Annual Report 2017

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BASISBANK
Hualing Group Member

Contents

Management Report

Overview

Performance

Market and Financial Overview

Risk Management and Governance

Consolidated Financial Statements and Independent Auditors Report

Overview

GENERAL DIRECTOR'S STATEMENT

David Tsaava

General Director,
JSC Basisbank

Dear Ladies and Gentlemen,

Once again we can assess 2017 as another extraordinary year characterized with new achievements and success for Basisbank. Last year can be said to be somewhat transformative and exceptional for Basisbank with clear focus on stable, sustainable growth which leads to the right and successful results:

Basisbank has upgraded its position to become the 6th largest market player on the market! Our assets have exceeded its historical maximum and crossed 1 Billion Gel.

The precondition that lies behind this success, is enormous input put forth by our talented team, strong investor support and reasonable management.

One of the most important prerequisite for any bank's ultimate success is addressing its customers' aspirations and meeting their needs and ambitions, which is hardly ever achievable without strong focus on paramount development on the backdrop of highly competitive environment on the Georgian banking sector.

BasisBank is a financial institution that is oriented towards constant progress and never stops at the achieved goal.

Basisbank, as a reliable, stable and credible institution, has gained recognition of many international financial institutions over the years. Only in 2017, several agreements have been signed with world-class players, such as China Development Bank, which has already extended the second credit line for small and medium business development. It has been an unprecedented case so far, when Chinese financial institution entered into cooperation with the local Georgian bank.

It is also noteworthy that in 2017, international rating agency Fitch raised credit rating of our bank from Long term "B" to "B+".
It goes without saying that international recognition is very important, but it is not less significant and commendable when our bank's outstanding performance deserves a reward on the local market. Last year, for the third time BasisBank was awarded "National Business Award" to support local production and small and medium businesses. More than 1000 businesses have been funded by Basisbank.

Basisbank has been growing its business quite rapidly over the past several years. At present, the Bank covers all leading regions of the country, joined by the highly-qualified employees of the city of Zugdidi in 2017, including the Universal Service Center.

Besides expanding the network of service centers, we continued to update existing service centers in compliance with modern standards in order to create a comfortable environment for Basisbank's customers as well as our co-workers.

When we talk about creation of a favorable environment to better serve our customers, our achievements in the direction of remote banking channels and underlying products should also be mentioned.

For the first time on Georgian market, Basisbank's customers have possibility to get a loan easily and instantly, just in a minute, and perform any card transactions without visiting our bank via our efficient Mobile Banking apps.

In addition, our internet banking services were renovated, we introduced a new, personal dealer service to our clients through our remote channels of sale.

Since its establishment, Basisbank has been distinguished with its individual approach to clients.

Each of us is unique and perhaps this is one of the most important factors for the long-term, stable relationship with the customer which already has become a tradition to us.

It was the name and the concept of our unique approach to the clients that inspired both the name and the essence of our new direction – Unique Banking. Last year, we introduced a completely new brand which enables us to offer our unique clients unparalleled premium services and products, as well as convenient remote channels. Through offering new, suitable products and services and attracting new customers, awareness of Basisbank has significantly increased.

When we talk about track record of Basisbank success, we have to certainly highlight the fact that we are supported by our shareholder – the largest Chinese conglomerate - Hualing Group already for 5 years; Hualing's operations and solid contribution to Georgia is a separate success story of the group.

We are particularly proud to be a member of the Group which is one of the largest investors in our country. Hualing Group has implemented significant projects and continues to invest in multiple sectors of Georgian economy. At this stage, total invested capital of Hulling Group exceeds $ 550 million.

By the end of 2017, Hualing Group expanded its investment in the financial sector and added new subsidiaries to Basisbank Holding - "Hualing Insurance" and Leasing Company "BHL-Leasing".

The bank's development as a Holding Group, will enable us to serve the clients at full capacity. 2018 is going to be the anniversary year for us - Basisbank turns 25!

A quarter of the century is already a bold statement. Consequently, this year has to be marked as a festive, anniversary year in the calendar as yet another year of success, growth and progress of the Bank.

There is more to go! It is the talent, competence, dedication of our people and the sizable progress we've made throughout previous years, that gives me confidence in our future accomplishments!

And finally, let me end with this positive note. We will follow our aspirations, we will continue delivering targeted results and we will move forward to be ultimately associated with fast, flexible and quality financial institution in our client's mindset.

CHAIRMAN OF SUPERVISORY BOARD'S STATEMENT

Zhang Jun
Chairman of Supervisory Board, JSC Basisbank

I would like to take this opportunity and on behalf of each member of Supervisory Board thank our Management team, employees, partners and customers for the strong leadership, dedication and continuous trust and loyalty they have put in our Bank.
In 2017, Basisbank not only delivered robust results, but also took the next steps in the transformation to meet our customers' changing behavior and growing expectations.

I am pleased that last year, once again we delivered improved revenues and lower costs leading to increased profitability. We welcomed more new customers and partners, financing their activities and facilitating growth in their businesses.

We further strengthened our Bank, consolidating our position as a trusted partner and our ability to deliver great customer experiences at any time. We demonstrated our determination of sound, fast paced growth by moving from the 8th largest bank to the 6th largest bank in the country. Our achievements were well recognized during the year, as we were upgraded by Fitch from long-term B- to long-term B+ position.

We continued to expand our digital banking offerings and distance channels of sale be it via mobile or webpage. Our aim is to become the best business partner for our SME, corporate and retail clients, earning the lasting loyalty and maintaining our 'best in class' efficiency while constantly improving customer service. Our digital banking development is allowing us to improve customer service while ensuring our cost to income ratio remains at the lowest level on the market.

Once again, Management Board of the Bank has delivered on all the promises and did so in the right way. The Bank made excellent progress against its long-term strategic goals. Posted results for yet another year, underscore the soundness of Basisbank and its capacity to provide sustained, quality growth.

And finally, I would like to recognize the hard work and commitment of the whole Group. It has been a privilege to serve as Chairman of Basisbank and I am confident that the Board and the many outstanding people in the bank will continue to work with dedication to excel the bank's standing.

JSC BASISBANK

OUR PROFILE

Headquartered in Tblilisi, we are the 6th largest commercial bank and market player in Georgia. We operate in 5 regions through network of 22 branches and employ nearly 400 professional individuals. We are committed to helping our customers. We continuously strive to create a convenient, long-lasting relationship to support our clients' most important aspirations and help them grow their businesses. We offer industry expertise, tailored banking products and services including our online and mobile banking services. We also offer financial services through our new subsidiaries, including leasing and insurance.

OUR RESOURCES

Our business model and strategy are built on capturing the opportunities inherent in our unique footprint by developing deep relationships with clients across our network on local market.

HUMAN CAPITAL

Our strong pool of employees is our greatest asset. We have one of the most qualified, creative, productive and dedicated workforce.

399 employees

66% female

STRONG BRAND

We are a leading local banking group with nearly 25 years of history and the only bank with Chinese ownership with most sophisticated expertise in doing business with Asian counterparties.

SINCE 1993

INTERNATIONAL NETWORK

Our seamless collaboration with our partner international financial institutions gives us distinct advantage.

We are a strong trusted partner to many, highly rated international financial institutions, commercial banks and investment funds.

$ 91M of international support raised in **2017**

DISTINCT POSITION

We have a deep knowledge of our market, local business expertise and unique understanding of our clients. With over **1.2 billion GEL** in assets on our balance sheet we are here to help our clients achieve their ambitions.

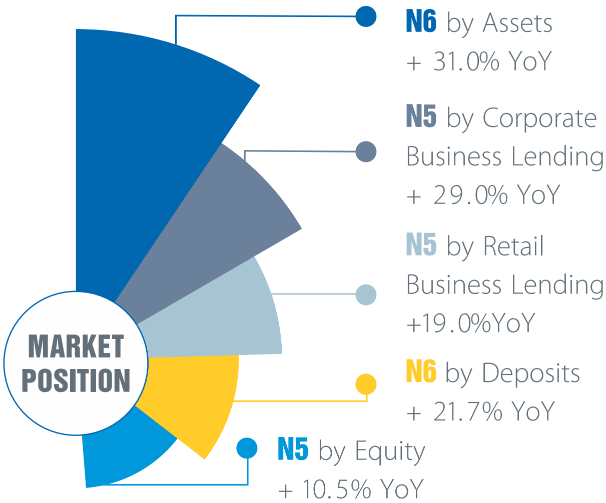
FITCH RATINGS

Long–Term IDR: From **"B"** to **"B+"**
Short – Term IDR: **"B"**
Outlook: **"Stable"**

WHAT WE DELIVER

We deliver an extensive set of solutions, products and services, adapted to the needs of our clients.

Individuals – **117,965**
Corporates and SMEs – **5,097**



CLIENT SEGMENTATION

RETAIL 20% of total lending business

UNIQUE – High net worth individuals with high annual income and wealthy businesses
PAYROLL CLIENTS – clients acquired through corporate business clients/payroll projects
MASS RETAILERS – middle class consumers

SME 16% of total lending business

MICRO, SMALL – loans up to $200,000
MEDIUM – loans up to $1,000,000

CORPORATE 64% of total lending business

TOP CORPORATES, LARGE COMPANIES – loans above $1,000,000

ROBUST RISK MANAGEMENT

We are here for the long term. Effective risk management allows us to grow a sustainable business.

Subsidiaries

BB has three wholly owned subsidiaries incorporated in Georgia.

JSC Bam Holding

Date of establishment: **February 27, 2012**
Share Capital: **3.8 Mln GEL**

BAM Holding was created to manage the property the Bank has acquired through foreclosures. Main activities of the subsidiary include: development, realization, leasing and rental of foreclosed properties.

JSC Hualing Insurance

Date of establishment: **December 12, 2017**
Share Capital: **4.3 Mln GEL** as of December 31, 2017

JSC Hualing Insurance was created to protect and enhance well-being of our customers.
This subsidiary provides our retail, SMEs and large companies with a wide range of Life and Non-Life insurance products.

JSC BHL Leasing

Date of establishment: **December 27, 2017** as of December 31, 2017

JSC BHL Leasing will operate as a subsidiary of the Bank to complement traditional banking products and services with leasing products and services

OUR MAIN SHAREHOLDER

XINJIANG HUALING INDUSTRY&TRADE (GROUP)

HUALING GROUP

SINCE 2007

IN GEORGIA

LARGEST SINGLE CHINESE INVESTOR IN GEORGIA

Hualing Group is one of Georgia's largest foreign investors, operating mainly in the fields of building, managing and renting of trade centers and wholesale markets, as well as real estate, logistics, hotel construction and management, financial sector, aviation, livestock husbandry and meat processing.

$ 550M
Investments

Since 2012, the group is the owner of more than 90% of Basisbank's shares to support Georgian local business development and to facilitate cross border business between China and Georgia, especially for bilateral trade and investments.

Owner of
HUALING GROUP
MI ENHUA

President of Xinjiang Hualing Group

Has grown his company from a small border bazaar into the dominant construction materials center in China's northwest.

ON FORBES LISTS

#1970 in List Billionaires People In The World
#344 in China Rich List 2017

Hualing Group's main objective to enter Georgian market was based on Strategic Location of the country as one of the most potentially significant geographic hubs for Europe and Asia alongside with the evolution of "Economic Belt of the Silk Road".

Georgia – China's Trade Evolution since HG's First Entrance on Georgian Market

For Georgia, China is now its third-largest trade partner (After Turkey and Russia).

Trade between the two countries significantly increased over the past ten years. In 2002, bilateral trade was roughly 10 million USD, in 2007 trade with China stood at 214 million USD and significantly peaking during the following years, in 2017 reached 935 million USD.

In 2017, China and Georgia finally signed the free trade agreement (the first FTA China has signed in the South Caucasus region), opens the new avenue for the future cooperation with the potentially significant implications for Georgia both on regional and global scale. The opportunities come from growing demand for infrastructure projects, trade and investment channels, tourism activities and financial cooperation brought by the development of the Belt and Road Initiative.

Why Georgia?

- **STRATEGIC LOCATION** - Located at the crossroads of the Middle East and Eastern Europe, Georgia is seen as one of the most important traffic and logistics hubs in Europe. Due to the stable political and economic climate, Caucasian corridor is becoming more and more attractive for businesses.

- **TRANSPORTATION INFRASTRUCTURE** - Black Sea's ports, such as Batumi, Poti and the ongoing Anaklia Deep Sea Port construction, the Baku-Tbilisi-Kars Railway project and the expansion of the country's East-West highway will make it a logistics hub for the entire region, and particularly for China's BRI initiative

- **OPEN BILATERAL FOREIGN POLICY** - Georgia to leverage the advantages of its trade agreements (DCFTA with the EU; FTA with China) and favorable business environment to become an important transit hub in the South Caucasus region and beyond.

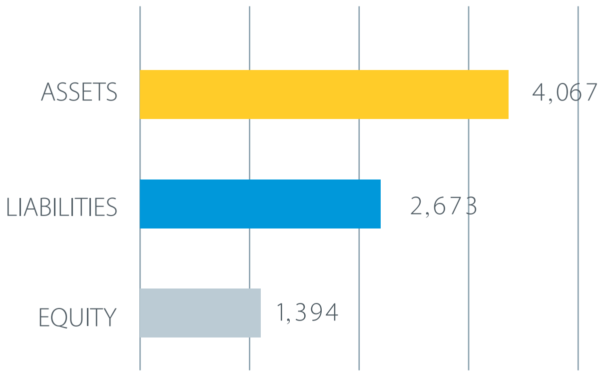
- **FAVORABLE INVESTMENT ENVIRONMENT** - Georgia is ranked among the top positions of numerous global investment environment rankings.

  - Among the friendliest Tax Regime globally
  - #9 globally on Ease of Doing Business
  - #4 on Starting a Business
  - #13 in Index of Economic Freedom
  - #2 in Protecting Minority Investors
  - #7 in Enforcing Contracts

HG's Projects in Georgia:

- Hualing Tbilisi Sea Plaza
- Hualing Tbilisi Sea Residence
- Kutaisi Hualing Free Industrial Zone
- Hualing Hotels & Preference Tbilisi
- Hualing Fund Hotel
- Hualing Hotel In Kutaisi
- Hualing Wood Development
- JSC Basisbank - Hualing Group Member
- Hualing Tbilisi Sea New City
- Airline company – MyWay

KEY FINANCIALS OF HG IN MLN. USD



In July 2017, Hualing Group introduced Chinese airline "LLC Myway airline" to Georgia, offering international flights to Europe, Asia, Middle East and CIS based in Tbilisi International airport.

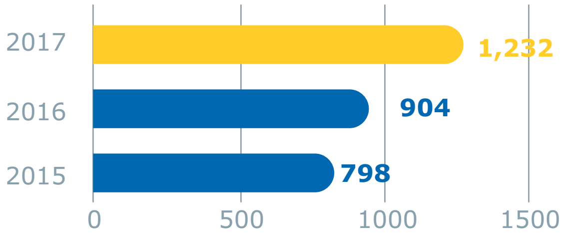
Myway Airlines has a long-term development strategy to include the commencement of scheduled flights in various directions around the world, including the USA. During the first phase of the development of the airline network, the Company is launching flights to destinations in the Middle East (Israel is the first scheduled destination) and in the CIS countries, and in the second stage it intends to open new routes to destinations in Europe.

During the third phase, Myway will operate flights to China and the USA, thereby establishing a global network routes to the rest of the globe.

PERFORMANCE

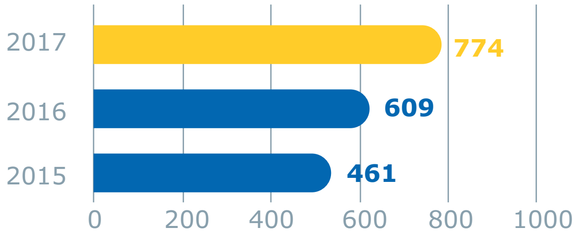
TOTAL ASSETS **36%⇑**

In mln. GEL



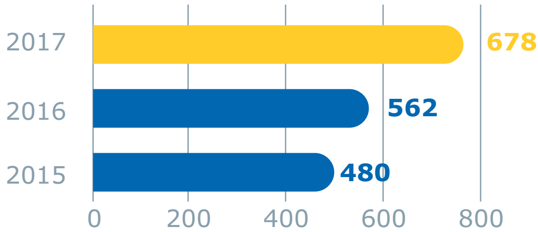
TOTAL LENDING **27%⇑**

In mln. GEL



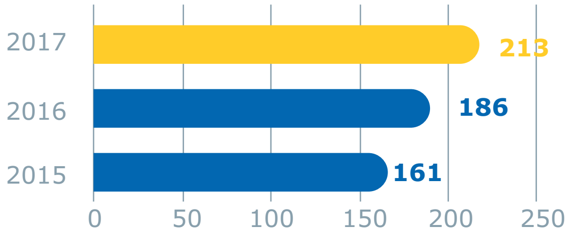
CUSTOMER DEPOSITS **21%⇑**

In mln. GEL



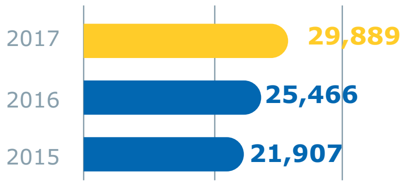
TOTAL SHAREHOLDER EQUITY **15%⇑**

In mln. GEL



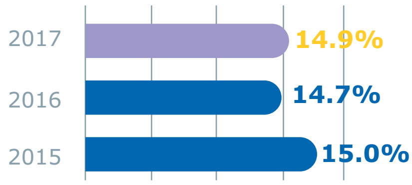
NET PROFIT

In thousands GEL

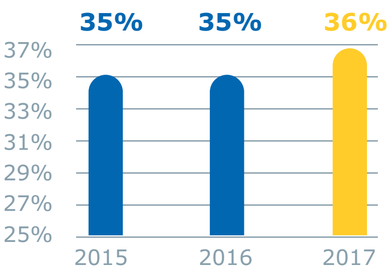


ROAA

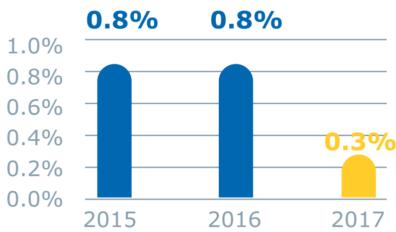
ROAE



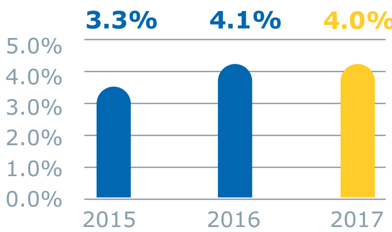
COST/INCOME



COST OF RISK



NPLS



BasisBank's Strategy

Basisbank ("BB") enjoys a rather unique position, thanks to its industry expertise, consistency and growing concourse of partnership with Asian as well as European leading financial institutions and businesses.

BB has declared its business strategy and development trajectory towards becoming of one of the leading banking institution on the local market; we set clear goal to enhance our positioning and build a brand equity by bringing the Bank into greater focus and relevance. The BB has outlined a multi-year strategy with clear intention of focusing on our product excellence and service offerings in terms of SPEED, QUALITY and FLEXIBILITY whereas all three our business directions - Corporate, SME and Retail Banking remain core.

The key values upon which we are going to enhance our brand of future is based on the three main aspirations:

Speed – Direct our efforts on provisioning of swift services to our clients and minimize the time spent on banking operations to reach clients' maximum satisfaction.

Quality - Improve the efficiency of how we do business to provide clients with a seamless experience, offer comfortable environment, eliminate any deficiencies in products and services and develop high quality distance service channels.

Flexibility - better organize ourselves around our clients to deliver services that are more aligned to their needs. Leverage our unique footprint by gearing up individual approach, focusing on less bureaucracy and embedding ourselves in our clients' operations and supply chains to maximize the relevance of our network and product suite.

