the Law of Georgia on the Securities Market, the Law of Georgia on Insurance, the Banking Code of the Republic of Belarus or rules, orders, normative acts or regulations adopted pursuant thereto (in each case as amended from time to time) to notify, seek the approval of or otherwise comply with any requirement of a regulatory authority in relation to the acquisition or holding of a significant interest.

Transfer of the Shares

A Shareholder may transfer all or any of his or her certificated Shares by instrument of transfer in writing in any usual form or in any other form approved by the Directors, and the instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a Share in the Company which is not fully paid) by or on behalf of the transferee. A Shareholder may transfer all or any of his or her uncertificated Shares in accordance with the Uncertificated Securities Regulations 2001 (the **"Regulations"**). Subject to the provisions of the Regulations, the transferor of a Share is deemed to remain the Shareholder until the name of the transferee is entered in the register in respect of it. The Directors may, in their absolute discretion, refuse to register the transfer of a certificated Share unless all of the following conditions are satisfied:

(a) it is in respect of only one class of the Shares;

(b) it is in favour of (as the case may be) a single transferee or not more than four joint transferees;

(c) it is duly stamped (if required); and

(d) it is delivered for registration to the office or such other place as the Directors may decide, accompanied by the certificate for the Shares to which it relates and such other evidence as the Directors may reasonably require to prove the right of the transferor to make the transfer.

If the Directors refuse to register the transfer of a certificated Share they shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal, together with their reasons for the refusal, to the transferee. An instrument of transfer which the Directors refuse to register shall (except in the case of suspected fraud) be returned to the person depositing it. the Company may retain all instruments of transfer which are registered, but any instrument of transfer of any Share in the Company which the Directors refuse to register shall (except in the case of suspected fraud) be returned to the person lodging it when notice of the refusal is given.

Subject to the provisions of the Regulations, the Directors have the power to resolve that a class of the Shares shall become a participating security and/or that a class of shares shall cease to be a participating security. Uncertificated Shares of a class are not to be regarded as forming a separate class from certificated Shares of that class. A Shareholder may, in accordance with the Regulations, change a Share of a class which is a participating security from a certificated Share to an uncertificated Share and from an uncertificated Share to a certificated Share. In accordance with and subject to the provisions of the Regulations, a transfer of title to any uncertificated Share shall be registered unless the Regulations permit a transfer to be refused. If the transfer of an uncertificated Share is refused within the time period stipulated by the Regulations, notice of the refusal shall be sent to the transferee. The Company (in its absolute discretion) may or may not charge a fee for registering the transfer of a Share or other document or instructions relating to or affecting the title to a Share or the right to transfer it or for making any other entry in the register.

Lien and Forfeiture

The Company has a first and paramount lien on all partly paid Shares for an amount payable in respect of the Share, whether the due date for payment has arrived or not. The lien applies to all dividends from time to time declared, or other amounts payable in respect of the Share.

The Directors may either generally or, in a particular case, declare a Share to be wholly or partly exempt from a lien. Unless otherwise agreed with the transferee, the registration of a transfer of a Share in the Company operates as a waiver of the Company's lien (if any) on that Share. For the purpose of enforcing the lien referred to in the Articles, the Directors may sell all or any of the Shares subject to the lien at such time or times and in such manner as it may decide provided that:

(a) the due date for payment of the relevant amounts has arrived; and

(b) the Directors have served a written notice on the Shareholder concerned stating the amounts due, demanding payment thereof and giving notice that if payment has not been made within 14 clear days after the service of the notice that the Company intends to sell the Shares.

To give effect to a sale, the Directors may authorise a person to transfer the Shares in the name and on behalf of the holder, or to cause the transfer of such Shares, to the purchaser or his or her nominee. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by an irregularity in or invalidity of the proceedings connected with the sale. The net proceeds of a sale effected under the Articles, after payment of the Company's costs of the sale, shall be applied in or towards satisfaction of the amount in respect of which the lien exists. The balance (if any) shall be paid to the Shareholder immediately before the sale.

General Meetings

An annual general meeting shall be held within each period of six months beginning with the day following the Company's accounting reference date, at such place or places within the United Kingdom, and at such date and time as may be decided by the Directors.

The Directors may, whenever they think fit, call a general meeting. The Directors are also required to call a general meeting once the Company has received requests from Shareholders representing at least 5% of the paid-up capital of the Company (disregarding any treasury shares) to do so in accordance with the Companies Act and regulations made thereunder. The Directors must call a general meeting with 21 days of receiving a valid request from Shareholders and provide for the general meeting to be held on a date not more than 28 days after the date of the notice of meeting. Where the Shareholders request for a general meeting identified a resolution intended to be moved at the meeting, the notice of meeting must include notice of this resolution.

An annual general meeting shall be called by not less than 21 clear days' notice and all other general meetings shall be called by not less than 14 clear days' notice.

The Directors may determine that persons entitled to receive notices of meeting are those persons entered on the register at the close of business on a day determined by the Directors, provided that, if Bank of Georgia Group PLC is a participating issuer, the day determined by the Directors may not be more than 21 days before the day that the relevant notice of meeting is being given. The notice of meeting must also specify a time (which shall not be more than 48 hours before the time for the holding of the meeting) by which a person must be entered on the register in order to have the right to attend or vote at the meeting. No business may be transacted at a general meeting unless a quorum is present. The quorum for a general meeting is two Shareholders present in person or by proxy and entitled to vote.

The Articles allow for general meetings to be jointly held electronically as well as physically in accordance with the Companies (Shareholders' Rights Regulation) 2009 and the Companies Act. Meetings may be held and conducted in such a way that persons who are not present at the physical meeting together at the same place may also attend, speak and vote at the meeting by electronic means. Nothing in the Articles precludes physical meetings being held.

Appointment of the Directors

The number of the Directors must not be less than two and must not be more than fifteen unless otherwise decided by the Company by ordinary resolution. The Directors may appoint a person who is willing to act as a director, either to fill a vacancy or as an addition to the existing number of Directors. The Company may by ordinary resolution appoint any person to office as a Director.

Subject to the provisions of the Companies Act and regulations made thereunder, the Directors may appoint one or more of their body to hold an executive office with the Company for such term and on such other terms and conditions as the Directors think fit. The Directors may revoke or terminate an appointment at any time, without prejudice to a claim for damages for breach of the contract of service between the Director and Bank of Georgia Group PLC or otherwise. No person other than a Director retiring (by rotation or otherwise) may be appointed or reappointed at a general meeting unless:

(a) he or she is recommended by the Directors; or

(b) not less than seven nor more than 42 days before the date fixed for the meeting, notice has been given to the Company by a Shareholder (other than the person to be proposed) qualified to vote at the meeting of the intention to propose that person for appointment or reappointment.

Election, Re-election, Removal and Retirement of Directors

A Director is not required to hold any Shares.

The Company may, by ordinary resolution of which special notice is given in accordance with the Companies Act and regulations made thereunder, remove any Director before the expiration of his or her period of office in accordance with the Companies Act, and elect another person in place of a Director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between the Company and such Director, but is without prejudice to any claim the Director may have for damages for breach of any such agreement.

Subject to the Articles, at each annual general meeting not less than one-third of the Directors who are subject to retirement by rotation shall retire from office provided that if there are fewer than three directors who are subject to retirement by rotation, at least one shall retire from office.

If any one or more of the Directors were last appointed or reappointed three years or more prior to the meeting, were last appointed or reappointed at the third immediately preceding annual general meeting, or at the time of the meeting will have served more than eight years as a non-executive director of the Company (excluding as the chairman of the Directors), he or she or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of directors required to retire shall be increased to the extent necessary to comply with the Articles.

Subject to the provisions of the Articles, the Directors shall retire by rotation at an annual general meeting include, so far as necessary to obtain the number required, first, a Director who wishes to retire and not offer himself or herself for reappointment, and, second, those Directors who have been longest in office since their last appointment or reappointment.

A Director who retires at an annual general meeting (whether by rotation or otherwise) may, if willing to act, be reappointed. If he or she is not reappointed or deemed reappointed, he or she may retain office until the meeting appoints someone in his or her place or, if it does not do so, until the end of the meeting.

Powers of the Board

Subject to the Articles and to directions given by special resolution, the business and affairs of the Company shall be managed by the Directors who may exercise all the powers of whether relating to the management of the business or not. No alteration of the Articles and no direction given by the Company shall invalidate a prior act of the Directors which would have been valid if the alteration had not been made or the direction had not been given. The provisions of the Articles giving specific powers to the Directors do not limit the general powers given to the Directors.

The Board may delegate to one of the Directors holding executive office any of their powers, authorities and discretions for such time and on such terms and conditions as they think fit. In particular, without limitation, the Board may grant the power to sub-delegate, and may retain or exclude the right of the Board to exercise the delegated powers, authorities or discretions collaterally with the Director. The Board may at any time revoke the delegation or alter such terms and conditions. The Board may delegate any of their powers, authorities and discretions, for such time and on such terms and conditions as they think fit, to a committee, the majority of which consists of the Directors.

The Board may establish any local or divisional boards or agencies for managing any of the affairs of the Company in any specified locality, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such local or divisional board, or any managers or agents, and may fix their remuneration. The Company Board may delegate to any local or divisional board, manager or agent so appointed any of their powers, authorities and discretions (with power to sub-delegate) and may authorise any persons to be members for the time being of any such local or divisional board, or any of them, to fill any vacancies and to act notwithstanding vacancies; and any such appointment or delegation may be made for such time, on such terms and subject to such conditions as the Company Board may think fit.

The Board may by power of attorney or otherwise appoint a person to be the agent of the Company and may delegate to that person any of its powers, authorities and discretions for such purposes, for such time and on such terms and conditions as they think fit.

Proceedings of the Directors

Subject to the Articles, the Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as they think fit. The quorum necessary for the transaction of business may be decided by the Board and until otherwise decided is two Directors present in person or by alternate Director.

The Board may appoint one of their body as chairman to preside at every board meeting at which he or she is present and one or more deputy chairman or chairmen and decide the period for which he or she is or they are to hold office (and may at any time remove him or her or them from office). If no chairman or deputy chairman or chairmen is elected, or if at a meeting neither the chairman nor a deputy chairman or chairmen is present within five minutes of the time fixed for the start of the meeting, the Directors and alternate Directors present shall choose one of their number to be chairman. In case of an equality of votes at a meeting the chairman has a second or casting vote.

Directors' Remuneration

The Directors' fees are determined by the Directors from time to time except that they 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 Bank of Georgia Group PLC. The Board may arrange for part of such fee payable to a Director to be provided in the form of fully-paid Shares.

The salary or other remuneration of a Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Directors, and may be in addition to or instead of a fee payable to him or her for his or her services as Director pursuant to the Articles.

Directors' Indemnification

Subject to the provisions of the Companies Act and provisions made thereunder, the Company may:

(a) indemnify to any extent any person who is or was a director, or a director of any associated company, directly or indirectly (including by funding any expenditure incurred or to be incurred by him or her) against any loss or liability, whether in connection with any negligence, default, breach of duty or breach of trust by him or her or otherwise, in relation to the Company or any associated company;

(b) indemnify to any extent any person who is or was a director of an associated company that is a trustee of an occupational pension scheme, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any liability incurred by him or her in connection with the Company's activities as trustee of an occupational pension scheme.

    Where a person is indemnified against any liability in accordance with the Articles, such indemnity may extend to all costs, charges, losses, expenses and liabilities incurred by him or her in relation thereto.

Directors' Interests

A Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a holder of such company shares or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him or her as a director or officer of or from his or her interests in such other company unless the Company otherwise directs.

A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by a subsidiary of the Company which conflicts with the interests of the Company and of which he or she has actual knowledge shall disclose to Bank of Georgia Group PLC (by notice to the Directors) the nature and extent of his or her interest. Subject thereto and the provisions of the Companies Act and regulations made thereunder, any such Director shall not be liable to account to the Company for any profit or gain realised by him or her on such transactions.

A notice in writing given to the Company by a Director that he or she is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his or her interest in any such transaction entered into after the notice is given. Subject to the Articles, a Director may not vote in respect of certain transactions and if he or she does so vote his or her vote shall not be counted and he or she shall not be capable of being counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration.

Subject to the provisions of the Companies Act and regulations made thereunder, a Director may act by himself or herself or his or her firm in a professional capacity for the Company and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a Director.

Restrictions on Voting

Except as provided below, a Director may not vote in respect of any contract, arrangement or any other proposal in which he or she, or a person connected to him or her, is interested. Any vote of a Director in respect of a matter where he or she is not entitled to vote shall be disregarded.

A Director is entitled to vote and be counted in the quorum in respect of any resolution concerning, *inter alia*, any contract, transaction or arrangement, or any other proposal:

(a) in which he or she has an interest, of which he or she is not aware, or which cannot be reasonably be regarded as likely to give rise to a conflict of interest;

(e) in which he or she has an interest only by virtue of interests in shares, debentures or other securities or otherwise in or through the Company;

(f) which involves the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he/himself or she/herself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(g) concerning an offer of securities by the Company or any of its subsidiary undertakings in which he or she is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter;

(h) concerning any other body corporate in which he or she is interested, provided that he or she and any connected persons do not own or have a beneficial interest in 1%, or more of any class of the equity share capital or the voting rights of such body corporate;

(i) relating to an arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not award him or her any privilege or benefit not generally awarded to the employees to whom such arrangement relates;

(j) concerning the purchase or maintenance of insurance policy for the benefit of the Directors;

(k) concerning the giving of indemnities in favour of the Directors;

(l) concerning the funding of expenditure by any Director or Directors (A) on defending criminal, civil or regulatory proceedings or actions against him, her or them, (B) in connection with an application to the court for relief, (C) on defending him, her or them in any regulator investigations, or (D) incurred doing anything to enable him, her or them to avoid incurring such expenditure; or

(m) in respect of which his or her interest, or the interest of the Directors generally, has been authorised by ordinary resolution at a general meeting of the Shareholders.

Borrowing Powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Service of Notices, Documents and Information on the Shareholders

Any notice, document or information may be given, sent or supplied by the Company to any Shareholder: (i) personally; (ii) by sending it by post in a pre-paid envelope addressed to the Shareholder at his registered address or to the UK address that the Shareholder has provided to the Company; (iii) by sending it in electronic form to the electronic address specified for the purpose by the Shareholder (generally or specifically), provided that the Shareholder has agreed (generally or specifically) that the notice, document or information may be sent or supplied in that form (and has not revoked that agreement); or (iv) subject to the provisions of the Companies Act, by making it available on a website and notifying the Shareholder that the notice, document or information is available on that website, provided that certain conditions have been satisfied, including that the Shareholder has been asked by the Company to agree to the Company sending notices, documents and information by making them available on a website and has either agreed (generally or specifically) or has not responded to the Company's request.

Winding Up

On a voluntary winding up of the Company the liquidator may, on obtaining any sanction required by law, divide among the Shareholders (excluding any Shareholder holding Shares as treasury shares) in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the Shareholders as he or she, with the like sanction, shall determine. For this purpose, the liquidator may set the value he or she deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of the Shareholders how the division is to be carried out between the Shareholders or classes of the Shareholders. The liquidator may not, however, distribute to a Shareholder without his or her consent an asset to which there is attached a liability or potential liability for the owner.

6. Summary of differences between BGEO Group PLC and Bank of Georgia Group PLC Articles

Articles will substantially identical to BGEO Group PLC Articles with the exception of:

- the Articles will permit the Directors to call general meetings either as physical only general meetings or as combined electronic and physical general meetings. A combined electronic and physical general meeting will allow for general meetings to be held and conducted in such a way that persons not present together could participate and vote in the general meeting using electronic means. If a combined physical and electronic meeting was to be called by the Directors, this would be explained in the notice of meeting;
- a provision will be included in the Articles which will enable the Directors to pay shareholders by cheque or assured payment obligation rather than allot and issue Shares to them (at the Scheme Effective Time only) where to issue a share to them would or could put Bank of Georgia Group PLC in breach of overseas securities laws;
- given the change in the interest rate environment since the BGEO Group PLC Articles were adopted, the interest rate due from shareholders when a call is made on shares or shares are forfeited will be reduced from 15 per cent. to a rate not exceeding the Bank of England base rate by 5 per cent.;
- the Articles will no longer enable Bank of Georgia Group to issue share warrants as the ability for UK Companies to issue bearer shares was abolished in 2015; and
- for information on the proportional voting mechanism, see "*Part XXIII (Additional Information)—Articles of Association*".

7. Major Shareholders

As at 22 March 2018 (being the latest practicable date prior to the publication of this Prospectus), insofar as it is known to Bank of Georgia Group PLC by reference to relevant notifications made in accordance with Rule 5.1 of the Disclosure Guidance and Transparency Rules, the name of each person, other than a Director, who holds voting rights representing 3 per cent. or more of the total voting rights in respect of BGEO Group PLC Shares, and the amount of such person's holding of the total voting rights in respect of the Shares following the Scheme becoming effective is expected to be as follows:

	(unaudited)		*(unaudited)*	
	Immediately prior to Scheme		**Immediately following Scheme**	
Name	**Number of BGEO Group PLC Shares**	**Percentage of BGEO Group PLC issued share capital beneficially owned (%)**	**Number of Bank of Georgia Group PLC Shares**	**Percentage of BGEO Group PLC issued share capital beneficially owned (%)**
Harding Loevner LP	3,320,410	8.43	3,320,410	8.43
Schroder Investment Management	1,956,588	4.97	1,956,588	4.97
Standard Life Aberdeen plc	1,944,825	4.94	1,944,825	4.94
Sanne Fiduciary Services	1,709,688	4.34	1,709,688	4.34
LGM Investments	1,384,669	3.52	1,384,669	3.52
Norges Bank Investment Management	1,220,508	3.10	1,220,508	3.10

Save as disclosed above, in so far as is known to the Directors, there is no other person who is or will be immediately following the Scheme, directly or indirectly interested in 3% or more of the issued share capital of the Group, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over us. The Directors have no knowledge of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company. None of the major shareholders of the Company has or will have different voting rights attached to the Shares they hold in the Company.

None of the shareholders referred to in this paragraph 5 has or will have different voting rights from any other holder of Shares in Bank of Georgia Group PLC in respect of any Shares held by them.

8. Outstanding awards over BGEO Group PLC Shares

The following table sets out the Directors' and the Senior Managers' direct and indirect shareholdings and stock options in the Shares as at 22 March (being the last practicable date prior to the date of this Prospectus) and their anticipated shareholdings and stock options in Bank of Georgia Group PLC following the Scheme Effective Date.

	Immediately prior to Scheme		**Immediately following Scheme**	
Director/Senior Manger	**Number of ordinary shares**	**Percentage of issued ordinary share capital**	**Number of ordinary shares**	**Percentage of issued ordinary share capital**
Neil Janin(1)	39,229	0.1%	39,229	0.1%
Kaha Kiknavelidze	115,370	0.29%	115,370	0.29%
Alasdair Breach(2)	24,000	0.06%	24,000	0.1%
Hanna Loikkanen	800	0%	800	0%
Tamaz Georgadze	0	0%	0	0%
Jonathan Muir	0	0%	0	0%
Cecil Quillen	0	0%	0	0%
Mikheil Gomarteli	182,033	0.46%	182,033	0.46%
George Chiladze	54,900	0.14%	54,900	0.14%
David Tsiklauri	85,013	0.21%	85,013	0.21%
Levan Kulijanishvili	80,000	0.2%	80,000	0.2%
Vasil Khodeli	105,259	0.27%	105,259	0.27%
Ramaz Kukuladze	37,750	0.1%	37,750	0.1%
Vakhtang Bobokhidze	8,135	0.02%	8,135	0.02%

(1) NeilCo Limited, a company wholly owned by Mr Janin, also holds 10,000 BGEO Group PLC shares and will own the same number of Shares immediately following the Scheme.

(2) Germsstock Fund, which Mr Breach manages, also holds 20,000 BGEO Group PLC shares and will own the same number of Shares immediately following the Scheme.

None of the Directors or any of the Senior Managers has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of BGEO Group PLC and which were effected by BGEO Group PLC or any subsidiary of BGEO Group PLC during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed as at the date of this Prospectus.

9. Directors' Terms of Employment

The Directors and their functions are set out in *Part XXII: ''Directors, Senior Management, Corporate Governance and Employees''*. The terms of their employment and/or appointment are summarised below.

10. Executive Director

The following table summarises the service agreement entered into with the Company's Executive Director:

Name	Position	Date of Company Service Contract	Employment Term	Company Base Salary	Guaranteed Company Securities
Kaha Kiknavelidze	CEO	7 September 2016	3 Years	U.S.$220,000	35000 Long term deferred Securities per annum

On 7 September 2016, the Bank entered into a service agreement with Kaha Kiknavelidze. The service agreement provides for Kaha Kiknavelidze to act as Chief Executive Officer (the ''**CEO**'') at a base salary of U.S.$ 220,000 per annum (paid in 24 instalments payable two times per month), plus 35,000 deferred salary shares per annum. The Bank will also reimburse the CEO for all reasonable business expenses properly incurred and paid by him. Neither party shall have the right to terminate the agreement prior to expiration of the employment term for any reason whatsoever, except for:

(n) termination by the Group for cause, which shall be on the basis of a written notice to the CEO and shall have immediate effect;

(o) termination by the Group without cause, which shall be on the basis of a written notice to the CEO and shall have immediate effect;

(p) termination by the CEO upon serving three months' prior written notice. Unless otherwise agreed with the Board, the CEO will resign only upon expiration of this three months' notice period. The service agreement contains non-compete and confidentiality provisions and is governed by English law.

11. Non-Executive Directors

The following table summarises the letters of appointment entered into with the non-executive directors:

	Current Position	Year appointed	Compensation from the Company(2)	Compensation from other PLC committees(2)	Compensation for JSC Bank of Georgia(2)(3)	Total Compensation from the Group(2)
Neil Janin(1)	Non-Executive Chairman	2018	$103,587	—	$210,313	$313,900
Hanna Loikkanen	Senior Independent Non-Executive Director	2018	$48,180	$19,272	$110,668	$178,120
Alasdair Breach	Independent Non-Executive Director	2018	$36,135	$25,842	$94,973	$156,950
Tamaz Georgadze	Independent Non-Executive Director	2018	$36,135	$37,575	$112,306	$186,016
Jonathan Muir	Independent Non-Executive Director	2018	$36,135	$29,346	$99,645	$165,126
Cecil Quillen	Independent Non-Executive Director	2018	$36,135	$25,842	$94,973	$156,950

(1) Neil Janin does not receive any compensation for his appointment to Committees, only receiving an aggregate flat fee.

(2) Compensation is in U.S. dollars and all figures are gross.

(3) Compensation for the Group roles is in U.S. dollars, all figures are gross and the figure for each director includes both their board salary and committee salary.

Pursuant to separate indemnity agreements, the Group has agreed, subject to certain terms and only to the extent not prohibited by law, to indemnify each of the Group's non-executive directors against all losses suffered or incurred by them which arise out of or in connection with their role as a director.

12. Senior Managers

The following table summarises the service agreements with the Group's Senior Managers.

Name	Position	Date of Group Service Contract	Employment Term	Group Base Salary	Guaranteed Company Securities
Kaha Kiknavelidze	CEO	7 September 2016	36 months	U.S.$220,000 per annum	35000 Long term deferred Securities per annum
Mikheil Gomarteli	Deputy CEO (Retail Banking- Express Banking and Brand Operations)	1 November 2016	30 months	U.S.$150,000 per annum	30 000 Long term deferred Securities per annum
George Chiladze	Deputy CEO (Chief Risk Officer)	1 January 2016	40 months	U.S.$150,000 per annum	18 000 Long term deferred Securities per annum
David Tsiklauri	Deputy CEO (Chief Financial Officer)	9 January 2017	36 months	U.S.$150,000 per annum	20 000 Long term deferred Securities per annum
Levan Kulijanishvili	Deputy CEO (Operations)	1 September 2015	36 months	U.S.$150,000 per annum	18,000 Long term deferred Securities per annum
Vasil Khodeli	Deputy CEO (Corporate Investment Banking)	16 October 2017	36 months	U.S.$150,000 per annum	18 000 Long term deferred Securities per annum
Ramaz Kukuladze	Deputy CEO (MSME and Premium Retail Business)	1 February 2017	36 months	U.S.$150,000 per annum	15 000 Long term deferred Securities per annum
Vakhtang Bobokhidze	Deputy CEO (Information Technologies)	23 March 2018	36 months	U.S.$ 150 000 per annum	18 000 Long term deferred Securities per annum

13. Directors and Senior Managers' Remuneration and Benefits

The aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Company, in respect of services provided by the Directors and Senior Managers for the year ended 31 December 2017 are set out in the table below.

	31 December 2017
	(GEL thousands)
Salaries and cash bonuses	7,493
Share-based compensation	32,220
Social Security Costs	82
Total key management compensation	**39,795**

There is no arrangement under which any of the Directors or Senior Managers have waived or agreed to waive benefits or allowances during the financial year immediately prior to the date of this Prospectus or any future benefits or involvements.

14. Loans to Directors and Senior Managers

Total amount of outstanding loans or guarantees granted or provided by the Bank to Directors and/or Senior Managers of the Company totalled GEL 867.5 thousands as at 31 December 2017.

15. Directors' and Senior Managers' Current and Past Directorships

Set out below are the directorships (unless otherwise stated) held by the Directors in the five years prior to the date of this Prospectus, excluding any directorships in Bank of Georgia Group PLC and its subsidiaries:

Name	Current or former directorships/partnerships	Position still held (Y/N)
Neil Janin	BGEO Group PLC	Y
	JSC Bank of Georgia	Y
	Georgia Healthcare Group PLC	Y
	JSC Bank of Georgia Healthcare Group PLC	Y
	IPOS SA	Y
	Neil Janin Limited	Y
Kaha Kiknavelidze	BGEO Group PLC	Y
	JSC BGEO Group	Y
	Rioni Capital Services Ltd	Y
	Rioni Capital Partners (Cayman) Ltd	Y
	Rioni Capital Partners LLP	Y
Alasdair Breach	BGEO Group PLC	Y
	JSC Bank of Georgia	Y
	Enoteca 1620	Y
	Gemsstock Limited	Y
	Gemstock Fund	Y
	The Browser.com	Y
	Furka Holdings AG	N
	Furka Property AG	Y
Tamaz Georgadze	BGEO Group PLC	Y
	Raisin GmbH	Y
	Georgadze Ventures GmBH	Y
Hanna Loikkanen	BGEO Group PLC	Y
	JSC Bank of Georgia	Y
	Locko Bank CJSC	Y
	Locko Invest CJSC	Y
	OnBoardSolution OY	Y
	IQ Payments Oy	Y
	PAO Rosbank	Y
	T&B Capital Ltd	N
Jonathan Muir	BGEO Group PLC	Y
	JSC Bank of Georgia	Y
	LetterOne Holdings SA	Y
	LetterOne Investment Holdings	Y
Cecil Quillen	Linklaters LLP	Y
	International Bar Association	Y
	European Advisory Committee, Practising Law Institute	Y
Levan Kulijanishvili	BGEO Group PLC	Y
	JSC Bank of Georgia	
Mikheil Gomarteli	JSC Bank of Georgia	Y
George Chiladze	JSC Bank of Georgia	Y
David Tsiklauri	JSC Bank of Georgia	
	TBC Bank	
	Deutsche Bank	N
Vasil Khodeli	JSC Bank of Georgia	
Ramaz Kukuladze	JSC Bank of Georgia	
Vakhtang Bobokhidze	Bank Republic	

None of the Senior Managers have held directorships in the five years prior to the date of this Prospectus, excluding any directorships in the Company and its subsidiaries.

Except as set forth below, within the period of five years preceding the date of this Prospectus, none of the Directors or Senior Managers:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

Save as set out in *Part XXII: "Directors, Senior Management and Corporate Governance—Conflicts of interest,"* as of the date of this Prospectus, none of the Directors or Senior Managers has any actual or potential conflict of interest between his or her duties to the Company and his or her private interest or other duties and there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management. Each of the Directors is permitted by his or her other directorships or employments to act in his or her capacity as a Director.

16. Employee Equity Compensation Plans

BGEO Group PLC currently operates the following share plans under which senior managers of BGEO Group PLC receive awards over BGEO Group PLC Shares ("**Awardholders**")—The Rubicon Executive Equity

Compensation Plan 2011

Under the Rubicon Plan, the trustees grant awards to employees (Compensation Plan 2011 (the "**Rubicon Plan**") and the Bank of Georgia Group Senior Executive Equity Compensation Plan (the "**Bank Plan**", together with the Rubicon Plan, the "**BGEO Group Share Plans**"). The principal features of the Share Plans are summarised below.

(A) The Rubicon Executive Equity in practice BGEO Group PLC has decided to limit this plan to senior executives), which to date have been in the form of nil-cost options over BGEO Group Shares. These awards vest over a period of time subject to continued employment with the BGEO Group PLC.

(B) The Bank of Georgia Group Senior Executive Equity Compensation Plan

Under the Bank Plan, the trustees grant awards to employees (in practice BGEO Group PLC has decided to limit this plan to senior managers), which to date have been in the form of nil-cost options over BGEO Group PLC Shares. These awards vest over a period of time subject to continued employment with the BGEO Group PLC.

(C) Effect of the Proposals on the existing awards under BGEO Group Share Plans

Letters are being sent to BGEO Group Awardholders to explain the effects of the Proposals on awards which they hold under the BGEO Group Share Plans. In summary, the effects are as follows:

- On the Demerger, existing awards (in the form of nil-cost options, for both deferred share salary and discretionary deferred shares) over BGEO Group PLC Shares will be converted into awards over Shares and Georgia Capital PLC Shares, so that for each BGEO Group PLC Share under an existing award, Awardholders will have an award over one Share and one Georgia Capital PLC Share. Awards over shares in the employees' future employing group will continue to vest and all other awards will vest immediately. For Awardholders who will be employed by the Group, this means that the awards over Shares will have the same vesting schedule as the current awards over BGEO Group PLC Shares—the awards over Georgia Capital PLC Shares will be vested immediately.

- Awardholders who will be employed by the Group will only receive vested awards (as explained above), if they agree their original awards over BGEO Group PLC Shares will be converted into awards over Shares and Georgia Capital PLC Shares. If Awardholders do not agree, they will get awards over an adjusted number of Shares, but they will not get any acceleration and the whole of their award will have the same vesting schedule as the current awards.
- A new share plan will be put in place by JSC Bank of Georgia, which will operate in a similar way as to existing BGEO Group Share Plans, but will be over Shares, be for the benefit of Group employees and will have different vesting periods from the BGEO Group Share Plans. JSC Bank of Georgia will operate the new share plan in conjunction with the existing employee benefit trust.
- Former BGEO Group Awardholders who left the BGEO Group and have outstanding awards will receive awards over Shares and Georgia Capital PLC Shares that will continue to have the same vesting schedule as the current awards over BGEO Group PLC Shares.

(D) Effect of the Proposals on the Deferred Share Salary

The remuneration of the members of the BGEO Group executive management team ("**Executive Managers**") consists of (a) a salary paid partly in cash and partly in deferred shares (in the form of nil-cost options over BGEO Group shares) and (b) performance-based discretionary deferred shares. The current service contracts of the executive director and senior managers that will be joining the Group, Kaha Kiknavelidze, David Tsiklauri, Levan Kulijanishvili, Mikheil Gomarteli, Ramaz Kukuladze, Vasil Khodeli, George Chiladze ("**Group Executive Managers**"), set out their respective deferred share salary entitlement

(a) Deferred Share Salary

Following the Demerger, the service contracts of the Group Executive Managers will be adjusted so that their deferred share salary will be over Shares. The number of Shares subject to the deferred share salary will be adjusted, as determined by the Remuneration Committee shortly after the Demerger, in such a manner that the value of the deferred share salaries of Group Executive Managers after the Demerger will be as close as possible to the value of their respective deferred share salaries prior to Demerger.

The determination as to the number of Shares subject to deferred share salary will be made by the Remuneration Committee within a month of the Demerger. This will take into account the price differential between BGEO Group PLC Shares and Shares at the time of the Demerger. The respective share prices will be determined based on an average share price (over a period to be determined by the Remuneration Committee) based on pre-Demerger share prices in respect of BGEO Group PLC Shares and post-Demerger share prices in respect of Shares. The precise adjustment to the service contracts, the methodology for establishing the average share prices and the number of Shares subject to the deferred share salary will be determined by the Remuneration Committee after the Demerger.

Deferred share salary awards are usually made in January of the next work year. Given the Demerger is scheduled to occur in May 2018, the first portion of the deferred share salary for the period of the work year prior to the Demerger would be paid in awards over BGEO Group PLC Shares, and the second portion of the deferred share salary for the period of the work year after the Demerger would be paid in awards over Shares. However, it has been decided that the entire deferred share salary for the full year 2018 will be paid in awards over Shares, notwithstanding the period of the work year prior to the Demerger. Such awards will be granted in January 2019 in line with the current grant cycle.

Deferred share salary awards (in the form of nil-cost options) vest on vesting dates set at the time of grant. For such awards granted after the Demerger over Shares, deferred share salary in respect of a work year will vest as follows: 20% in each of the second, third and fourth years following the work year, and 40% in the fifth year following the work year. At vesting (upon exercise of the nil-cost options), the Group Executive Managers will receive (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.

(b) Discretionary deferred shares

Under the current operation of the BGEO Employee Share Plans and for awards granted in respect of FY18, discretionary deferred shares in respect of a work year vest 33% in each of the second, third and fourth years following the work year. At vesting (upon exercise of the nil-cost options), the Executive Managers receive (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.

KPIs for the Executive Managers are set at the start of each work year and reflect the Executive Managers' targeted contribution to the overall key strategic and financial objectives for the work year. KPIs may also include non-tangible factors, such as self-development, mentoring and social responsibility.

Early in the year following the work year, the Remuneration Committee will determine whether an award is merited based on each Executive Manager's achievement of their KPIs set for the work year and the performance of BGEO Group PLC during the work year. In appropriate cases where a strategic change or change in business circumstances has made one or more KPIs an inaccurate gauge of performance, the Remuneration Committee may base its assessment on alternative measures.

There is no contractual right to discretionary remuneration and the remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory.

There is no proposed change to the discretionary deferred shares after the Demerger, except that they will be granted over Shares, rather than BGEO Group PLC Shares.

For 2018, discretionary deferred shares will be granted in the first few months of 2019 in line with the current grant cycle. These discretionary deferred shares will be paid in awards (in the form of nil-cost options) over Shares and be granted in respect of the full year 2018 (i.e. for the period pre- and post-Demerger).

(E) Share Plan

Subject to the ratification of Shareholders, JSC Bank of Georgia has established the Share Plan. The principal features of the Share Plan are summarised below. The Share Plan is similar to the BGEO Group Share Plans. The main changes in the operation of the Share Plan going forward is that JSC Bank of Georgia will operate its employee share plan for the benefit of Group employees.

Awards

The Share Plan is used to grant awards as part of both the deferred share salary and the discretionary deferred shares for executives and senior managers.

Grant

Awards may be granted by the trustee to selected employees or directors of the Group on the recommendation of JSC Bank of Georgia (upon the recommendation of the Remuneration Committee). Awards are usually in the form of nil-cost options, unless the award holder notifies the trustee within 30 days of the date on the award certificate, in which case the award will be in the form of a conditional right to acquire shares. The award holder may renounce the grant within 90 days by notifying the trustee. The Share Plan is administered by the trustee.

Limits

The Share Plan is limited to using 10% of the Company's issued share capital over any 10 year period when it uses newly issued or treasury shares. The Bank of Georgia Group Share Plan shall terminate upon the tenth anniversary of its adoption.

Vest

Awards vest on the vesting dates set at the time of grant. The trustee, upon the recommendation of JSC Bank of Georgia (upon the recommendation of the Remuneration Committee), may specify a vesting condition that must be satisfied before an award may vest. The trustee may, upon the recommendation of JSC Bank of Georgia (upon the recommendation of the Remuneration Committee), alter the vesting condition if the original condition is not longer appropriate and the trustee justly and reasonably considers that the amended condition reflects a fairer measure and reasonably considers that it will subsequently be no more difficult to satisfy.

For awards to be granted in respect of FY18:

- Deferred share salary awards are granted at the beginning of the calendar year following the work year and will vest 20% in each of the second, third and fourth years and 40% in the fifth year following the work year.

- Discretionary deferred shares vest a third in each of the second, third and fourth years following the work year.

Leavers

Unvested awards normally lapse where the award holder ceases employment with the group before vesting. Awards do not lapse and vest immediately if the award holder ceases employment due to death. If the award holder ceases employment for any other good reason, awards do not lapse and the trustee, on the recommendation of JSC Bank of Georgia (upon the recommendation of the Remuneration Committee), may determine whether the awards continue to vest or vest immediately. Good reason covers injury, disability, redundancy, retirement, the expiry of the award holder's service contract where the award holder is not offered a new service contract upon substantially similar terms or any other reason at the discretion of the trustee (upon the recommendation of the JSC Bank of Georgia (upon the recommendation of the Remuneration Committee)).

For vested awards, award holders have 12 months from termination to exercise their options, otherwise the awards lapse.

JSC Bank of Georgia (upon the recommendation of the Remuneration Committee) has the discretion to set different vesting rules in an award holder's service contract or separate resolution, provided that these do not worsen the terms of the service contract or affect awards already granted.

Malus and Clawback

Natural clawback and malus are built into the Share Plan as the awards vest over a period of time and are subject to a vesting conditions which, if breached, would result in the awards fully lapsing unless determined otherwise. Unless the award holder ceases employment for a good reason (see above), awards lapse upon cessation of employment. The awards are subject to the terms set out in the respective award holder's service contract.

Exercise

Options are not be exercisable if the exercise of the option would cause either the award holder, the trustee or any other person to contravene any statute, order, regulation or guidelines

Corporate Transactions

In the event of a change of control or asset sale, any unvested awards vest. If the trustee holds any unallocated shares, these shares will be granted to award holders in proportion to the total cumulative number of shares to which the award holder has received or is entitled to receive. The award holders may agree to exchange their awards for awards over the acquiring company within six months of the change of control.

In the event that a new holding company acquires control of the Company, but the shareholders are the same or substantially the same and hold their shareholders in the same or substantially the same proportion as immediately before the change of control, unvested awards will not vest and all outstanding awards will be converted into awards over the shares of the new holding company.

If there is a variation of share capital, the number of shares subject to the award shall be adjusted in accordance with the agreement of the parties or, in default, as the auditors confirm to be fair and reasonable.

Not pensionable

Benefits under the Share Plan are not pensionable.

Amendments

The trustee may amend the rules of the Share Plan, provided that no amendment is made that shall adversely affect an award holder unless the majority of award holders have agreed to the change. Certain rules cannot be amended within the prior consent of the shareholders, unless the amendment is minor and to benefit the administration of the Share Plan, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for award holders. This applies to the definition of award holder, the vesting and lapse provisions, the change of control provisions, the variation of share capital provisions and the amendment provisions.

17. Other Awards

The Group does not have any other arrangements relating to awards.

18. Pensions

The Company operates a defined contribution pension scheme which is available to full time employees of the Group. The Company will match additional contributions in a proportion of 0.2 to one.

19. Employees

As of 31 December 2017, 31 December 2016 and 31 December 2015, the Group had a total of 7,045, 6,431, and 5,828 full-time employees, respectively, of which 7,016, 6,310 and 5,647, respectively, had standard long-term employment agreements.

The Bank places significant emphasis on the professional development of its employees. The Bank's employees are offered training opportunities at special training centres and various educational institutions. Middle and senior managers participate in workshops and training sessions outside of Georgia and internal training is conducted by instructors invited from Georgian training centres.

The following table sets out the Bank's employees by subsidiary and by segment as of 31 December 2016.

None of the Bank companies currently has any agreements with any employee trade unions. The Bank's Georgian entities are required to withhold income tax at the flat rate of 20.0% on the gross compensation of its employees in Georgia.

20. Subsidiaries

Following the Scheme becoming effective, the Company will directly own 100% of the issued share capital of BGEO Group PLC and on completion of the Demerger, Bank of Georgia Group PLC will be the holding company of the Banking Business. The following table shows the list of entities which will be principal subsidiaries immediately following the Demerger Effective Time. Unless otherwise stated, each subsidiary is wholly owned and the percentage voting rights held for each entity is the same as the percentage of capital held.

	Proportion of voting rights and ordinary share capital held							
Subsidiaries	31 December 2017	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC BGEO Group	100.00%	100.00%	100.00%	Georgia	29 a Gagarini street, Tbilisi, 0105	Investment	28/5/2015	—
JSC Bank of Georgia	99.55%	99.55%	99.52%	Georgia	29 a Gagarini street, Tbilisi, 0105	Banking	29/11/1995	—
→ Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	84 Brook Street, London W1K 5EH	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	29 a Gagarini street, Tbilisi 0105	Charitable Activities	25/8/2008	—
→ Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative Office	18/6/2012	—
→ Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	—
→ Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	—
→ Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	100.00%	Georgia	Digomi District, Block III, Lot #38/3, Tbilisi, 0159	Sport	30/09/2011	—
→ Teaching University of Georgian Bank, LLC	100.00%	100.00%	100.00%	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	21/10/2013	—
→ Privat Guard, LLC	—	—	100.00%	Georgia	Didube-Chughureti district, No.114, Ak. Tsereteli ave., Tbilisi	Security	—	21/1/2015
→ Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009
→ JSC Belarusky Narodny Bank	99.98%	79.99%	79.99%	Belarus	Nezavisimosty ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008
→ BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Nezavisimosty ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008
→ Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi Str., Tbilisi	Leasing	29/10/2001	31/12/2004
→ Prime Leasing, LLC	100.00%	100.00%	100.00%	Georgia	Didube-Chughureti district, No. 116, Ak. Tsereteli ave., Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BG Financial	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Investment	7/8/2015	—
→ JSC Galt & Taggart	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Brokerage and asset management	19/12/1995	28/12/2004
→ Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	100.00%	Azerbaijan	1C Mikayil Mushvig, Kempinski Hotel	Representative Office	28/12/2013	—

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2017	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
→ Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Badamdar, 6th floor, Yasamal AZ1006, Baka Arch, Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	3/7/2006	—
→ BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	5A-3H, KChornogo lane, Minsk, 220012	Brokerage	19/2/2008	—
→ Solo, LLC	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Trade	22/4/2015	—
→ JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	74a Charchavadze Ave, Tbilisi, 0162	Registrar	29/5/2006	—
→ JSC Express Technologies	100.00%	100.00%	100.00%	Georgia	106 Beliashvili Street, Floor 1, Area 11, Tbilisi	Investments	29/10/2007	—
→ JSC Georgian Card	99.48%	99.47%	99.47%	Georgia	106 Beliashvili Street, Floor 1, Area 11, Tbilisi	Card processing	17/1/1997	20/10/2004
→ Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	106 Beliashvili Street, Floor 1, Area 11, Tbilisi	Electronic payment services	7/3/2006	—
→ LLC Didi Digomi Research Center	100.00%	100.00%	100.00%	Georgia	80-82, D Agmashenebeli Ave, Tbilisi, 0102	Communication services	23/4/2007	—
→ Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	106 Beliashvili Street, Floor 1, Area 11, Tbilisi	Business Servicing	10/5/2006	—
→ Express Technologies CEE, LLC	—	100.00%	100.00%	Hungary	H-1054 Budapest, Szabadsag ter 7. Bank Center Platima Tower er; 2nd floor	Other Financial Service Activities	5/3/2014	N/A
JSC Agron Group	100.00%	100.00%	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Agro Trade	3/11/2014	—
Premium Compliance Advisory, LLC	100.00%	100.00%	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Various	17/2/2012	—

21. Statutory Auditors

Ernst & Young LLP has been the statutory auditor of BGEO Group plc for the periods covered by the annual financial statements for the Group incorporated by reference into this Prospectus. Ernst & Young LLP's audit reports were unqualified for the three years ended 31 December 2015, 2016 and 2017. Ernst & Young LLP is registered to perform audit work by the Institute of Chartered accountants in England and Wales and its registered office is 1 More London Place, London, SE1 2AF.

22. Dividends and dividend policy

The Company will continue the dividend policy previously disclosed by BGEO Group PLC. Therefore, the Company will have as its dividend policy a targeted payout of 25-40% of profits from the Banking Business on an annual basis.

23. Related Party Transactions

For a description of related party transactions, see *Part XIX: "Related Party Transactions"*.

24. Material Contracts

For a description of the material contracts entered into by the Group, see *Part XX: "Material Contracts"*.

25. Working Capital

In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this Prospectus.

26. Significant Change

Save as set out below, there has been no significant change in the financial or trading position of the Group since 31 December 2017, the date to which the Historical Financial Information was prepared. There has been no significant change in the financial or trading position of the Company since 31 December 2017, the date to which the latest audited financial statements of the Company were prepared.

On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms. JSC BGEO Group intends to use the proceeds of the loan by JSC Georgia Capital in order to finance, in part, a transfer of funds by JSC BGEO Group to the Bank in consideration for the assumption by the Bank of JSC BGEO Group's obligations as the issuer of its $350,000,000 6.00 per cent. notes due 2023.

27. Litigation

Save as disclosed in *Part IX: Information on Bank of Georgia Group PLC—Litigation and Other Proceedings* there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank of Georgia Group plc is aware) in the 12 months preceding this Prospectus which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

28. Takeover Bids

No public takeover bid has been made in relation to BGEO Group PLC during the last financial year or the current financial year. The City Code on Takeovers and Mergers (the **"City Code"**) as issued and administered by the Panel on Takeovers and Mergers (the **"Panel"**) will apply to Bank of Georgia Group PLC. Under the City Code, if an acquisition of interests in the hares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in the Shares carrying 30% or more of the voting rights in the Shares, the acquirer and, depending on the circumstances, person acting in concert with it, would be required (except with the consent of the Panel) to make a cash offer (a **"Mandatory Offer"**) at the highest price paid by the acquirer (or any person acting in concert with it) for shares within the preceding 12 months, to the holders of any class of equity share capital and also to the holders of any other class of transferable securities carrying any rights. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in the Shares by a person holding (together with persons acting in concert with it) an interest in the Offering Shares carrying between 30% and 50% of the voting rights in the Shares if the effect of such acquisition were to increase that person's percentage of the voting rights.

Squeeze-out

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for any Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90% in value of the Shares and not less than 90% of the voting rights attached to the Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10%. Such an acquisition would be made by sending a notice to the outstanding holders of the Shares that stated that it would acquire compulsorily the Shares held by them and then, six weeks later, by executing a transfer of outstanding Shares in its favour and paying the consideration to the Company which would hold the consideration on trust for the outstanding holders of the Shares. The consideration offered to the holders of the Shares whose Shares are so compulsorily acquired must, in general, be the same consideration as was available under the takeover offer.