We reflect our revised strategy to be fully aligned with our business model and vision of being a quality, swift and flexible Bank for our customers and clients.

Targets of the following years to be accomplished in pursuing the core goal - strengthening the bank and placing in a better position to fully explore the growth opportunities:

- Reinforcing and increasing our competitive position – Our main goal is to become one of the most active, largest player in the local banking industry. This goal is to be considered accomplished as BB will upgrade its market position to the 4rd largest banking institution in terms of asset and loan portfolio size. Immediate, initial pass to mark a target for the Bank will be reaching the 5th largest bank's position on the market.
- Image positioning – our pledge is to position ourselves as a valuable brand in the eyes of our clients, which would clearly differentiate BB from other competitors for its SPEED, QUALITY and FLEXIBILITY. We embarked on building higher brand equity and awareness, while cementing our positioning as a fully-fledged commercial bank serving financial needs of our Corporate, SME and Retail Banking segments.
- Digitalization and Sales Network Development – Remote service channels and digitalization are important means of communication with clients. Our goal is to move towards more automated and standardized business model and be at least leading positions across the banking sector, ensuring quick access and availability to our banking products and services. We have a clear goal to use technology to deliver deeper and more meaningful customer relationships by transforming the way we interact with customers by distance banking.
- Business acceleration – For coming years, Basisbank has set itself an ambitious goal for rapid growth and capturing of sizable market share. Our strategy of growth should be attained at the expense of business and retail lending growth. BB objectives to drive growth of our lending business are based on investing in our core banking platform and technology upgrade, improving and sharpening our client offerings, creating targeted value propositions and promotional campaigns, focusing on core regions, investing in frontline staff and senior corporate bankers to attract and service new business customers.

2017 Year Major Highlights

Market position – moving from the 8th to the 6th largest bank's position

BB continued to make considerable progress it has taken off since 2012 and closed 2017 with Gel 1.2 billion in assets moving two steps up from the 8th position to become the 6th largest bank in Georgia and cementing its sustainable growth path with strong performance and prominent financial results.

Assets –turning our millions into billion

In particular, last year BB showed significant increase in assets, largely at the account of lending business acceleration and turned its million assets into billion asset by crossing GEL 1.2 billion mark and posting 31% growth over the previous year.

BB's IDR upgraded from B to B+ with a stable outlook by Fitch in December 2017

Our progressive growth and significant achievements over the past several years resulted in our credit ratings upgrade. Fitch Ratings raised BB's Long-Term Issuer Default Rating (IDR) to "B+" from "B" and Viability Rating (VR) to "b+" from "b" affirming our outlook as "Stable". The upgraded rating reflects the bank's extended track record of profitable growth for the past few years, healthy asset quality metrics and a solid capitalization.

Strengthening international partnership around US$ 91 million of funding attracted from European and Asian partners.

In 2017, the Bank continued its focus on strengthening its cooperation with the existing and new international partners and attracting investments for the development of the Bank's lending business. The year has been exceptional in deepening our cooperation with international financial institutions and new partners acquisition. To enable BB greater agility in catalyzing business growth. In 2017 we welcomed IFC, BlueOrchard and Banca Popolare di Sondrio as our valuable and new partners along with our long-dated partners: China Development Bank (CDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), BlueOrchard, Bank of Urumqi, Commerzbank, Black Sea Trade and Development Bank (BSTDB). We continued on a focused effort to attract and increase the share of international financial resources in our Bank. As a result in 2017, BB received substantial support for its business development, in particular for projects involving cross-border trade and projects directed at energy efficiency contribution.

BB maintains high quality of loan book – we continued to expend our business by adhering to disciplined risk management strategy and responsible lending

BB managed higher profitability in compliance with the better quality of loan portfolio; aided by diligent risk management and targeted approach to extending credit. Portfolio quality remained healthy with recorded Non-Performing Loans (NPL)[1] ratio of 2% and regulatory impaired loans[2] (the bottom three risk categories) standing at 4 % versus market average of 2.8% and 5.9% respectively, actually BB's retains lower than the average market NPLs rate, adequately fully covered by reserves and reflected in capital. Furthermore, loan impairment provision ratio (LIPR) under IFRS reveals improved quality of loan portfolio as it decreased from 2.43 % to 2.12% since YE 2016.

Sales network optimization and modernization

In 2017, we continued to modernize the branch banking experience by optimizing our existing network and inaugurating several new locations in active regions Samegrelo and Adjara, to speed up and manage our sales efforts in the branches and increase our presence in economically active regions. We also continued upgrading and investing in remote banking services to further enhance digital access channels in all our business directions. Our branches are refurbished and renewed in accordance with the new concept of branch development strategy and branding. Launched in 2016, our network optimization and service concept aims to react quickly to the needs of our customers, while offering a broader range of product suite and fostering our relationships with clients.

[1]Non-performing loans (NPL) overdue more than 90 days, calculated per NBG data
[2]As per NBG impairment category

IT infrastructure development – we upgraded our IT systems architecture, accelerated our mobile and online banking experiences; completed our main and back-up servers optimization, developed new and upgraded existing systems and programs, in particular: performed migration to upgraded core banking system, developed new HR-personnel management portal, introduced BLS – system that supports revealing suspicious transactions and individuals, worked on remote channels innovations, designed Treasury Distance Trading System and Unique Banking mobile application. Unique Banking mobile application offers its users time saving, exquisite banking services and solutions through the assistance of private banker remotedly from any point of the world wether it be money transfers or deposit opening, while Treasury Distance Trading System offers private dealer service with best on the Market conversion terms.

In addition we conducted security test - "penetrating testing" or Pen Test. For this purpose, we hired a special company for attacking banks various remote information resources, sites, channels and infrastructure by qualified engineers. Tests were performed externally as well as internally (via internet). Following the Test results, we followed provided recommendations and started relevant changes. Changes refer not only to program support, but also infrastructure and monitoring issues.

Adopted structural changes in 2016 YE came into effect in 2017

In 2017, we have worked on to firmly embed enhanced functions of our renewed organizational structure introduced at the end of 2016. Now, we are better equipped to influence the speedy delivery of BB products and services with stronger human asset capabilities and highly leveraged skills. The new, approved structural units were further strengthened with the appointments and promotions of key internal and recruitment of external pool of professionals. Revised growth plans were put in place to achieve successful results based on structural changes and added functionalities. All these changes allowed us to make strong progress, including: reorganizing our business into more efficient, fitted organizational structure in line with our business growth strategy that would efficiently respond to the marked demand.

New business lines

An important directions, insurance and leasing companies, to further strengthen our position on the market were introduced by the end of 2017. In particular, establishment of two subsidiaries Insurance and Leasing companies to complement full suite of our Banking services.

JSC Hualing Insurance has already obtained life insurance license and general insurance (non-life insurance) license. The new subsidiary will start its operations on the market from the second quarter of 2018. At the moment, the company actively develops insurance products in accordance with the introduced strategy of "Hualing Insurance". The main goal of the company is to establish the special service standards by means of individual approach to the customers and through development of customized insurance products. Stated strategy will ensure establishment of long term, mutually beneficial cooperation with customers.

A new subsidiary, leasing company "BHL leasing "was established in December 2017 and will start its activities from the second quarter of 2018.

Our customers expect a seamless service from us: we therefore work on integrating all our channels in the best possible way (branches wide range of digital tools such as ATMs, the website, the banking application and mobile apps). Being a universal bank, an insurer and leasing services provider, will enable us to roll-out on the market as an integrated and seamless financial institution. The optimal product mix – for banking, leasing and insurance is driven by our client needs enabling us to provide them with full financial security by offering banking, insurance and leasing products and services.

Development of the Bank's holding, in its turn, will contribute to the growth of the Bank's shares and will create the opportunity of offering the full range of financial services to its clients.

Our Business Segments

Commercial division / tasks and priorities

In 2017, the Bank addressed the dynamic challenges from increasing demands and expectations of our customers and continued to execute its long-term strategy to deliver a best-in-class customer experience, grew its business banking relationships through improved mix of its products and services, organizational alignment, digital transformation and regional outreach.

Commercial Department is organized into three business lines: Corporate, SME and Unique banking divisions. Throughout 2017, we further consolidated our business lines through adopted key structural changes initiated in 2016, and established new units, groups and divisions.

Some key improvement initiatives around SME & Corporate Business Banking included:

- Establishment and introduction of regional groups
- Launching of Unique Banking Unit
- Launching of separate Documentary Business and Factoring Unit
- Introduction of Agro Bankers Group

Initial milestones were reached with the introduction of the Unique Banking Unit, Documentary Operations and Factoring Unit, including expansion of SME and Agro involvement in regions.

In line with the structural changes, we further expanded the number of our distribution touchpoints, offering even greater convenience to our customers. We started to roll out our regional outreach to our three key markets, Adjara, Kakheti and Samegrelo regions. We put in place various initiatives, including upgrading of internal credit underwriting processes, up-skilling our team to equip them with enhanced competitive edge, standardizing sales and service models to better service our customers, sharpening our target markets and increasing penetration of electronic channels.

Responding to the changes in customer demands and development trends in financial technologies, we completely reorganized our Commercial Department by adding more efficient and practical functionalities; as well as new business units with strong emphasis on our business segments, sector specifics and regional outreach. In this regards, establishment and introduction of regional groups (east and west), formation of agro units and introduction of Agro Bankers Group with business specific expertise, as well as launching of Unique Banking and separate Documentary Business and Factoring Units to drive overall business lending was a progressive step towards the focused execution of our strategy.

With the growth of the Bank, we saw that it is very important to develop Documentary Business direction separately, to offer our clients involved in factoring and international trade business more flexible, convenient and risk free services in alternative financing solutions. Formation of structural unit for Documentary Operations and Factoring Business was a decision made by the Management of the Bank to address business specifics and market demand for International Trade and Factoring products.

By the year end of 2016, BB made decision and established a new unit to serve specifically our VIP customer segment as a separate, exceptional direction oriented at the best in class, individual and premium services provisioning to gain an edge in building deep customer relationships and increase loyalty in key segments and industries. Unique Banking Unit's formation was based on principle of provisioning premium class services to our high net worth client segment to specifically address the needs of each our VIP customer through offering extraordinary expertise, unequaled personal attention, customized product solutions and comprehensive banking services of any type.

BUSINESS (Corporate and SME) BANKING

Our Business Banking serves over 5000 small, medium and large companies through strong domestic franchise and presence in all major economically active regions of Georgia. Our efficient multichannel sales network, segment focus and expertise, give us capabilities to support our SME and Corporate clients in all sectors of economy through broad range of standard and tailored made product and services.

SME Banking provides a full suite of financial services and banking solutions, supported by an excellent customer experience to small and medium Businesses. The Bank serves this segment through its network of 22 branches spanned across central and regional parts of Georgia, as well as internet, mobile and telephone banking and specialized sales teams.

Corporate Banking serves the needs of large Georgian businesses by offering a broad range of customized products and services to help business owners meet their financing, investment, cash management, international trade and day-to-day banking needs.

We continue enhancing our performance through focused development of our business lending. Corporate and SME segments remain a key priority for BB. We believe we have the capabilities to serve these segments well and to become one of the leading players on the market.

Our Corporate and SME (Business) Lending Departments as well as Commercial Banking Department with the changes adopted in 2016 were very well positioned to take on the opportunities in 2017.

Business lending advances in 2017 constituted 141 million GEL, 30% growth YoY, attracted savings of legal entities and state public organizations GEL 62 million GEL, or 15% growth YoY, playing a major role in its contribution towards the Bank's overall performance. Focused efforts were placed on acquisition of top tier corporates in addition to the rest of the segments and portfolio growth was driven through a suite of customized products and services coupled with superior relationship building initiatives. The Corporate and SME Business Divisions/Departments were further expanded with the addition of experienced staff, oriented at the delivery of the ambitious growth objectives set by the Bank.

Portfolio growth was generated mainly via priority lending sectors such as tourism related sectors, health care, energy, construction. We will further continue to focus on the progressive sectors of the economy to capture emerging growth opportunities. Lending for such sectors will increase in 2018 and beyond.

To enhance our competitive edge, regional outreach, business focus and to improve regional efficiency in line with our focus on inclusive growth, the Bank's regional and agro banking footprint was significantly widened in strategically selected regions.

Agro Bankers are now presented in each regional offices and operate specifically to boost agribusiness lending, attract new agro clients and improve service quality for the existing ones. These recent changes move will support the Bank's agro loan portfolio growth, and opportunity for new specific products offering.
The results are crystal clear based upon profitability reached after organizational changes and structural development. More than 50 companies and/or farmers were financed through preferential agro credit program. Basisbank is proud of its contribution in the success of each of these companies.

Successful Farmer's Story
Tamazi Naskidashvili

In Tsnori, Kakheti region, Tamaz Naskidashvili is involved in agribusinesses for more than 10 years. With up to 500 Hectares of agricultural land, he cultivates various kinds of agro products including: Wheat, corn and barley. Annually, Tamaz harvests approximately 1800-2000 tons of crop. For years, he has been struggling for large volume storage deficits in Kakheti and had to store his harvest in different warehouses across the region. Transportation and logistics of harvest storage was an issue. Increased transportation costs had an effect on the prices the farmer offered for corn on the market.

To help Tamaz in the storage difficulties and the respective complications, Basisbank embarked on edge to support Tamazi's 1800 sq. storage facility construction, within the scope of Agro project.

With the help of Basisbank and fruitful client relationship, nowadays Tamazi can store up to 4000 tons of harvest. Personal warehouse gives the farmer an opportunity to save transportation and logistics costs, as well as rental costs.

As a result, the business has become more cost-effective and profitable for the farmer.
It is noteworthy, that in Agro sector Basisbank is not only a financial medium, but also an information source for Agro news; BB produces thematic journal Agro basis, which is quite popular in agriculture sphere and is one of the top choices of the readers. 5000 copies of the magazine are published on a quarterly basis. The electronic version of the journal is also available for the users.

Retail Business Unit and service development

The goal of the Retail Business Unit is to provide clients with a comprehensive range of products and services, channeled through a vast range of sales tools and modern set of Branch Network - adhering to the highest standards is the quality of services and products.

Retail banking provides simple and transparent banking products to customers, helping them anticipate and fulfill their financial needs. BB meets the full range of consumer banking expectations, including savings accounts, mortgage and consumer loans, payroll projects and installments, and card services in all three payment systems: VISA, MasterCard and Union Pay.

Last year, Organizational Structure of Retail Banking also underwent changes and was upgraded to better serve our Retail segment. The upgraded Retail Business Management Department started functioning through its four main Departments: Branch Network Development Department, Alternative Channels Management Department, Retail Sales and Retail Lending Departments, and five underlying subdivisions to better suit the banking needs of the mass market.

Accompanied with active campaigns in 2017, BB offered its retail customers best-tailored, new products and services. As a result, retail loans increased by +19% YoY, reaching GEL 157 million at the end of 2017. Retail loan segment constitutes 20% of the Bank's Gross Loan Portfolio (GLP).

We have made major progress transforming our Retail Banking over the last two years, sharpening our client propositions and renovating all existing touchpoints for clients. Major improvements and investments in Retail Banking in 2017 included:

- Branch outlets refurbishment and renovation
- Expanded presence in regions and regional service areas
- Enhanced digital innovations

Throughout the year, the Bank widely promoted transformation of its branch outlets to continuously improve its customer experience. Our regional outreach expanded to the most crucial locations of Western Georgia and the most active tourists' destinations. Since August, new branch started its operations in the city of Zugdidi, new touchpoints were added in Mestia, Svaneti. Furthermore, the Bank opened desks to serve installment projects in two major commercial outlets, Tbilisi Plaza and Smiley.

Retail Business Management Department transformation is well underway to deliver service excellence based on customer needs and market innovations. To win on time and be swifter in the clients' servicing, new employees were recruited as frontline staff in our branches.

In 2017, BB launched active call center, as alternative of channel of sales directed at customer attraction and pursuing active communications with existing and potential customers through various propositions and offerings of our products and services.
Retail Business Sales growth was promoted and facilitated through division of the sales group into salary/payroll and non-payroll groups. Payroll sales group intensified the credit capacity for existing and new payroll clients.

The other group is dedicated to specifically increase mortgage and consumer lending to individual clients. The sales groups have been actively working with several developers to work out various propositions for potential homebuyers. A series of several partnerships with developers have been elaborated to actively start promotions of the mortgage financing and be in pace with the market demand, offering potential customers some interesting and valuable propositions for acquiring residential homes.

We continue to make bold moves to serve customers, including enhancing our offerings with digital initiatives as part of our focus on making it simple to bank with Basisbank. Our customer base is ever more digitally engaged and looking for more distance banking solutions and tools. BB has set a new platform for digital banking, with launching new internet and mobile applications in 2017. It enables transition from conventional banking channels to a paperless digital experience. Already, more than 50% of our retail transactions are processed digitally, with mobile banking evolving as the fastest growing channel of sale. Our website and mobile applications allow customers to easily access BB products and services whether it be at home, work or on the move. BB's online platform gives opportunity to its retail clients to get an instant loan with a pre-approved limit, get installment plans on private accounts and many other flexible package of tools to accommodate customers' convenient experience.

In line with our strategy, responding to the changes in customer demands and the recent development trends in technology on the market, we accelerated transformation of our retail banking business so as to steadily enhance our market competitiveness, by moving forward to #5 position and keeping the trajectory upward. By a strong Focus on delivering the best customer experience, BB will continue its operations to serve the clients from mass affluent to high net worth clients through exceptional experience.

HR

HR & Administrative Department

Human Resources and Administrative Department's mission is to offer the best working environment for its employees. In order to be recognized as the leading bank for customer service, we acknowledge that we must continue to adapt to changes in employee satisfaction and motivation as well as customer behavior and their financial needs.

Our colleagues take pride in working for Basisbank, and with their support we are building a culture in which everyone feels empowered and inspired to do the right things for our customers at the very heart. We want colleagues to be engaged and enthusiastic about our strategy. We systematically update them on the Bank's performance including matters that concern their roles within the Bank. We also take great interest in getting feedback from our employees to help us shape our shared future. In 2017, as in previous years, Basisbank conducted team building event in Borjomi, Georgia, where middle and top management were invited specifically to sum up the Bank's past results and take part in the Bank's 5 year strategy design process.

In 2017, BB continued restructuring its organization in line with the new business strategy and the human capital was realigned so as to create a performance oriented establishment. As a first step towards creating a vibrant workplace and rewarding career paths, the Bank initiated human resource management portal - our intranet. The portal facilitates smooth working process and fast exchange of information throughout the organization. We improved our digital interaction to respond to our colleague's satisfaction and convenience. Greater focus was placed on career development, training and skills development of our human capital while many significant investments were also made towards enhancing the productivity of our staff. During 2017, 24 trainings were provided for special targeted groups and individuals. We are committed to helping succeed in the career path, as for the new recruiters, as well as for our experienced professionals. Our staff loyalty and career advancement is core to us. As a result the Bank promoted 35 employees in total in 2017.

A number of initiatives were also implemented this year to ensure that BB maintains its stringent culture of compliance where governance, principles, ethics, accountability, integrity and transparency remain in absolute focus. In 2017, Bank also added a new recruiting website for simplified and transparent recruiting purposes. The new website has been equipped with all necessary tools for HR managers to help the Bank hire the best people of choice, and job applicants at the other end for flexible, transparent and fair treatment.