Sell-out

The Companies Act also provides minority holders of the Shares the right to be bought out in certain circumstances by an offeror that has made a takeover offer. If the takeover offer related to all of the Shares and at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90% of the Shares to which the offer relates, any holder of the Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Shares. The offeror is required to give a holder of the Shares notice of its right to be bought out within one month of the right arising. The offeror may impose a time limit on the rights of the minority holders of the Shares to be bought out, but that period cannot end less than three months after the end of the acceptance period of the relevant takeover offer. If a holder of Shares exercises its rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

Proportional voting

The Company is subject to the UK Takeover Code. The Panel Executive has confirmed that, for so long as the Proportional Voting Mechanism applies, Shareholders other than Georgia Capital PLC and its Concert Parties will be treated for the purposes of the Takeover Code as being interested in such number of the Proportional Voting Shares as is represented by the percentage of the Shares in issue in which they are interested (excluding the Proportional Voting Shares). By way of example, a Shareholder, other than Georgia Capital PLC and its Concert Parties, who holds 2.00% of all of the Shares in issue, will be treated for the purposes of the Takeover Code as being interested in:

a) the 2.00% of the Shares in issue which they hold; and

b) in addition, on the basis that the Proportional Voting Shares represent 19.90% of the Shares, a further interest in 0.50% of the Proportional Voting Shares held by Georgia Capital PLC and its Concert Parties. This represents a corresponding 2.00% interest in Georgia Capital PLC's 19.90% stake in the Company, calculated as follows:

   i) subtracting the Shares held by Georgia Capital PLC and its Concert Parties from the total number of Shares (100%—19.90% = 80.10%); and

   ii) dividing 80.10%, being the proportion of Shares not held by Georgia Capital PLC or its Concert Parties, by 100, to find the voting power of 1.00% of the total number of Shares when discounting the Shares held by Georgia Capital PLC and its Concert Parties (80.10% / 100% = 1.25%). Therefore, for every 1.00% of the Company held by a non-Georgia Capital shareholder, they have the voting power of their original 1.00% stake, and a further interest in 0.25% of the Proportional Voting Shares.

Thus, a non-Georgia Capital shareholder holding 2.00% of the Company would be treated as interested in 2.50% of the Shares in issue.

For the avoidance of doubt, the other Shareholders in Bank of Georgia Group PLC will not be deemed to have acquired an "interest in" the Proportional Voting Shares for the purposes of rules 6 and 11 of the Takeover Code.

Mandatory offer threshold

Rule 9.1 of the Takeover Code sets out the thresholds at which, except with the consent of the Takeover Panel, any person must make a mandatory offer for all of the shares of a company they do not already own. These thresholds apply where any person:

a) acquires, whether by a series of transactions over a period of time or not, an interest in shares (taken together with shares in which persons acting in concert with them are interested) carrying 30.00% or more of the voting rights of a company; or

b) together with persons acting in concert with it, is interested in shares which in the aggregate carry not less than 30.00% of the voting rights of a company but does not hold shares carrying more than 50.00% of such voting rights and such person, or any person acting in concert with it, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which it is interested (each a "**Rule 9 Threshold**").

In view of the above, Shareholders (other than Georgia Capital PLC and its Concert Parties) should take account of the Proportional Voting Shares in which they will be treated as being interested when considering the application of Rule 9 of the Takeover Code to them. This is because, in practical terms, the Rule 9 Thresholds are effectively reduced for such Shareholder by the percentage of Proportional Voting Shares held from time to time by Georgia Capital PLC and its Concert Parties in which that Shareholder will be treated as being interested.

For example, assuming the Proportional Voting Shares represent 19.90% of the Shares, an obligation to make a mandatory offer will be triggered:

a) under Rule 9.1(a) of the Takeover Code, if a person acquires an interest in Shares (excluding any Proportional Voting Shares) which (taken together with the Shares, excluding the Proportional Voting Shares, in which persons acting in concert with it are interested) carry 24.03% or more of Bank of Georgia Group voting rights; and

b) under Rule 9.1(b) of the Takeover Code, if a person together with persons acting in concert with it, is interested in shares which carry an aggregate of not less than 24.03% of the Bank of Georgia Group voting rights, but does not hold Shares carrying more than 50.00% of the Bank of Georgia Group voting rights, and such person, or any person acting in concert with it, acquires an interest in any other Shares which increases the percentage of Bank of Georgia Group voting rights in which it is interested,

in each case the relevant percentage threshold, in this example being 24.03% (represented by 11,815,413 Shares following the Exchange), being the "**Effective Rule 9 Threshold**".

Disclosures by the Company regarding Proportional Voting Mechanism

The Company will announce any change in the number and percentage of shares represented by the Proportional Voting Shares and the number and percentage of shares representing the Effective Rule 9 Threshold (defined below) as soon as practicable after being notified of any change in the number of Proportional Voting Shares held by Georgia Capital PLC and its Concert Parties. In addition, the Company will:

a) display on its website the announcement relating to the most up to date number and percentage of shares represented by the Proportional Voting Shares and the number and percentage of shares representing the Effective Rule 9 Threshold;

b) include in its annual report disclosure on the Proportional Voting Mechanism process and the most up to date number and percentage of shares represented by the Proportional Voting Shares and the number and percentage of shares representing the Effective Rule 9 Threshold; and

c) in each shareholder circular and notice of general meeting, clearly state that the poll votes will be taken in accordance with the Proportional Voting Mechanism.

In order to facilitate the above, when Georgia Capital PLC (and/or its Concert Parties) acquire or dispose of any shares in the Company they will be obliged to notify the Company of such acquisition or disposal under the terms of the Demerger Agreement irrespective of whether any such acquisition or disposal would trigger a public disclosure obligation for Georgia Capital PLC and/or its Concert Parties.

29. Other disclosures

The Proportional Voting Mechanism will have no impact on the disclosures made by the Company and its Shareholders under the Disclosure Guidance and Transparency Rule 5 ("**DTR 5**"). For the purposes of DTR 5, no Shareholder other than Georgia Capital and its Concert Parties will be required to aggregate any of the Proportional Voting Shares in any DTR 5 disclosure made by them in respect of their own shareholding. The existence of the Proportional Voting Shares subject to the Proportional Voting Mechanism does not affect the total voting rights of the Company pursuant to DTR 5.

The existence of the Proportional Voting Shares subject to the Proportional Voting Mechanism does not affect the disclosure requirements of persons discharging managerial responsibility of the Company under article 19 of the Market Abuse Regulation 596/2014. For the purposes of DTR 5, the Company is a UK issuer, as it is a UK incorporated public company with shares that will be trading on a regulated investment exchange.

30. General information on Georgia Capital's holding in the Company

Shares held by Georgia Capital PLC and its Concert Parties will rank *pari passu* in all respects with all other Shares and will not constitute a separate class of shares. The Proportional Voting Mechanism shall not affect the rights attaching to the Proportional Voting Shares for the purposes of the Companies Act 2006.

Other than the obligation to vote the Proportional Voting Shares in accordance with Proportional Voting Mechanism in general meetings of the Company, Georgia Capital PLC and its Concert Parties will be entitled to exercise the rights attaching to the Proportional Voting Shares at their discretion. For example, Georgia Capital PLC, and its Concert Parties:

a) will retain complete control of whether to dispose of any or all of the Shares, or increase their holding in the Company;

b) will have the same entitlements to dividends as other Shareholders;

c) will be able to participate in any further offer (such as a rights issue), or buy backs, of Shares made by the Company; and

d) will have complete discretion as to whether to accept or participate in any takeover bid or merger transaction of or for the Company, however effected, including any partial offer or tender offer. Should the Company be subject to a takeover offer at any time, Georgia Capital PLC and its Concert Parties would have complete discretion whether to accept that offer. Similarly, on any vote at a Court Meeting for an offer implemented by way of a Scheme of Arrangement, Georgia Capital PLC and its Concert Parties could vote at their discretion at the Court Meeting.

31. General

The Company's accounting reference date is 31 December.

The estimated fees and expenses relating to the Admission, the Offering and the preparation of this Prospectus, including the FCA's fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately £5.5 million (excluding taxes) and are payable by the Company.

On Admission, the Shares will be listed on the premium listing segment of the Official List and admitted to trading on the Main Market under BGEO. Other than the current application for admission of the Shares to trading on the Main Market, the Shares have not been admitted to trading on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be, any other arrangements for there to be dealings in the Shares.

Shares will be in registered form and, from Admission, will be capable of being held in uncertificated form and title to such Shares may be transferred by means of a relevant system (as defined in the Regulations). Where Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

As at the date of this Prospectus, in so far as is known to the Directors, none of the Company's share capital is in public hands. Immediately following Admission, assuming full acceptance of the Offering, it is currently anticipated that 100% of the Company's fully diluted share capital will be in public hands.

The Directors are not aware of any environmental issues that may affect the Group's utilization of its tangible fixed assets.

Save as set out in this Prospectus, the Group has not agreed to make any new principal investments as of the date of this Prospectus.

The Bank operates under a general banking licence issued by the NBG on 15 December 1994. A subsidiary of the Bank, BNB, is licenced by the NBRB and is accordingly required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB.

32. Consents

Ernst & Young LLP has given and not withdrawn its written consent to the inclusion in this Prospectus of its report on the *pro forma* financial information in Section B of Part XIV (*Unaudited pro forma* financial information) and for the Accountant's Report on the Historical Financial Information in Section A of Part XXVI (*Historical Financial Information*) in the form and content in which they appear and has authorised the contents of this report for the purposes of Prospectus Rule 5.5.3R(2)(f).

A written consent under the Prospectus Rules is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the US Securities Act. As the Shares have not been paid and will not be registered under the US Securities Act, Ernst & Young LLP has not filed a consent under Section 7 of the Securities Act.

33. Documents Available For Inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the Company's offices at 84 Brook Street, London, W1K 5EH and www.bgeo.com:

(a) the Articles;

(b) the Historical Financial Information and the Accountant's Report;

(c) EY report on the *pro forma* financial information set out in in Section B of Part XIV (*Unaudited pro forma* financial information) of this Prospectus;

(d) the Class 1 Circular;

(e) the Georgia Capital PLC Prospectus;

(f) the Separation Agreements;

(g) the Bank of Georgia Executive Equity Compensation Plan;

(h) service agreements and letters of appointment (as applicable) with the Directors;

(i) the written consents from Ernst & Young LLP referred to in paragraph 32 above; and

(j) this Prospectus.

Dated: 26 March 2018

PART XXIV

INFORMATION INCORPORATED BY REFERENCE

The following documents are incorporated by reference in this Prospectus (and where a document below itself incorporates information by reference ("**further information**") such further information is not intended to form part of this Prospectus). Where only part of a document is incorporated by reference, the other parts of that document are either not relevant for Shareholders or are covered elsewhere within this Prospectus:

- the audited BGEO Group plc consolidated financial statements for the year ended 31 December 2017, on pages 126 to 138 and 139 to 212 of the BGEO Group Annual Report 2017 and the independent auditors report on those financial statements on pages 118 to 125;
- the audited BGEO Group plc consolidated financial statements for the year ended 31 December 2016 on pages 126 to 135 and 139 to 213 of the BGEO Group Annual Report 2016 and the independent auditors report on those financial statements on pages 118 to 125; and
- the audited BGEO Group plc consolidated financial statements for the year ended 31 December 2015 on pages 138 to 213 of the BGEO Group Annual Report 2015 and the independent auditors report on those financial statements on pages 128 to 134.

The consolidated financial statements of BGEO Group PLC for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 were prepared in accordance with IFRS, were audited and the audit report for each year was unqualified.

- Part II: "*Risk Factors*" on pages 12 to 32 of the Georgia Capital PLC Prospectus;
- Part X: "*Information on Georgia Capital*" on pages 58 to 99 of the Georgia Capital PLC Prospectus;
- Part XII: "*Operating and Financial Review*" on pages 103 to 127 of the Georgia Capital PLC Prospectus;
- Part XV: "*Material Contracts*" on pages 131 to 138 of the Georgia Capital PLC Prospectus;
- Part XXI: "*Definitions*" on pages 184 to 190 of the Georgia Capital PLC Prospectus;
- Part XXII: "*Historical Financial Information*" on pages F-4 to F-74 of the Georgia Capital PLC Prospectus;
- Part II: "*Explanatory Statement*" on pages 27 to 57 of the BGEO Group PLC Circular;
- Part IV: "*Summary of the Principal Terms and Conditions of the Separation Agreements*", including principal terms and conditions of (i) the Demerger Agreement (ii) the Tax Sharing and Indemnification Agreement and (iii) the Transitional Services Agreement, on pages 62 to 64 of the BGEO Group PLC Circular;
- Part XIII: "*Definitions*" on pages 127 to 133 of the BGEO Group PLC Circular.

PART XXV

DEFINITIONS

The following definitions apply throughout this Prospectus unless the context otherwise requires:

Admission	the admission of up to 49,169,428 Shares to the premium listing segment of the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's main market for listed securities in accordance with the Admission and Disclosure Standards
Admission and Disclosure Standards	the requirements contained in the publication "*Admission and Disclosure Standards*" (as amended from time to time) containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
Articles	the articles of association of the Company
Bank	JSC Bank of Georgia
Banking Business	means the banking business of BGEO Group PLC as it will be following the Scheme and the Demerger
Bank of Georgia Group PLC or the Company	Bank of Georgia Group PLC, a company incorporated under the laws of England and Wales with registered number 10917019 and whose registered office is at 84 Brook Street, London, W1K 5EH
Bank of Georgia Group PLC Capital Reduction	The proposed reduction of the nominal value of the Bank of Georgia Group Shares to be undertaken after the Scheme Effective Time.
Bank of Georgia Group Redeemable Deferred Shares	the 49,999 redeemable deferred shares of £1.00 each in the capital of Bank of Georgia Group PLC
Bank of Georgia Group Subscriber Shares	the two ordinary shares of £1.00 in the capital of Bank of Georgia Group PLC
BGEO Eurobond	the USD 350,000,000 6.00% notes due 2023, issued by JSC BGEO Group
BGEO Group PLC	BGEO Group PLC, a company incorporated under the laws of England and Wales with registered number 07811410 and whose registered office is at 84 Brook Street, London, W1K 5EH
BGEO Group PLC Articles	the articles of association of BGEO Group PLC from time to time
BGEO Group PLC Board	the board of directors of BGEO Group PLC
BGEO Group PLC Capital Reduction	the proposed reduction of the share capital of BGEO Group PLC, involving the cancellation of the BGEO Group PLC Shares pursuant to the Scheme, as described in Part II of the BGEO Group PLC Circular
BGEO Group PLC Circular	the circular to holders of BGEO Group PLC Shares dated 26 March 2018 containing, among other things, details of the Proposals (including a description of the Scheme) and notice of the Court Meeting and the Annual General Meeting
BGEO Group PLC Shareholders	holders of BGEO Group PLC Shares and "BGEO Group PLC Shareholder" means any one of them
BGEO Group PLC Shares	the ordinary shares of £0.01 each in the capital of BGEO Group PLC
Board	the board or directors of Bank of Georgia Group PLC
business day	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London
certificated or in certificated form	where a share or other security is not in uncertificated form (that is, not in CREST)

Citi	Citigroup Global Markets Limited
Code	the City Code on Takeovers and Mergers, issued by the Panel on Takeovers and Mergers
Companies Act	the Companies Act 2006, c.46
Company	Bank of Georgia Group PLC
connected person	as defined in section 252 of the Companies Act, and "persons connected" should be interpreted in the same way
Corporate Governance Code	the UK Corporate Governance Code published by the Financial Reporting Council and dated April 2016, as amended from time to time
Court	the High Court of Justice in England and Wales
Court Meeting	the meeting of the BGEO Group PLC Shareholders to be convened pursuant to an order of the Court and to be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. on 30 April 2018 for the purposes of considering and, if thought fit, approving the Scheme and any adjournment of such meeting
CREST	the relevant system (as defined in the CREST Regulations) of which Euroclear is the Operator (as defined in the CREST Regulations)
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
Daily Official List	the daily official list of the London Stock Exchange
Demerger	the proposed demerger of the Investment Business from the Group on the terms and subject to the conditions set out in the Demerger Agreement
Demerger Agreement	the agreement relating to the Demerger between BGEO Group PLC, Georgia Capital PLC and Bank of Georgia Group PLC, a summary of the principal terms of which is set out in paragraph 1 of Part IV of the BGEO Group PLC Circular
Demerger and Reductions Resolution	the special resolution numbered 2 to be proposed at the Annual General Meeting, as set out in the notice of Annual General Meeting in Part XIV of the BGEO Group PLC Circular
Demerger Effective Time	the time at which the Demerger becomes effective, expected to be before 8.00 a.m. (London time) on 29 May 2018
Demerger Record Time	6.00 p.m. (London time) on 25 May 2018
Directors	the Executive and Non-Executive Directors of Bank of Georgia Group PLC
Disclosure Guidance and Transparency Rules	the disclosure guidance and transparency rules made by the FCA pursuant to section 73A of the FSMA
EBT	The Rubicon Executive Equity Compensation Trust, established by deed dated 6 November 2006
EEA	the European Economic Area
Euroclear	Euroclear UK & Ireland Limited, a company incorporated under the laws of England and Wales
Executive Directors	the executive directors of Bank of Georgia Group PLC
Existing BGEO Group	if used to refer to a time before the Scheme becomes effective, BGEO Group PLC and its subsidiaries and subsidiary undertakings from time to time
FCA	the UK Financial Conduct Authority

Financial Statements	the audited consolidated group financial statements of BGEO Group PLC for the three years ending 31 December 2017
Forms of Proxy	as the context may require, either or both of (i) the blue form of proxy for use at the Court Meeting, and (ii) the white form of proxy for use at the General Meeting, each of which accompanies the BGEO Group PLC Circular
Floor	means Georgia Capital PLC's percentage holding in Bank of Georgia Group PLC being 9.9% or less of the voting rights exercisable at Bank of Georgia Group PLC general meetings.
FSMA	the Financial Services and Markets Act 2000 c.8
Georgia Capital PLC Court Hearing	the hearing by the Court to confirm the Georgia Capital PLC Capital Reduction
Georgia Capital PLC Directors	the directors of Georgia Capital PLC
Georgia Capital PLC Prospectus	the prospectus prepared by Georgia Capital PLC in accordance with the Prospectus Rules and published in relation to the Georgia Capital Group and the Georgia Capital PLC Shares
Georgia Capital PLC Shareholders	holders of Georgia Capital PLC Shares
Georgia Capital PLC Shares	(i) prior to the Georgia Capital PLC Capital Reduction becoming effective, the ordinary shares in the capital of Georgia Capital PLC of a nominal value determined by the Georgia Capital PLC prior to issue; and (ii) subsequent to the Georgia Capital PLC Capital Reduction becoming effective, the ordinary shares of 0.01 pence in the capital of Georgia Capital PLC
Group	(i) if used in Part XIII (*Selected Financial Information*), in Part XV (*Operating and Financial Review*), in Part XVI (*Funding*), and in Part XVII (*Selected Statistical and Other Information*) in the context of Historical Financial Information for the three years ended 31 December 2017 it is a reference to the Banking Business as it will be following the Scheme and the Demerger, whereby Bank of Georgia Group PLC will become the holding company of BGEO Group PLC and the banking business, and the investment business will be demerged and will form part of Georgia Capital PLC; and (ii) in all other cases, including if used in Part I (*Summary*) Section B (*Company*) Element B.11 (*Working Capital*) or in Part XXIII (*Additional Information*) Paragraph 24 (*Working Capital*), it is (A) until such time as when the Scheme becomes effective, a reference to BGEO Group PLC and its subsidiaries and subsidiary undertakings from time to time; and (B) from such time as when the Scheme becomes effective until such time as the Demerger becomes effective, a reference to Bank of Georgia Group PLC and its subsidiaries and subsidiary undertakings (including BGEO Group PLC) from time to time; and (C) from such time as when the Demerger becomes effective, a reference to the Banking Business as it will be following the Demerger (whereby the Investment Business will be demerged and will form part of Georgia Capital PLC).
Historical Financial Information	the combined historical information for the Banking Business as at and for each of the three years ended 31 December 2015, 31 December 2016 and 31 December 2017, as appearing in section A of Part XXVI (*Historical Financial Information*)
HMRC	HM Revenue and Customs
holder	a registered holder of shares, including any person entitled by transmission
IAS	International Accounting Standards

IFRS	the International Financial Reporting Standards, as adopted by the European Union
Initial Shareholder	the holder of (i) the Bank of Georgia Group PLC Subscriber Shares or Deferred Share, as applicable, and (ii) the Bank of Georgia Group PLC Deferred Shares
Investment Business	the investment business undertaken by JSC Georgia Capital and its subsidiaries
IRS Code	the US Internal Revenue Code of 1986, as amended from time to time
LIBOR	London inter-bank offered rate
Listing Rules	the listing rules made by the FCA pursuant to section 73A of the FSMA
London Stock Exchange	London Stock Exchange plc
member	unless the context otherwise requires, a member of BGEO Group PLC, Bank of Georgia Group PLC or Georgia Capital PLC, as the case may be, at any relevant date
Nomination Committee	the nomination committee of the Board
Non-Executive Directors	the non-executive directors of Bank of Georgia Group PLC
Numis	Numis Securities Ltd
Official List	the official list of the UK Listing Authority
Overseas Shareholders	shareholders who are citizens, residents or nationals of jurisdictions outside the United Kingdom or whom Bank of Georgia Group PLC reasonably believe to be citizens, residents or nationals of jurisdictions outside the United Kingdom.
Parliament	means the Parliament of Georgia
premium listing	a listing by the FCA by virtue of which a company is subject to the full requirements of the Listing Rules
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003
Prospectus Directive Regulation	Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council
Prospectus Regulation	Regulation 2017/1129 of the European Parliament and of the Council of 14 June 2017
Prospectus Rules	the prospectus rules made by the FCA pursuant to section 73A of the FSMA
Registrar	Computershare Investor Services PLC
Regulatory Information Service	any channel recognised as a channel for the dissemination of regulatory information by listed companies as defined in the Listing Rules
Remuneration Committee	the remuneration committee of the board of BGEO Group PLC or the Board, as the context may require
Reporting Accountants or EY	Ernst & Young LLP
Resolutions	the resolutions to be proposed at the Annual General Meeting, as set out in the notice of Annual General Meeting in Part XVI of the BGEO Group PLC Circular, including the Scheme Resolution, the Demerger and Reductions Resolution and the Share Plans Resolutions
Scheme	the scheme of arrangement proposed to be made under Part 26 of the Companies Act between BGEO Group PLC and BGEO Group PLC Shareholders as set out in Part XI of the BGEO Group PLC

	Circular, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by BGEO Group PLC and Bank of Georgia Group PLC
Scheme Court Hearing	the hearing by the Court to sanction the Scheme and to confirm the BGEO Group PLC Capital Reduction
Scheme Effective Time	the date and time at which the Scheme becomes effective in accordance with its terms, expected to be at around 9.00 p.m. on 18 May 2018
Scheme Record Time	6.00 p.m. (London time) on the date the Scheme becomes effective in accordance with its terms
Scheme Resolution	the special resolution numbered 1 to be proposed at the Annual General Meeting, as set out in the notice of Annual General Meeting in Part XIV of the BGEO Group PLC Circular
SDRT	stamp duty reserve tax
Securities Act	the United States Securities Act of 1933
Separation Agreements	together, the Demerger Agreement, the Tax Sharing and Indemnification Agreement and the Transitional Service Agreement
Shareholders	holders of Shares
Shares	ordinary shares in the capital of Bank of Georgia Group PLC with a nominal value: (i) prior to the Capital Reduction becoming effective, equal to the final middle market quotation (as derived from the daily official list of the London Stock Exchange) of a BGEO Group PLC Share on the date of the Scheme Effective Time (or such other nominal value as the BGEO Group PLC Board may determine); and (ii) subsequent to the Capital Reduction becoming effective, 0.01 pence in the capital of the Company
Share Plan	The Bank of Georgia Executive Equity Compensation Plan
Share Plans Resolutions	the ordinary resolutions numbered 3 and 4 (inclusive) to be proposed at the Annual General Meeting, as set out in the notice of Annual General Meeting in Part XIV of the BGEO Group PLC Circular
Sponsor	Citi
Tax Sharing and Indemnification Agreement	the tax sharing and indemnification agreement to be entered into by the Company and Georgia Capital PLC, a summary of the principal terms of which is set out in paragraph 2.2 of Part XX of this Prospectus
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UK Listing Authority or UKLA	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
uncertificated or in uncertificated form	in respect of a share or other security, where that share or other security is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
Uncertificated Regulations	means the Uncertificated Securities Regulations 2001, as amended and for the time being in force
US or United States	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

Voting Record Time	6.00 p.m. (London time) on 26 April 2018 or, if the Court Meeting or the Annual General Meeting is adjourned, 6.00 p.m. (London time) on the day which is two days before the date of such adjourned meeting

All reference to legislation in this Prospectus are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall included any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

For the purpose of this Prospectus, ''subsidiary'', ''subsidiary undertaking'', ''undertaking'' and ''associated undertaking'' have the meanings given by the Companies Act.

PART XXVI

HISTORICAL FINANCIAL INFORMATION

The Company was incorporated on 15 August 2017 in preparation for the Demerger. To provide financial results for the Company's business, this Part XXVI (*Historical Financial Information*) sets forth combined historical financial information of the Banking Business of BGEO Group PLC as it will be following the Scheme and the Demerger as at and for each of the three years ended 31 December 2015, 31 December 2016 and 31 December 2017. In addition, this Part XXVI (*Historical Financial Information*) sets forth financial statements of Bank of Georgia Group PLC as at 31 December 2017.

A) COMBINED HISTORICAL FINANCIAL INFORMATION FOR THE BANKING BUSINESS OF BGEO GROUP PLC AS IT WILL BE FOLLOWING THE SCHEME AND THE DEMERGER AS AT AND FOR EACH OF THE YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016 AND 31 DECEMBER 2017

B) FINANCIAL STATEMENTS OF BANK OF GEORGIA GROUP PLC AS AT 31 DECEMBER 2017

ACCOUNTANTS REPORT

The Board of Directors
BGEO Group plc
84 Brook Street
London
W1K 5EH

26 March 2018

Dear Sirs

Banking Business of BGEO Group PLC

We report on the financial information set out on page F-4 to F-78 (the ''Combined Historical Financial Information'') as at and for the years ended 31 December 2015, 2016 and 2017. This financial information has been prepared for inclusion in the prospectus dated 26 March 2018 of the Company on the basis of the accounting policies set out in note 3. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 (the ''PD Regulation'') and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I of the PD Regulation, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with the basis of preparation set out in note 2.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Combined Historical Financial Information gives, for the purposes of the prospectus dated 26 March 2018, a true and fair view of the state of affairs of the Banking Business of BGEO Group PLC as at the dates stated and of its profits, other comprehensive income, cash flows and changes in invested capital for the periods then ended in accordance with the basis of preparation set out in note 2.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of the PD Regulation.

Yours faithfully

Ernst & Young LLP

COMBINED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Assets				
Cash and cash equivalents	7	1,516,402	1,480,784	1,378,301
Amounts due from credit institutions	8	1,216,350	940,486	718,676
Investment securities	9	1,613,759	1,283,902	904,146
Loans to customers and finance lease receivables	10	7,741,420	6,681,666	5,366,760
Prepayments		61,500	18,715	20,485
Investment properties	11	202,534	152,597	135,454
Property and equipment	12	322,925	296,677	293,133
Goodwill	13	33,352	33,352	33,352
Intangible assets		55,526	39,942	33,976
Income tax assets	14	920	19,324	14,759
Other assets	15	142,991	175,698	152,290
Total assets		**12,907,679**	**11,123,143**	**9,051,332**
Liabilities				
Client deposits and notes	16	7,078,058	5,755,767	5,011,269
Amounts owed to credit institutions	17	2,778,337	3,067,651	1,692,557
Debt securities issued	18	1,386,411	858,035	961,944
Accruals and deferred income		42,202	21,778	17,545
Income tax liabilities	14	20,099	22,529	84,964
Other liabilities	15	49,864	45,095	34,390
Total liabilities		**11,354,971**	**9,770,855**	**7,802,669**
Invested capital attributable to shareholders of the parent	20	**1,545,822**	**1,332,616**	**1,230,971**
Non-controlling interests		6,886	19,672	17,692
Invested capital		**1,552,708**	**1,352,288**	**1,248,663**
Total liabilities and invested capital		**12,907,679**	**11,123,143**	**9,051,332**

The accompanying notes on pages 6 to 74 are an integral part of these financial statements.

COMBINED INCOME STATEMENT

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Interest income		1,140,295	932,062	870,711
Interest expense		(468,192)	(378,452)	(360,114)
Net interest income	21	**672,103**	**553,610**	**510,597**
Fee and commission income		192,499	172,629	161,574
Fee and commission expense		(61,026)	(47,720)	(40,355)
Net fee and commission income	22	**131,473**	**124,909**	**121,219**
Net foreign currency gain		86,059	83,204	75,934
Other income		19,701	12,187	19,400
Revenue		**909,336**	**773,910**	**727,150**
Salaries and other employee benefits	23	(198,213)	(168,373)	(148,922)
Administrative expenses	23	(100,293)	(82,112)	(72,791)
Depreciation and amortisation		(40,974)	(37,207)	(33,364)
Other operating expenses		(3,457)	(3,854)	(3,209)
Operating expenses		**(342,937)**	**(291,546)**	**(258,286)**
Profit from associates		1,311	-	-
Operating income before cost of credit risk		**567,710**	**482,364**	**468,864**
Impairment charge on loans to customers	10	(155,212)	(158,891)	(142,819)
Impairment charge on finance lease receivables	10	(496)	(777)	(1,957)
Impairment charge on other assets and provisions		(11,591)	(8,083)	(6,031)
Cost of credit risk		**(167,299)**	**(167,751)**	**(150,807)**
Net operating income before non-recurring items		**400,411**	**314,613**	**318,057**
Net non-recurring items	24	(4,301)	(45,354)	(12,345)
Profit before income tax		**396,110**	**269,259**	**305,712**
Income tax (expense) benefit	14	(26,591)	26,444	(43,917)
Profit for the year		**369,519**	**295,703**	**261,795**
Attributable to:				
– shareholders of the parent		367,829	293,180	258,004
– non-controlling interests		1,690	2,523	3,791
		369,519	**295,703**	**261,795**
Earnings per share:	20			
– basic and diluted earnings per share		9.3394	7.4440	6.5509

The accompanying notes on pages 6 to 74 are an integral part of these financial statements.

COMBINED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Profit for the year		369,519	295,703	261,795
Other comprehensive (loss) income				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
– Unrealized revaluation of available-for-sale securities		3,595	86,245	(30,928)
– Realised (gain) loss on available-for-sale securities reclassified to the combined income statement		(2,058)	(28,325)	84
– Loss from currency translation differences		(4,181)	(166)	(10,723)
Income tax impact	14	(550)	(4,951)	(107)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		**(3,194)**	**52,803**	**(41,674)**
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	12	3,483	-	-
Income tax impact	14	(779)	-	-
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		**2,704**	**-**	**-**
Other comprehensive income (loss) for the year, net of tax		**(490)**	**52,803**	**(41,674)**
Total comprehensive income for the year		**369,029**	**348,506**	**220,121**
Total comprehensive income attributable to:				
– shareholders of the parent		367,152	345,590	219,063
– non-controlling interests		1,877	2,916	1,058
		369,029	**348,506**	**220,121**

The accompanying notes on pages 6 to 74 are an integral part of these financial statements.

COMBINED STATEMENT OF CHANGES IN INVESTED CAPITAL

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Invested capital		
	Attributable to the equity holders of the parent	*Non-controlling interests*	*Total Invested capital*
31 December 2014	**1,156,765**	**16,634**	**1,173,399**
Profit for the year	258,004	3,791	261,795
Other comprehensive loss for the year	(38,941)	(2,733)	(41,674)
Total comprehensive income for the year	**219,063**	**1,058**	**220,121**
Increase in invested capital arising from share-based payments	20,624	-	20,624
Net capital reduction	(59,292)	-	(59,292)
Dividends to shareholders of BGEO (Note 20)	(80,411)	-	(80,411)
Purchase of treasury shares	(25,778)	-	(25,778)
31 December 2015	**1,230,971**	**17,692**	**1,248,663**
Profit for the year	293,180	2,523	295,703
Other comprehensive income for the year	52,410	393	52,803
Total comprehensive income for the year	**345,590**	**2,916**	**348,506**
Increase in invested capital arising from share-based payments	37,224	-	37,224
Dividends to shareholders of BGEO (Note 20)	(97,604)	-	(97,604)
Net capital reduction	(65,682)	-	(65,682)
Dividends of subsidiaries to non-controlling shareholders	-	(936)	(936)
Acquisition of non-controlling interests in existing subsidiaries (Note 2)	(21,594)	-	(21,594)
Purchase of treasury shares	(96,289)	-	(96,289)
31 December 2016	**1,332,616**	**19,672**	**1,352,288**
Effect of early adoption of IFRS 15 (Note 3)	(10,827)	-	(10,827)
1 January 2017	**1,321,789**	**19,672**	**1,341,461**
Profit for the year	367,829	1,690	369,519
Other comprehensive income for the year	(677)	187	(490)
Total comprehensive income for the year	**367,152**	**1,877**	**369,029**
Increase in invested capital arising from share-based payments	47,998	-	47,998
Net capital reduction	(441)	-	(441)
Dividends to shareholders of BGEO (Note 20)	(101,501)	-	(101,501)
Acquisition of non-controlling interests in existing subsidiaries	14,663	(14,663)	-
Purchase of treasury shares	(103,838)	-	(103,838)
31 December 2017	**1,545,822**	**6,886**	**1,552,708**

The accompanying notes on pages 6 to 74 are an integral part of these financial statements.

COMBINED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Operating activities				
Interest received		1,121,288	931,549	871,222
Interest paid		(465,413)	(413,978)	(353,222)
Fees and commissions received		187,506	168,169	143,460
Fees and commissions paid		(60,657)	(47,175)	(40,019)
Net realised (loss) gain from trading securities		-	(1,476)	396
Net realised (loss) from investment securities available-for-sale		-	-	(83)
Net realised gain from foreign currencies		66,725	65,400	64,561
Recoveries of loans to customers previously written off	10	52,792	36,245	33,685
Net other expenses paid		(7,848)	(34,244)	(563)
Salaries and other employee benefits paid		(149,125)	(134,356)	(124,234)
General and administrative and operating expenses paid		(80,580)	(76,042)	(67,429)
Cash flows from operating activities before changes in operating assets and liabilities		**664,688**	**494,092**	**527,774**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(294,293)	(146,574)	(194,910)
Loans to customers and Finance lease receivables		(1,438,173)	(980,413)	229,241
Prepayments and other assets		(19,171)	40,227	16,770
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		(241,215)	1,225,557	101,450
Debt securities issued		518,957	(171,784)	(109,364)
Client deposits and notes		1,408,271	353,773	459,198
Other liabilities		(1,841)	13,605	(19,592)
Net cash flows from operating activities before income tax		**597,223**	**828,483**	**1,010,567**
Income tax paid		(8,476)	(44,326)	(31,511)
Net cash flows from operating activities		**588,747**	**784,157**	**979,056**
Investing activities				
Acquisition of subsidiaries, net of cash acquired		-	-	22,620
Repayment of remaining holdback amounts from previous year acquisitions		-	(8,768)	-
Net purchase of investment securities available-for-sale		(320,270)	(313,388)	(158,941)
Purchase of investments in associates		-	(819)	-
Proceeds from sale of investment properties	11	11,067	4,455	19,813
Proceeds from sale of property and equipment and intangible assets	12	1,727	1,934	5,023
Purchase of property and equipment and intangible assets		(110,471)	(50,522)	(60,326)
Net cash flows used in investing activities		**(417,947)**	**(367,108)**	**(171,811)**
Financing activities				
Dividends paid		(101,714)	(97,110)	(82,015)
Purchase of treasury shares		(103,838)	(95,452)	(25,778)
Net capital contribution (reduction)		87,301	(142,618)	(23,960)
(Purchase) proceeds from sale of interests in existing subsidiaries		(21,701)	-	(4,150)
Net cash used in financing activities		**(139,952)**	**(335,180)**	**(135,903)**
Effect of exchange rates changes on cash and cash equivalents		4,770	20,614	627
Net increase in cash and cash equivalents		**35,618**	**102,483**	**671,969**
Cash and cash equivalents, beginning of the year	7	**1,480,784**	**1,378,301**	**706,332**
Cash and cash equivalents, ending of the year	7	**1,516,402**	**1,480,784**	**1,378,301**

The accompanying notes on pages 6 to 74 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

This combined historical financial information is prepared for a group of companies (the "Group"), which represent a continuation of the banking business activities of BGEO Group PLC ("BGEO"). The Group principally provides banking, leasing, brokerage and investment management services to corporate and individual customers.

BGEO holds 100% share capital of JSC BGEO Group, which holds 99.55% in JSC Bank of Georgia (the "Bank"), the main banking business entity. The list of the companies included in the Group is provided in Note 2.

JSC Bank of Georgia 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.

On 3 July 2017 BGEO announced its intention to demerge BGEO Group PLC into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC, by the end of the first half of 2018. On 12 February 2018 the Board approved the implementation of the demerger. The demerger is subject to shareholder approval at the Annual General Meeting in April 2018, and the process is currently expected to complete by 30 June 2018.

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 2017, the Bank has 286 operating outlets in all major cities of Georgia (31 December 2016: 278, 31 December 2015: 266). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

2. Basis of Preparation

General

The Group did not comprise a separate legal entity or group of legal entities during the three years ended 31 December 2017 and therefore the historical financial information of the Group (the "Historical Financial Information") combines the results, assets and liabilities of the entities within the Group, as set out within note 2 along with certain assets, liabilities and transactions of the holding companies, BGEO Group plc and JSC BGEO.

The combined historical financial information of the Group for the three years ended 31 December 2017, 31 December 2016 and 31 December 2015 has been prepared specifically for the purposes of this Prospectus and in accordance with the Prospectus Directive Regulation (No 2004/809/EC) and in accordance with this basis of preparation. The combined Historical Financial Information of the Group may not be indicative of its future performance and does not necessarily reflect what the results of operations, financial position and cash flows would have been had the Group operated as a stand-alone group during the periods presented.

This basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs') except as described below.

IFRSs do not provide for the preparation of combined historical financial information and accordingly in preparing the combined Historical Financial Information certain accounting conventions commonly applied for the purposes of preparing historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRS. In all other respects, IFRSs have been applied.

- The Group's Historical Financial Information is not prepared on a consolidated basis and therefore does not comply with the requirements of IFRS 10 *Consolidated Financial Statements*. The combined Historical Financial Information has been prepared on a basis that combines the results and assets and liabilities of each of the entities that constitutes the Group, derived from the accounting records of those entities, by applying the principles underlying the consolidation procedures of IFRS 10 for each of the three years ended 31 December 2017, 31 December 2016 and 31 December 2015 and as at these dates.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

The following summarises the key accounting and other principles applied in preparing the combined Historical Financial Information:

- The Group has not previously formed a separate legal group and therefore it is not meaningful to present share capital or an analysis of reserves. The excess of assets over liabilities of all combining entities in the Group as of 31 December 2017, 31 December 2016 and 31 December 2015 are representative of the cumulative investment of BGEO PLC in the Group, shown as "Invested Capital".
- Certain assets, liabilities and transactions of the holding companies BGEO Group plc and JSC BGEO are included in the Historical Financial Information where they specifically relate to the Banking Business activities undertaken by the Group. These include specific corporate loan and US$250 million of the US$350 million 6.00 per cent. Notes due 2023 issued by JSC BGEO.
- Transactions and balances between entities within the Group have been eliminated. All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on combination
- Transactions and balances between the Group and the rest of the BGEO Group represent third-party transactions and balances from the perspective of the Group. They have been presented alongside all other third-party transactions and balances in the appropriate financial statement line items of the combined Historical Financial Information to which such transactions and balances relate and disclosed as related party transactions
- Goodwill recognised within BGEO's consolidated financial statements that is directly attributable to the entities within the Group has been reflected in the combined balance sheets in the Historical Financial Information and included in the financial information at the beginning of the comparative period (with a corresponding credit taken to Invested Capital). As permitted by IFRS 1, the deemed cost of this goodwill has been derived from that previously reported in the consolidated financial statements of BGEO Group PLC under IFRS.
- Dividends paid by the Banking Business to the holding companies BGEO Group PLC and JSC BGEO are treated as a transfer of capital to the investment business and hence recorded as capital reductions. The dividend payment to the external BGEO Group PLC shareholders is treated initially as a return of capital by the investment business and then an external dividend payment by the Banking Business. Net capital contributions and capital reductions of these nature are reported as "net capital contribution (reduction)" in the Combined Statement of Cash Flows and the Combined Statement of Changes in Invested Capital. The external dividends payment is shown separately in the Combined Statement of Changes in Invested Capital..

The accounting policies applied and disclosed in note 3 are consistent with those to be used by Bank of Georgia Group PLC in its next annual financial statements and these policies have been applied consistently to all periods presented unless stated otherwise. The Historical Financial Information is presented in Georgian Lari (GEL), the Group's presentational currency and all values are in thousands unless otherwise indicated.

The combined Historical Financial Information has been prepared under the historical cost convention except for the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, and investment properties.

The preparation of the combined Historical Financial Information requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses, as set out in note 4. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates

The combined historical financial information as at 31 December 2017, 31 December 2016 and 31 December 2015 include the following subsidiaries and associates:

Subsidiaries	*Proportion of voting rights and ordinary share capital held*			*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*
	31 December 2017	*31 December 2016*	*31 December 2015*					
JSC BGEO Group	100.00%	100.00%	100.00%	Georgia	29a Gagarini street, Tbilisi, 0105	Investment	28/5/2015	–
JSC Bank of Georgia	99.55%	99.55%	99.52%	Georgia	29a Gagarini street, Tbilisi, 0105	Banking	21/10/1994	–
⇒ Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	84 Brook Street, London W1K 5EH	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	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–
⇒ Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative Office	18/6/2012	–
⇒ Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	–
⇒ Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	100.00%	Georgia	Digomi District, Block III, Lot #38/3, Tbilisi, 0159	Sport	10/1/2011	–
⇒ Teaching University of Georgian Bank, LLC	100.00%	100.00%	100.00%	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	15/10/2013	–
⇒ Privat Guard, LLC	-	-	100.00%	Georgia	Didube-Chughureti district, №114, Ak. Tsereteli ave., Tbilisi.	Security	–	21/1/2015
⇒ Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8-th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009
⇒ JSC Belarusky Narodny Bank	99.98%	79.99%	79.99%	Belarus	Nezavisimosty ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008
⇒ BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Nezavisimosty ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008
⇒ Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi Str.,Tbilisi	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing	100.00%	100.00%	100.00%	Georgia	Didube-Chughureti district, №114, Ak. Tsereteli ave., Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BG Financial	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Investment	7/8/2015	–
⇒ JSC Galt & Taggart	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	100.00%	Azerbaijan	1C Mikayil Mushvig, Kempinski Hotel Badamdar, 6th floor, Yasamal. AZ1006, Baku	Representative Office	28/12/2013	–
⇒ Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8-th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	3/7/2006	–
⇒ BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	5A-3H, K.Chornogo lane, Minsk, 220012	Brokerage	19/2/2008	–
⇒ Solo, LLC	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Trade	22/4/2015	–
⇒ JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Registrar	29/5/2006	–
⇒ JSC Express Technologies	100.00%	100.00%	100.00%	Georgia	1b, Budapest Str. Tbilisi, 0160	Investments	29/10/2007	–
⇒ JSC Georgian Card	99.48%	99.47%	99.47%	Georgia	221 Nutsubidze Street, Tbilisi, 0168	Card processing	17/1/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Luxemburg 25, Tbilisi, 0160	Electronic payment services	7/3/2006	–
⇒ LLC Didi Digomi Research Center	100.00%	100.00%	100.00%	Georgia	80-82, D.Agmashenebeli street, Tbilisi, 0102	Communication services	23/4/2007	–
⇒ Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Ave,Tbilisi, 0162	Business servicing	10/5/2006	–
⇒ Express Technologies CEE, LLC	(a)	100.00%	100.00%	Hungary	H-1054 Budapest; Szabadsag ter 7. Bank Center Platina Tower; 2nd floor	Other Financial Service Activities	5/3/2014	N/A
JSC Agron Group	100.00%	100.00%	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Agro Trade	3/11/2014	–
Premium Compliance Advisory, LLC	100.00%	100.00%	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Various	17/2/2012	–

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Associates	Proportion of voting rights and ordinary share capital held 31 December 2017	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Credit info	21.08%	19.11%	16.63%	Georgia	2 Tarkhnishvili St., Tbilisi, Georgia	Financial Intermediation	14/2/2005	14/2/2005
JSC Tbilisi Stock Exchange	21.59%	21.59%	-	Georgia	72 Vazha Pshavela Avenue, Tbilisi, Georgia	Financial Intermediation	8/5/2015	23/12/2016

(a) Was liquidated in 2017

3. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Group in preparing its combined historical financial information:

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 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.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Business combinations and goodwill (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 combined income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 27.

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

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

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

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 historical financial information 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 historical financial information 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.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

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 combined income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially 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 combined income statement as net foreign currency gain (loss).

Measurement of financial instruments at initial recognition

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

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

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

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the combined 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 combined 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 combined income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Group 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

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. The Group recognises finance lease receivables in the combined 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 in other administrative and operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the combined statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the combined 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.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

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 combined 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 combined 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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Write-off of loans to customers

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

Available-for-sale financial assets

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

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

Renegotiated loans

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition 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 combined 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 combined historical financial information at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Group 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 sale in the ordinary course of business.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional 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 and changes in the fair value of investment property is recorded in the income statement within other income.

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 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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

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

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

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

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

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

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

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

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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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.

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 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 costs are recognised in combined income statement as salaries and other employee benefits.

Share-based payment transactions

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

Equity-settled transactions

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

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

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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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 historical financial information are authorised for issue.

Contingencies

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

Income and expense recognition

The Group recognises revenue when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. 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 and commission income is recognized when the Group satisfies a performance obligation. Fee income can be divided into the following categories:

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

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

Customer loyalty program

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Fee income from providing transaction services

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

Dividend income

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

Non-recurring items

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

Functional, reporting currencies and foreign currency translation

The combined historical financial information are presented in Georgian Lari, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the combined historical financial information 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 combined income statement as net foreign currency gain (loss). 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 net foreign currency gain (loss). The official NBG exchange rates at 31 December 2017, 31 December 2016 and 31 December 2015 were:

	Lari to GBP	***Lari to USD***	***Lari to EUR***	***Lari to BYN***
31 December 2017	3.5005	2.5922	3.1044	1.3083
31 December 2016	3.2579	2.6468	2.7940	1.3532
31 December 2015	3.5492	2.3949	2.6169	1.2904

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 combined 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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

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

IFRS 15 Revenue from Contracts with Customers

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

The Group early adopted the new revenue recognition standard effective from 1 January 2017 using the modified retrospective approach. The impact of early adoption was GEL 10,827 decrease of retained earnings, with corresponding increase of accruals and deferred income and decrease in income tax liabilities.