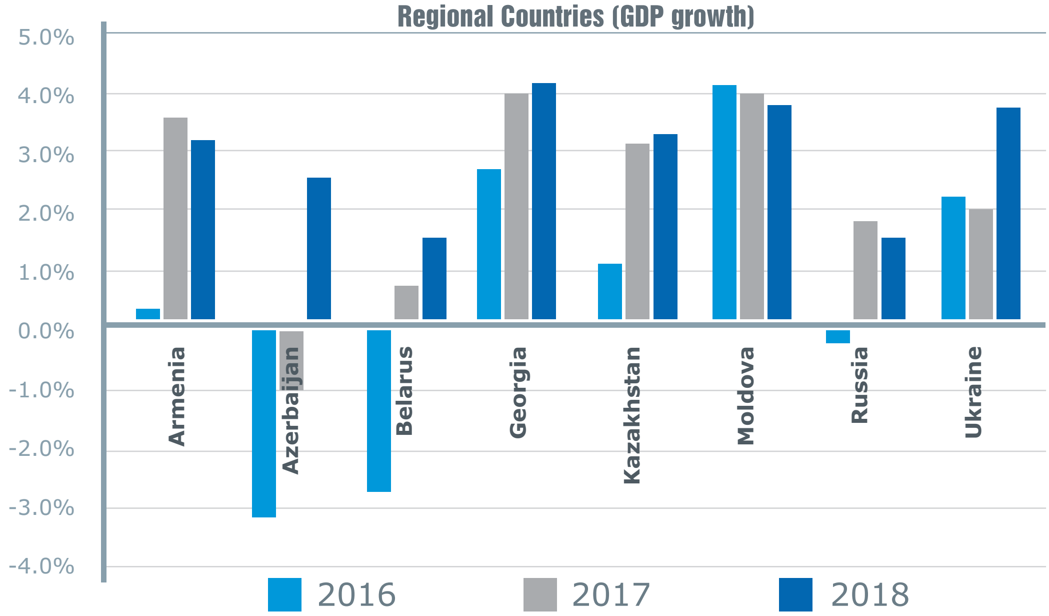
Finally, our track record and year-end results show the importance we place in positive and creative development of each and every one of our colleague in order to better serve our customers and clients and to continue build trust and respect in our business with absolute integrity and teamwork.

Market and Financial Overview

OPERATING AND FINANCIAL REVIEW

Market Overview

Georgia continues to deliver strong GDP growth, estimated at 5% y/y in 2017 compared to the 2.8% of 2016[3], driven by the improved performance across the region and positive influence of internal factors.

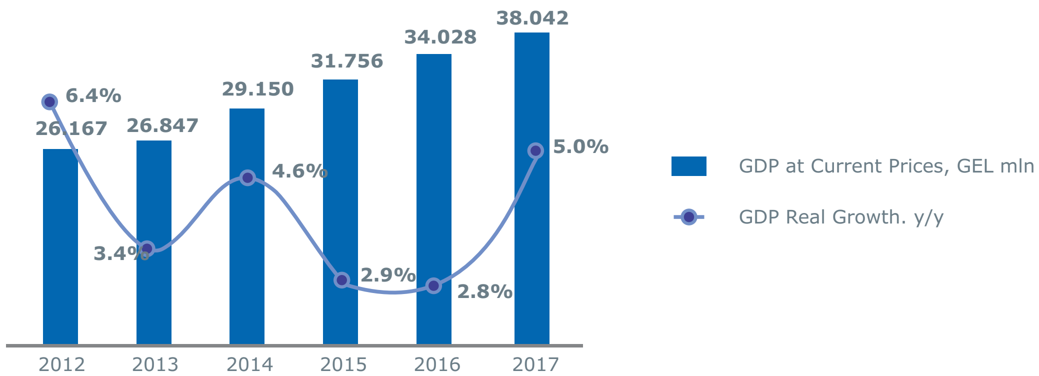


Source: IMF (World Economic Outlook Database, October 2017)

Georgia's recent macroeconomic performance has been resilient to the shocks affecting the region. Despite exogenous factors hindering the growth since the end of 2014, a flexible exchange rate regime in combination with coordinated monetary and fiscal policy guaranteed the growth to remain stable; over the past five years GDP growth has averaged to 4% (1.8% in the CIS countries of region above)[4].

GDP growth accelerated in 2017 to 5.0% y/y due to an improvement in economic conditions among Georgia's main trading partners (Eurozone countries, Turkey and Russia) and increased domestic demand driven by Government spending, fiscal stimulus and infrastructure projects.

We expect real GDP growth to average around 4.5% in 2018, ongoing structural reforms and improved consumer and business confidence are positively impacting further enhance of economic performance for the upcoming years.



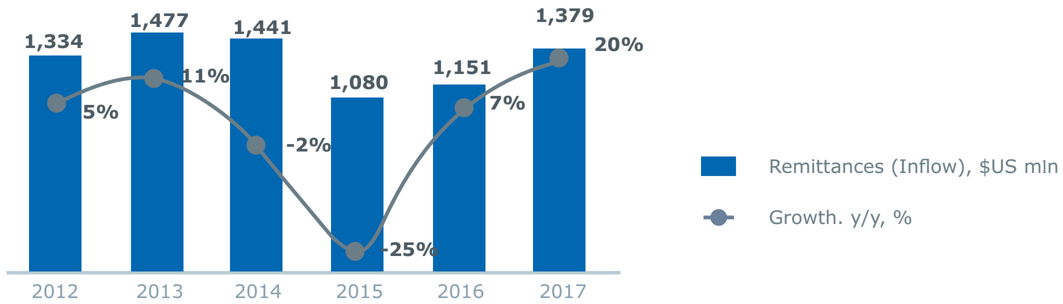
Source: Geostat

[3]Source: Geostat
[4]Source: IMF World Economic Outlook Database, October 2017

The growth drivers - The economic performance in major trading partners supported increased exports, remittances and tourism, while domestic consumption and significant investments, as a result of improved business environment and increased confidence, have positively contributed to GDP growth. The growth was synchronized across the main economic sectors.

Trade Sector showed 6.6% annual real growth; Construction sector increased by 11.2% y/y, Transport and Communication +6.2% y/y; Manufacturing +5.0% y/y; Hotels and restaurants showed double digit growth as well +11.2% y/y, which was mainly supported by a sharp increase of tourism inflows[5].

Slowed down economic processes in the region affected external inflows to Georgia since 2014, which had a negative impact on the aggregate demand. But in 2017, external inflows through remittances increased sharply by 19.8% y/y and amounted US$ 1.4bn, 9.1% of GDP. Remittances increased from all major countries[6].



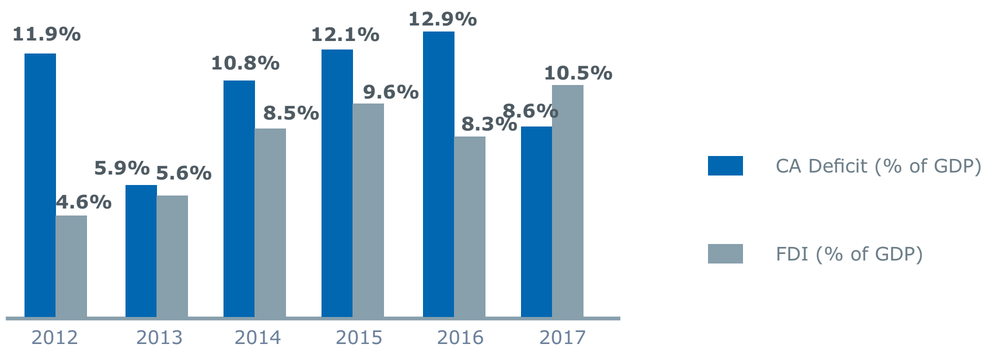
Source: NBG

Tourism revenues still remain as the main source of external financing. It showed a solid, 27.0% annual growth in 2017 and amounted US$ 2.8bn or 18.2% of GDP. International arrivals increased by 17.6% y/y to 7.9 mln visitors; among international visitors the tourist arrivals accounted for 63% with 23.4% annual growth[7].

Georgia builds up its competitiveness on the global market through ongoing processes of diversification of trade and investment relationships, including through the Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with European Union (EU) and Free Trade Agreement with China. These developments will provide Georgia with additional financial and technical support to further develop its political and economic relations.

Above mentioned structural changes have already had a positive impact on Georgia's external trade with goods and services; exports increased by 29.1% y/y to US$ 2.7bn, while imports increased by a moderate 9.4% y/y to US$ 8bn, which was mainly driven by increased domestic demand due to increased external inflows.

Emphasized economic developments had a positive impact on Georgia's current account (CA) deficit, which remains as a main challenge for the economy. In 2017 CA deficit improved to 8.6% of GDP from 12.9% in 2016.



Source: NBG

[5]Source: Geostat
[6]Source NBG
[7]Source NBG, GNTA

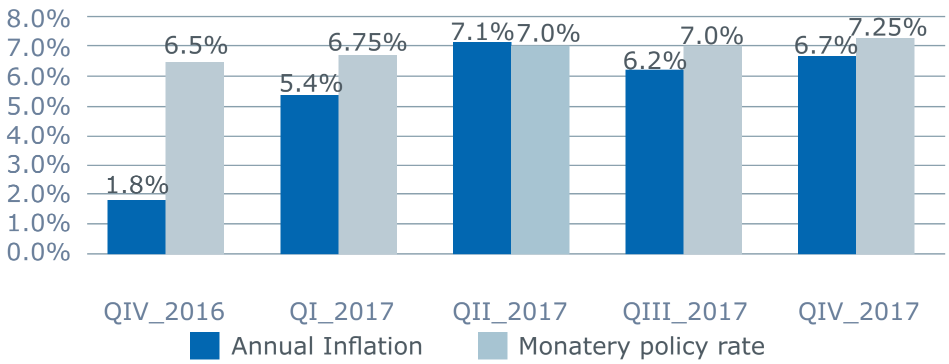
Outstanding economic performance in combination with balanced economic policy creates an attractive investment environment in Georgia. Georgia became a ninth easiest place to do business globally according to World Bank latest research.

The resilience of Georgia's economy was mainly attributable to coordinated fiscal and monetary policy in combination with adequate banking supervision which promoted commercial banks to continue to finance the economy. During the last five years, credit to GDP ratio increased from 32.4% to 56.2%.

The National Bank of Georgia continues to follow inflation targeting policy, which requires a flexible exchange rate regime to support economic growth at the same time.

Annual inflation was relatively high in 2017, reaching 6.7% by the end of year. Inflation exceeded 4.0% target due to one-off increase of excise taxes on petroleum and tobacco and increased customs tax on automobiles. To maintain inflation around its target the NBG increased policy rate three times during the year up to 7.25%.

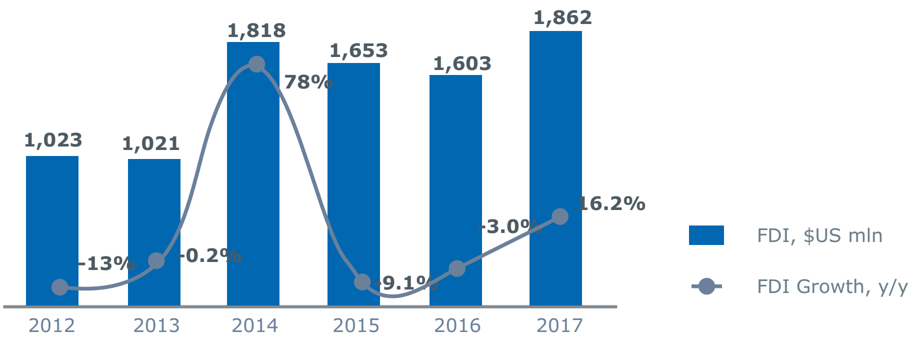
According to the NBG's latest estimations inflation will approach to its new 3.0% target from 2018 as the one-off effects



emphasized above will be exhausted.

External position has strengthened but external finances still remain a key issue, the current account deficit (CAD) has lowered from 12.9% of GDP in 2016 down to 8.7% in 2017, driven by an improved net balance of trade, increased income in trade of services (largely at the expense on increased tourism receipts posting 27% y/y growth) and increased remittances, party affected by increased deficit in net revenues from investments. We expect improvements in remittances to further shrink the CAD. Foreign direct investment (FDI) flows remain a crucial source of funding for the CAD. In 2017, inward equity FDI was around USD1.8 billion (around 12.3% of GDP).

In 2017, FDI was up by 16.2% y/y and mainly was directed to the transport and communication sector with 28.3% share and in the



Source: Geostat

financial sector with 16.3% share of total FDI.

Georgian government's four-pillar reform plan, which includes new tax benefits for the corporate sector (become affective from January 2017), increase in infrastructure spending, governance reforms in combination with investment incentives are expected to further enhance investment growth.

Another challenge for the Georgia's economy is a high level of dollarization which was well managed during the last year. At the beginning of 2017, the Government of Georgia in cooperation with the National Bank of Georgia implemented a so-called "Larization" policy that forbids issuance of less than 100,000 GEL retail loans denominated in foreign currencies. As a result, in 2017 loans dollarization was down by 8.5 ppts to 56.9%, while deposits dollarization decreased by 5.8 ppts to 65.6% compared to previous year. The reduction of dollarization level promotes the effectiveness of monetary policy through empowering the monetary transmission mechanism, reduces exchange rate fluctuations and in general, lowers the foreign exchange risk that makes economy more resistant with respect to external shocks.

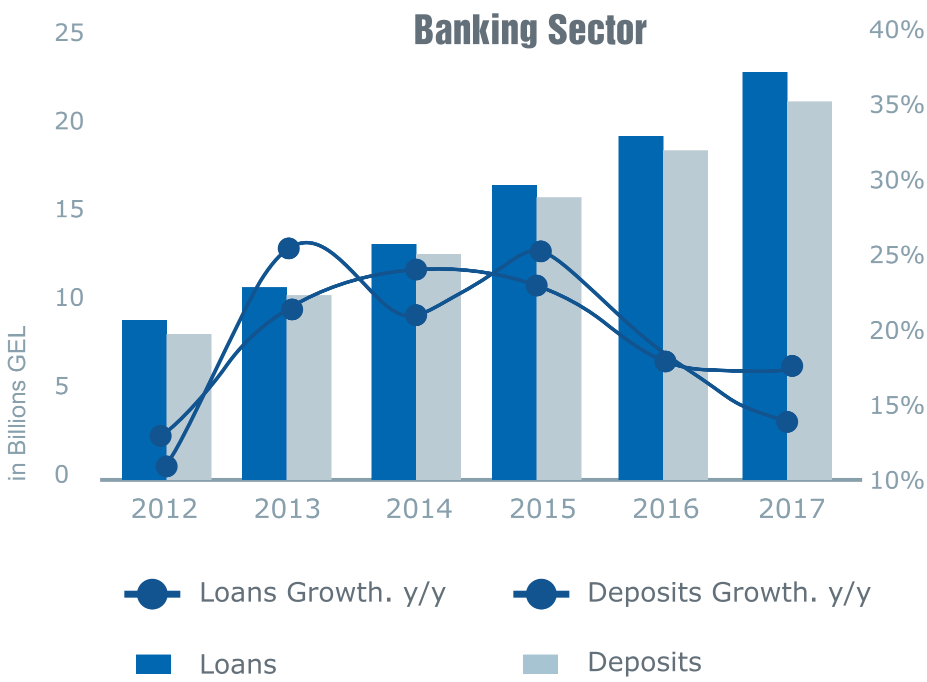
The outstanding economic performance had a reflection on country's credit rating. In 2017, Moody's upgraded Georgia's local and foreign currency issuer ratings to Ba2 from Ba3 and outlook remained stable. Fitch also affirmed Georgia's credit rating BB- outlook to stable in September 2017. The rating upgrade and stable outlook were mainly supported by the resilience of the Georgian economy towards the external financial and exchange rate shocks during the last three years.

Along with the strong economic performance in 2017, growth forecast is even optimistic. IMF predicted 4.5% annual growth for 2018, which is well above the regional average. An increased forecast is related to the ongoing structural reforms to support higher, sustainable and more inclusive growth. The authorities have taken steps to improve financial safety nets, support capital market development, and have submitted to parliaments draft laws on public-private ownership and pension reforms which will guarantee to accumulate domestic savings to finance private investments and will reduce Georgia's external financing needs over the long run period.

The Banking Sector

Georgia's banking sector is one of the most developed and fastest growing sectors on the market, with healthy profitable track record, solid capitalization and liquidity. The banking sector is the greatest contributor to the growth, for last 5 years the sector grew by 19% on average reaching 91% of GDP in terms of assets and 56.2% in terms of loans, the total amount of deposits increased by 2.5 times during the last five years reaching GEL 19.8 bn.

In 2017 the outstanding volume gross portfolio hit significant GEL 22 billion posting 18% of y/y growth. Credit to households

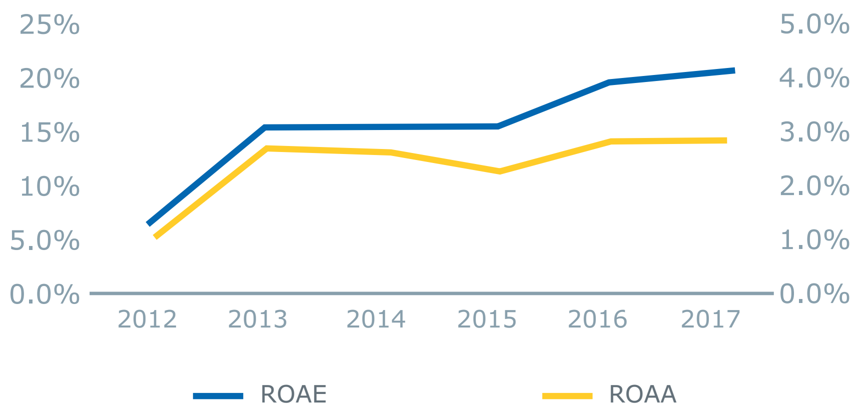


Source: NBG

continues to grow faster than credit to businesses (corporate and SME) as they have since 2015; in particular, consumer lending progressed with additional GEL 955 million, 20% of y/y growth, and the mortgage sector with GEL 738 million, with 24% y/y growth. In business lending after some stagnation in 2016, SME lending increased with additional GEL 1 billion posting 30% of y/y growth. Corporate lending share in gross exposure is reduced to 31% (down from 37% since 2015) partially due to issuance of corporate bonds and switching to external financing. The Corporate credit is mostly channeled to trade, industry, and construction sectors.

The banking sector saw a significant rise in deposits of +16.6% in 2017, there was no divergence in the growth pace in corporate and retail deposits; further cuts in interest rates on FX deposits was reflected in the structure of FX concentration reducing it from 71% down to 66%. FX position of corporate deposits has negative impact and saw no growth in 2017, households' deposits increase in FX was relatively low +7% Y/Y, as compared to Lari denominated deposits posting average 40% of growth were rate are still significant. Corporate deposits in local currency outpaced that of retail deposits. The ratio of corporate deposits to in total deposit funding is averaged to 46% from year to year.

Profitability of the banking sector in Georgia is quite solid. As of December 2017 consolidated return on average equity (ROAE) amounted to 20.7% higher than previous year's ratio – 19.2%. A remarkable growth of profit was balanced by the strong growth of total assets +14.7% y/y, as a result, return on average assets (ROAA) improved slightly and stood at 2.78% compared to 2.76% in 2016.
Increased competition in the Georgian banking sector had a negative pressure on the interest margins had a negative impact on



profitability as net interest income still generates the main source of banking revenue, but nevertheless the margins still remain sufficiently wide which emerges from the healthy market structure and increased competition. But profitability is supported by moderate loan impairment charges and good operating efficiency, cost to income ratio standing at average 47%.

Along with the outstanding growth and profitability, Georgian banking sector remains a well-regulated and well-capitalized sector. As of December 2017 regulatory tier 1 capital to risk-weighted assets (tier 1 ratio) stood at 14.0% (the market average), while total capital adequacy ratio (total CAR) amounted 19.1% according to Basel III framework (the old regulation is phased out since January 2018), the banking sector maintains significant cushion well supported by the generated operating profits to absorb potential credit losses in case of renewed pressure on assets quality.

Regulatory Changes

Solid capital adequacy of the banking sector is attributable to the strong shareholders' support, healthy internal capital generation and healthy risk management. As of December 2017 non-performing loans (by NBG's methodology) to gross loans for the market stood at 5.9% (7.3% as of December 2016), while loan loss reserves (LLR) to gross loans amounted 5.2% (6.2% as of December 2016) and providing solid coverage for NPLs with reserves.

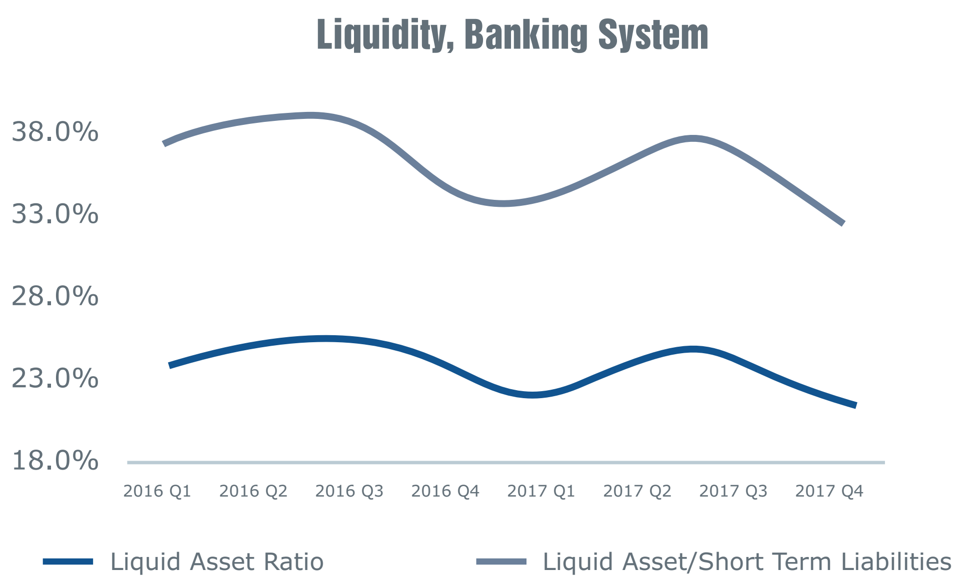
High dollarization level still remains an issue and places the sector vulnerable to the adverse movements in FX rates. Lending dollarization rates are high at average 57% at year-end 2017, reasoned by the currency structure of funding base. Recent measures by the government and the NBG aim at reducing dollarization in the economy and reduction in banks' lending of FX concentration in the medium term.

Regulatory Changes De Dollarization Measures – High level of dollarization in the economy is the main challenge for the macro-economic and financial stability. To reduce the level of dollarization the Government and the NBG are taking measures and adopted a plan for de-dollarization and promotion of the local currency in the local economic activities. The measures included voluntary conversion of FX denominated loans issued before January 1, 2015, implemented during the first quarter of 2017 and was a one-off measure which secured the conversion of some part of the consumer loans into local currency at subsidized rate. The other measures were directed to encumber the market behavior through changes in legislation: 1. Restrictions are imposed on funding of retail customers in foreign currency below the threshold of 100 thousand Lari since January 1, 2017. 2. Obligatory reserves imposed on banks increased from 15% up to 20% for foreign currency denominated funds (as against Lari denominated liabilities reserves requirements standing at 7%) and higher coverage requirements under Basel III liquidity coverage ratio (LCR) for FC denominated funds; 3. 175% risk weights applied to loans denominated in foreign currencies increasing capital demand for the exposures in FC.

The commercial banks need enough liquidity in Lari to support the funding. NBG and the Government are elaborating plans to increase Lari liquidity on the market. Development of capital markets is an important tool for the promotion of national currency and creating long-term Lari resources, the NBG and the Government of Georgia developed a Georgian capital market development strategy. The implementation of pension reforms, widening the list of eligible collateral for Banks to obtain Lari resources adopted by NBG is the part of this strategy.

These measures have already impacted the portfolio structure, by reducing FX concentration in retail portfolio from 52% to 42%.

Alongside the high solvency, short-term creditworthiness is reasonable as well. As of December 2017, liquid assets share in total assets (liquid asset ratio) amounted 21.3% (22.8% in December 2016) at the consolidated level.



Source: NBG

As of December 2017 total deposits of the banking system amounted GEL of 19.8 bln (+16.6% y/y) that is quite a reasonable growth compared to 4.8% annual GDP growth. A 27.9% of deposits growth was attributable to the growth of time deposits, while rest part of the growth was driven by the short-term deposits. A share of individuals' deposits amounted 53.7% of total customer finances as of December 2017.

A significant fraction of banking system assets are financed through deposits. As of December 2017, 57% of total assets were financed via deposits at the consolidate level and 55% - at the BasisBank's level.

Starting from September 1st, 2017 NBG has finalized the BASEL III framework for liquidity and its integration in the banking sector. The LCR is a modern approach for short-term (up to 30 days) liquidity management and provides for identifying, assessing, monitoring and controlling liquidity risks. The commercial banks are to ensure adequate level of liquid assets to cover the liquidity outflows for 30 days (LCR).

The NBG is advancing with regulation to improve transparency, accounting, governance and oversight of the banking sector.

Basisbank's Performance

We made tangible progress in executing on our business strategy - year 2017 has accomplished the 5 year cycle, throughout 2012-2107 the Bank has maintained strong capitalization and solid liquidity positions and has reached significant progress in KEY fronts.

- This year, BB has upgraded its position from the 8th largest Bank in Georgia and secured the 6th largest Bank's position in terms of assets and the 5th largest bank in terms of equity.
- Enlarged our business with approximately additional GEL 300 million in total assets
- We deepened our partnership and attracted above US$ 90 million from our new and long-dated partners: IFC, China Development Bank, Asian Development Bank, EBRD, BlueOrchard, Bank of Urumqi, Commerzbank and Banca Popolare di Sondrio.
- Established new subsidiaries in Insurance and leasing companies which would support the group and the bank to reach new areas and explore new opportunities on financial market.
- Extended our geography in new regions and created new regional units to support regional development of the bank to reach the targeted clients.
- Improved our on-line platforms – online banking, online credit application, mobile banking; created unique modules for Currency trading for the customers with treasury unit, etc.
- Bank's Long-Term Rating increased by FITCH to “B+” from “B” at “Stable” outlook.

BB Key Performance Indicators (in ml. Lari)	2017	2016
Net operating revenues	53.1	47.6
Pre-impairment operating profit	33.8	31.1
Income (loss) before income taxes	31.6	26.4
Net income (loss)	29.9	25.5
Profitability		
Pre-impairment operating profit on average equity	17%	18%
Pre-impairment operating profit on average assets	3.2%	4.0%
Pre-tax return on average equity	15.8%	15.3%
Operating costs	(19.3)	(16.5)
Cost/income ratio	36%	35%
Return on Equity (Profit After Tax/ Tot. Equity)	14.9%	14.7%
Return on Assets (Profit After Tax/Tot. Assets)	2.8%	3.6%

Source: Internal calculations

- BB has delivered strong results in 2017 in terms of growth and profitability, reaching +31% and +27% YoY growth in assets and loan portfolio, +21% in customers' funds and posting solid GEL 29.9 million of net profit, + 17 % YoY growth on 2016 results.
- Profitability measures ROAE and ROAA are stable; ROAE showed slight improvement from 14.7% to 14.9%, while ROAA varies in the range 3.6%-2.8 % during 2016-2017 due to increased leverage in 2017.
- BB managed higher profitability in line with the better quality of loan portfolio. Cost of risk amounting 0.3% of portfolio reveals improved quality of loan portfolio resulted in decreased impairment provision for loans from 2.43% in YE 2016 to 2.12% in YE 2017. Cost to income ratio remained low, accounted for 35% and 36 % in 2016 and 2017 respectively.

BB Results of Operations

CONDENSED CONSOLIDATED INCOME STATEMENT

Millions of GEL	2017	2016	2017 increase (decrease) from 2016 Millions of GEL	in%
Net interest income	46.0	40.9	5.1	13%
Other Non-interest income (net)	7.1	6.7	0.4	6%
Total net revenues	53.1	47.6	5.6	12%
Total non-interest expenses	(19.3)	(16.5)	(2.8)	17%
Pre-impairment operating profit	33.8	31.1	2.7	9%
Provision for loan impairment	(2.2)	(4.6)	2.5	-53%
Income (loss) before income taxes	31.6	26.4	5.2	20%
Income tax expense (benefit)	(1.7)	(1.0)	(0.8)	79%
Net Income	29.9	25.5	4.4	17%
Net interest margin (NIM)	**5.6%**	**6.7%**		

Source: Internal calculations

Note: The above mentioned data approximately equals Basisbank's stand alone income statement. For exact data, please, refer to Basisbank Group Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income

Total net operating revenues – reached GEL 53.1 million in 2017 compared to GEL 47.6 million in 2016 strongly supported on revenue side by +20% increase in revenues from loans and +6% in securities portfolios, currently composing about 85% and 13% of total Interest Income respectively. On the other side Net interest income (NII) is impacted by Interest related expenses which for the YE 2017 increased by significant 30% resulted by higher interest expenses on borrowings increased by additional GEL 149 million by the end of 2017.

In total these changes result in the stable profitability growth, which is driven by increasing net interest income (annual growth of 13 %), accompanying other favorable factors, as well. 13 % increase in the net interest income lead to 12 % growth of total net operating revenues (grew by GEL 5.6 million YoY). After deducting operating expenses (noninterest expenses) and loan impairment provisions, BB gets GEL 31.6 million income before income taxes in 2017. That is greater by GEL 5.2 million (i.e. +20% YoY) than corresponding figure in 2016.

Net interest margin continues its compression due to tight competitive environment and increased rates in local and USD funding. Lari was impacted by increased refinancing rate from 6.75% up to 7.25% during the year, twice revised by NBG due to increased inflationary pressure, having direct impact on local borrowings. On the other hand borrowings from IFIs are also impacted by increased Libor rate from 1.32% up to 1.84% (6M LIBOR). Thereby both, the net interest spread and the net interest margin declined by 0.8 and 1.2 basis points in 2017 as compared to prior year. This process is followed by reviewed market pricing on deposits, gradually but the pricing has decreased on FX deposits.

BB has reflected these changes through its ALM process, changes in pricing and terms of loans are constantly monitored and reflected in advancing floating rate loans, also supported by renewed terms and conditions from IFIs side following to the increased BB credit rating in 2017. Pressure on net interest margins will likely continue in 2018, the impact of which could be offset by volume growth.

Non-interest expenses in 2017 grew by GEL 2.8 million YoY. That was driven mainly by staff remuneration and development costs. Net income after taxes accounts for GEL 29.9 million in 2017 compared to GEL 25.5 million in 2016 (17% growth YoY).

BB's portfolio quality remains healthy - allowances for credit losses amounted GEL 2.2 million (4.7 million GEL in 2016), resulted in lower cost of risk (annualized impairment charges to average gross loans) of 0.3% as compared to 1% of YE 2016, supporting bottom line profitability by consuming the pre-impairment operating profit for the period with by 6%, To maintain the assets quality in line with lending growth is a key goal to support performance.

FINANCIAL POSITION

CONDENSED CONSOLIDATED BALANCE SHEET

			2017 increase (decrease)	from 2016
Millions of GEL	2017	2016	Millions of GEL	in %
Securities	144	128	15	12%
Gross loan portfolio (GLP)	774	609	165	27%
Business loans	617	477	140	29%
Retail loans	157	132	25	19%
Loan Impairment provision (LIP)	(16)	(15)		
LIPR	2.12%	2.43%		
Net loans	758	594	164	28%
Total assets	1,231	940	291	31%
Gross Customer deposits	678	562	116	21%
Current accounts	192	141	51	36%
Demand deposits	186	95	91	95%
Time deposits	287	326	(40)	-12%
Borrowings	270	122	149	122%
Total liabilities	1,018	754	264	35%
Total equity	213	186	27	15%

Source: Internal calculations

Note: Balances attributable to JSC Basisbank are as follows : Total Assets GEL 1,236 million (2016: GEL 940 million), Total Liabilities GEL 1,022 million (2016: GEL 754 million) and Total Equity GEL 213 million (GEL 185 million)

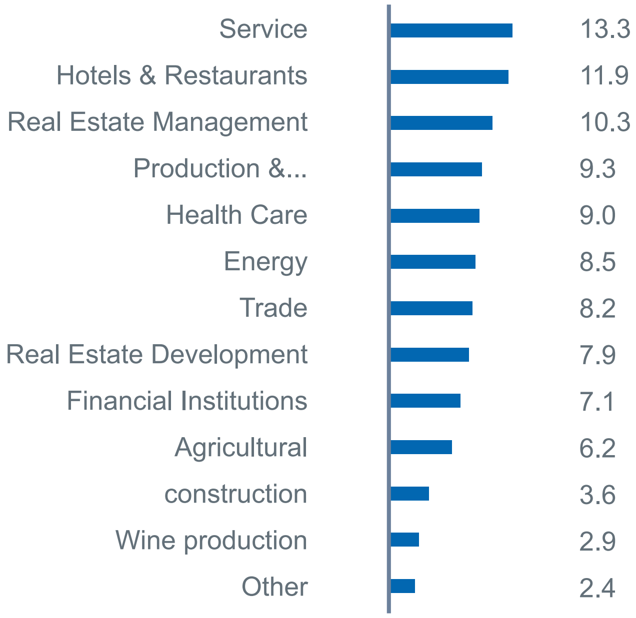
Movements in Assets - BB's total assets showed significant increase in 2017. It increased by 31 % that amounted GEL 291 million change (31% YoY) from previous year in 2017 and accounted for GEL 1,231 million, 57 % of total assets growth is attributable to loan portfolio.

In 2017 BB improved its position as by loan portfolio, as by customer deposits. BB represents one of the most business friendly institution. BB's loan portfolio mainly consists of business loans, the Retail sector shares relatively small portion of total loan book as compared to the market average (46% as of YE 2017).

BB Gross loan portfolio (GLP) annual growth stands at 27% in 2017. In total loan portfolio business segment occupies 80% and retail segment – 20% in 2017 (78% and 22% respectively in 2016). Like previous years, business segment is the major driving force in GLP growth. The growth of 27% was achieved through intense concentration on Business lending by +29%, GLP and on retail by +19%, segmentation has changed only slightly.

BB's Business loan book is well diversified. Priority lending sectors for BB are tourism related sectors, health care, other services, energy, construction, etc. Lending for these sectors will increase in 2018 and beyond. The risk of high sectoral is limited, concentration in sectors is in line with BB's policy – to keep not more than 15% of total portfolio for each sector and 5% in rural agriculture. Currently these exposures are well below this limitations.

Loans to businesses (in pct)



Source: Internal calculations

Retail portfolio (RP) - the YE 2017 resulted in +19% YoY growth, lending was improved through structural changes in units and internal processes to support the increased demand for growth on the market. During 2017 BB has adjusted its internal processes and enhanced its front staff, invested in Lari denominated loans. Our offers on the market in terms of pricing and conditions were competitive; and these measures were effective and renewed offers were presented to the market. Enhancements in retail business will continue throughout 2018, this process will intensify our business and increase our portfolio to the targeted 30% of portfolio, further optimization of processes in front and back offices, staff training and enhancement of staff base and technical support, development of on-line sales platforms, etc. are those measures which should intensify our activities in retail sector.

BB offered consumers new products oriented on their demands, accompanied with active campaigns. As a result, retail loans increased by GEL 24 million YoY and it reached GEL 157 million at the end of 2017. The year was remarked with more accelerated growth mainly in Mortgage portfolio giving rise of portfolio by 11% (55 million GEL of mortgage loans issued during the year) and Consumer lending increased significantly by +35% (+47 million GEL of issued loans) over YE 2016 results.

The loan portfolio diversification strategy intends to enhance lending on retail segment and SME through keeping competitive pricing policy and active marketing. Enhanced retail and SME funding will contribute to overall healthy growth and contribute to business diversification. High FX lending, mostly to unhedged borrowers is a challenge for BB and Georgian Banking Sector in general. Loan portfolio mainly consists of USD and GEL denominated loans. Government's Larization initiatives launched last year has a direct impact on both lending and funding side: total concentration of Lari denominated loans has increased from 26% at the YE 2016 up to 28% by the end of 2017, and still continues to improve. In retail it has even greater impact: from 31% of YE 2016 up to 52% by the end of 2017.

For BB on funding side the share of lari resources in deposit base increased from 21% in YE 2016 up to current 25%. Funding cost on lari deposits has changed but not significantly - from 5.9% to 6.2% on average; bigger impact was on corporate depositors due to increased demand on lari resources. BB has significant exposures in Lari placed under Government securities, which are used in repo transactions and compose 35% of total liquid assets and are fully eligible assets for the NBG's refinancing instrument. NBG has also improved use of lari denominated portfolio to enable the banks to raise lari funding from NBG under report transactions and

reduce FX concentration.
Movements in Liabilities - On the funding side, total liabilities grew by GEL 264 million in 2017. The drivers of this increase are growth in customer deposits by GEL 116 million (+ 21% YoY growth) and borrowings by GEL 149 million (+122% YoY growth). Customer deposits keep the increasing growth path; annual growth of customer deposits stood at 17% in 2016 and it accounts 21% in 2017.

BB attracts funding from different sectors. Corporates dominated even in deposits distribution 70% of deposits are represented by corporate segment and 30% by individuals. Among corporate segment the most active sectors in 2017 are production/manufacturing, Energy, Service and Construction. State and public organizations occupy 24% of deposits base.

Liquidity - BB sustained solid liquidity positions. Loan to deposit ratio showed slight increase from 108% to 114%. Liquid assets to total liabilities and liquid assets to total assets remained almost at the same rate (41%-42% for Liquid Assets/ Total liabilities; 33%-35% for Liquid Assets/ Total assets); liquid assets (mainly cash and equivalents, but also a portion of unencumbered securities) covered 45% of customer accounts.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG, which is defined as average ratio of liquid assets to liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis. The average liquidity ratio was 57% at 31 December 2017 (2016: 55%);

Funding	2017	2016
loans/deposits	114%	108%
Liquid Assets/ Total liabilities	41%	41%
Liquid Assets/ Total assets	34%	33%

Source: Internal calculations

Starting from September NBG has introduced new liquidity requirements –Liquidity Coverage Ratio (LCR) for short-term liquidity

in million Lari	End of 2017	End of 2016
High quality liquid assets	364	192
Gross inflows	7	111
Gross outflows	264	272
Net outflows	257	161
LCR ratio in %	142	119

risk management purposes under Basel III, requiring bank to maintain 100% of liquidity coverage for 30 days expected cash outflows.
Regular stress test analyses aim to ensure that we always hold sufficient cash and liquid assets to close a potential funding gap. We maintained a positive liquidity stress result as of December 31, 2017.

EQUITY AND REGULATORY COMPLIANCE

Minimum Capital requirements defined under Regulation on Capital Adequacy Requirements for Commercial Banks" sets th3 following minimum requirements for the banks:

Pillar 1 of the regulatory framework focuses on the determination of risk-weighted assets and calculations of capital requirements for credit risk, credit induced market risk and operational risks.