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

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

	31-Dec-16	Effect of IFRS 15 adoption	1-Jan-17
Assets			
Other	11,123,143	-	11,123,143
Total assets	**11,123,143**	**-**	**11,123,143**
Liabilities			
Accruals and deferred income	21,778	12,738	34,516
Income tax liabilities	22,529	(1,911)	20,618
Other	9,726,548	-	9,726,548
Total liabilities	**9,770,855**	**10,827**	**9,781,682**
Invested capital	**1,352,288**	**(10,827)**	**1,341,461**

In accordance with new revenue standard requirements, the disclosure of the impact of adoption on the Group's combined income statement and financial position for the year ended 31 December 2017 were as follows:

Extract from Consolidated Income Statement for the year end 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Fee and commission income	192,499	197,431	(4,932)
Fee and commission expense	(61,026)	(61,026)	-
Net fee and commission income	**131,473**	**136,405**	**(4,932)**
Other	777,863	777,863	-
Revenue	**909,336**	**914,268**	**(4,932)**
Other expenses	(341,626)	(341,626)	-
Operating income before cost of credit risk	**567,710**	**572,642**	**(4,932)**
Profit for the year	**369,519**	**374,451**	**(4,932)**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

Extract from Consolidated Statement of Financial Position as at 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Assets			
Other	12,907,679	12,907,679	-
Total assets	**12,907,679**	**12,907,679**	**-**
Liabilities			
Accruals and deferred income	42,202	24,532	17,670
Income tax liabilities	20,099	22,010	(1,911)
Other	11,292,670	11,292,670	-
Total liabilities	**11,354,971**	**11,339,212**	**15,759**
Invested capital	**1,552,708**	**1,568,467**	**(15,759)**
Total liabilities and invested capital	**12,907,679**	**12,907,679**	**-**

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for current period in Note 17.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group evaluated the impact and concluded that the amendment has no effect on the Group's financial position and performance.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect Group's historical financial information.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

Introduction

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 for annual periods on or after 1 January 2018, with early application permitted. In 2016, the Group set up a multidisciplinary implementation team with members from Risk, Finance and Operations teams and hired an external consultant to initiate the implementation of IFRS 9. The project was sponsored by Chief Risk and Chief Financial Officers who provided regular updates to the Group's Management Board. Implementation consisted of six key phases: the initial assessment and analysis, design, build, testing, parallel running and go live. Currently the Group has completed the IFRS 9 implementation programme including building of the new expected credit loss model and approving the IFRS 9 accounting policy across the Group.

The Group will adopt the new standard from the effective date by recognizing the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. Based on the data as at 31 December 2017, the Group estimates that the adoption of IFRS 9 will result in a pre-tax decrease in shareholders' equity as at 1 January 2018 of approximately 31,514. IFRS 9 is not expected to have an impact on regulatory capital and capital adequacy ratios (regulatory capital requirements in Georgia are set by the National Bank of Georgia and are applied to the Bank on a stand-alone basis).

(a) Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, expect equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments, fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments and amortized cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

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

The Group expects to continue measuring at fair value all financial assets currently held at fair value. Investments in debt securities and equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income will continue to be measured at fair value through other comprehensive income. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) Impairment of financial assets

IFRS 9 requires the Group to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. The Group has determined that the allowance for impairment will increase by 31,197 .

In summary, the pre-tax impact of IFRS 9 adoption is expected to be, as follows:

Pre-tax impact on equity (increase/(decrease)) as of 31 December 2017:

	Adjustment	Amount
Assets		
Cash and cash equivalents	(b)	(80)
Amounts due from credit institutions	(b)	(598)
Loans to customers and finance lease receivables	(b)	(30,519)
Other assets	(b)	3
Total assets		**(31,194)**
Liabilities		
Other liabilities - provisions	(b)	320
Invested capital attributable to shareholders of the parent	(b)	(31,385)
Non-controlling interests	(b)	(129)
Invested capital		**(31,514)**

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

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

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

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

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its combined financial statements.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Amendment is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Annual Improvements 2014-2016 Cycle

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

The amendments clarify that:

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

The amendments should be applied retrospectively and are effective from 1 January 2018. The Group does not expect a material effect from application of these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group is currently assessing the impact.

(Thousands of Georgian Lari)

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 combined historical financial information. 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 combined statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 27).

Measurement of fair value of investment properties

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

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

Allowance for impairment of loans and finance lease receivables

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

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

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

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions during the year ended 31 December 2015

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 recognized 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 deffered income	1,991
Other liabilities	6,668
	387,563
Total identifiable net assets	**83,126**
Goodwill arising on business combination	11,055
Consideration given [2]	**94,181**

The net cash 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.

[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.

(Thousands of Georgian Lari)

6. Segment Information

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

RB	- Retail Banking (excluding Retail Banking of BNB) - principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling customers' deposits for both individuals as well as legal entities, targets the emerging retail, mass retail and mass affluent segments, together with small and medium enterprises and micro businesses;
CIB	- Corporate Investment Banking - comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers The Investment Management business principally provides private banking services to high net worth clients;
BNB	- Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.
Other BB	- Comprising of holding companies: providing compliance, governance services for the Group's operating businesses and several small corporate and social responsibility companies.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2017, 2016 or 2015.

(Thousands of Georgian Lari)

6. Segment Information (continued)

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

	Banking Business					
	Retail banking	***Corporate investment banking***	***BNB***	***Other Banking Business***	***Banking Business Eliminations***	***Banking Business***
Net interest income	480,957	156,171	29,397	5,543	35	672,103
Net fee and commission income	99,790	22,717	9,336	(370)	-	131,473
Net foreign currency gain	28,937	46,276	10,852	(6)	-	86,059
Other income	5,028	14,256	1,774	-	(1,357)	19,701
Revenue	**614,712**	**239,420**	**51,359**	**5,167**	**(1,322)**	**909,336**
Operating expenses	(235,151)	(76,658)	(29,665)	(2,785)	1,322	(342,937)
Profit from associates	1,311	-	-	-	-	1,311
Operating income before cost of credit risk	**380,872**	**162,762**	**21,694**	**2,382**	**-**	**567,710**
Cost of credit risk	(110,802)	(47,403)	(9,093)	(1)	-	(167,299)
Net operating income before non-recurring items	**270,070**	**115,359**	**12,601**	**2,381**	**-**	**400,411**
Net non-recurring expense/loss	(2,358)	(1,882)	(59)	(2)	-	(4,301)
Profit before income tax	**267,712**	**113,477**	**12,542**	**2,379**	**-**	**396,110**
Income tax (expense) benefit	(18,046)	(7,584)	(2,257)	1,296	-	(26,591)
Profit for the year	**249,666**	**105,893**	**10,285**	**3,675**	**-**	**369,519**
Assets and liabilities						
Total assets	7,788,164	4,585,439	624,835	2,223	(92,982)	12,907,679
Total liabilities	6,927,987	3,974,452	545,315	199	(92,982)	11,354,971
Other segment information						
Property and equipment	45,085	6,460	1,464	115	-	53,124
Intangible assets	20,216	2,819	999	13	-	24,047
Capital expenditure	**65,301**	**9,279**	**2,463**	**128**	**-**	**77,171**
Depreciation & amortisation	(34,742)	(5,134)	(1,098)	-	-	(40,974)

(Thousands of Georgian Lari)

6. Segment Information (continued)

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

	Banking Business					
	Retail banking	*Corporate investment banking*	*BNB*	*Other Banking Business*	*Banking Business Eliminations*	*Banking Business*
Net interest income	374,022	147,108	30,773	1,707	-	553,610
Net fee and commission income	90,192	27,963	7,462	(550)	(158)	124,909
Net foreign currency gain	26,086	48,643	8,452	23	-	83,204
Other income	3,836	10,170	(738)	-	(1,081)	12,187
Revenue	**494,136**	**233,884**	**45,949**	**1,180**	**(1,239)**	**773,910**
Operating expenses	(197,624)	(69,100)	(20,905)	(5,156)	1,239	(291,546)
Operating income (expense) before cost of credit risk	**296,512**	**164,784**	**25,044**	**(3,976)**	**-**	**482,364**
Cost of credit risk	(75,688)	(76,266)	(15,797)	-	-	(167,751)
Net operating income (loss) before non-recurring items	**220,824**	**88,518**	**9,247**	**(3,976)**	**-**	**314,613**
Net non-recurring (expense/loss)	(32,002)	(11,934)	(1,418)	-	-	(45,354)
Profit (loss) before income tax	**188,822**	**76,584**	**7,829**	**(3,976)**	**-**	**269,259**
Income tax (expense) benefit	20,475	11,698	(5,141)	(588)	-	26,444
Profit (loss) for the year	**209,297**	**88,282**	**2,688**	**(4,564)**	**-**	**295,703**
Assets and liabilities						
Total assets	6,062,344	4,583,811	544,727	2,834	(70,573)	11,123,143
Total liabilities	5,369,587	3,995,930	475,256	655	(70,573)	9,770,855
Other segment information						
Property and equipment	31,705	4,855	1,407	64	-	38,031
Intangible assets	11,434	1,483	300	3	-	13,220
Capital expenditure	**43,139**	**6,338**	**1,707**	**67**	**-**	**51,251**
Depreciation & amortisation	(30,943)	(5,124)	(1,140)	-	-	(37,207)

(Thousands of Georgian Lari)

6. Segment Information (continued)

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

	Banking Business					
	Retail banking	Corporate investment banking	BNB	Other Banking Business	Banking Business Eliminations	Banking Business
Net interest income	322,879	156,068	29,307	2,343	-	510,597
Net fee and commission income	78,218	34,335	9,198	(440)	(92)	121,219
Net foreign currency gain	17,109	41,763	17,036	26	-	75,934
Other income	9,161	10,113	2,198	4	(2,076)	19,400
Revenue	**427,367**	**242,279**	**57,739**	**1,933**	**(2,168)**	**727,150**
Operating expenses	(172,296)	(63,357)	(19,731)	(5,070)	2,168	(258,286)
Operating income (expense) before cost of credit risk	**255,071**	**178,922**	**38,008**	**(3,137)**	**-**	**468,864**
Cost of credit risk	(75,405)	(56,159)	(19,270)	27	-	(150,807)
Net operating income (loss) before non-recurring items	**179,666**	**122,763**	**18,738**	**(3,110)**	**-**	**318,057**
Net non-recurring (expense/loss) income/gain	(8,946)	(4,877)	1,478	-	-	(12,345)
Profit (loss) before income tax	**170,720**	**117,886**	**20,216**	**(3,110)**	**-**	**305,712**
Income tax (expense) benefit	(23,995)	(17,256)	(2,753)	87	-	(43,917)
Profit (loss) for the year	**146,725**	**100,630**	**17,463**	**(3,023)**	**-**	**261,795**
Assets and liabilities						
Total assets	4,595,587	4,032,752	469,319	2,011	(48,337)	9,051,332
Total liabilities	3,115,237	4,338,340	397,283	146	(48,337)	7,802,669
Other segment information						
Property and equipment	43,990	6,870	1,193	186	-	52,239
Intangible assets	6,568	1,163	598	71	-	8,400
Capital expenditure	**50,558**	**8,033**	**1,791**	**257**	**-**	**60,639**
Depreciation & amortisation	(27,713)	(4,612)	(1,038)	(1)	-	(33,364)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2017	2016	2015
Cash on hand	447,180	466,932	441,905
Current accounts with central banks, excluding obligatory reserves	91,692	150,152	152,455
Current accounts with credit institutions	213,574	451,079	421,533
Time deposits with credit institutions with maturities of up to 90 days	763,956	412,621	362,408
Cash and cash equivalents	**1,516,402**	**1,480,784**	**1,378,301**

As at 31 December 2017, GEL 930,038 (2016: GEL 813,157, 2015: GEL 661,793) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.00% interest per annum on these deposits (2016: up to 0.90%, 2015: up to 0.59%). 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

	2017	2016	2015
Obligatory reserves with central banks	1,000,566	934,997	620,287
Time deposits with maturities of more than 90 days	209,233	38	28
Deposits pledged as security for open commitments	-	3,287	96,405
Inter-bank loan receivables	6,551	2,164	1,956
Amounts due from credit institutions	**1,216,350**	**940,486**	**718,676**

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 regulation. The Group earned up to 1.00% interest on obligatory reserves with NBG and NBRB for the year ended 31 December 2017 (2016: 0.25%, 2015: nil).

As at 31 December 2017, inter-bank loan receivables include GEL 6,551 (2016: GEL 2,164, 2015: GEL 1,956) placed with non-OECD banks.

9. Investment Securities

	2017	2016	2015
Georgian ministry of Finance treasury bonds*	847,839	811,531	575,590
Georgian ministry of Finance treasury bills**	77,460	88,411	165,545
Certificates of deposit of central banks***	73,415	24,015	76,807
Other debt instruments****	614,844	359,650	85,909
Corporate shares	201	295	295
Investment securities	**1,613,759**	**1,283,902**	**904,146**

** GEL 448,558 was pledged for short-term loans from the NBG (2016: GEL 712,169, 2015: GEL 229,800).*
*** GEL Nil was pledged for short-term loans from the NBG (2016: GEL 55,842, 2015: GEL 3,805).*
**** GEL Nil was pledged for short-term loans from the NBG (2016: 9,402, 2015: GEL 2,966).*
***** GEL 475,735 was pledged for short-term loans from the NBG (2016: GEL 286,832, 2015: 79,187).*

Other debt instruments as at 31 December 2017 mainly comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 268,057 (2016: GEL 133,055, 2015:50,666), GEL denominated bonds issued by the International Finance Corporation of GEL 110,862 (2016: GEL 28,402, 2015: GEL 28,460), GEL denominated bonds issued by the Asian Development Bank of GEL 65,245 (2016: 64,921, 2015: Nil), GEL denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,625 (2016: 60,454, 2015:Nil) and USD denominated bonds issued by an internationally recognized investment bank of GEL 26,666 (2016: GEL Nil, 2015: Nil).

(Thousands of Georgian Lari)

10. Loans to Customers and Finance Lease Receivables

	2017	*2016*	*2015*
Commercial loans	2,645,213	2,732,508	2,442,426
Consumer loans	1,751,106	1,367,228	1,165,107
Micro and SME loans	1,776,044	1,493,937	1,041,929
Residential mortgage loans	1,712,515	1,234,176	814,344
Gold – pawn loans	67,940	60,685	61,140
Loans to customers, gross	**7,952,818**	**6,888,534**	**5,524,946**
Less – Allowance for loan impairment	(276,704)	(252,587)	(198,895)
Loans to customers, net	**7,676,114**	**6,635,947**	**5,326,051**
Finance Lease Receivables, gross	**67,975**	**48,622**	**42,895**
Less – Allowance for finance lease receivables impairment	(2,669)	(2,903)	(2,186)
Finance Lease Receivables , net	**65,306**	**45,719**	**40,709**
Loans to customers and finance lease receivables, net	**7,741,420**	**6,681,666**	**5,366,760**

Allowance for loan impairment

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

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2017	*2017*	*2017*	*2017*	*2017*
At 1 January	**159,577**	**58,785**	**3,891**	**30,334**	**252,587**
Charge	40,313	80,607	2,700	31,592	155,212
Recoveries	9,979	23,485	8,151	11,177	52,792
Write-offs	(35,053)	(74,027)	(9,912)	(32,267)	(151,259)
Accrued interest on written-off loans	(10,746)	(16,649)	(768)	(4,141)	(32,304)
Currency translation differences	18	(143)	-	(199)	(324)
At 31 December	**164,088**	**72,058**	**4,062**	**36,496**	**276,704**
Individual impairment	153,341	1,019	2,427	23,621	180,408
Collective impairment	10,747	71,039	1,635	12,875	96,296
	164,088	**72,058**	**4,062**	**36,496**	**276,704**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**310,308**	**2,178**	**14,671**	**53,117**	**380,274**

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2016	*2016*	*2016*	*2016*	*2016*
At 1 January	**125,311**	**51,017**	**6,063**	**16,504**	**198,895**
Charge	75,288	64,099	3,899	15,605	158,891
Recoveries	3,525	21,632	4,003	7,085	36,245
Write-offs	(41,624)	(65,597)	(8,597)	(10,317)	(126,135)
Accrued interest on written-off loans	(3,900)	(12,463)	(1,475)	(642)	(18,480)
Currency translation differences	977	97	(2)	2,099	3,171
At 31 December	**159,577**	**58,785**	**3,891**	**30,334**	**252,587**
Individual impairment	143,311	1,977	2,272	23,704	171,264
Collective impairment	16,266	56,808	1,619	6,630	81,323
	159,577	**58,785**	**3,891**	**30,334**	**252,587**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**462,607**	**2,778**	**11,869**	**51,118**	**528,372**

(Thousands of Georgian Lari)

10. Loans to Customers and Finance Lease Receivables (continued)

Allowance for loan impairment (continued)

	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	415	(238)	2	1,046	1,225
At 31 December	**125,311**	**51,017**	**6,063**	**16,504**	**198,895**
Individual impairment	118,959	1,850	4,382	13,745	138,936
Collective impairment	6,352	49,167	1,681	2,759	59,959
	125,311	**51,017**	**6,063**	**16,504**	**198,895**
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**

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2017 comprised GEL 20,510 (2016: GEL 31,433, 2015: GEL 22,234).

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 or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the allowance for loan impairment would be GEL 253,818 higher as at 31 December 2017 (2016: GEL 322,880 higher, 2015: GEL 176,759 higher).

Concentration of loans to customers

As at 31 December 2017, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 866,689 accounting for 11% of the gross loan portfolio of the Group (2016: GEL 815,363 and 12% respectively, 2015: GEL 708,839 and 13% respectively). An allowance of GEL 43,332 (2016: GEL 20,123, 2015: GEL 2,484) was established against these loans.

As at 31 December 2017, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,097,198 accounting for 14% of the gross loan portfolio of the Group (2016: GEL 1,242,944 and 18% respectively, 2015: GEL 1,128,146 and 20% respectively). An allowance of GEL 75,540 (2016: GEL 51,831, 2015: GEL 41,410) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to Customers and Finance Lease Receivables (continued)

Concentration of loans to customers (continued)

As at 31 December 2017, 31 December 2016 and 31 December 2015, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2017	*2016*	*2015*
Individuals	4,297,114	3,336,589	2,482,389
Manufacturing	935,827	925,333	711,677
Trade	815,216	812,141	727,909
Real estate	432,352	423,124	354,325
Construction	368,509	304,890	178,641
Hospitality	283,527	233,891	168,011
Service	182,038	168,455	223,088
Transport & communication	114,926	166,288	165,330
Mining and quarrying	104,799	114,115	127,706
Electricity, gas and water supply	84,727	34,835	77,633
Financial intermediation	51,328	129,889	77,667
Other	282,455	238,984	230,570
Loans to customers, gross	**7,952,818**	**6,888,534**	**5,524,946**
Less – allowance for loan impairment	(276,704)	(252,587)	(198,895)
Loans to customers, net	**7,676,114**	**6,635,947**	**5,326,051**

Loans have been extended to the following types of customers:

	2017	*2016*	*2015*
Private companies	3,655,704	3,530,324	3,002,791
Individuals	4,297,114	3,336,589	2,482,389
State-owned entities	-	21,621	39,766
Loans to customers, gross	**7,952,818**	**6,888,534**	**5,524,946**
Less – allowance for loan impairment	(276,704)	(252,587)	(198,895)
Loans to customers, net	**7,676,114**	**6,635,947**	**5,326,051**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2017, 31 December 2016 and 31 December 2015:

	2017			*2016*			*2015*		
	Individual impairment 2017	*Collective impairment 2017*	*Total 2017*	*Individual impairment 2016*	*Collective impairment 2016*	*Total 2016*	*Individual impairment 2015*	*Collective impairment 2015*	*Total 2015*
At 1 January	**171,264**	**81,323**	**252,587**	**138,936**	**59,959**	**198,895**	**71,381**	**32,399**	**103,780**
Charge for the year	58,823	96,389	155,212	74,051	84,840	158,891	94,883	47,936	142,819
Recoveries	10,948	41,844	52,792	7,880	28,365	36,245	9,994	23,691	33,685
Write-offs	(49,554)	(101,705)	(151,259)	(46,994)	(79,141)	(126,135)	(34,722)	(36,218)	(70,940)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)	(5,394)	(13,086)	(18,480)	(3,618)	(8,056)	(11,674)
Currency translation differences	(305)	(19)	(324)	2,785	386	3,171	1,018	207	1,225
At 31 December	**180,408**	**96,296**	**276,704**	**171,264**	**81,323**	**252,587**	**138,936**	**59,959**	**198,895**

(Thousands of Georgian Lari)

10. Loans to Customers and Finance Lease Receivables (continued)

Finance Lease Receivables

	2017	*2016*	*2015*
Minimum lease payments receivable	83,008	60,715	51,649
Less – Unearned finance lease income	(15,033)	(12,093)	(8,754)
	67,975	**48,622**	**42,895**
Less – Allowance for impairment	(2,669)	(2,903)	(2,186)
Finance lease receivables, net	**65,306**	**45,719**	**40,709**

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 2017, the concentration of investment in the five largest lease receivables comprised GEL 4,403 or 6% of total finance lease receivables (2016: GEL 8,420 or 17%, 2015: GEL 15,234 or 36%) and finance income received from them for the year ended 31 December 2017 comprised GEL 755 or 7% of total finance income from lease (2016: GEL 395 or 4%, 2015: GEL 1,931 or 20%).

Future minimum lease payments to be received after 31 December 2017, 31 December 2016 and 31 December 2015 are as follows:

	2017	*2016*	*2015*
Within 1 year	43,782	29,265	28,807
From 1 to 5 years	34,224	31,450	22,842
More than 5 years	5,002	-	-
Minimum lease payment receivables	**83,008**	**60,715**	**51,649**

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

	Finance lease receivables 2017	*Finance lease receivables 2016*	*Finance lease receivables 2015*
At 1 January	**2,903**	**2,186**	**729**
Charge	496	777	1,957
Amounts written-off	(611)	(511)	(305)
Currency translation differences	(119)	451	(195)
At 31 December	**2,669**	**2,903**	**2,186**
Individual impairment	1,152	1,702	1,507
Collective impairment	1,517	1,201	679
	2,669	**2,903**	**2,186**
Gross amount of finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,593**	**2,475**	**3,725**

(Thousands of Georgian Lari)

11. Investment Properties

	2017	*2016*	*2015*
At 1 January	**152,597**	**135,454**	**116,622**
Additions	69,330	25,734	37,802
Disposals	(11,067)	(4,455)	(19,813)
Net gains (losses) from revaluation of investment property	7,336	(1,221)	6,388
Acquisition through business combination (Note 5)	-	-	705
Transfers (to) from property and equipment and other assets*	(15,939)	(3,225)	(956)
Currency translation differences	277	310	(5,294)
At 31 December	**202,534**	**152,597**	**135,454**

**** Comprised of GEL 4,449 transfer to property and equipment (2016: transfers to property and equipment GEL 351 and 2015: transfers to property and equipment GEL 1,649 respectively), No transfer to other assets - inventories (2016: transfer to other assets – inventories GEL 1,336 and 2015: transfer to other assets – inventories Nil) and GEL 11,490 transfer to finance lease receivables (2016: transfer to finance lease receivable GEL 1,538 and 2015: transfer from finance lease receivable GEL 693).***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2017 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 27 for details on fair value measurements of investment properties.