According to that regulation, within the Pillar 1 framework the minimum capital requirements are as follows:

- Common Equity Tier 1 (CET 1) ratio of 4.5%
- Tier 1 Capital ratio of 6%
- Regulatory Capital ratio of 8%

Additional Capital Buffers

In addition to the minimum capital requirements under Pillar 1, NBG sets capital buffer requirements within pillar 1 and pillar 2 framework.
Under pillar 1 commercial banks are required to meet a combination of capital buffer requirements comprising three components:

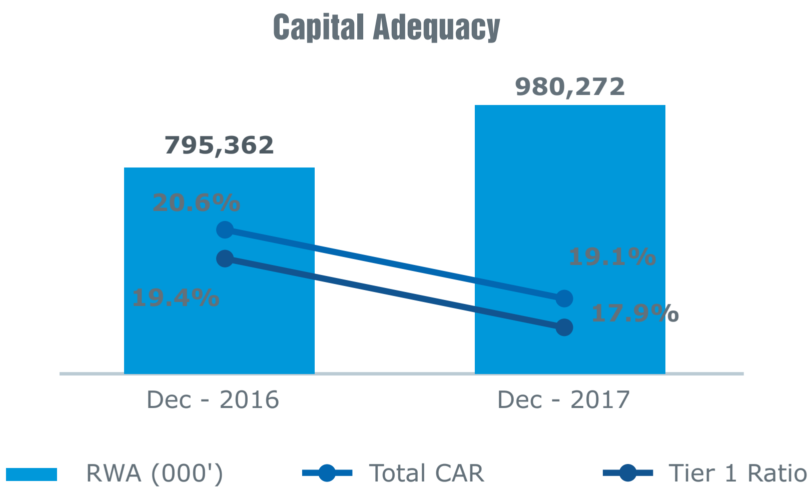
- The capital conservation buffer is defined as 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the main macro-prudential policy instruments. Its goal is to limit excessive credit growth that leads to the build-up of systemic risks. In determining the countercyclical capital buffer, an analysis of a number of factors is taken into account, including the credit-to-GDP ratio and indicators describing its deviation from the long-run trend; trends in lending; other indicators and characteristics of the country's macro-financial environment and etc.
- Systemic buffers - are set separately for each commercial bank considered to be systematically important.

Pillar 2 – refers to the Supervisory Review and Evaluation Process within which the NBG reviews the arrangement, strategies, process and mechanisms implemented by banks and evaluates adequacy of these measures to the risks to which the institution might be exposed. In addition to the minimum capital requirements defined under pillar 1, the banks should held further capital buffers for risks which are not covered under pillar 1 framework (including, market risks not included in pillar 1, concentration risk, Interest rate risk, liquidity, strategy, reputation and etc)

The requirements introduced under Pillar 2 consist of the following buffers:

- Unhedged currency induced credit risk buffer;
- Credit portfolio concentration buffer, which entails name and sectoral concentration buffers;
- Net stress test buffer, which set in accordance with stress tests administered by the NBG;
- Net GRAPE buffer, set in accordance with the NBG's General Risk Assessment Program and the assessment of banks' internal capital

Capital adequacy for BB is quite strong. As of December 2017 total CAR per new NBG regulation stood at 19.1%which are well above the peer banks capitalization. Our strong capitalization gives us room for more accelerated growth for upcoming years.
Asset quality - The main determinant of our strong capital adequacy is a well-managed risk weighted exposure. As of December



2017 total risk weighted assets (RWA) amounted GEL of 980 mln. (+23% y/y). That increase in RWA was mainly attributable to 27% portfolio growth during the year and realized currency induced credit risk resulted of strong depreciation of GEL against US dollar at the end of 2016.

The quality of loan portfolio, which mainly determines our RWA, remains strong as well. As of December 2017 according to NBG's methodology NPLs to gross loans amounted 4.02% (4.13% as of December 2016), while Loan Loss provisions (LLP) stood at 4.26% (4.60% as of December 2016), the share of written off loans during the year remains still at a low level and equals 0.1% as of December 2017 (0.2% as of December 2016). 86% of Gross Loan Portfolio is secured by real estate and cash deposits. There is improvement compared to previous year in 2017 with regard to securitization. The same figure in 2016 stand at 79%. Minor part of GPL (9%) is unsecured.

RISK MANAGEMENT AND GOVERNANCE

Corporate Governance and Management

BB attaches great importance to responsible and transparent business management in order to deepen and maintain understanding and trust with its various stakeholders. To this end the Bank has the interest in strengthening and enhancing corporate governance practices in the Bank, particularly in the area of the control environment. BB has established a robust system of corporate governance in accordance with high international standards which ensures effective allocation and clear separation of roles and responsibilities between shareholders, supervision and management. The bank is committed to ensure responsible management and adequate, efficient control systems based on a strong framework - a prerequisite for future sustainable development and growth and important factor for ongoing operational performance. The Bank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009, which follows the corporate governance standards of the Basel Committee including areas related to the control environment.

The corporate Governance is executed through these key elements:

The General Meeting of Shareholders is the supreme governing body of the Bank, which takes decisions on the most important issues. The General Meeting of Shareholders elects members of the Supervisory Board (SB). The rules for recruiting of SB members are regulated by the law of Georgia, the Bank's Charter and Policy of the SB. The responsibilities of the Management Board (MB) and the SB outlining the functions and decision-making capacity of each of these bodies are clearly separated.
The Supervisory Board of BB appoints, supervises and advises the MB and is directly involved in decisions of fundamental importance to the bank. It works together closely with the MB for the benefit of the company. The SB decides on the appointment and dismissal of members of the MB. The SB sets the main targets and directions for the bank development, actively performs its strategic and oversight functions by providing general supervision of the Bank's activities; decisions on business directions by setting operating and strategic priorities; sets succession plans for the MB; ensures existence of effective and trustworthy system of internal and risk management controls; supervises activities of the executive bodies and is responsible and accountable to the General Meeting of Sharehoders. Decisions affecting the Bank are approved by the SB. The Supervisory Board of BB has 5 members. It comprises an equal number of shareholder representatives and employee representatives and one independent member.

The members representing our shareholders were elected through the Annual General Meeting of Shareholders.

The current members of our Supervisory Board are:

Zhang Jun – Executive Chairman of the Supervisory Board
Zhou Ning – Vice Chairman of the Supervisory Bard
Mi Zaiqi - Vice Chairman of the Supervisory Bard
David Tsaava - Member of the Supervisory Bard
Hui Li – Member of the Supervisory Bard

Audit Committee

Upon decision of Supervisory Board Audit Committee is established consisting of independent members. The main function of Audit Committee is to support and promote the functioning of internal and external audit of the Bank. Audit Committee regularly provides the Supervisory Board with reports of its activity.

The Committee currently consists of two members, meeting of the Committee are held once per quarter.
The Committee is empowered:

- Consider and assess Report of external auditor before the submission to the Supervisory Board and the General Meeting of Shareholders.
- Carries out evaluation of quality and efficiency of financial statements and accounting records, internal control, risk management and control systems and processes. Committee is empowered to entrust the Service to provide unscheduled audit of any banking issues.

- To monitor and verify the implementation of the recommendations and tasks of the Supervisory Board regarding issues within the competence of the Committee.
- The Audit Committee, in conjunction with the Internal Committee Service, reviews issues related to internal audit and in the event that recommendations of the service are ignored by Directorate or the corrective measures are not taken, request the Supervisory Board to dismiss the responsible person of the Bank

Currently the committee consists of two members

Zaza Robakidze Chairman of Committee
Mi Zaiqi Member of Committee

To exercise its power and oversee audit, compliance and compensation the SB performs this task through internal Audit Committee, which is established by the SB and oversees the implementation of the supervisory functions and provides the objective information on financial and risk management, internal control systems effectiveness, target performance and compliance with regulatory and internal requirements, etc. The Audit Committee meetings are held at least four times per year that should coincide with financial reporting and audit cycle. Extraordinary meetings can be also convened based on the needs and requirements of the SB. The Audit Committee provides regular reports to the SB, makes assessments of internal control effectiveness and recommendations for corrective actions or enhancements in specific areas.

The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives set out by the SB. The SB appoints the members, the functions, the structure and the role in governance, responsibilities and remuneration is clearly defined by the SB. The accountability of the management, the function, responsibilities, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the SB. The Management Board works closely together with the Supervisory Board and reports to the Supervisory Board on all issues with relevance for the Bank concerning strategy, the intended business policy, planning, business development, risk situation, risk management, staff development, reputation and compliance, but at least once in four months.

BB has a comprehensive organizational structure which ensures solid control environment-effective functioning and interaction between the SB, the Management Team, the Audit Committee. Term in the office of the executive management is defined once every 4 years with the option to extend term for each individual member of senior management.
The following are current members of our Management Board:

David Tsaava – General Director
Lia Aslanikashvili – Deputy General Director, Finances
David Kakabadze - Deputy General Director, Risk Management and IT
Levan Gardapkhadze - Deputy General Director, Retail Banking
Hui Li - Deputy General Director, Lending

ZHANG JUN

CHAIRMAN OF SUPERVISORY BOARD SINCE 2012
Born 1963. Employed since 2012
Shareholding in Basisbank: 0.00%
Education: MBA, Professional Certificate of Economist
Work Experience: Different leading positions held at Bank of Urumqi, Deputy General Manager of Finance and Foreign Investments at Xinjiang Hualing Trade Industry and Co, Chairman of Supervisory Board of JSC Basisbank

ZHOU NING

CO- CHAIRMAN OF SUPERVISORY BOARD SINCE 2012
Born 1963 Employed since 2012
Shareholding in Basisbank: 0.00%
Education: Fuqua School of Business, USA, Duke University, USA, Virginia Polytechnic Institute and State University, USA, University of Science and Technology, China
Work Experience: Senior Engineer at Cessna Aircraft Company, USA, Senior Financial Analyst, Ford Motors Co, USA, Associate, Hong Kong Investment Banking Division at J.P Morgan, Hong Kong branch, Vice President of Strategic Development Department, ABN Amro Bank, Managing Director at Tuhong International, Member of Supervisory Board of JSC Basisbank

MI ZAIQI

CO-CHAIRMAN OF SUPERVISORY BOARD SINCE 2012
Born 1984 Employed since 2012
Shareholding in Basisbank: 6.95%
Education: Business Administration, University of California, USA
Work Experience: Assistant to General Manager of Xinjiang Hualing Grand Hotel Co., Ltd. and Xinjiang Hualing Real Estate Development Co. Ltd., Deputy Director of Xinjiang Hualing Trade and Industry Group Co., Ltd., Director of Xinjiang Hualing Trade and Industry Group Co., Ltd, Georgia Branch Office, Co-Chairman of Supervisory Board of JSC Basisbank

DAVID TSAAVA

GENERAL DIRECTOR SINCE 2011
Born 1984. Employed since 2004
Shareholding in Basisbank: 0.19%
Education: Banking and Finance - Tbilisi State University, PhD in Business Administration – Sukhumi State University
Work Experience: Credit Officer, Head of Corporate Lending, Corporate Banking Director, Acting General Director, General Director, Member of Supervisory Board of JSC Basisbank

LI HUI

DEPUTY GENERAL DIRECTOR, LENDING SINCE 2012
Born 1969 Employed since 2012
Shareholding in Basisbank: 0.19%
Education: Bachelor's Degree in Accounting, Certificate of Accounting Professional
Work Experience: Different leading positions at Bank of Urumqi for more than 18 years, Deputy General Director, Lending of JSC Basisbank

LEVAN GARDAPKHADZE

DEPUTY GENERAL DIRECTOR, RETAIL BUSINESS SINCE 2012

Born 1983 Employed since 2002
Shareholding in Basisbank: 0.19%
Education: Georgian University of Social Science, Georgian Technical University, Tbilisi International University of Economics
Work Experience: Manager of Operations Department, Head of Plastic Card Department, Retail Business Director, and Deputy General Director in Retail Business of JSC Basisbank

DAVID KAKABADZE

DEPUTY GENERAL DIRECTOR, RISK MANAGEMENT & IT SINCE 2012

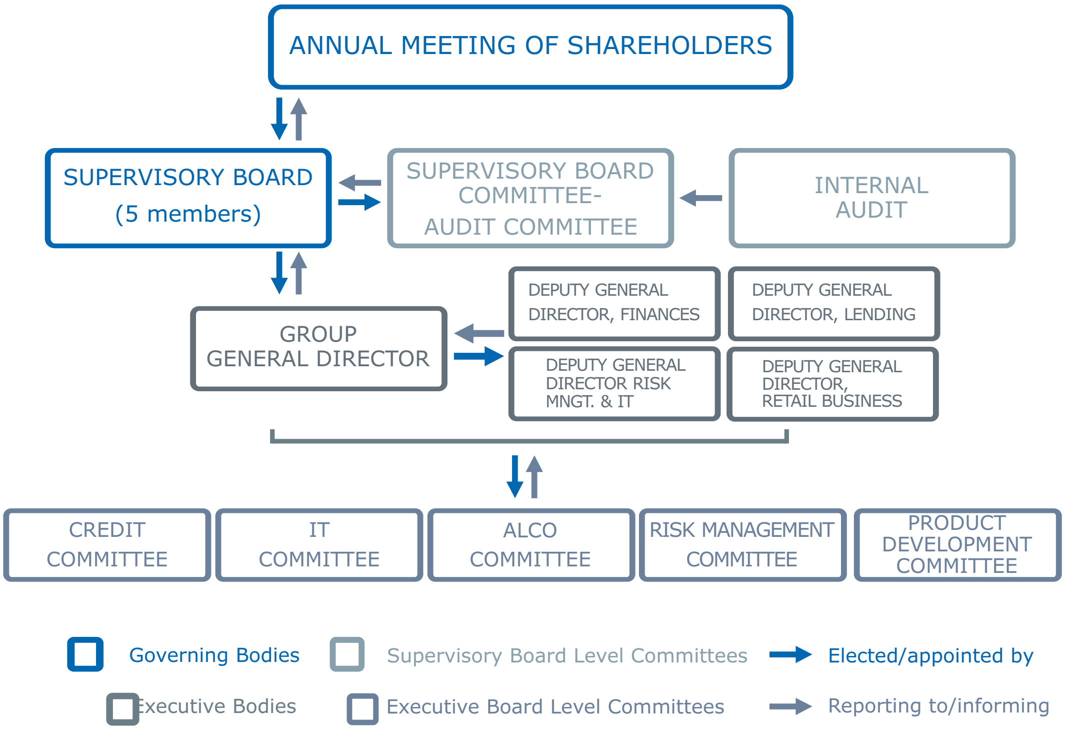
Born 1982 Employed since 2003
Shareholding in Basisbank: 0.19%
Education: Georgian Technical University, Caucasus University
Work Experience: Head of IT, Risk Management and IT Director, and Deputy General Director in Risk Management and IT of JSC Basisbank pervisory Board of JSC Basisbank

LIA ASLANIKASHVILI

DEPUTY GENERAL DIRECTOR, FINANCES SINCE 2012

Born 1976 Employed since 1999
Shareholding in Basisbank: 0.19%
Education: International Economic Relations, Tbilisi State University
Work Experience: Manager of International Operations Department, Head of International Operations Department, Head of Settlement Department, Financial Director, and Deputy General Director in Finances of JSC Basisbank

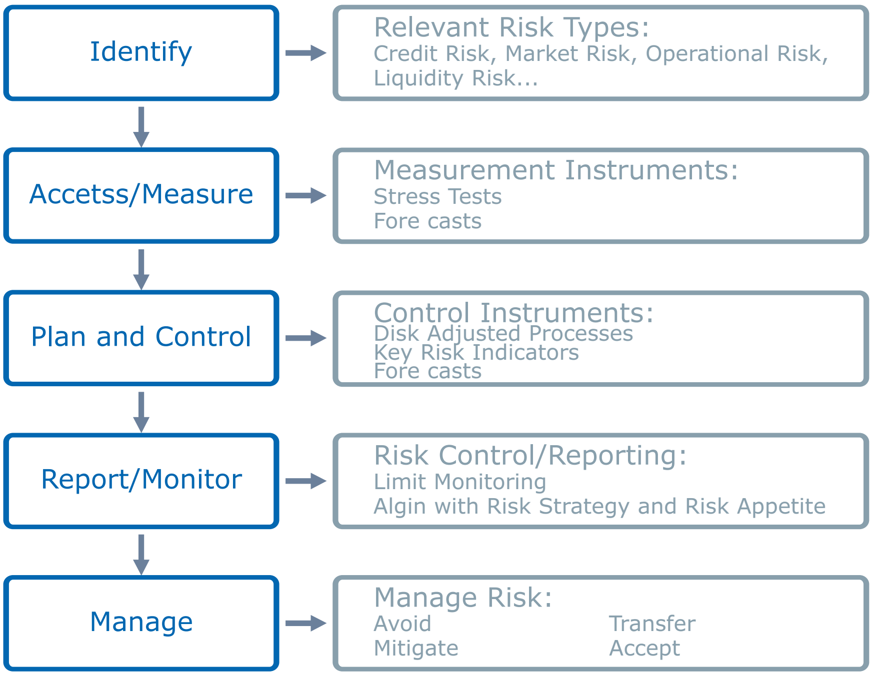
CORPORATE GOVERNANCE STRUCTURE



Risk Management Strategy

trategy - As holding adequate level of capital is mandatory to be ensured over any time of the operation of the Bank, setting up a risk strategy and planning the capital adequacy as part of the general strategic planning is crucial part of the governance of the institutions.

Risk strategy of the Bank is derived from the business strategy, which is approved by the Supervisory Board and needs to be modified at any time when strategy is revised by the Bank, but at least annually and it is essential to be available for the whole institution. Risk strategy defines Basis Bank's approach to risk management including general methodologies to identify, assess, control, report and manage/ challenge relevant risks. Risk governance structure is built to support these activities within the everyday operation of the Bank. An integrated control framework supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting are all essential components of the Bank's Risk Management. Management reporting system is build up in a way to serve as an effective tool for risk governance. As a result risk management processes are constructed in a way, that supports the execution of the risk strategy in the daily processes of the Bank, so that risk management becomes a continuous process of creating transparency and risk mitigation. In pursuit of its objectives, risk management is segregated into five discrete processes: identify, assess, control, report and manage/challenge



The risk strategy is approved by the Management Board on an annual basis and is defined based on the Group Risk Appetite and the Strategic and Capital Plan in order to align risk, capital and performance targets. Core risk management responsibilities are embedded in the Management Board and delegated to senior risk managers and senior risk management committees responsible for execution and oversight. Cross-risk analysis reviews are conducted across the Group to validate that sound risk management practices and a holistic awareness of risk exist.

Our business model requires us to identify, assess, measure, aggregate and manage all types of risks which are inherent in the business. Risk and capital are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units.

All material risk types, financial, as well as non-financial risks: including credit risk, market risk, operational risk, liquidity risk, regulatory risk and reputational risk, inherent in the Banking Business, are managed via risk dedicated risk management processes. Modeling and measurement approaches for quantifying risk and capital demand are implemented across the material risk types. The Bank sets principles about risk taking and risk management which are to be reflected in the rules and policies, and applied consistently throughout the organization. These general principles are the followings:

- prudent risk-taking with comprehensive risk assessment and control environment,
- adequate and effective monitoring and reporting system,
- proper quantification of risks using proper methodologies in line with the size and complexity of the Bank,
- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices via using international standard,
- operating effective risk governance with having proper risk control structure independent from business activities in order to avoid conflict of interest,
- the observation of risk management considerations upon the launch of new activities, business lines or products

Basis Bank has developed a risk management framework with the aim to create an image of Basis Bank as a stable and reliable bank. Given volatility of financial markets, and uncertainty of macro-economic situation, the function of Risk Management receives paramount importance. Implementation of robust and sound risk management system throughout the bank included the execution of the following steps:

- formation of the independent Risk Management unit;
- creation of the risk-profile committees (Credit, Risk Management, ALCO) which adhere to the risk management practices and ensure sound risk management practices and decision making;
- initiation of risk management approach in analytical tools, practices, and decision making;
- analysis of current system of financial and managerial reporting;
- detection and classification of different types of risks which Basis Bank potentially faces;
- drafting of policies, procedures and practices which govern management of risks in Basis Bank.

At a strategic level, our risk management objectives are:

- To define Basis Bank's strategy;
- To optimize risk/return decisions by taking them as closely as possible to the business;
- To ensure that business growth plans are property supported by effective risk infrastructure;
- To manage risk profile so that financial soundness remains possible under a range of adverse business conditions.