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

12. Property and Equipment

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

	Office buildings & service centers	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2016	**191,920**	**178,635**	**88,681**	**4,358**	**15,420**	**7,895**	**486,909**
Additions	11	20,944	16,064	1,237	201	14,667	53,124
Disposals	(1,235)	(316)	(824)	(263)	(3,779)	-	(6,417)
Transfers	13,105	4	121	-	7,007	(20,237)	-
Transfers from (to) investment properties	(4,115)	-	-	-	-	8,511	4,396
Transfers (to) from other assets	40	(735)	(1,365)	-	232	144	(1,684)
Revaluation	3,197	-	-	-	-	286	3,483
Currency translation differences	14	(33)	(18)	(10)	(18)	(83)	(148)
31 December 2017	**202,937**	**198,499**	**102,659**	**5,322**	**19,063**	**11,183**	**539,663**
Accumulated impairment							
31 December 2016	**2,510**	**40**	**85**	**7**	**-**	**9**	**2,651**
Currency translation differences	(37)	(2)	(3)	-	-	-	(42)
31 December 2017	**2,473**	**38**	**82**	**7**	**-**	**9**	**2,609**
Accumulated depreciation							
31 December 2016	**21,208**	**102,816**	**54,133**	**3,022**	**6,402**	**-**	**187,581**
Depreciation charge	2,142	16,127	11,060	1,131	3,846	-	34,306
Currency translation differences	(326)	1	(33)	-	(6)	-	(364)
Transfers to investment properties	(53)	-	-	-	-	-	(53)
Transfers (to) from other assets	(171)	(1,239)	(1,242)	-	1	-	(2,651)
Disposals	(402)	(196)	(455)	(188)	(3,449)	-	(4,690)
31 December 2017	**22,398**	**117,509**	**63,463**	**3,965**	**6,794**	**-**	**214,129**
Net book value:							
31 December 2016	**168,202**	**75,779**	**34,463**	**1,329**	**9,018**	**7,886**	**296,677**
31 December 2017	**178,066**	**80,952**	**39,114**	**1,350**	**12,269**	**11,174**	**322,925**

(Thousands of Georgian Lari)

12. Property and Equipment (continued)

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

	Office buildings & service centers	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2015	**188,350**	**162,307**	**78,209**	**4,555**	**14,330**	**6,912**	**454,663**
Additions	10	17,221	12,197	2,170	191	6,242	38,031
Business combination, Note 5	-	-	-	-	-	-	-
Disposals	5	(201)	(1,092)	(2,394)	(2,801)	-	(6,483)
Transfers	2,174	25	25	-	3,684	(5,908)	-
Transfers from investment properties	351	-	-	-	-	-	351
Transfers (to) from other assets	-	(760)	(857)	1	-	504	(1,112)
Currency translation differences	1,030	43	199	26	16	145	1,459
31 December 2016	**191,920**	**178,635**	**88,681**	**4,358**	**15,420**	**7,895**	**486,909**
Accumulated impairment							
31 December 2015	**780**	**37**	**82**	**7**	**-**	**9**	**915**
Impairment	1,403	-	-	-	-	-	1,403
Currency translation differences	327	3	3	-	-	-	333
31 December 2016	**2,510**	**40**	**85**	**7**	**-**	**9**	**2,651**
Accumulated depreciation							
31 December 2015	**17,994**	**87,323**	**45,442**	**3,692**	**6,164**	**-**	**160,615**
Depreciation charge	2,715	15,978	9,509	972	2,856	-	32,030
Currency translation differences	499	3	84	20	(13)	-	593
Transfers (to) from other assets	-	(414)	(694)	-	-	-	(1,108)
Disposals	-	(74)	(208)	(1,662)	(2,605)	-	(4,549)
31 December 2016	**21,208**	**102,816**	**54,133**	**3,022**	**6,402**	**-**	**187,581**
Net book value:							
31 December 2015	**169,576**	**74,947**	**32,685**	**856**	**8,166**	**6,903**	**293,133**
31 December 2016	**168,202**	**75,779**	**34,463**	**1,329**	**9,018**	**7,886**	**296,677**

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

	Office buildings & service centers	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost							
31 December 2014	**179,344**	**134,896**	**63,220**	**3,337**	**8,786**	**8,369**	**397,952**
Additions	4,001	20,791	11,577	928	357	14,344	51,998
Business combination	3,550	6,900	7,324	737	1,790	-	20,301
Disposals	(1,833)	(202)	(2,634)	(346)	(1,793)	(379)	(7,187)
Transfers	3,101	531	(20)	(27)	5,267	(8,852)	-
Transfers from investment properties	1,649	-	-	-	-	-	1,649
Transfers (to) from other assets	-	(343)	(736)	4	-	(6,231)	(7,306)
Currency translation differences	(1,462)	(266)	(522)	(78)	(77)	(339)	(2,744)
31 December 2015	**188,350**	**162,307**	**78,209**	**4,555**	**14,330**	**6,912**	**454,663**
Accumulated impairment							
31 December 2014	**2,514**	**50**	**120**	**13**	**9**	**9**	**2,715**
Reversal of impairment	(1,473)	-	-	-	-	-	(1,473)
Currency translation differences	(261)	(13)	(38)	(6)	(9)	-	(327)
31 December 2015	**780**	**37**	**82**	**7**	**-**	**9**	**915**
Accumulated depreciation							
31 December 2014	**16,373**	**73,176**	**38,256**	**2,899**	**4,876**	**-**	**135,580**
Depreciation charge	2,652	14,349	8,644	1,054	2,538	-	29,237
Currency translation differences	(815)	(85)	(232)	(34)	(36)	-	(1,202)
Transfers	(192)	220	22	(33)	(17)	-	-
Transfers (to) from other assets	-	(233)	(606)	3	-	-	(836)
Disposals	(24)	(104)	(642)	(197)	(1,197)	-	(2,164)
31 December 2015	**17,994**	**87,323**	**45,442**	**3,692**	**6,164**	**-**	**160,615**
Net book value:							
31 December 2014	**160,457**	**61,670**	**24,844**	**425**	**3,901**	**8,360**	**259,657**
31 December 2015	**169,576**	**74,947**	**32,685**	**856**	**8,166**	**6,903**	**293,133**

(Thousands of Georgian Lari)

13. Goodwill

Movements in goodwill during the years ended 31 December 2017, 31 December 2016 and 31 December 2015, were as follows:

	2017	*2016*	*2015*
Cost			
1 January	**57,745**	**57,745**	**46,690**
Business combinations	-	-	11,055
At 31 December	**57,745**	**57,745**	**57,745**
Accumulated impairment			
1 January	**24,393**	**24,393**	**24,393**
At 31 December	**24,393**	**24,393**	**24,393**
Net book value:			
1 January	**33,352**	**33,352**	**22,297**
At 31 December	**33,352**	**33,352**	**33,352**

Impairment test for goodwill

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

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

	2017	*2016*	*2015*
Retail banking	23,387	23,387	23,387
Corporate banking	9,965	9,965	9,965
Total	**33,352**	**33,352**	**33,352**

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

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

	Corporate Banking			*Retail Banking*		
	2017, %	*2016, %*	*2015, %*	*2017, %*	*2016, %*	*2015, %*
Discount rate	4.5%	5.3%	5.8%	6.1%	6.9%	6.7%

Key assumptions used in value in use calculations

Discount rates

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

For the Retail and Corporate banking CGUs the following additional assumptions were made:

- Stable, business as usual growth of loans and deposits;
- No material changes in cost / income structure or ratio;
- Stable, business as usual growth of trade finance and other documentary businesses;
- Further expansion of the express banking businesses bringing more stable margins to retail banking.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2017. Possible change was taken as +/-1% in discount rate and growth rate.

(Thousands of Georgian Lari)

14. Taxation

The corporate income tax credit (expense) comprises:

	2017	2016	2015
Current income expense	(36,773)	(18,581)	(34,511)
Deferred income tax (expense) credit	10,182	45,025	(9,406)
Income tax (expense) credit	**(26,591)**	**26,444**	**(43,917)**
Deferred income tax expense in other comprehensive income	**(1,329)**	**(4,951)**	**(107)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2017, 2016 and 2015 was as follows:

	2017	2016	2015
Currency translation differences	(577)	(4,930)	(107)
Net losses on investment securities available-for-sale	27	(21)	-
Revaluation of buildings	(779)	-	-
Income tax expense in other comprehensive income	**(1,329)**	**(4,951)**	**(107)**

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 27% (2016: from 15% to 27%, 2015: from 15% to 25%).

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

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2017, 31 December 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2017	2016	2015
Profit before income tax expense	**396,110**	**269,259**	**305,712**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(59,417)**	**(40,389)**	**(45,857)**
Non-taxable income	28,729	14,860	3,739
Correction of prior year declarations	5,940	2,664	-
Non-deductible expenses	(457)	(2,187)	-
Tax at the domestic rates applicable to profits in each country	(1,386)	(236)	214
Effects from changes in tax legislation	-	51,969	-
Other	-	(237)	(2,013)
Income tax benefit (expense)	**(26,591)**	**26,444**	**(43,917)**

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.

(Thousands of Georgian Lari)

14. Taxation (continued)

As at 31 December 2017, 31 December 2016 and 31 December 2015 income tax assets and liabilities consist of the following:

	2017	*2016*	*2015*
Current income tax assets	790	19,130	1,814
Deferred income tax assets	130	194	12,945
Income tax assets	**920**	**19,324**	**14,759**
Current income tax liabilities	8,757	359	9,969
Deferred income tax liabilities	11,342	22,170	74,995
Income tax liabilities	**20,099**	**22,529**	**84,964**

Deferred tax assets and liabilities as at 31 December 2017, 31 December 2016 and 31 December 2015 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				*and reversal of temporary*			*Origination and reversal of temporary differences*			
	2014	*In the income statement*	*Business combi-nation*	*In other compre-hensive income*	*2015*	*In the income statement*	*In other compre-hensive income*	*2016*	*In the income statement*	*IFRS 15 adoption*	*In other compre-hensive income*	*2017*
Tax effect of deductible temporary differences:												
Amounts due to credit institutions	994	(512)	-	-	482	(482)	-	-	-	-	-	-
Investment securities: available-for-sale	1,195	(1,194)	-	(1)	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	431	59	490	(284)	-	(18)	188
Insurance premiums receivables	-	-	-	-	-	-	-	-	-	-	-	-
Allowances for impairment and provisions for other losses	94	5,139	-	(367)	4,866	1,090	535	6,491	1,491	-	(205)	7,777
Tax losses carried forward	12,768	2,336	(1,992)	(153)	12,959	(4,793)	(8,166)	-	-	-	-	-
Property and equipment	56	(6)	-	-	50	138	632	820	81	-	(179)	722
Other assets and liabilities	2,254	(711)	-	2	1,545	457	183	2,185	1,629	-	(16)	3,798
Deferred tax assets	**17,361**	**5,052**	**(1,992)**	**(519)**	**19,902**	**(3,159)**	**(6,757)**	**9,986**	**2,917**	**-**	**(418)**	**12,485**
Tax effect of taxable temporary differences:												
Amounts due to credit institutions	44	(18)	-	(2)	24	1,206	-	1,230	(469)	-	-	761
Amounts due to customers	1,325	(1,325)	-	-	-	-	-	-	-	-	-	-
Loans to customers	30,236	(763)	-	(517)	28,956	(11,210)	720	18,466	(4,423)	-	(262)	13,781
Other insurance liabilities & pension fund obligations	-	-	-	-	-	-	-	-	-	-	-	-
Property and equipment	27,769	11,281	(3,777)	218	35,491	(27,976)	(1,097)	6,418	(2,668)	-	1,202	4,952
Investment properties	64	6,500	-	(53)	6,511	(4,966)	(1,545)	-	-	-	-	-
Intangible assets	4,525	(663)	-	(7)	3,855	(3,938)	102	19	(1)	-	(1)	17
Other assets and liabilities	7,720	(554)	-	(51)	7,115	(1,300)	14	5,829	296	(1,911)	(28)	4,186
Deferred tax liabilities	**71,683**	**14,458**	**(3,777)**	**(412)**	**81,952**	**(48,184)**	**(1,806)**	**31,962**	**(7,265)**	**(1,911)**	**911**	**23,697**
Net deferred tax liabilities	**(54,322)**	**(9,406)**	**1,785**	**(107)**	**(62,050)**	**45,025**	**(4,951)**	**(21,976)**	**10,182**	**1,911**	**(1,329)**	**(11,212)**

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities

Other assets comprise:

	2017	2016	2015
Foreclosed assets	52,095	50,821	49,602
Other receivables	23,605	12,903	19,380
Inventories	20,086	8,809	9,318
Derivative financial assets	13,484	2,610	42,212
Assets purchased for finance lease purposes	12,087	11,378	10,689
Investments in associates	11,850	10,445	-
Trading securities owned	6,172	6,667	4,575
Operating tax assets	5,505	4,997	3,727
Accounts receivable	3,572	55,376	3,776
Settlements on operations	928	1,100	5,060
Other	16,552	24,684	13,951
	165,936	**189,790**	**162,290**
Less – Allowance for impairment of other assets	(22,945)	(14,092)	(10,000)
Other assets	**142,991**	**175,698**	**152,290**

Other liabilities comprise:

	2017	2016	2015
Creditors	18,996	6,214	7,387
Other taxes payable	7,618	4,277	1,576
Derivative financial liabilities	3,948	15,689	3,243
Provisions	2,814	3,381	2,240
Accounts payable	1,531	1,814	647
Dividends payable to non-controlling shareholders	1,096	1,309	815
Amounts payable for share acquisitions	-	-	9,248
Other	13,861	12,411	9,234
Other liabilities	**49,864**	**45,095**	**34,390**

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.

	2017		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Forwards and Swaps – domestic	370,523	3,039	1,958
Forwards and Swaps – foreign	227,585	1,576	534
Interest rate contracts			
Forwards and Swaps – foreign	777,660	7,368	-
Options - foreign (IR)	10,183	1,501	1,456
Total derivative assets / liabilities	**1,385,951**	**13,484**	**3,948**

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities (continued)

	2016			2015		
	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability
Foreign exchange contracts						
Forwards and Swaps – domestic	347,458	2,098	8,012	12,510	183	10
Forwards and Swaps – foreign	302,679	512	7,043	145,055	41,994	510
Options Foreign	-	-	-	56,768	35	2,723
Interest rate contracts						
Forwards and Swaps – foreign	794,040	-	634	-	-	-
Total derivative assets / liabilities	**1,444,177**	**2,610**	**15,689**	**214,333**	**42,212**	**3,243**

16. Client Deposits and Notes

The amounts due to customers include the following:

	2017	2016	2015
Time deposits	3,349,902	2,843,763	2,617,274
Current accounts	3,653,690	2,837,776	2,393,127
Promissory notes issued	74,466	74,228	868
Client deposits and notes	**7,078,058**	**5,755,767**	**5,011,269**
Held as security against letters of credit and guarantees (Note19)	**98,399**	**96,692**	**64,534**

As at 31 December 2017, 31 December 2016 and 31 December 2015, 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 23 months (2016: 16 month, 2015: 9 months).

At 31 December 2017, amounts due to customers of GEL 1,066,616 (15%) were due to the 10 largest customers (2016: GEL 761,093 (13%), 2015: GEL 834,215 (17%).

Client deposits and notes include accounts with the following types of customers:

	2017	2016	2015
Individuals	3,883,940	3,134,250	2,615,774
Private enterprises	2,729,831	2,484,045	2,205,115
State and state-owned entities	464,287	137,472	190,380
Client deposits and notes	**7,078,058**	**5,755,767**	**5,011,269**

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

	2017	2016	2015
Individuals	3,883,940	3,134,250	2,615,774
Trade	593,543	436,931	375,700
Financial intermediation	592,025	493,212	397,025
Service	302,841	378,425	323,553
Construction	279,623	291,440	243,554
Transport & communication	257,818	213,301	317,161
Manufacturing	225,336	208,519	237,899
Real estate	105,030	127,095	73,027
Electricity, gas and water supply	109,780	113,572	74,125
Government services	438,492	102,530	141,007
Hospitality	44,241	22,248	18,818
Other	245,389	234,244	193,626
Client deposits and notes	**7,078,058**	**5,755,767**	**5,011,269**

(Thousands of Georgian Lari)

17. Amounts Owed to Credit Institutions

Amounts due to credit institutions comprise:

	2017	*2016*	*2015*
Borrowings from international credit institutions	1,087,896	1,072,033	618,333
Short-term loans from the National Bank of Georgia	793,528	1,085,000	307,200
Time deposits and inter-bank loans	263,728	144,102	279,317
Correspondent accounts	204,512	329,609	92,617
	2,349,664	**2,630,744**	**1,297,467**
Non-convertible subordinated debt	428,673	436,907	395,090
Amounts due to credit institutions	**2,778,337**	**3,067,651**	**1,692,557**

During the year ended 31 December 2017, the Group paid up to 6.27% on USD borrowings from international credit institutions (2016: up to 5.79%, 2015: up to 5.29%). During the year ended 31 December 2017, the Group paid up to 8.92% on USD subordinated debt (2016: up to 8.44% and 2015: up to 7.95%).

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 2017, 31 December 2016 and 31 December 2015 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

Changes in liabilities arising from financing activities

	Amounts due to credit institutions
Carrying amount at 31 December 2016	21,692
Foreign currency translation	9
Cash repayments	(21,701)
Carrying amount at 31 December 2017	-

18. Debt Securities Issued

Debt securities issued comprise:

	2017	*2016*	*2015*
Eurobonds and notes issued*	1,092,054	655,219	908,183
Local bonds	54,317	25,545	20,999
Certificates of deposit	240,040	177,271	32,762
Debt securities issued	**1,386,411**	**858,035**	**961,944**

** As at 31 December 2017 and 31 December 2016 Eurobonds and notes issued includes US$250 million of the US$350 million 6.00 per cent. Notes due 2023 issued by JSC BGEO.*

On 24 May 2017, the Group completed the issuance of GEL 500 million Lari denominated 11.00% notes due 2020. The Regulation S/Rule 144A senior unsecured notes were issued and sold at an issue price of 100% of their principal amount. The notes are rated BB- (Fitch) and Ba3 (Moody's). The notes are listed on the Irish Stock Exchange.

On 26 July 2016, JSC BGEO Group completed the issuance of its US$ 350 million 6.00% notes due 2023 (the "Notes"). The Regulation S/Rule 144A senior unsecured Notes were issued and sold at an issue price of 99.297% of their principal amount. The Notes are rated BB- (Fitch) and B1 (Moody's). The Notes are listed on the Irish Stock Exchange. Following the issuance of the new Notes, the Bank fully redeemed the existing 7.75% Eurobonds due 2017. The Group incurred a loss of GEL 43,919 in 2016 (Note 24) from full redemption of Eurobonds

(Thousands of Georgian Lari)

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 2017, 31 December 2016 and 31 December 2015 the Group's financial commitments and contingencies comprised the following:

	2017	*2016*	*2015*
Credit-related commitments			
Guarantees issued	621,267	456,996	473,839
Undrawn loan facilities	261,397	231,704	273,851
Letters of credit	40,350	58,561	43,126
	923,014	**747,261**	**790,816**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(98,399)	(96,692)	(64,534)
Less – Provisions	(2,814)	(3,381)	(2,240)
Operating lease commitments			
Not later than 1 year	18,895	20,158	14,245
Later than 1 year but not later than 5 years	44,172	45,875	29,225
Later than 5 years	16,369	18,740	5,553
	79,436	**84,773**	**49,023**
Capital expenditure commitments	**2,538**	**2,394**	**2,422**
Financial commitments and contingencies, net	**903,775**	**734,355**	**775,487**

20. Invested Capital

Dividends

Shareholders of BGEO are entitled to dividends in British Pounds Sterling.

On 1 June 2017, the Shareholders of BGEO approved a final dividend for 2016 of Georgian Lari 2.6 per share. The currency conversion date was set at 26 June 2017, with the official GEL – GBP exchange rate of 3.1, resulting in a GBP denominated final dividend of 0.8472 per share. Payment of the total GEL 101,501 final dividends was received by shareholders on 7 July 2017.

On 26 May 2016, the Shareholders of BGEO approved a final dividend for 2015 of Georgian Lari 2.4 per share. The currency conversion date was set at 11 July 2016, with the official GEL – GBP exchange rate of 3.0376, resulting in a GBP denominated final dividend of 0.7901 per share. Payment of the total GEL 97,604 final dividends was received by shareholders on 22 July 2016.

On 21 May 2015, the Shareholders of BGEO approved a final 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 final dividend of 0.5981 per share. Payment of the total GEL 80,411 final dividends was received by shareholders on 16 June 2015.

(Thousands of Georgian Lari)

20. Invested Capital (continued)

Earnings per share

	2017	*2016*	*2015*
Basic and diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Parent	367,829	293,180	258,004
Weighted average number of ordinary shares outstanding during the year*	39,384,712	39,384,712	39,384,712
Basic and diluted earnings per share	9.3394	7.4440	6.5509

* *Weighted average number of ordinary shares of the Group represents expected outstanding number of shares of Bank of Georgia Group PLC.*

21. Net Interest Income

	2017	*2016*	*2015*
From loans to customers	995,731	822,558	781,843
From investment securities: available-for-sale	113,290	91,099	69,514
From finance lease receivable	14,144	10,420	9,728
From amounts due from credit institutions	17,130	7,985	9,626
Interest Income	**1,140,295**	**932,062**	**870,711**
On client deposits and notes	(215,683)	(194,047)	(190,777)
On amounts owed to credit institutions	(170,124)	(124,668)	(100,704)
On debt securities issued	(82,385)	(59,737)	(68,633)
Interest Expense	**(468,192)**	**(378,452)**	**(360,114)**
Net Interest Income	**672,103**	**553,610**	**510,597**

22. Net Fee and Commission Income

	2017	*2016*	*2015*
Settlements operations	153,529	129,792	112,540
Guarantees and letters of credit	17,879	19,517	27,360
Cash operations	14,180	13,752	14,425
Currency conversion operations	446	585	1,550
Brokerage service fees	1,813	1,055	580
Advisory	-	2,535	2,070
Other	4,652	5,393	3,049
Fee and commission income	**192,499**	**172,629**	**161,574**
Settlements operations	(48,786)	(34,824)	(29,921)
Cash operations	(5,156)	(5,807)	(4,670)
Guarantees and letters of credit	(2,192)	(2,880)	(3,836)
Insurance brokerage service fees	(3,148)	(2,431)	(625)
Currency conversion operations	(27)	(20)	(62)
Other	(1,717)	(1,758)	(1,241)
Fee and commission expense	**(61,026)**	**(47,720)**	**(40,355)**
Net fee and commission income	**131,473**	**124,909**	**121,219**

(Thousands of Georgian Lari)

22. Net fee and commission income (continued)

Revenue from customers

The group has recognised GEL 200,222 relating to revenue from contracts with customers in the income statement.