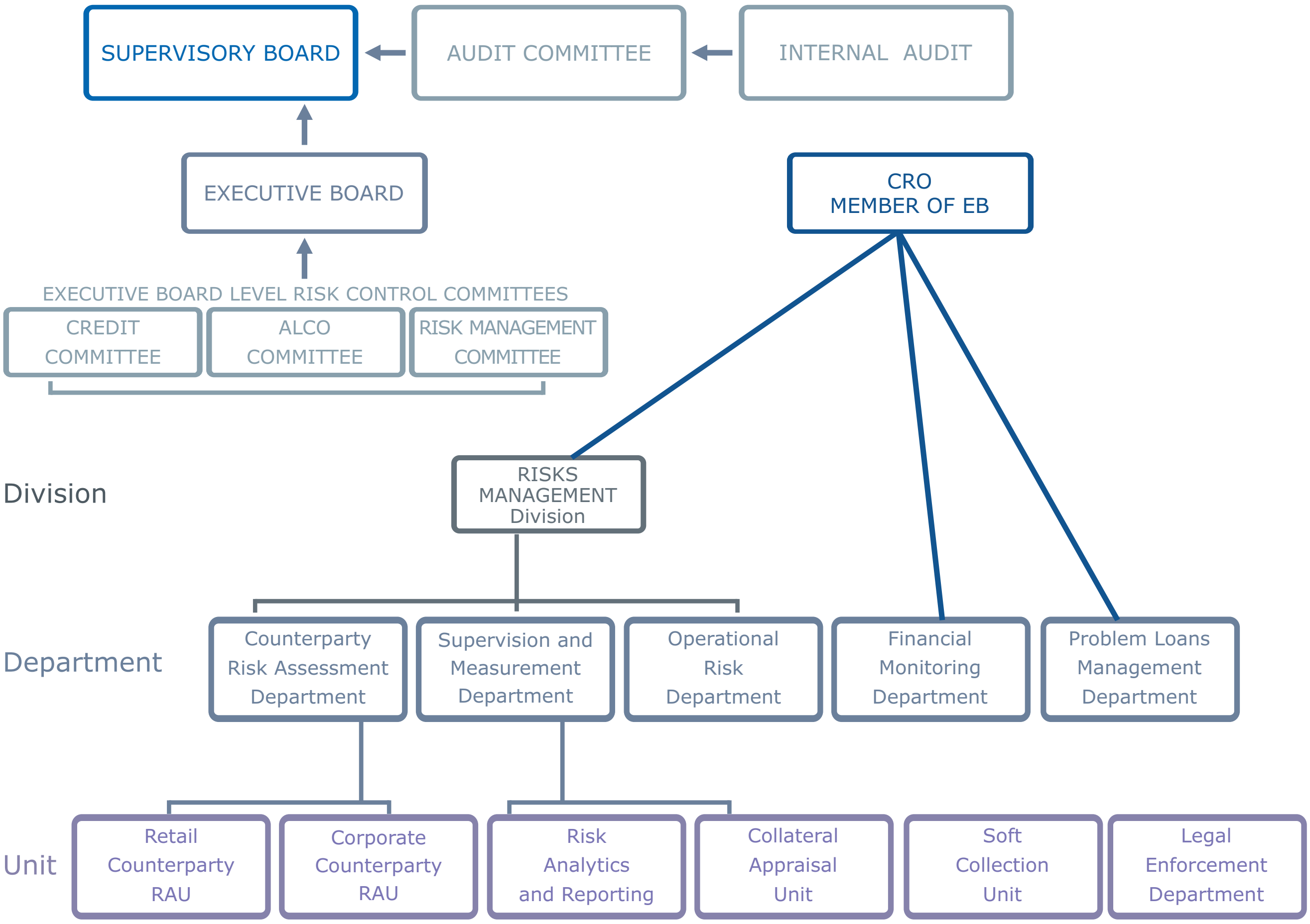
Management oversight and control culture for Basis Bank involves the inclusion of key items related to internal control into the regular tasks of the Executive Board. Among these items are regular discussions with management concerning effectiveness of internal control systems; review of evaluations of internal controls by management, internal auditors, and external auditors, ensuring prompt follow-ups by management on recommendations and concerns expressed by auditors and supervisory authorities related to internal control weaknesses, and regular reviews of whether the bank's strategy and risk limits are appropriate.

Control activities and segregation of duties in Basis Bank involves all levels of personnel in the bank from senior management to front line personnel. Key activities include reviews by the Executive Board and management of performance reports enabling them to streamline the progress toward the bank's goals and control the activity at division and departmental level. This also includes compliance with exposure limits through a process for reviewing compliance with prudent limits on risk exposures, and follow-up on non-compliance as well as requiring approval and authorization for transactions above certain limits to ensure that management at an appropriate level is aware of the transaction or situation; and to establish accountability.

Information and communication in Basis Bank involves inclusion of key types of data in the record keeping process, such as internal financial, operational and compliance data, as well as external market information on events and conditions relevant to decision making.

Monitoring activities and correcting deficiencies in Basis Bank involves existence of an independent internal audit department to check whether existing policies and procedures remain adequate. The internal audit function reports directly to the Supervisory board. This ensures the proper functioning of the bank governance by giving the board unbiased information in regards to the levels of management covered by the reports.

Risk Management Structure of the Basisbank



The Bank maintains and adheres to the best CG standards - The BB is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009. Our operations are regulated and supervised within banking supervision framework by NBG which focuses on licensing, capital adequacy, liquidity, risks' concentration, conduct of business as well as organizational and reporting requirements, provides for the regulation of Risk management in Commercial banks, risk governance principles, internal control systems, etc.

An effective internal control system requires that significant risks are identified and assessed on an ongoing basis. This process should cover all risks assumed by the banks and operate at all levels within it.

The Supervisory Board and the Executive Board have a sound understanding of risk management and its importance to the sustainable and strategic development of the Bank.

Supervisory Board - is setting "the tone on the top" by establishing and fostering a high ethical and responsible culture in the Bank;

The Board approves and exercises control over the implementation of the Bank's strategy and its budget, and sets the general approach to risk management by approving individual risk strategies.

Individual policies for Credit, Operational and AML policies enable the Bank to measure, aggregate and report risk internally, as well as for regulatory purposes. Further, internal bank's methodologies and manuals provide processes and measurements, from credit decision granting, pricing and approval to portfolio management and capital adequacy processes.

Audit Committee – is an independent control function which regularly reviews internal controls and processes; reviews bank's internal control system, evaluates its objectivity and correctness; provides oversight of the bank's internal and external auditors; approving, or recommending to the Board on monitoring the financial accounting process; the effectiveness of the risk management system, particularly of the internal control system and the internal audit system. The audit committee report to the Board on quarterly basis on key risk portfolios, on risk strategy and supports the Supervisory Board in monitoring the implementation of this strategy; monitors the Executive Board's measures that promote the company's compliance with legal requirements, regulations and internal policies.

Executive Board - is responsible for managing the Bank in accordance with the law, the bank's Article and its' Terms of Reference for performing its activities in accordance with the main goals and objectives of the Bank. The Executive Board is responsible for establishing a proper business organization, encompassing appropriate and effective risk management:

- Structures business to reflect risk;
- Ensures adequate segregation of duties;
- Ensures adequate procedures in place, including final approval of all policies (prior to submission to the Supervisory Board) and procedures before implementation;
- Defines operational responsibilities of subordinate staff.

The Executive Board establishes committees and functional units within the bank to ensure overall oversight and management of risk, the roles of which are described in more detail below:
Risk Management Committee

- Monitors the Bank's risk profile;
- Evaluates adequacy requirements for principal risks, including evaluation, monitoring and limits of the risks;
- Debates and agrees actions on the risk profile and risk strategy across Bank;
- Discuss all policies and documents proposed for approval by the Supervisory board prior to submission. ;
- Evaluates effectiveness of the bank's internal control and risk management systems together with the Internal Audit Committee;
- Reviews test results of risk management conducted by external audit and work out corresponding recommendations;
- Periodic review of limits.

ALCO Committee

- Reviews current and prospective liquidity positions and monitors alternative funding sources;
- Reviews maturity/re-pricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing;
- Develops parameters for the pricing and maturity distributions of deposits, loans and investments;
- Develops alternative strategies deemed appropriate, which take into account changes in interest rate levels and trends, deposit and loan products and related markets, banking regulations, etc;
- Performs an independent review of the validation and reasonableness of the input, assumptions, and output of the ALM model(s) and procedures;
- Approves limit structure on counterparty risk.

Credit Committee

- Evaluates potential clients' financial condition and their ability to repay the loan;
- Reviews applications for loans and make decision upon such applications within the authority delegated to the committee;
- Acts in the best interest of the Bank, in compliance with internal policies and procedures;
- Reviews credit loan collection practices to improve loan underwriting and collection efforts.

The Chief Risk Officer ("CRO"), who is a member of the Executive Board, is a top-level executive responsible for overall risk management in credit, market and operational risks as well as for the comprehensive control of risk, and continuing development of methods for risk measurement; provides overall leadership, vision, and direction for Enterprise Risk Management (ERM) and develops a framework of management policies, including setting the overall risk appetite of the Bank. This includes: measuring and quantifying risks and setting risk limits, developing the requisite risk systems, and communicating a clear vision of the firm's risk profile to the board and to key stakeholders; has unimpeded direct access to Supervisory board, Regularly reports to SB about the Bank's risk profile, its adherence to defined risk appetite, significant internal and external developments which could have material effect on bank's risks.

Risk Management department

- Evaluates credit, market and operational risks related to various transactions or operations and drawing up of suggestions about alteration necessary for structure, procedure and provision;
- Management and evaluation of credit, market and operational risks
- Elaboration of ICAAP (internal capital adequacy assessment process) and GRAPE (General Risk Assessment Program) framework, coordination of them with the involvement of risk owners
- Elaboration and introduction of methods of risk mitigation, specifically related to credit risk management;
- Evaluates bank lending performance and compare to the past periods;
- Reviews all Basis Bank policies and procedures prior to submission for approval to the executive board

Risk Appetite and Capacity

Risk appetite is the amount of risk that an organization is prepared to accept, tolerate, or be exposed to at any point in time. As it is evident that risk inherent in the operations of the Bank cannot be reduced to zero, based on careful cost-benefit analysis, the Bank has to elaborate its risk tolerance framework.

Management of each material risk types are defined within the ICAAP framework of the Bank. BB aims to stabilize and increase its current rating "B" with conscious portfolio and risk monitoring in line with the business strategy.

Risk appetite of BB has been set as a limit system which enables the Bank continuously monitor the exposure to the relevant risk factors. The limit system considered all relevant risk types identified during the ICAAP processes.

The limits are defined by the Executive Board and have to be in line with strategic planning and external requirements (legal requirements on capital and liquidity; Group level / owner requirements). The Bank considers risk assessment in a systematic way, this is done through their endeavors in terms of stress testing and Internal Capital Adequacy Assessment Process (ICAAP) -under stress Capital adequacy ratio, Liquidity Position, market risk within the regularly performed benchmark and more severe stress tests

Risk Identification and Assessment

Credit risk - The Bank's credit strategy is to create diversified and profitable loan portfolio while maintaining maximum quality. Credit risk is obviously the most important type of risk for banks and bank supervisory authorities. BB uses the following steps to measure and manage credit risk:

- **Establishment of an appropriate credit risk management environment**. In BB this is achieved through written Credit Policy and Credit Manual related to target markets, portfolio mix, price and non-price terms, the structure of limits, approval authorities and exception processing and reporting. Credit Policy of the Bank contains the limit system defined by the Bank for the control of concentration risks including towards single group exposure, top borrowers exposure, sector exposure.

- **Operating under a sound credit-granting process.** In BB this involves the consideration of a number of elements in credit granting. Depending on the type of credit exposure and the nature of the credit relationship to date, these include variety of factors such as the purpose of the credit and sources of repayment, the current risk profile of the borrower or counterparty and collateral and its sensitivity to economic and market developments, and the borrower's repayment history and current capacity to repay, given historical financial trends and future cash flow projections. During the credit analysis, consideration is given to the borrower's business expertise, the borrower's economic sector and its position within that sector. These elements are part of scoring models developed for both, Retail and Corporate business lines. Corporate and Retail Lending Departments (under Risk Management group) takes part of credit risk assessment of the client; pricing of each loan is risk adjusted, based on the rating of the client and riskiness of the product.
- **Maintenance of appropriate credit administration, measurement and monitoring processes.** This involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty; compliance with existing covenants' collateral coverage relative to the obligor's current condition' and contractual payment delinquencies. Also it involves the monitoring of levels of credits in the credit portfolio to specific types of borrowers to avoid concentrations of risk. Such concentrations occur when there are high levels of direct or indirect credits to a single counterparty, a group of connected counterparties, or a particular industry or economic sector. BB will further develop appropriate credit administration, measurement and monitoring processes which will involve the inclusion of certain key areas in the process of stress testing to help the bank identify possible events or economic changes that could affect the bank's credit exposures and assess its ability to withstand such changes.
- **Provision assessment.** The bank assess credit risk and allocates provisions for incurred losses according to IAS39 (as of 31.12.2017). Loss reserves for asset and other contingent liabilities must be sufficient to cover all estimated incurred losses in the Bank's credit portfolio. Key risk parameters, taken into account in the scope of Loss allowance calculations are: (a) the probability of default (PD) by the counterparty on its contractual obligations; b) expected losses in case of default of a counterparty (LGD), c) the period which is needed to identify the loss (LIP).

Loss allowance is calculated for current exposures to the counterparty, as well as for the potential utilization portion of undrawn credit liabilities. The Bank first evaluates individually if objective evidence of impairment exists for loans that are over the predefined significance threshold. Loans below significance threshold, and those significant loans, for which there is no objective evidence of impairment, are then assessed collectively.

Starting from 1 January 2018, new provisioning methodology in line with IFRS 9 requirements will be effective. Under the IFRS 9 methodology, determination of impairment losses and allowance moves to an expected credit loss (ECL) model, (rather than incurred credit loss model as per IAS 39), where provisions are booked upon initial recognition of the financial asset, based on expectation of potential losses at the time of initial recognition. The new methodology allows financial institutions more precise assessment of loan-loss provisions and allowances by means of incorporating forward-looking information obtainable without undue cost or effort. New approach under IFRS9 takes into consideration past events, current conditions and forecasts of future economic conditions in the process of ECL estimation. The bank has incorporated macroeconomic forecasts, published by National Bank of Georgia in the internal impairment models.

Basisbank has run a centrally managed IFRS9 implementation project, with involvement of internal Finance, Risk and IT Divisions and with support of experts from Deloitte & Touche LLC. The implementation of specific processes and business controls will continue throughout 2018 and will include, among others, changing existing and establishing new business processes to support ECL assessment process. Governance over the Expected Credit Loss (ECL) calculation process is shared between Finance and Risk functions. New models for allowance calculation are more complex, then those used for IAS39, therefore validation and back-testing of all applied parameters will become an inherent part of ECL assessment process.

The impairment requirements of IFRS9 apply to all debt instruments that are measured at amortized cost or through Fair Value or Other Comprehensive Income, as well as to off balance sheet commitments (both loan commitments and financial guarantees).

The Bank will classify its exposures in three stages according to the inherent credit risk:

Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified, for these exposures ECL is calculated based on probability of default in the next 12 months. This represents the portion of lifetime expected credit losses, if default event will occur during the next 12 months;

Stage 2 – assets for which significant increase in credit risk since initial recognition is identified. For exposures classified as stage 2, ECL is calculated based on lifetime probability of default;

Stage 3 – credit-impaired exposures, for which credit risk allowance is equal to lifetime expected losses, reflecting Probability of Default of 100%. Determination, whether asset is credit-impaired or not focuses exclusively on default risk, without taking into consideration the effects of credit risk mitigants (collaterals and guarantees).
POCI (purchased or originated credit-impaired) - The new standard introduces separate treatment of Financial Assets that are credit impaired upon initial recognition.

The Bank doesn't expect to have significant impact as a result of IFRS9 implementation on the Bank's books. Implementation of a new methodology will lead to provision reversal for a Credit Portfolio. This is due to the fact, that increasing effect of IFRS9 introduction on loan loss provisions, in particular introduction of Stage 2 classification and respective provisioning of these exposures based on lifetime expected losses, was offset by the provision reversal effect achieved through the improvements done in the frame of IAS39 models. Due to the data limitations and insufficient statistics, very simple LGD model, based entirely on the past recovery data, without projections of future recoveries, has been used in previous IAS39 models. Current IFRS9 model incorporates forward-looking information and allows the Bank to assess expected losses more accurately, abandoning more conservative approach used in the frame of IAS39.

Joint effect of the new impairment methodology for the Banks' books, including allowance created for the interbank exposures and securities, which were not provisioned as of IAS39, is insignificant reversal of provisions. This effect will be passed directly to IFRS equity. The impact will not affect the Bank's profit and loss statement or capital adequacy.

Purchase price or fair value at origination embeds expectation of lifetime expected credit losses for POCI assets and therefore no separate credit risk allowance is recognized on initial recognition. Subsequently, POCI assets are measured to reflect lifetime expected credit losses and all changes, whether positive or negative, are recognized in the income statement as loss of gain. The bank doesn't have any POCI assets as of 1.01.2018.

- **Maintenance of appropriate portfolio quality reporting.** Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management as control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, exposures by sectors and HHI index, dynamics of PD, LGD figures, etc.
- **Residual risk.** To reduce the potential residual risk of collaterals, the Bank uses discounts on the market value / value of the collaterals when calculating collateral coverage during the lending processes and during portfolio management. Legal Department regularly (at least yearly) reviews the collateral contract template and modifies if necessary based on new regulation environment or experiences on the execution of collaterals. Minimum collateral coverage (maximum amount of unsecured portfolio) using discounted values are defined for each customer types by the Credit Policy.
- **Stress testing.** The bank performs regular stress tests to monitor impact on regulatory capital buffer of adverse macro-economic as well as bank specific events on various levels of aggregation. Stress tests amongst others covers events of broad economic-crises with recession, impact of currency movements, decrease in employment levels, sector specific stress tests, closing of export markets (political risks), default of several large exposures. No additional provision has been created for credit losses based on the results of regulatory stress testing.

Liquidity Risk – The Bank manages liquidity risk according to the ALM Policy and Regulation of Liquidity Management, where detailed processes and limit system connected to liquidity management is defined (cumulative maturity mismatch limit, LCR, NSFR). The bank relies on Basel III liquidity management methodologies and on other internal assessment models developed in line with best international practice.

Liquidity management process mainly consists of following steps:

- Establishing and assessment of liquidity requirement- liquidity requirement is subject of constant re-assessment based on the Bank's asset and liability structure and General market conditions.
- Developing and controlling corresponding liquidity risk limits addressing funding structure and mismatch volume, fund raising capacity, etc;
- Developing and monitoring liquidity and Fund management principles
- Liquidity forecasting under normal business conditions and for stressed scenarios.
- Developing contingency plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations.

Market Risk - The most likely sources of market risk are interest rate risk and foreign exchange risk. Obtaining financing abroad poses mismatch in respect to currency. Offering loans in foreign currency to match funding vehicle, or seek to use hedging vehicles like currency swaps and forwards can be viewed as most used methods of hedging Forex risk. The Bank uses the following steps to measure and manage market risk:

- Senior management's oversight of market risk. This is too ensure that the bank's policies and procedures, for managing interest rate risk and FX risk on both a long-term and day-to-day basis are adequate and that clear lines of authority and responsibility for managing and controlling this risk are maintained. Effective oversight of market risk requires that bank maintains appropriate limits on risk taking, adequate systems and standards for measuring risk, standards for valuing position and measuring performance, a comprehensive interest rate risk reporting and management review process, as well as effective internal controls.
- Process of risk measurement, monitoring and control. Different measures are used for this purpose, incl. reprising gap analysis, duration gap analysis, and different approaches.