Contract assets and liabilities

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

	31-Dec-17	1-Jan-17
Accruals and deferred income	17,730	12,798

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

The Group recognised GEL 5,531 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

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

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts	16,534	7,336	3,204	3,618	495	**31,187**

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

(Thousands of Georgian Lari)

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

Salaries and other employee benefits

	2017	*2016*	*2015*
Salaries and bonuses	(193,508)	(164,607)	(145,294)
Social security costs	(3,869)	(3,049)	(2,986)
Pension costs	(836)	(717)	(642)
Salaries and other employee benefits	**(198,213)**	**(168,373)**	**(148,922)**

The average number of staff employed by the Group for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 comprised:

	2017	*2016*	*2015*
The Bank	5,248	4,729	4,591
BNB	655	575	504
Other	819	782	726
Average number of staff employed	**6,722**	**6,086**	**5,821**

Salaries and bonuses include GEL 48,824, GEL 40,163 and GEL 29,863 of the Equity Compensation Plan costs for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 25 and 29).

General and administrative expenses

	2017	*2016*	*2015*
Occupancy and rent	(24,546)	(19,356)	(16,315)
Marketing and advertising	(14,112)	(11,833)	(6,538)
Repairs and maintenance	(13,248)	(10,526)	(9,733)
Legal and other professional services	(9,763)	(10,226)	(9,884)
Operating taxes	(7,404)	(6,568)	(5,275)
Office supplies	(6,017)	(4,823)	(4,682)
Communication	(5,565)	(4,920)	(5,377)
Corporate hospitality and entertainment	(5,263)	(4,896)	(3,599)
Insurance	(3,843)	(2,771)	(2,408)
Personnel training and recruitment	(3,418)	(1,646)	(1,562)
Security	(2,237)	(1,562)	(1,718)
Travel expenses	(1,791)	(1,214)	(1,590)
Other	(3,086)	(1,771)	(4,110)
General and administrative expenses	**(100,293)**	**(82,112)**	**(72,791)**

(Thousands of Georgian Lari)

24. Net Non-recurring Items

	2017	2016	2015
Termination benefits	(868)	(9,820)	(1,598)
Gain from the sale of Class C and Class B shares of Visa Inc. and MasterCard, respectively	-	16,426	-
Gain on reclassification of AFS investment to investment in associate	-	9,626	-
Loss from full redemption of debt securities issued (Note 18)	-	(43,919)	-
Consulting costs	-	(5,258)	-
Impairment of prepayments	-	(2,205)	(2,205)
Impairment of property and equipment, and intangible assets	-	(1,403)	(51)
Reversal of impairment on property and equipment	-	-	1,524
Loss from early repayments of borrowings from international credit institutions and debt securities issued	-	-	(4,519)
JSC PrivatBank integration costs	-	-	(3,731)
Impairment of finance lease receivables	-	-	(1,969)
Other	(3,433)	(8,801)	204
Net non-recurring expense/loss	**(4,301)**	**(45,354)**	**(12,345)**

25. Share-based Payments

Executives' Equity Compensation Plan

In 2015 BGEO Group PLC founded Executive Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of BGEO Group PLC's Executives' Equity Compensation Plan ("EECP").

The respective Equity Compensation Plan costs are recorded in Group's combined historical financial information based on proportionate share of respective executive's involvement in managing the Group.

In February 2017, BGEO Group PLC's remuneration committee resolved to award 268,950 ordinary shares of BGEO Group PLC to the members of the Management Board and 73,550 ordinary shares of BGEO Group PLC to BGEO Group PLC's 20 executives. Shares awarded to the Management Board and the other 20 executives are subject to three-year vesting for Management Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. BGEO Group PLC considers 28 February 2017 as the grant date. BGEO Group PLC estimates that the fair value of the shares awarded on 28 February 2017 was Georgian Lari 90.01 per share.

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

In March 2015, BGEO Group PLC's remuneration committee resolved to award 153,500 ordinary shares of BGEO Group PLC to the members of the Management Board and 107,215 ordinary shares of BGEO Group PLC to BGEO Group PLC's 20 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. BGEO Group PLC considers 19 March 2015 as the grant date. BGEO Group PLC estimates that the fair value of the shares awarded on 19 March 2015 was Georgian Lari 57.41 per share.

In August 2015, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 934,000 ordinary shares of BGEO Group PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. BGEO Group PLC considers 24 August 2015 as the grant date for the awards. BGEO Group PLC estimates that the fair value of the shares on 24 August 2015 was Georgian Lari 59.17.

(Thousands of Georgian Lari)

25. Share-based Payments (continued)

Executives' Equity Compensation Plan (continued)

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

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

The Bank grants share compensation to its non-executive employees. In February 2017, February 2016 and March 2015, the Supervisory Board of the Bank resolved to award 131,710, 91,851 and 111,298 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. BGEO Group PLC considers 28 February 2017, 12 February 2016and 19 March 2015 as the grant dates of these awards, respectively. BGEO Group PLC estimates that the fair values of the shares awarded on 28 February 2017, 12 February 2016 and 19 March 2015 were Georgian Lari 90.01, 57.83 and 57.41 per share, respectively.

Summary

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

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 89.80 per share in year ended 31 December 2017 (31 December 2016: Georgian Lari 66.60 per share, 31 December 2015: Georgian Lari 58.74).

The Group's total share-based payment expenses for the year ended 31 December 2017 comprised GEL 48,824 (31 December 2016: GEL 40,163, 31 December 2015: GEL 29,863) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2017	*2016*	*2015*
Total number of equity instruments awarded *	615,210	657,951	1,536,013
– Among them, to top management and board of directors	*409,950*	*513,500*	*1,106,000*
Weighted average value at grant date, per share (GEL in full amount)	89.80	66.60	58.74
Value at grant date, total (GEL)	**55,243**	**43,821**	**90,228**
Total expense recognised during the year (GEL)	**(48,824)**	**(40,163)**	**(29,863)**

**** 2015 award includes fixed contingent share-based compensation of 1,164,000 ordinary shares per new employment agreements signed on 24 August 2015 for subsequent consecutive 3 year period, including 934,000 of the Management Board members.***

During 2017, BGEO directors obtained 126,000 shares (2016: 115,000, 2015: 147,500) with fair value of GEL 12,049 (2016: GEL 10,760, 2015: GEL 8,251). Weighted average share price comprised GEL 95.63 per share (2016:GEL 93.57, 2015: GEL 55.94).

(Thousands of Georgian Lari)

26. 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.

Due to significance of the Group to BGEO Group PLC, governing bodies of BGEO Group PLC contribute significantly to the risk management of the Group

Risk management structure

Audit Committee
The Audit Committee of BGEO Group PLC assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the combined historical financial information and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and 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.

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

Management Board
The Management Board the Group has overall responsibility for the Group'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 Group.

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

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

Risk measurement and reporting systems

The 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.

(Thousands of Georgian Lari)

26. Risk Management (continued)

Introduction (continued)

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

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

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

Risk mitigation

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

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

Excessive risk concentration

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

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

Credit risk

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

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

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

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

Derivative financial instruments

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

Credit-related commitments risks

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

Credit quality per class of financial assets

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

		Neither past due nor impaired				
31 December 2017	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	1,216,350	-	-	-	1,216,350
Debt investment securities available-for-sale	9	1,613,558	-	-	-	1,613,558
Loans to customers:	10					
Commercial loans		1,817,118	511,296	6,193	310,606	2,645,213
Consumer loans		1,580,503	37,612	31,915	101,076	1,751,106
Micro and SME loans		1,547,233	105,302	30,019	93,490	1,776,044
Residential mortgage loans		1,619,638	28,961	19,783	44,133	1,712,515
Gold – pawn loans		65,865	-	-	2,075	67,940
		6,630,357	**683,171**	**87,910**	**551,380**	**7,952,818**
Finance lease receivables	10	48,358	12,161	2,063	5,393	67,975
Total		**9,508,623**	**695,332**	**89,973**	**556,773**	**10,850,701**

		Neither past due nor impaired				
31 December 2016	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	940,486	-	-	-	940,486
Debt investment securities available-for-sale	9	1,283,607	-	-	-	1,283,607
Loans to customers:	10					
Commercial loans		1,673,607	565,387	17,814	475,700	2,732,508
Consumer loans		1,243,553	21,520	23,740	78,415	1,367,228
Micro and SME loans		1,225,610	113,565	37,761	117,001	1,493,937
Residential mortgage loans		1,134,266	49,285	15,052	35,573	1,234,176
Gold – pawn loans		56,977	-	-	3,708	60,685
		5,334,013	**749,757**	**94,367**	**710,397**	**6,888,534**
Finance lease receivables	10	29,111	9,925	3,089	6,497	48,622
Total		**7,587,217**	**759,682**	**97,456**	**716,894**	**9,161,249**

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

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

31 December 2015	Notes	Neither past due nor impaired High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	718,676	-	-	-	718,676
Debt investment securities available-for-sale	9	903,851	-	-	-	903,851
Loans to customers:	10					
Commercial loans		1,834,073	196,607	57,085	354,661	2,442,426
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
		4,585,457	**321,514**	**118,778**	**499,197**	**5,524,946**
Finance lease receivables	10	16,425	12,270	3,531	10,669	42,895
Total		**6,224,409**	**333,784**	**122,309**	**509,866**	**7,190,368**

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

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

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

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

31 December 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	42,625	15,044	12,321	28,907	98,897
Micro and SME loans	7,486	8,822	4,777	19,288	40,373
Residential mortgage loans	14,446	4,969	2,144	7,903	29,462
Commercial loans	1,487	452	208	227	2,374
Finance lease receivables	2,499	227	-	74	2,800
Total	**68,543**	**29,514**	**19,450**	**56,399**	**173,906**

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

31 December 2016	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	34,353	10,940	9,349	20,995	75,637
Micro and SME loans	20,035	9,494	6,479	29,874	65,882
Residential mortgage loans	10,074	4,472	1,840	7,319	23,705
Commercial loans	10,235	4,558	387	1,621	16,801
Finance lease receivables	2,565	368	349	740	4,022
Total	**77,262**	**29,832**	**18,404**	**60,549**	**186,047**

31 December 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	29,592	8,498	6,930	23,724	68,744
Micro and SME loans	5,196	4,148	1,000	4,259	14,603
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,727	1,227	25	1,596	24,575
Finance lease receivables	1,520	342	535	4,547	6,944
Total	**65,629**	**15,422**	**9,398**	**39,149**	**129,598**

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 278,284, GEL 293,054 and GEL 166,224 as at 31 December 2017, 31 December 2016 and 31 December 2015, 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.

	2017	2016	2015
Loans to customers:			
Commercial loans	103,365	235,026	141,294
Micro and SME loans	47,539	37,003	20,890
Residential mortgage loans	44,058	38,757	28,594
Consumer loans	39,318	29,828	18,243
Finance lease receivables	5,508	5,829	2,684
Total	**239,788**	**346,443**	**211,705**

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.

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired is determined through individual assessment of the associated credit risk by assigning a respective 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:

	2017			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	489,158	930,038	97,206	1,516,402
Amounts due from credit institutions	1,023,152	182,699	10,499	1,216,350
Investment securities	980,876	559,468	73,415	1,613,759
Loans to customers and finance lease receivables	7,341,680	-	399,740	7,741,420
All other assets	739,807	6,210	73,731	819,748
	10,574,673	**1,678,415**	**654,591**	**12,907,679**
Liabilities:				
Client deposits and notes	5,311,591	663,234	1,103,233	7,078,058
Amounts owed to credit institutions	1,071,185	1,631,332	75,820	2,778,337
Debt securities issued	276,479	1,081,420	28,512	1,386,411
All other liabilities	107,600	580	3,985	112,165
	6,766,855	**3,376,566**	**1,211,550**	**11,354,971**
Net balance sheet position	**3,807,818**	**(1,698,151)**	**(556,959)**	**1,552,708**

(Thousands of Georgian Lari)

26. Risk Management (continued)

Credit risk (continued)

	2016				2015			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	601,735	813,157	65,892	1,480,784	570,022	661,793	146,486	1,378,301
Amounts due from credit institutions	933,639	3,287	3,560	940,486	619,670	95,100	3,906	718,676
Investment securities	912,345	286,832	84,725	1,283,902	825,099	79,047	-	904,146
Loans to customers and finance lease receivables	6,319,566	-	362,100	6,681,666	5,046,647	-	320,113	5,366,760
All other assets	702,917	5,610	27,778	736,305	647,283	6,957	29,209	683,449
	9,470,202	**1,108,886**	**544,055**	**11,123,143**	**7,708,721**	**842,897**	**499,714**	**9,051,332**
Liabilities:								
Client deposits and notes	4,130,287	675,971	949,509	5,755,767	3,615,991	588,856	806,422	5,011,269
Amounts owed to credit institutions	1,373,412	1,583,393	110,846	3,067,651	426,205	1,048,981	217,371	1,692,557
Debt securities issued	27,052	806,857	24,126	858,035	20,999	940,945	-	961,944
All other liabilities	76,940	7,218	5,244	89,402	131,387	791	4,721	136,899
	5,607,691	**3,073,439**	**1,089,725**	**9,770,855**	**4,194,582**	**2,579,573**	**1,028,514**	**7,802,669**
Net balance sheet position	**3,862,511**	**(1,964,553)**	**(545,670)**	**1,352,288**	**3,514,139**	**(1,736,676)**	**(528,800)**	**1,248,663**

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. Minimum NBG requirement for liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by liabilities for the same month (with certain exceptions established by the NBG). For the year ended 31 December 2017, 31 December 2016 and 31 December 2015 these ratios were as follows:

	2017, %	*2016, %*	*2015, %*
Average liquidity ratio	39.8%	43.6%	38.1%
Maximum liquidity ratio	47.0%	62.5%	48.0%
Minimum liquidity ratio	31.3%	34.1%	28.9%

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

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

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

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

(Thousands of Georgian Lari)

26. Risk Management (continued)

Liquidity risk and funding management (continued)

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

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

Financial liabilities As at 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	2,906,720	3,624,565	626,061	65,597	7,222,943
Amounts owed to credit institutions	1,315,912	519,075	859,340	513,642	3,207,969
Debt securities issued	25,551	172,984	920,432	667,468	1,786,435
Derivative financial liabilities	3,139	809	-	-	3,948
Other liabilities	1,557	-	-	-	1,557
Total undiscounted financial liabilities	**4,252,879**	**4,317,433**	**2,405,833**	**1,246,707**	**12,222,852**

Financial liabilities As at 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	2,213,339	3,119,928	504,757	49,205	5,887,229
Amounts owed to credit institutions	1,648,689	490,814	924,975	431,597	3,496,075
Debt securities issued	44,616	85,792	333,652	584,516	1,048,576
Derivative financial liabilities	8,465	6,589	634	-	15,688
Other liabilities	1,824	-	-	-	1,824
Total undiscounted financial liabilities	**3,916,933**	**3,703,123**	**1,764,018**	**1,065,318**	**10,449,392**

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	3,215,359	1,269,700	616,040	60,094	5,161,193
Amounts owed to credit institutions	305,320	354,940	554,878	515,649	1,730,787
Debt securities issued	49,386	19,472	994,403	-	1,063,261
Derivative financial liabilities	2,871	-	-	-	2,871
Total undiscounted financial liabilities	**3,572,936**	**1,644,112**	**2,165,321**	**575,743**	**7,958,112**

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 2017	394,936	191,796	317,129	101,127	1,004,988
31 December 2016	344,010	219,015	229,437	41,966	834,428
31 December 2015	409,539	298,963	116,478	17,281	842,261

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 client deposits and notes are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 16).

(Thousands of Georgian Lari)

26. Risk Management (continued)

Market risk

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

Interest rate risk

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

The sensitivity of the combined 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 2017. 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 2017, year ended 31 December 2016 and year ended 31 December 2015, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

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

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

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	206	261	(1,758)
EUR	1	1	-
USD	3	69	-

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	206	(261)	1,758
EUR	1	(1)	-
USD	3	(69)	-

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	63	1,887	(5,080)
EUR	20	81	-
USD	5	187	-

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	63	(1,887)	5,080
EUR	20	(81)	-
USD	5	(187)	-

(Thousands of Georgian Lari)

26. Risk Management (continued)

Market risk (continued)

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2017, year ended 31 December 2016 and year ended 31 December 2015, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2017		*2016*		*2015*	
EUR	12.0%	(2,487)	11.6%	(3,336)	2.9%	1
USD	8.9%	5,758	9.3%	3,507	1.1%	(1,329)

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 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 2017, 31 December 2016 and 31 December 2015 is as follows:

	Effect on net interest income
2017	(46,527)
2016	(27,487)
2015	(19,341)

Operational risk

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

(Thousands of Georgian Lari)

26. Risk Management (continued)

Operating environment

Most of the Group's business 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.

27. Fair Value Measurements

Fair value hierarchy

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

31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	202,534	202,534
Land	-	-	*38,378*	*38,378*
Residential properties	-	-	64,038	*64,038*
Non-residential properties	-	-	*100,118*	*100,118*
Investment securities	-	1,613,463	296	1,613,759
Other assets – derivative financial assets	-	13,484	-	13,484
Other assets – trading securities owned	-	6,172	-	6,172
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,516,402	-	1,516,402
Amounts due from credit institutions	-	1,216,350	-	1,216,350
Loans to customers and finance lease receivables	-	-	7,873,321	7,873,321
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	3,948	-	3,948
Liabilities for which fair values are disclosed				
Client deposits and notes	-	7,082,339	-	7,082,339
Amounts owed to credit institutions	-	2,518,437	259,900	2,778,337
Debt securities issued	-	1,103,650	294,357	1,398,007

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*152,597*	152,597
Land	-	-	*31,611*	*31,611*
Residential properties	-	-	*41,389*	*41,389*
Non-residential properties	-	-	*79,597*	*79,597*
Investment securities	-	1,283,606	296	1,283,902
Other assets – derivative financial assets	-	2,610	-	2,610
Other assets – trading securities owned	-	6,667	-	6,667
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,480,784	-	1,480,784
Amounts due from credit institutions	-	940,486	-	940,486
Loans to customers and finance lease receivables	-	-	6,758,846	6,758,846
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	15,689	-	15,689
Liabilities for which fair values are disclosed				
Client deposits and notes	-	5,761,836	-	5,761,836
Amounts owed to credit institutions	-	2,974,066	93,585	3,067,651
Debt securities issued	-	697,189	202,816	900,005

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	135,454	135,454
Land	-	-	*24,391*	*24,391*
Residential properties	-	-	39,991	*39,991*
Non-residential properties	-	-	71,072	*71,072*
Investment securities	-	903,851	295	904,146
Other assets – derivative financial assets	-	42,212	-	42,212
Other assets – trading securities owned	-	4,575	-	4,575
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,378,301	-	1,378,301
Amounts due from credit institutions	-	718,676	-	718,676
Loans to customers and finance lease receivables	-	-	5,328,942	5,328,942
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	-	5,036,975	-	5,036,975
Amounts owed to credit institutions	-	-	1,692,557	1,692,557
Debt securities issued	-	938,894	53,761	992,655

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

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Derivative financial instruments

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

Trading securities and investment securities

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

Movements in level 3 financial instruments measured at fair value

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

	31 December 2014	*Purchase of AFS securities*	*At 31 December 2015*	*Other Comprehensive income*	*Reclassification to associates*	*Purchase of AFS securities*	*At 31 December 2016*	*Purchase of AFS securities*	*At 31 December 2017*
Level 3 financial assets									
Equity investment securities available-for-sale	1,412	(1,117)	295	9,626	(9,626)	1	296	-	296

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

All investment properties are level 3. Reconciliations of their opening and closing amounts are provided in Notes 11.

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

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

	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2017		*2016*		*2015*	
Level 3 financial assets						
Equity investment securities available-for-sale	296	+/- 44	296	+/- 44	295	+/- 217

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

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

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

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

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

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**202,534**						
Land	38,378	Market approach	Price per square metre	0.11 - 1,008 (215.8)	Square metres, land	7 - 4,667,136 (454,326)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	64,038	Market approach	Price per square metre	24 - 1,128 (2,678)	Square metres, building	2 - 1,583 (301)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	100,118						
	31,543	Market approach	Price	5.6k - 4.8 mln (0.3 mln)	Square metres, land	77 - 73,575 (2,540)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6 - 3,823 (1,195)	
	51,462	Income approach	Rent per square metere	2.1 - 67.7 (9.96)	Square metres, building	23.5 - 5,984 (2,5003)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	10% - 75% (32%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	78 - 244 (97)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	17,113	Cost approach	Land price per square metre	0.65 - 563 (.4)	Square metres, land	600 - 240,000 (121,780)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	259 - 648 (413)	Square metres, building	20 - 5,943 (10,600)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Fair value hierarchy (continued)

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**152,597**						
Land	31,611	Market approach	Price per square metre	86 - 451 (266)	Square metres, land	8,165 - 23,070 (15,037)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	41,389	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	79,597						
	16,472	Market approach	Price	5.5 mln	Square metres, land	8,383	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	2,293	
	56,380	Income approach	Rent per square metere	29.2 - 45.5 (33.9)	Square metres, building	714 - 3,317 (3,040)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	35% - 90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12 - 218 (26)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	6,745	Cost approach	Land price per square metre	34 - 53 (43)	Square metres, land	7,939 - 13,946 (10,891)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	366 - 438 (403)	Square metres, building	836 - 1,639 (1,244)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**135,454**						
Land	24,391	Market approach	Price per square metre	86 - 451 (266)	Square metres, land	8,165 - 23,070 (15,037)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	39,991	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	71,072						
	14,708	Market approach	Price	5.5 mln	Square metres, land	8,383	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	2,293	
	50,342	Income approach	Rent per square metere	29.2 - 45.5 (33.9)	Square metres, building	714 - 3,317 (3,040)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	35% - 90% (81%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	12 - 218 (26)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	6,022	Cost approach	Land price per square metre	34 - 53 (43)	Square metres, land	7,939 - 13,946 (10,891)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	366 - 438 (403)	Square metres, building	836 - 1,639 (1,244)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

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

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2017, 31 December 2016 and 31 December 2015:

	31 December 2017		
	Loans and receivables	***Available-for sale***	***Fair value through profit or loss***
Financial assets			
Amounts due from credit institutions	1,216,350	-	-
Loans to customers and finance lease receivables	7,741,420	-	-
Equity instruments	-	201	384
Debt instruments	-	1,613,558	5,788
Interest rate contracts	-	-	8,869
Foreign currency derivative financial instruments	-	-	4,615
Total:	**8,957,770**	**1,613,759**	**19,656**
Financial liabilities			
Client deposits and notes	7,078,058	-	-
Amounts owed to credit institutions	2,778,337	-	-
Debt securities issued	1,386,411	-	-
Trade and other payables (in other liabilities)	29,241	-	-
Interest rate contracts	-	-	1,456
Foreign currency derivative financial instruments	-	-	2,492
Total:	**11,272,047**	**-**	**3,948**

	31 December 2016			*31 December 2015*		
	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	940,486	-	-	718,676	-	-
Loans to customers and finance lease receivables	6,681,666	-	-	5,366,760	-	-
Equity instruments	-	295	261	-	295	1,505
Debt instruments	-	1,283,607	6,406	-	903,851	3,070
Foreign currency derivative financial instruments	-	-	2,610	-	-	42,212
Total:	**7,622,152**	**1,283,902**	**9,277**	**6,085,436**	**904,146**	**46,787**
Financial liabilities						
Client deposits and notes	5,755,767	-	-	5,011,269	-	-
Amounts owed to credit institutions	3,067,651	-	-	1,692,557	-	-
Debt securities issued	858,035	-	-	961,944	-	-
Trade and other payables (in other liabilities)	13,614	-	-	19,673	-	-
Interest rate contracts	-	-	634	-	-	-
Foreign currency derivative financial instruments	-	-	15,055	-	-	3,243
Total:	**9,695,067**	**-**	**15,689**	**7,685,443**	**-**	**3,243**