Operational Risk - Operational risk is defined as the risk of financial loss occurring from inadequate internal policies, system and control failures, human error, fraud or management failure and natural disasters. The Bank uses the following steps to measure and manage operational risk:

- Developing an appropriate operational risk management environment. This may be addressed especially through the management and internal reporting of operational risk as a distinct risk category related to the bank's safety and soundness.
- Risk mapping. The Bank's Operational Risk policy provides a comprehensive framework for operational risk identification, measurement and management. The policy lay down the principles for how operational risk is to be identified, assessed, monitored, and controlled or mitigated.
- Operational risk identification, assessment, monitoring and mitigation. It involves a system of checks to identify strengths and weaknesses of the operational risk environment; provision of sufficient operational risk environment is ensured by effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff.
- Contingency and business continuity plans in place. The Bank has implemented business continuity plans to ensure their ability to operate as going concerns and minimize losses in the event of severe business disruption.
- Although the Bank calculates capital requirement using the BIA approach, some qualitative elements of more advanced risk quantification are used which serves as a basis of more comprehensive operational risk management. Operational Risk activities are regulated by the Operational Risk Methodology Regulation. The operational risk management in the Bank exists at three levels (business units / departments level, Operational Risk Management level, Audit level), which ensures regular control of operational risk.

the scope ICAAP framework, the Bank assess other risks to which the bank can be exposed, the some of these risks are discussed below:

Business Risk - means the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, or from the overlooking of changes in the business environment.

- Present or prospective business risk is defined as the risk linked to a potential drop in profits or capital due to changes in the operating environment or erroneous corporate decisions, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

Regulatory Risk – Banking sector is highly regulated and more-ever the environment continues to evolve in an unpredictable way, therefore the bank is exposed to regulatory risk, i.e. of non-compliance with regulatory requirements. In addition to mandatory capital adequacy ratios, the regulator (National Bank of Georgia) sets lending limits and other economic ratios, including, lending, liquidity and investment ratios. The Bank is required to comply with minimum reserve requirements and regularly periodic reports.
The Bank is also regulated by respective tax code and number of other laws in Georgia, which are relevant for the Bank through its every-day business activities. Additional regulatory requirements arise among others through: the Anti-Money Laundering (AML) and Counter-Terrorist Financing Policy; the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy, the Whistleblowing Policy, the Law of Georgia on Personal Data Protection (PDP).
In line with the Bank's integrated control framework, the bank carefully evaluates the impact of each legislative and regulatory change as part of our formal risk identification and assessment processes and has established systems and processes to ensure full regulatory compliance.

Operational Risk Department identifies potential breaches of PDP law via analyzing customer complaints, the operational risk event databases and introduces changes in operational practices to improve personal data protection and avoid leakage of personal information in the environment of rapidly increasing automatization.

Financial Monitoring Department on the other hand enhances compliance to regulatory requirements via creating operational framework for regulations imposed by the Financial Monitoring Service of Georgia (FMS), with the main objective of preventing illicit income legalization and terrorism financing.

Country Risk - refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country (government) but not by the credit grantor/investor. The Bank implemented limit system by introducing Country risk management Policy in order to measure its exposure to country risk based on the external rating of the countries.

Governance, systems and controls risks – Assessed and measured through processes (Assessment of Corp. Governance structure, internal key risk governance systems and control functions);

Reputation Risk - may originate in the lack of compliance with industry service standards, failure to deliver on commitments, lack of customer-friendly service and fair market practices, low or inferior service quality, unreasonably high costs, a service style that does not harmonize with market circumstances or customer expectations, inappropriate business conduct or unfavorable authority opinion and actions.

The Bank is committed to have a comprehensive risk management process in place that effectively identifies, measures, monitors and controls all risk exposures as the Bank wants to avoid high volatility in its earnings and net worth due to events arising from the poor reactions to changes in the competitive environment and/or erroneous corporate decisions and is committed to substantially mitigated by the Bank's adequate, well-elaborated business strategy development system and back-testing methodology.

Audited Financials

BasisBANK GROUP

International Financial Reporting Standards Consolidated and Separate Financial Statements and Independent Auditor's Report

31 December 2017

CONTENTS

Independent Auditor's Report
Consolidated and separate Financial Statements

Notes to the Consolidated and Separate Financial Statements

pwc

Independent Auditor's Report

To the Shareholders and Management of JSC BasisBank

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC BasisBank (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and with requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Group's and the Bank's financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. Other information comprises Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Based on the work performed in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention

in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

16 April 2018, except for Reporting on other information, for which the date of our report is 28 September 2018
Tbilisi, Georgia

In thousands of Georgian Lari	Note	31 December 2017 Bank Separate	31 December 2017 Consolidated	31 December 2016 Bank Separate	31 December 2016 Consolidated
ASSETS					
Cash and cash equivalents	7	139,577	139,577	73,686	73,686
Mandatory cash balances with the NBG	8	130,824	130,824	105,421	105,421
Due from other banks	9	15,094	15,094	-	-
Loans and advances to customers	10	757,874	757,874	594,289	594,289
Investment securities available for sale	11	63	63	63	63
Investment in subsidiaries	39	8,097	-	3,796	-
Bonds carried at amortized cost	12	143,903	143,903	128,441	128,441
Investment properties	13	400	1,078	592	1,283
Current income tax prepayment	30	183	217	-	64
Other financial assets	15	1,429	1,429	651	651
Other assets	16	14,019	16,857	11,821	14,679
Intangible assets	14	861	861	532	532
Premises and equipment	14	21,888	21,894	21,048	21,048
Non-current assets held for sale	17	1,928	1,928	-	-
TOTAL ASSETS		**1,236,140**	**1,231,599**	**940,340**	**940,157**
LIABILITIES					
Due to other banks	18	59,982	59,982	64,659	64,659
Customer accounts	19	682,318	677,820	562,458	562,270
Other borrowed funds	20	270,280	270,280	121,530	121,530
Other financial liabilities	21	7,674	7,674	2,521	2,521
Current income tax liability	30	-	-	1,133	1,133
Deferred income tax liability	30	152	152	800	800
Provisions for liabilities and charges	35	346	346	148	148
Other liabilities	22	1,854	1,854	1,327	1,327
TOTAL LIABILITIES		**1,022,606**	**1,018,108**	**754,576**	**754,388**
EQUITY					
Share capital	23	16,057	16,057	16,057	16,057
Share premium		74,923	74,923	74,923	74,923
Retained earnings		113,316	113,273	85,924	85,929
Share based payment reserve	24	851	851	388	388
Revaluation reserve for premises		8,233	8,233	8,233	8,233
Revaluation reserve available-for-sale securities		154	154	239	239
Net assets attributable to the Bank's owners		**213,534**	**213,491**	**185,764**	**185,769**
TOTAL EQUITY		**213,534**	**213,491**	**185,764**	**185,769**
TOTAL LIABILITIES AND EQUITY		**1,236,140**	**1,231,599**	**940,340**	**940,157**

Approved for issue and signed on 16 April 2018.

David Tsaava
General Director

David Kakabadze
Deputy General Director, Risk Management ant IT

The notes set out on pages 6 to 71 form an integral part of these consolidated and separate financial statements.

In thousands of Georgian Lari	Note	31 December 2017 Bank Separate	31 December 2017 Consolidated	31 December 2016 Bank Separate	31 December 2016 Consolidated
Interest income	26	78,628	78,628	65,953	65,953
Interest expense	26	(32,641)	(32,622)	(25,161)	(25,090)
Net interest income		**45,987**	**46,006**	**40,792**	**40,863**
Provision for loan impairment		(1,976)	(1,976)	(4,752)	(4,752)
Net interest income after provision for loan impairment		**44,011**	**44,030**	**36,040**	**36,111**
Fee and commission income	27	5,007	4,973	4,189	4,154
Fee and commission expense	27	(2,238)	(2,238)	(1,587)	(1,587)
Gains less losses from financial derivatives		(184)	(184)	(1,350)	(1,350)
Gains less losses from trading in foreign currencies		4,114	4,114	3,818	3,818
Foreign exchange translation gains less losses		(229)	(229)	1,134	1,134
Provision for credit related commitments		(198)	(198)	109	109
Other operating income	0	676	696	1,037	550
Administrative and other operating expenses	29	(19,278)	(19,333)	(16,442)	(16,498)
Profit before tax		**31,681**	**31,631**	**26,948**	**26,441**
Income tax expense	30	(1,742)	(1,742)	(975)	(975)
PROFIT FOR THE YEAR		**29,939**	**29,889**	**25,973**	**25,466**
Other comprehensive (loss)/ income:					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
- Gains less losses reclassified to profit or loss upon disposal or impairment	25	(85)	(85)	(219)	(219)
Items that will not be reclassified to profit or loss:					
Income tax recorded directly in other comprehensive income	30	-	-	1,235	1,235
Other comprehensive (loss) / income for the year		**(85)**	**(85)**	**1,016**	**1,016**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,854**	**29,804**	**26,989**	**26,482**
Profit is attributable to					
- Owners of the Bank		29,939	29,889	25,973	25,466
Profit for the year		**29,939**	**29,889**	**25,973**	**25,466**
Total comprehensive income is attributable to					
- Owners of the Bank		29,854	29,804	26,989	26,482
Total comprehensive income for the year		**29,854**	**29,804**	**26,989**	**26,482**

In thousands of Georgian Lari	**Note**	**Attributable to owners of the Bank**							**Total equity**
		Share capital	**Share premium**	**Share based payments reserve**	**Revaluation reserve for AFS securities**	**Revaluation reserve for premises**	**Retained earnings**	**Total**	
Balance at 31 December 2015		**15,941**	**73,967**	**837**	**458**	**6,998**	**62,654**	**160,855**	**160,855**
Profit for the year		-	-	-	-	-	25,466	25,466	25,466
Other comprehensive income		-	-	-	(219)	1,235	-	1,016	1,016
Total comprehensive income for 2016		-	-	-	(219)	1,235	25,466	26,482	26,482
Increase in in share capital arising from share based payments		116	956	(1,072)	-	-	-	-	-
Share Based payment accrual		-	-	623	-	-	-	623	623
Dividends declared		-	-	-	-	-	(2,191)	(2,191)	(2,191)
Balance at 31 December 2016		**16,057**	**74,923**	**388**	**239**	**8,233**	**85,929**	**185,769**	**185,769**
Profit for the year		-	-	-	-	-	29,889	29,889	29,889
Other comprehensive loss		-	-	-	(85)	-	-	(85)	(85)
Total comprehensive income for 2017		-	-	-	(85)	-	29,889	29,804	29,804
Share Based payment accrual		-	-	463	-	-	-	463	463
Dividends declared		-	-	-	-	-	(2,545)	(2,545)	(2,545)
Balance at 31 December 2017		**16,057**	**74,923**	**851**	**154**	**8,233**	**113,273**	**213,491**	**213,491**

In thousands of Georgian Lari	Note	Attributable to owners of the Bank							
		Share capital	**Share premium**	**Share based payments reserve**	**Reva-luation reserve for AFS securities**	**Reva-luation reserve for premises**	**Retained earnings**	**Total**	**Total equity**
Balance at 31 December 2015		**15,941**	**73,967**	**837**	**458**	**6,998**	**62,142**	**160,343**	**160,343**
Profit for the year		-	-	-	-	-	25,973	25,973	25,973
Other comprehensive income		-	-	-	(219)	1,235	-	1,016	1,016
Total comprehensive income for 2016		-	-	-	(219)	1,235	25,973	26,989	26,989
Increase in in share capital arising from share based payments		116	956	(1,072)	-	-	-	-	-
Share Based payment accrual		-	-	623	-	-	-	623	623
Dividends declared		-	-	-	-	-	(2,191)	(2,191)	(2,191)
Balance at 31 December 2016		**16,057**	**74,923**	**388**	**239**	**8,233**	**85,924**	**185,764**	**185,764**
Profit for the year		-	-	-	-	-	29,939	29,939	29,939
Other comprehensive loss		-	-	-	(85)	-	-	(85)	(85)
Total comprehensive income for 2017		-	-	-	(85)	-	29,939	29,854	29,854
Share Based payment accrual		-	-	463	-	-	-	463	463
Dividends declared		-	-	-	-	-	(2,545)	(2,545)	(2,545)
Balance at 31 December 2017		**16,057**	**74,923**	**851**	**154**	**8,233**	**113,316**	**213,534**	**213,534**

In thousands of Georgian Lari	Note	31 December 2017 Bank Separate	31 December 2017 Consolidated	31 December 2016 Bank Separate	31 December 2016 Consolidated
Cash flows from operating activities					
Interest received		74,545	74,545	62,547	62,546
Interest paid		(33,527)	(33,508)	(25,197)	(25,126)
Fees and commissions received		5,007	4,973	4,190	4,154
Fees and commissions paid		(2,238)	(2,238)	(1,587)	(1,587)
Income paid from financial derivatives		(184)	(184)	(1,252)	(1,252)
Income received from trading in foreign currencies		4,287	4,287	5,324	5,324
Other operating income received		676	696	1,037	550
Proceeds from disposal of foreclosed properties		1,614	1,614	269	269
Staff costs paid		(11,013)	(11,014)	(8,676)	(8,677)
Administrative and other operating expenses paid		(7,046)	(7,114)	(5,637)	(5,693)
Income tax paid		(3,705)	(3,675)	(953)	(953)
Cash flows from operating activities before changes in operating assets and liabilities		**28,416**	**28,382**	**30,065**	**29,555**
Net (increase)/decrease in:					
- due from other banks		(35,398)	(35,394)	(37,535)	(37,535)
- loans and advances to customers		(187,244)	(187,167)	(116,085)	(116,085)
- other financial assets		(13,079)	(13,080)	501	501
- other assets		(1,733)	(1,775)	(349)	185
Net increase/(decrease) in:					
- due to other banks		5,876	5,874	(17,440)	(17,440)
- customer accounts		118,240	113,929	37,709	38,895
- other financial liabilities		5,481	5,481	(5,164)	(5,164)
- provisions for liabilities and charges and other liabilities		-	-	(108)	(108)
- other liabilities		(46)	(46)	146	(149)
Net cash used in operating activities		**(79,487)**	**(83,796)**	**(108,260)**	**(107,345)**
Cash flows from investing activities					
Acquisition of Bonds carried at amortized cost		-	-	(108,336)	(108,336)
Proceeds from redemption of Bonds carried at amortized cost		-	-	96,362	96,362
Injection of cash in subsidiary		(4,300)	-	-	-
Proceeds from disposal of subsidiary		-	-	1,400	-
Acquisition of premises and equipment		(2,034)	(2,039)	(90)	(90)
Acquisition/disposal of investment properties		65	79	114	596
Acquisition of intangible assets		(490)	(490)	(80)	(80)
Proceeds from disposal of intangible assets		43	43		-
Net cash used in investing activities		**(6,716)**	**(2,407)**	**(10,630)**	**(11,548)**
Cash flows from financing activities					
Proceeds from other borrowed funds		678,868	678,868	887,409	887,409
Repayment of other borrowed funds		(530,118)	(530,118)	(835,664)	(835,664)
Repayment of subordinated debt		-	-	(4,491)	(4,491)
Dividends paid		(2,545)	(2,545)	(2,191)	(2,191)
Net cash from financing activities		**146,205**	**146,205**	**45,063**	**45,063**
Effect of exchange rate changes on cash and cash equivalents		**5,889**	**5,889**	**6,760**	**6,762**
Net increase/(decrease) in cash and cash equivalents		**65,891**	**65,891**	**(67,067)**	**(67,068)**
Cash and cash equivalents at the beginning of the year		**73,686**	**73,686**	**140,753**	**140,754**
Cash and cash equivalents at the end of the year	7	**139,577**	**139,577**	**73,686**	**73,686**

1 Introduction

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for JSC Basisbank (the "Bank") and its subsidiaries (together - the "Group").

The Bank was incorporated and is domiciled in Georgia. Registering body is Krtsanisi_Mtatsminda court and registration number is 4/5-44. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2017 and 2016 the Bank's immediate parent company was Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People's Republic of China, and the Bank was ultimately controlled by Mr. Mi Enhua.

	% of ownership interest held as at 31 December	
Shareholders	**2017**	**2016**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.305%	92.305%
Mr. Mi Zaiqi	6.969%	6.969%
Other minority shareholders	0.726%	0.726%

Principal activity. The Group's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") since 1993.

The Bank has 22 (2016: 21) branches in Georgia. The Group had 399 employees at 31 December 2017 (2016: 348 employees).

Subsidiaries. At the end of December 2017 the bank established two new subsidiaries Hualing Insurance JSC and BHL Leasing JSC. These consolidated financial statements include the following principal subsidiaries:

			Ownership % at 31 December	
Name	**Country of incorporation**	**Principal activities**	**2017**	**2016**
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
Hualing Insurance JSC	Georgia	Insurance	100%	-
BHL Leasing JSC	Georgia	Leasing	100%	-

Registered address and place of business. The Bank's registered address is: is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

Presentation currency. These consolidated and separate financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise stated.

2 Operating Environment of the Group

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of significant Accounting Policies

Basis of preparation. These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated and separate financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 37.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

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 exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or

3 Summary of Significant Accounting Policies (Continued)

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 whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the NBG. Mandatory cash balances with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated and separate statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the

3 Summary of Significant Accounting Policies (Continued)

Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

3 Summary of Significant Accounting Policies (Continued)

The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Bonds carried at amortised cost. Due to the fact that transactions for such securities do not take place with sufficient frequency and volume to provide pricing information on an ongoing basis the securities are not considered to be quoted in an active market. Therefore, such securities cannot be classified as held-to-maturity financial assets. The Group classifies such securities in loans and receivables category. These securities are presented in the balance sheet under caption bonds carried at amortised cost.

When an available-for-sale financial asset with fixed maturity is reclassified to loans and receivables, the

3 Summary of Significant Accounting Policies (Continued)

fair value of the financial asset on that date becomes its new amortised cost. Any previous gain or loss on that asset that has been recognised directly in other comprehensive income is amortised to profit and loss over the investment's remaining life using the effective interest method.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost, less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required, except for premises, which are stated at revalued amounts as described below.

Premises are subject to revaluation with 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. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Office and computer equipment	5
Leasehold improvements	1 to 7
Motor vehicles	5
Other	10

3 Summary of Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated and separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

The Group also enters into offsetting loans with its counterparty banks to exchange currencies. Such loans, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the loans are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no

3 Summary of Significant Accounting Policies (Continued)

apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated and separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated and separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated and separate financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of Georgia, Georgian Lari ("GEL").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBG, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation.

At 31 December 2017, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.5922 (2016: USD 1 = GEL 2.6468) EUR 1 = GEL 3.1044 (2016: EUR 1 = GEL 2.7940).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, insurance, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

3 Summary of Significant Accounting Policies (Continued)

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 33 for analysis of financial instruments by expected maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that that are not analysed in Note 33.