(Thousands of Georgian Lari)

27. Fair Value Measurements (continued)

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

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

	Carrying value 2017	*Fair value 2017*	*Unrecognised gain (loss) 2017*
Financial assets			
Cash and cash equivalents	1,516,402	1,516,402	-
Amounts due from credit institutions	1,216,350	1,216,350	-
Loans to customers and finance lease receivables	7,741,420	7,873,321	131,901
Financial liabilities			
Client deposits and notes	7,078,058	7,082,339	(4,281)
Amounts owed to credit institutions	2,778,337	2,778,337	-
Debt securities issued	1,386,411	1,398,007	(11,596)
Total unrecognised change in unrealised fair value			**116,024**

	Carrying value 2016	*Fair value 2016*	*Unrecognised gain (loss) 2016*	*Carrying value 2015*	*Fair value 2015*	*Unrecognised loss 2015*
Financial assets						
Cash and cash equivalents	1,480,784	1,480,784	-	1,378,301	1,378,301	-
Amounts due from credit institutions	940,486	940,486	-	718,676	718,676	-
Loans to customers and finance lease receivables	6,681,666	6,758,846	77,180	5,366,760	5,328,942	(37,818)
Financial liabilities						
Client deposits and notes	5,755,767	5,761,836	(6,069)	5,011,269	5,036,975	(25,706)
Amounts owed to credit institutions	3,067,651	3,067,651	-	1,692,557	1,692,557	-
Debt securities issued	858,035	900,005	(41,970)	961,944	992,655	(30,711)
Total unrecognised change in unrealised fair value			**29,141**			**(94,235)**

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 combined historical financial information.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

(Thousands of Georgian Lari)

28. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts as described below. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2017							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	758,596	757,806	-	-	-	-	-	1,516,402
Amounts due from credit institutions	1,005,085	183,252	5,006	12,508	-	-	10,499	1,216,350
Investment securities	837,933	641,380	2,910	49,962	20,812	58,916	1,846	1,613,759
Loans to customers and finance lease	-	1,241,823	609,491	1,402,410	2,036,075	1,169,449	1,282,172	7,741,420
Total	**2,601,614**	**2,824,261**	**617,407**	**1,464,880**	**2,056,887**	**1,228,365**	**1,294,517**	**12,087,931**
Financial liabilities								
Client deposits and notes	1,635,277	1,262,016	615,816	2,955,050	538,399	39,351	32,149	7,078,058
Amounts owed to credit institutions	204,512	1,104,467	140,550	324,238	457,242	263,646	283,682	2,778,337
Debt securities issued	-	25,347	107,573	55,744	676,138	65,569	456,040	1,386,411
Total	**1,839,789**	**2,391,830**	**863,939**	**3,335,032**	**1,671,779**	**368,566**	**771,871**	**11,242,806**
Net	**761,825**	**432,431**	**(246,532)**	**(1,870,152)**	**385,108**	**859,799**	**522,646**	**845,125**
Accumulated gap	**761,825**	**1,194,256**	**947,724**	**(922,428)**	**(537,320)**	**322,479**	**845,125**	

	2016							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,072,518	408,266	-	-	-	-	-	1,480,784
Amounts due from credit institutions	933,690	-	3,235	2,164	-	-	1,397	940,486
Investment securities	110,363	1,080,185	36,415	11,323	6,269	38,971	376	1,283,902
Loans to customers and finance lease	-	1,124,952	503,079	1,528,923	1,778,774	818,522	927,416	6,681,666
Total	**2,116,571**	**2,613,403**	**542,729**	**1,542,410**	**1,785,043**	**857,493**	**929,189**	**10,386,838**
Financial liabilities								
Client deposits and notes	1,320,196	882,171	569,705	2,494,157	409,416	54,063	26,059	5,755,767
Amounts owed to credit institutions	329,609	1,305,797	115,091	302,103	481,423	223,843	309,785	3,067,651
Debt securities issued	-	36,843	7,677	56,227	174,349	40,580	542,359	858,035
Total	**1,649,805**	**2,224,811**	**692,473**	**2,852,487**	**1,065,188**	**318,486**	**878,203**	**9,681,453**
Net	**466,766**	**388,592**	**(149,744)**	**(1,310,077)**	**719,855**	**539,007**	**50,986**	**705,385**
Accumulated gap	**466,766**	**855,358**	**705,614**	**(604,463)**	**115,392**	**654,399**	**705,385**	

	2015							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,017,581	360,720	-	-	-	-	-	1,378,301
Amounts due from credit institutions	615,976	1,932	26,496	70,366	1,956	-	1,950	718,676
Investment securities	561,030	241,481	31,247	6,531	59,613	3,057	1,187	904,146
Loans to customers and finance lease	9,340	797,357	539,615	1,026,644	1,602,258	716,066	675,480	5,366,760
Total	**2,203,927**	**1,401,490**	**597,358**	**1,103,541**	**1,663,827**	**719,123**	**678,617**	**8,367,883**
Financial liabilities								
Client deposits and notes	1,084,617	816,698	543,264	2,019,554	446,717	80,012	20,407	5,011,269
Amounts owed to credit institutions	92,811	519,415	99,728	237,523	367,706	115,138	260,236	1,692,557
Debt securities issued	-	49,368	-	51,611	860,965	-	-	961,944
Total	**1,177,428**	**1,385,481**	**642,992**	**2,308,688**	**1,675,388**	**195,150**	**280,643**	**7,665,770**
Net	**1,026,499**	**16,009**	**(45,634)**	**(1,205,147)**	**(11,561)**	**523,973**	**397,974**	**702,113**
Accumulated gap	**1,026,499**	**1,042,508**	**996,874**	**(208,273)**	**(219,834)**	**304,139**	**702,113**	

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.

(Thousands of Georgian Lari)

28. 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 2017 client deposits and notes amounted to GEL 7,078,058 (2016: GEL 5,755,767, 2015: GEL 5,011,269) and represented 62% (2016: 59%, 2015: 64%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2017 amounts owed to credit institutions amounted to GEL 2,778,337 (2016: GEL 3,067,651, 2015: GEL 1,692,557) and represented 24% (2016: 31%, 2015: 22%) of total liabilities. As at 31 December 2017 debt securities issued amounted to GEL 1,386,411 (2016: GEL 858,035, 2015: GEL 961,944) and represented 12% (2016: 9%, 2015: 12%) 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 2017		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	1,516,402	-	1,516,402
Amounts due from credit institutions	1,205,851	10,499	1,216,350
Investment securities	1,532,185	81,574	1,613,759
Loans to customers and finance lease	3,253,724	4,487,696	7,741,420
Prepayments	32,578	28,922	61,500
Investment properties	-	202,534	202,534
Property and equipment	-	322,925	322,925
Goodwill	-	33,352	33,352
Intangible assets	-	55,526	55,526
Income tax assets	790	130	920
Other assets	92,059	50,932	142,991
Total assets	**7,633,589**	**5,274,090**	**12,907,679**
Client deposits and notes	6,468,159	609,899	7,078,058
Amounts owed to credit institutions	1,773,767	1,004,570	2,778,337
Debt securities issued	188,664	1,197,747	1,386,411
Accruals and deffered income	37,026	5,176	42,202
Income tax liabilities	8,757	11,342	20,099
Other liabilities	49,864	-	49,864
Total liabilities	**8,526,237**	**2,828,734**	**11,354,971**
Net	**(892,648)**	**2,445,356**	**1,552,708**

(Thousands of Georgian Lari)

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

	31 December 2016			31 December 2015		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	1,480,784	-	1,480,784	1,378,301	-	1,378,301
Amounts due from credit institutions	939,089	1,397	940,486	714,770	3,906	718,676
Investment securities	1,238,286	45,616	1,283,902	840,289	63,857	904,146
Loans to customers and finance lease	3,156,954	3,524,712	6,681,666	2,372,956	2,993,804	5,366,760
Prepayments	18,590	125	18,715	16,701	3,784	20,485
Investment properties	-	152,597	152,597	-	135,454	135,454
Property and equipment	-	296,677	296,677	-	293,133	293,133
Goodwill	-	33,352	33,352	-	33,352	33,352
Intangible assets	-	39,942	39,942	-	33,976	33,976
Income tax assets	19,130	194	19,324	1,814	12,945	14,759
Other assets	139,756	35,942	175,698	71,779	80,511	152,290
Total assets	**6,992,589**	**4,130,554**	**11,123,143**	**5,396,610**	**3,654,722**	**9,051,332**
Client deposits and notes	5,266,229	489,538	5,755,767	4,464,133	547,136	5,011,269
Amounts owed to credit institutions	2,052,600	1,015,051	3,067,651	949,477	743,080	1,692,557
Debt securities issued	100,747	757,288	858,035	100,979	860,965	961,944
Accruals and deffered income	21,778	-	21,778	16,763	782	17,545
Income tax liabilities	287	22,242	22,529	5,011	79,953	84,964
Other liabilities	44,461	634	45,095	31,539	2,851	34,390
Total liabilities	**7,486,102**	**2,284,753**	**9,770,855**	**5,567,902**	**2,234,767**	**7,802,669**
Net	**(493,513)**	**1,845,801**	**1,352,288**	**(171,292)**	**1,419,955**	**1,248,663**

(Thousands of Georgian Lari)

29. Related Party Disclosures

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

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

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

	2017		2016		2015	
	*Entities under common control**	*Key management personnel***	*Entities under common control**	*Key management personnel***	*Entities under common control**	*Key management personnel***
Assets						
Cash and cash equivalents	-	-	-	-	-	-
Amounts due from credit institutions	12,435	-	8,720	-	5,881	-
Investment securities	50,228	-	-	-	2,064	-
loans to customers	50,970	2,913	33,190	2,006	45,955	1,258
Accounts receivable	74	-	52,833	-	1,196	-
Derivative financial assets	1,091	-	1,144	-	-	-
Trading securities	2,981	-	5,271	-	2,598	-
Other assets	-	-	42	-	-	-
	117,779	**2,913**	**101,200**	**2,006**	**57,694**	**1,258**
Liabilities						
Client deposits and notes	382,270	38,842	373,137	28,419	259,896	20,129
Accounts payable	-	-	-	-	-	-
Accruals and deffered income	-	-	600	-	-	-
Amounts owed to credit institutions	-	-	-	-	-	-
Derivative financial liabilities	-	-	6,277	-	-	-
Other liabilities	281	-	2,253	-	1,753	-
	382,551	**38,842**	**382,267**	**28,419**	**261,649**	**20,129**
Income and expenses						
Interest income from loans to customers	6,079	161	5,536	148	12,370	173
Interest income from investment securities	2,299	-	18	-	109	-
Interest expense on client deposits and notes	(6,309)	(446)	(5,465)	(614)	(3,520)	(477)
Interest expense on debt securities issued	(2,458)					
Fee and commission income	2,107	-	3,049	-	3,810	-
Fee and commission expense	(683)	-	(616)	-	(550)	-
Salaries and other employee benefits	(2,220)	-	(1,800)	-	(1,296)	-
Administrative expenses	(1,919)	-	(2,010)	-	(1,561)	-
Net foreign currency gain	6,954	-	(6,277)	-	-	-
Other income	1,057	98	1,467	115	1,818	77
	4,907	**(187)**	**(6,098)**	**(351)**	**11,180**	**(227)**

* *Entities under common control comprise of Investment Business of former BGEO Group PLC*

** *Key management personnel include members of BGEO Group PLC's Board of Directors and Chief Executive Officer and Deputies of the Bank.*

Compensation of key management personnel comprised the following:

	2017	2016	2015
Salaries and other benefits	7,493	7,133	6,259
Share-based payments compensation *	32,220	36,292	19,435
Social security costs	82	51	55
Total key management compensation	**39,795**	**43,476**	**25,749**

** In 2016 share-Based payments compensation includes termination benefits in the amount of GEL 9,820 for key management personnel reflected in the non-recurring items note (24).*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 25). The number of key management personnel at 31 December 2017 was 19 (31 December 2016: 18, 31 December 2015: 16).

(Thousands of Georgian Lari)

30. Capital Adequacy

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

Approved and published on 28 October 2013 by NBG, a new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar II (ICAAP) requirements becoming effective 30 June 2015. A transition period is to continue through 31 December 2017, during which the Bank will be required to comply with both the new, and the current, capital regulations of the NBG.

During year ended 31 December 2017, 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 9.6% 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 2017, 31 December 2016 and 31 December 2015, the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*	*2015*
Core capital	787,225	676,692	728,139
Supplementary capital	787,225	669,940	649,607
Less: Deductions from capital	(116,716)	(79,059)	(60,311)
Total regulatory capital	**1,457,734**	**1,267,573**	**1,317,435**
Risk-weighted assets	**11,004,699**	**9,360,857**	**7,811,398**
Total capital adequacy ratio	**13.2%**	**13.5%**	**16.9%**

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

(Thousands of Georgian Lari)

30. Capital Adequacy (continued)

New NBG (Basel II) 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 requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*	*2015*
Tier 1 capital	1,141,845	892,613	914,784
Tier 2 capital	501,689	519,726	479,176
Total capital	**1,643,534**	**1,412,339**	**1,393,960**
Risk-weighted assets	**11,115,315**	**9,790,282**	**8,363,369**
Total capital ratio	**14.8%**	**14.4%**	**16.7%**

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

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 12.5% 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 III requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017
Tier 1 capital	1,141,845
Tier 2 capital	501,689
Total capital	**1,643,534**
Risk-weighted assets	**9,192,078**
Total capital ratio	**17.9%**

31. Events after the Reporting Period

USD 50 million borrowing from JSC Georgia Capital

In March 2018, the Group received US$50 million 9% Loan from BGEO Group PLC's investment business subsidiary, JSC Georgia Capital.

(Thousands of Georgian Lari)

Repayment of debt securities issued

In March 2018, as part of the demerger process, the loan from JSC BGEO Group to JSC Georgia Capital was repaid, together with accrued interest, in the amount of US$108 million (GEL 280 million).

Issue of USD 300 million Notes due in 2024 by JSC Georgia Capital

On 9 March 2018 JSC Georgia Capital successfully issued a US$300 million 6.125% notes due March 2024 denominated in US Dollars. which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market (the "Notes"). Notes were sold at the price of 98.770% of par value in the initial offering. Members of the BGEO Group purchased an aggregate amount of US$27.0 million of the Notes; as of the date of this report the Bank holds US$ 10.7 million and JSC Georgia Capital holds US$14.8 million of this amount. Certain of the directors and their affiliates and senior managers of the Group and the BGEO Group purchased an aggregate amount of US$ 16.1 million of the Notes.

Bank of Georgia Group PLC

Audited Financial Statements and Directors Report

For the year ended 31 December 2017

Bank of Georgia Group Limited

Strategic Report, Directors' Report and Financial Statements

For the period ended 31 December 2017

Registered No: 10917019

Directors
Levan Dadiani
Levan Kulijanishvili

Company Secretary
Rebecca Wooldridge

Independent Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered Office
84 Brook Street
London
W1K 5EH
Registration No: 10917019

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Strategic Report

For the period ended 31 December 2017

The Directors present their strategic report for the period ended 31 December 2017.

Review of the business

The Company was incorporated on 15 August 2017 as a private limited company organized under the laws of England and Wales. The Company is domiciled in the United Kingdom.

The principal activity of the Company is that of a holding company. The Company has not conducted any business operations other than those incidental to its formation.

The Company issued 49,999 Deferred Shares on 15 December 2017. The Deferred Shares are redeemable by the Company at any time. Each Deferred Share has a par value of £1. The Deferred Shares carry no right to profits or dividends. On a return of capital on a winding up or otherwise, the holders of the Deferred Shares are entitled to receive the sum of £1 per Deferred Share, but shall not be entitled to any further participation in the asset of the Company.

Principal risks and uncertainties

Foreign currency risk is the risk that the fair value of financial assets and liabilities and future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Management has not implemented any mitigative actions due to immateriality of transactions and respective foreign currency translation effect on the Financial Statements of the Company for the period between incorporation and 31 December 2017.

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company policies are aimed at minimising such losses. Details of the Company's debtors are shown in Note 5 to the financial statements.

By order of the Board,

Levan Dadiani
Director

29 January 2018

Directors' Report

For the period ended 31 December 2017

The Directors (as defined below) present their report together with the audited financial statements of Bank of Georgia Group Limited (the "Company") for the period ended 31 December 2017.

BGEO Group PLC, incorporated under laws of England and Wales, announced its intention to separate the investment business from the banking business on July 3, 2017. The Company's intention is to become a Public Limited Company and a parent company of the demerged banking business of BGEO Group PLC.

Issue of shares

The issued share capital of the Company consists of 2 ordinary shares and 49,999 redeemable deferred shares, with nominal value £1 (the "Deferred Shares").

Directors

The directors who served from the period between incorporation 15 August 2017 and 31 December 2017 are:

Abogado Nominees Limited	(Appointed 15 August 2017, resigned 12 December 2017)
Abogado Custodians Limited	(Appointed 15 August 2017, resigned 12 December 2017)
Frederick Paul Curtis	(Appointed 15 August 2017, resigned 12 December 2017)
Levan Dadiani	(Appointed 12 December 2017)
Levan Kulijanishvili	(Appointed 12 December 2017)

Levan Dadiani and Levan Kulijanishvili are referred to as the "Directors" or the "Board", and each a "Director".

Dividends

No dividends were declared and paid for the period between formation and 31 December 2017.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare these financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors’ Report

For the period ended 31 December 2017

Going concern

The Company's business activities, together with the factors likely to affect its future development, its performance, position, risk management objectives are described in the Strategic Report on page 3.

The Company has net assets at the year end. The Directors have considered the future cash flows of the Company, and have concluded that the Company has sufficient financial resources to meet its liabilities as they fall due for the foreseeable future. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis of accounting in preparing these financial statements.

Disclosure of information to the auditor

Each current Director has made enquiries of their fellow directors and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Auditor

In accordance with Section 485(3) of the Companies Act 2006, Ernst & Young LLP was appointed in the office of auditor and deemed to be re-appointed for the next financial year.

By order of the Board,

Levan Dadiani
Director

29 January 2018

INDEPENDENT AUDITOR OPINION TO MEMBERS OF BANK OF GEORGIA GROUP PLC

Opinion

We have audited the financial statements of Bank of Georgia Group Limited for the period ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 8, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the period then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR OPINION TO MEMBERS OF BANK OF GEORGIA GROUP PLC

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 financial statements 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 January 2018

STATEMENT OF COMPREHENSIVE INCOME
For the period from incorporation on 15 August 2017 to 31 December 2017

	Notes	2017
		GEL
Administrative expenses	*4*	-
Operating Profit		-
Translation differences		3,050
Profit on ordinary activities before taxation		**3,050**
Tax on profit on ordinary activities		-
Profit for the financial period		**3,050**

STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	**2017**
		GEL
Non-current Assets		
Investments		-
		-
Current assets		
Debtors	***5***	175,021
Cash		7
Total current assets		**175,028**
Total assets		**175,028**
Creditors: amounts falling due within one year		-
Net Current assets		**175,028**
Net assets		**172,028**
Capital and reserves		
Called up share capital	***6***	171,978
Retained earnings		3,050
Shareholders' funds		**175,028**

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

Levan Dadiani
Director

29 January 2018

Company registration no: 10917019

STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2017

	Share Capital	Share Premium	Retained Earnings	Total
	GEL	*GEL*	*GEL*	*GEL*
At incorporation on 15 August 2017	3	-	-	3
Shares issued in the period	171,975	-	-	171,975
Profit for the period	-	-	3,050	3,050
At 31 December 2017	**171,978**	**-**	**3,050**	**175,028**

STATEMENT OF CASH FLOWS
For the period ended 31 December 2017

	GEL
Cash Flow from Operating Activities	-
Cash Flow from Investing Activities	-
Cash Flow from Financing Activities	-
Proceeds from Issue of share capital	6
Net Cash Flow from Financing Activities	**6**
Net cash Flow	**6**
Effect of exchange rate difference from cash and cash equivalents	1
Cash at the beginning of the period	-
Cash at the end of the period	**7**

Notes to the financial statements
For the period ended 31 December 2017

1. General Information

Bank of Georgia Group Limited was incorporated on 15 August 2017 as a private company limited by shares in England and Wales, under the laws of the United Kingdom. The principal activity of the Company is to act as a holding company.

2. Accounting policies

Basis of preparation

The principal accounting policies applied consistently throughout the period are:

Basis of accounting

The financial statements are prepared under historical cost basis in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2017 reporting and Companies Act 2006 on a going concern basis.

The Financial Statements are presented in Georgian Lari ("GEL") unless otherwise stated.

Functional and presentation currency

The Company's functional currency and presentational currency is Georgian Lari since the underlying transactions that are relevant to the entity will be carried out in Georgian Lari. The Company determines its own functional currency and items included in the financial statements 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 the rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies – translation differences.

Accounting estimates and judgements

No estimates, assumptions or judgements were required in preparing these financial statements.

Deferred redeemable shares

Deferred redeemable non-voting shares are deemed to be an equity instrument as: (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable and the obligation to deliver cash or other financial assets arises only in the event of liquidation of the issuer and (ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future, being at least one year from the date of signing these financial statements, and confirm that in their opinion the Company is a going concern. For this reason they adopt the going concern basis in preparing the financial statements.

Debtors

Debtors 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 income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on bank account, 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 a known amount of cash.

Standards issued but not yet effective

The Company has early adopted following standards, which had no material impact on the financial statements:

IFRS 15 Revenue from Contracts with Customers

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

IFRS 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 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.

3. Directors' emoluments

The Directors' services to the Company do not occupy a significant amount of their time. As such the Directors do not consider that they and past directors have received any remuneration for their inconsequential services to the Company for the period from incorporation on 15 August 2017 to 31 December 2017.
The company has no employees as at 31 December 2017.

4. Auditor's remuneration

Auditor's remuneration for the period amounted to 17,502 Georgian Lari (GBP 5,000) which was incurred by BGEO Group PLC in connection with the BGEO Group's demerger process, as a result of which the Company is expected to become a parent company of the demerged banking business.

5. Debtors

	2017
	GEL
Amounts owed by shareholders	175,021

6. Called up share capital

	2017
	GEL
Allotted, called up and fully paid	
2 ordinary shares of £1 each	6
Allotted, called up	
49,999 deferred redeemable non-voting shares of £1 each	171,972
	171,978

As at 31 December 2017 authorised capital of the Company comprised 50,001 shares of which 2 shares are fully paid. The Company issued 49,999 Deferred Shares on 15 December 2017. The Deferred Shares are redeemable by the Company at any time. Each Deferred Share has a par value of £1. The Deferred Shares carry no right to profits or dividends. On a return of capital on a winding up or otherwise, the holders of the Deferred Shares are entitled to receive the sum of £1 per Deferred Share, but shall not be entitled to any further participation in the assets of the Company.
The Company may, at its discretion, at any time after allotment and issue of the Deferred Shares, without prior notice, redeem some or all of the Deferred Share then in issue.

7. Related parties

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.
The Company had no transactions with related parties during the period between incorporation and 31 December 2017.

8. Ultimate parent undertaking and controlling party

The shareholders of the Company are Georgian resident individuals Levan Dadiani and Levan Kulijanishvili. Each owns 1 share from 2 ordinary shares of issued and paid share capital.

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JOINT FINANCIAL ADVISER

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