	31 December 2017			**31 December 2016**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of Georgian Lari	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents	139,577	-	**139,577**	73,686	-	**73,686**
Mandatory cash balances with the NBG	130,824	-	**130,824**	105,421	-	**105,421**
Due from Other Banks	15,094		**15,094**	-	-	**-**
Loans and advances to customers	325,386	432,488	**757,874**	227,112	367,177	**594,289**
Investment securities available for sale	-	63	**63**	-	63	**63**
Bonds carried at amortized cost	96,172	47,731	**143,903**	54,493	73,948	**128,441**
Investment properties	-	1,078	**1,078**	-	1,283	**1,283**
Current income tax prepayment	217	-	**217**	64	-	**64**
Other financial assets	1,407	22	**1,429**	519	132	**651**
Other assets	367	16,490	**16,857**	367	14,312	**14,679**
Intangible assets	-	861	**861**	-	532	**532**
Premises and equipment	-	21,894	**21,894**	-	21,048	**21,048**
Non-current assets held for sale (or disposal groups)	1,928	-	**1,928**	-	-	**-**
TOTAL ASSETS	**710,972**	**520,627**	**1,231,599**	**461,662**	**478,495**	**940,157**
LIABILITIES						
Due to other banks	59,982	-	**59,982**	64,659	-	**64,659**
Customer accounts	631,911	45,909	**677,820**	419,266	143,004	**562,270**
Other borrowed funds	153,179	117,101	**270,280**	77,032	44,498	**121,530**
Other financial liabilities	7,674	-	**7,674**	2,521	-	**2,521**
Current income tax liability	-	-	-	1,133	-	**1,133**
Deferred income tax liability	-	152	**152**	-	800	**800**
Provisions for liabilities and charges	346		**346**	148	-	**148**
Other liabilities	1,854	-	**1,854**	1,323	4	**1,327**
TOTAL LIABILITIES	**854,946**	**163,162**	**1,018,108**	**566,082**	**188,306**	**754,388**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated and separate financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated and separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of GEL 1,638 thousand (2016: GEL 1,482 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10 % increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of GEL 451 thousand (2016: GEL394 thousand), respectively.

Valuation of own use premises*.* As at 31 December 2015 premises of the Group were valued at fair value based on reports prepared by independent valuator, LLC Georgian Valuation Company. The valuator used market approach to valuation. In determining the fair values of the premises, three market comparatives were identified. As comparatives were usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the premises. Based on assessment of the developments of the Georgian real estate market during 2017, the management has assessed that the carrying amount of the premises as at 31 December 2017 approximates their fair value and, accordingly, there is no need for revaluation.

The fair values of the inventories of repossessed collateral are determined by internal valuators of the Bank using similar valuation methods as for valuation of own use premises.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Tax legislation. The Group is subject to corporate income taxes under jurisdiction of Georgia. The calculation of the Group's tax charge and provisions for corporate income taxes necessarily involves a degree of estimation and judgement. Refer to Note 30.

5 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy. The new disclosures are included in Note 32 in accordance with Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

6 New Accounting Pronouncements (Continued)

In September 2017, the Group management has engaged an internationally recognised audit firm to assist the Group in implementing IFRS 9, including putting relevant systems, processes and controls in place. In May 2018, the Group expects to finalise its analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date to assess the likely impact on its consolidated and separate financial statements from the adoption of the new standard on 1 January 2018.

The new standard is expected to impact measurement of financial assets, including an increase in loan loss provision, and financial liabilities and also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. No material effect is expected on the Group due to introduction of the new standard.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment.

6 New Accounting Pronouncements (Continued)

The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the consolidated and separate financial statements.

7 Cash and Cash Equivalents

In thousands of Georgian Lari	2017	2016
Cash on hand	30,341	23,498
Cash balances with the NBG (other than mandatory reserve deposits)	27,903	9,142
Correspondent accounts and overnight placements with other banks	81,333	38,546
Placements with other banks with original maturities of less than three months	-	2,500
Total cash and cash equivalents	**139,577**	**73,686**

The credit quality of cash and cash equivalents balances may be summarised based on Fitch's as follows at 31 December 2017:

In thousands of Georgian Lari	Cash balances with the NBG excluding, mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
- National Bank of Georgia	27,903	-	-	27,903
- A- to A+ rated	-	60,200	-	60,200
- Lower than A- rated	-	20,975		20,975
- Unrated	-	158	-	158
Total cash and cash equivalents, excluding cash on hand	**27,903**	**81,333**	**-**	**109,236**

As at 31 December 2017 there was one placement with unrated Georgian bank with aggregate amount of GEL 98 thousand, one unrated OECD bank with aggregate amount of GEL 59 thousand (2016: 3 placement with unrated Georgian bank with aggregate amount of GEL 15,888 thousand, one unrated OECD bank with aggregate amount of GEL 294 thousand, and one Non-OECD banks with aggregate amount of GEL 12 thousand).

The credit quality of cash and cash equivalents balances analysed based on Fitch's ratings at 31 December 2016, is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
- National Bank of Georgia	9,142	-	-	9,142
- A- to A+ rated	-	10,045	-	10,045
- Lower than A- rated	-	14,807	-	14,807
- Unrated	-	13,694	2,500	16,194
Total cash and cash equivalents, excluding cash on hand	**9,142**	**38,546**	**2,500**	**50,188**

7 Cash and Cash Equivalents (Continued)

At 31 December 2017 the Group had one A- rated counterparty bank with aggregated cash and cash equivalent balances above 10% of equity. (2016: none).

Interest rate analysis of cash and cash equivalents is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

The cash balances with the NBG (other than mandatory reserve deposits) represent balances with the NBG related to settlement activity and were available for withdrawal at year end

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, whose availability is restricted and the amount of which depends on the level of funds attracted by the financial institutions.

In 2017, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Due from Other Banks

In thousands of Georgian Lari	**2017**	**2016**
Placements with other banks with original maturities of more than three months	15,094	-
Total due from other banks	**15,094**	**-**

At 31 December 2017 the Group had balances with one counterparty bank – Bank Credo, Georgia (2016: None), the exposure was not impaired.

Refer to Note 37 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

10 Loans and Advances to Customers

In thousands of Georgian Lari	**2017**	**2016**
Corporate loans	617,486	476,634
Consumer loans	50,212	36,330
Mortgage loans	101,473	91,375
Credit Cards	5,080	4,772
Less: Provision for loan impairment	(16,377)	(14,822)
Total loans and advances to customers	**757,874**	**594,289**

Movements in the provision for loan impairment during 2017 are as follows:

In thousands of Georgian Lari	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Credit Cards**	**Total**
Provision for loan impairment at 1 January 2017	**10,170**	**975**	**3,470**	**207**	**14,822**
Amounts written off during the year as uncollectible	(168)	(390)	-	(377)	(935)
(Recovery of)/provision for impairment during the year*	2,853	422	(1,045)	260	2,490
Provision for loan impairment at 31 December 2017	**12,855**	**1,007**	**2,425**	**90**	**16,377**

*The provision for impairment during 2017 differs from the amount presented in profit or loss for the year due to recovery of amounts equal to GEL 514 thousands, previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Movements in the provision for loan impairment during 2016 are as follows:

In thousands of Georgian Lari	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Credit Cards**	**Total**
Provision for loan impairment at 1 January 2016	**6,952**	**704**	**3,165**	**186**	**11,007**
Amounts written off during the year as uncollectible	(536)	(334)	(3)	(388)	(1,261)
(Recovery of)/provision for impairment during the year*	3,754	605	308	409	5,076
Provision for loan impairment at 31 December 2016	**10,170**	**975**	**3,470**	**207**	**14,822**

*The provision for impairment during 2016 differs from the amount presented in profit or loss for the year due to GEL 324 thousands, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2017		2016	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	156,765	20%	132,477	22%
Service	75,993	10%	14,920	2%
Hotels & Restaurants	73,456	9%	52,633	9%
Real Estate Management	63,889	8%	49,459	8%
Production & Manufacturing	57,166	7%	43,066	7%
Health Care	55,784	7%	56,695	9%
Energy	52,598	7%	28,333	5%
Trade	50,658	7%	53,956	9%
Real Estate Development	48,960	6%	34,190	6%
Financial Institutions	43,593	6%	56,654	9%
Agricultural	38,468	5%	32,273	5%
Construction & Production of Construction materials	24,040	4%	19,014	3%
Wine production	18,128	2%	14,436	3%
Other	14,754	2%	21,005	3%
Total loans and advances to customers (before impairment)	**774,252**	**100%**	**609,111**	**100%**

At 31 December 2017 the Group had 30 borrowers (2016: 22 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 350,387 thousand (2016: GEL 204,279 thousand) or 45.3% of the gross loan portfolio (2016: 33.5%).

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2017 is as follows:

In thousands of Georgian Lari	Corporate loans	Consumer loans	Mortgage loans	Credit Cards	Total
Unsecured loans	32,581	30,585	1,500	4,904	69,570
Loans collateralised by:					
- cash deposits	95,203	1,229	114	-	96,546
- real estate	454,532	18,073	98,765	156	571,526
- transport and equipment	8,528	325	-	-	8,853
- other assets	26,642	-	1,094	20	27,756
Total loans and advances to customers	**617,486**	**50,212**	**101,473**	**5,080**	**774,251**

Information about collateral at 31 December 2016 is as follows:

In thousands of Georgian Lari	Corporate loans	Consumer loans	Mortgage loans	Credit Cards	Total
Unsecured loans	18,504	18,462	217	4,737	41,920
Loans collateralised by:					
- cash deposits	66,720	661	-	-	67,381
- real estate	318,291	16,930	76,426	15	411,662
- transport and equipment	23,492	274	-	-	23,766
- other assets	49,627	3	14,732	20	64,382
Total loans and advances to customers	**476,634**	**36,330**	**91,375**	**4,772**	**609,111**

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, transport and equipment, other assets. Other assets mainly include securities and inventory. Part of mortgage loans issued for purchases of real estate with status of construction in progress is not secured with real estate before completion of legal registration procedures by the construction company. Until completion of these legal procedures the loans are secured by the construction company's guarantee. After completion of the registration procedures, the collateral will be replaced with real estate.

Third party guarantees received in the aggregate amount of GEL 152 thousands (2016: GEL 22,216 thousands) were not considered in the above table.

The disclosure above presents the collateralised loans at the lower of their carrying value or fair value of respective collateral; any loan amount in excess of the fair value of collateral is disclosed within the unsecured exposures.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In thousands of Georgian Lari	Corporate loans	Consumer loans	Mortgage loans	Credit Cards	Total
Neither past due nor impaired					
- Large borrowers with credit history over two years	175,002	-	-	-	175,002
- Large new borrowers	269,112	-	-	-	269,112
- Loans to medium size entities	59,836	-	-	-	59,836
- Loans to small entities	866	3	4	134	1,007
- Loans to individuals with credit limit over GEL 100 thousand	69,977	3,499	48,684	361	122,521
- Loans to individuals with credit limit below GEL 100 thousand	11,630	42,341	44,248	4,382	102,601
Total neither past due nor impaired	**586,423**	**45,843**	**92,936**	**4,877**	**730,079**
Past due but not impaired					
- less than 30 days overdue	2,626	1,295	1,879	1	5,801
- 30 to 90 days overdue	-	-	126	-	126
- 91 to 180 days overdue	-	-	-	-	-
- 181 to 360 days overdue	-	-	-	-	-
- over 360 days overdue	-	-	-	-	-
Total past due but not impaired	**2,626**	**1,295**	**2,005**	**1**	**5,927**
Loans individually determined to be impaired (gross)					
- Not overdue	11,476	693	2,521	53	14,743
- less than 30 days overdue	58	49	704	55	866
- 30 to 90 days overdue	4,966	489	1,050	58	6,563
- 91 to 180 days overdue	1,356	534	775	35	2,700
- 181 to 360 days overdue	6,937	273	692	-	7,902
- over 360 days overdue	3,644	1,036	791	-	5,471
Total impaired loans (gross)	28,437	3,074	6,533	201	38,245
Less impairment provisions	**(12,855)**	**(1,008)**	**(2,424)**	**(90)**	**(16,377)**
Total loans and advances to customers	**604,631**	**49,204**	**99,050**	**4,989**	**757,874**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

In thousands of Georgian Lari	Corporate loans	Consumer loans	Mortgage loans	Credit Cards	Total
Neither past due nor impaired					
- Large borrowers with credit history over two years	137,115	-	-	-	137,115
- Large new borrowers	164,927	-	-	-	164,927
- Loans to medium size entities	61,793	-	-	-	61,793
- Loans to small entities	1,185	-	-	-	1,185
- Loans to individuals with credit limit over GEL 100 thousand	69,350	2,906	44,321	296	116,873
- Loans to individuals with credit limit below GEL 100 thousand	7,510	28,982	35,566	3,965	76,023
Total neither past due nor impaired	**441,880**	**31,888**	**79,887**	**4,261**	**557,916**
Past due but not impaired					
- less than 30 days overdue	4,006	781	1,750	86	6,623
- 30 to 90 days overdue	1,516	18	190	75	1,799
- 91 to 180 days overdue	-	-	-	9	9
- 181 to 360 days overdue	61	-	-	1	62
- over 360 days overdue	321	-	-	131	452
Total past due but not impaired	**5,904**	**799**	**1,940**	**302**	**8,945**
Loans individually determined to be impaired (gross)					
- Not overdue	21,759	1,400	4,046	65	27,270
- less than 30 days overdue	156	317	2,179	42	2,694
- 30 to 90 days overdue	1,601	366	843	56	2,866
- 91 to 180 days overdue	3,795	1,017	701	43	5,556
- 181 to 360 days overdue	229	168	593	2	992
- over 360 days overdue	1,310	375	1,186	1	2,872
Total impaired loans (gross)	**28,850**	**3,643**	**9,548**	**209**	**42,250**
Less impairment provisions	**(10,170)**	**(975)**	**(3,470)**	**(207)**	**(14,822)**
Total loans and advances to customers	**466,464**	**35,355**	**87,905**	**4,565**	**594,289**

In the above table, groups of related borrowers with aggregate credit exposure of more than USD 1 million are classified as “large borrowers”. Groups of borrowers with total exposure between USD 30 thousand and USD 1 million are classified as “medium size entities”. Other borrowers fall into the category of “small entities”.

10 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due, but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2017:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	531,979	1,389,931	85,507	52,926
Consumer loans	19,355	97,161	30,857	272
Mortgage loans	97,975	286,999	3,498	1,996
Credit Cards	173	865	4,908	-
Total	**649,482**	**1,774,956**	**124,770**	**55,194**

The effect of collateral at 31 December 2016:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	410,851	1,036,204	65,783	47,280
Consumer loans	17,765	90,190	18,565	103
Mortgage loans	91,067	240,385	308	91
Credit Cards	35	44	4,737	-
Total	**519,718**	**1,366,823**	**89,393**	**47,474**

The Group annually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount and have aggregate exposure above GEL 900 thousand as at reporting date. For the loans with carrying amount more than GEL 100 thousand the Group might request re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago. Where there are indications that the carrying value of the loan might exceed fair value of collateral, the management discretionally obtains valuations for collateral for the affected properties.

10 Loans and Advances to Customers (Continued)

Refer to Note 37 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

11 Investment Securities Available for Sale

In thousands of Georgian Lari	**2017**	**2016**
Corporate shares (not quoted)	63	63
Total investment securities available for sale	**63**	**63**

Investment securities available for sale include equity securities with a carrying value of GEL 63 thousand (2016: GEL 63 thousand) which are not publicly traded. Therefore they are carried at cost. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

Interest rate analysis of investment securities available for sale is disclosed in Note 33.

12 Bonds carried at amortized cost

In thousands of Georgian Lari	**2017**	**2016**
Georgian government treasury bonds	87,747	85,229
Georgian government treasury bills	56,156	38,749
Corporate bonds	-	4,463
Total Bonds carried at amortized cost	**143,903**	**128,441**

The movement in Bonds carried at amortized cost is as follows:

In thousands of Georgian Lari	**Note**	**2017**	**2016**
Gross amount at 1 January		128,441	77,250
Additions		79,460	108,336
Reclassified from Repurchase Receivables			36,458
Redemption		(66,984)	(96,362)
Interest income accrual		10,334	9,494
Interest income received		(7,348)	(6,735)
Gross amount at 31 December		**143,903**	**128,441**

All Bonds carried at amortized cost are issued by the Georgian government. At 31 December 2017 Bonds carried at amortized cost with a carrying value of GEL 39,416 thousand (2016: GEL 44,443) have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Note 18.

Refer to Note 37 for the disclosure of the fair value of each class of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 33. Information on related party investment securities held to maturity is disclosed in Note 39.

13 Investment Properties

In thousands of Georgian Lari	**2017**	**2016**
Investment properties at 1 January	**1,283**	**1,879**
Depreciation	(14)	(11)
Disposals	(191)	(1,036)
Transfer from other assets	-	451
Investment properties at 31 December	**1,078**	**1,283**

As of 31 December 2017 GEL 591 thousand of investment property were attributable to the Bank (2016: 400 thousand).

As of 31 December 2017, the fair value of investment properties was GEL 1,636 thousand (2016: GEL 1,828 thousand). As of 31 December 2017 the fair value of investment properties attributable to the bank was GEL 430 thousand (2016: GEL 453).

The fair value of the Group's investment properties was determined by the Bank's internal appraisers, who hold a recognized and relevant professional qualification. In determining the fair values of investment properties, three market comparatives were identified for each property. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property.

14 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Note	Premises	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2016		19,222	8,586	-	27,808	1,101	28,909
Accumulated depreciation			5,730	-	5,730	514	6,244
Carrying amount at 1 January 2016		**19,222**	**2,856**	**-**	**22,078**	**587**	**22,665**
Additions		15	75	-	**90**	79	**169**
Disposals		-	-	-	**-**	(40)	**(40)**
Depreciation							
Depreciation charge	29	384	736	-	**1,120**	134	**1,254**
Disposals		-	-	-	**-**	(40)	**(40)**
Carrying amount at 31 December 2016		**18,853**	**2,195**	**-**	**21,048**	**532**	**21,580**
Cost or valuation at 31 December 2016		19,237	8,661	-	**27,898**	1,140	**29,038**
Accumulated depreciation		384	6,466	-	**6,850**	608	**7,458**
Carrying amount at 31 December 2016		**18,853**	**2195**	**-**	**21,048**	**532**	**21,580**
Additions		494	1,546	-	**2,040**	490	**2,530**
Disposals		-	-	-	**-**	(43)	**(43)**
Depreciation							
Depreciation charge	29	386	808	-	**1,194**	161	**1,355**
Disposals		-	-	-	**-**	(43)	**(43)**
Carrying amount at 31 December 2017		**18,961**	**2,933**	**-**	**21,894**	**861**	**22,755**
Cost or valuation at 31 December 2017		19,731	10,207	-	**29,938**	1,587	**31,524**
Accumulated depreciation		770	7,274	-	**8,044**	726	**8,770**

Premises have been revalued at fair value at December 2015. The valuation was carried out by an independent firm of valuers, Georgian Valuation Company LLC, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category.

The input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

At 31 December 2017, the carrying amount of premises would have been GEL 11 265 thousand (2016: GEL 10 648 thousand) had the assets been carried at cost less depreciation.

15 Other Financial Assets

In thousands of Georgian Lari	Note	2017	2016
Receivables for credit card services and money transfers		1,061	343
Restricted Cash		130	132
Prepayments for Services		205	72
Other receivables		140	104
Less: Provision for impairment		(107)	-
Total other financial assets		**1,429**	**651**

As at 31 December 2016 other financial assets are not impaired.

Restricted cash represents balance with card payment system Union Pay (UPI) account. The Group does not have the right to use these funds for the purposes of funding of activities.

16 Other Assets

In thousands of Georgian Lari	Note	2017	2016
Repossessed collateral		13,293	13,119
Prepayment for assets repossession		1,553	-
Input VAT		784	698
Litigation prepayments		589	482
Prepayments for services		518	149
Prepaid withholding taxes		98	105
Fixed asset prepayments		-	58
Other		22	68
Total other assets		**16,857**	**14,679**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

As of 31 December 2017 the value of repossessed collateral attributable to the bank was GEL 11,012 thousand (2016: GEL 10,838).

17 Non-Current Assets Classified as Held for Sale

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Georgian Lari	2017	2016
Non-current assets held for sale:		
Premises and equipment	1,928	-
Total non-current assets (or disposal groups) held for sale	**1,928**	**-**

Non-current assets held for sale include assets which were approved and contracted for sale assets on 2017 due to 2018. The Group expects the sale to complete by 2018.

18 Due to Other Banks

In thousands of Georgian Lari	2017	2016
Correspondent accounts and overnight placements of other banks	1	556
Short-term placements of other banks	29,963	23,092
Short-term loans from NBG	30,018	41,011
Total due to other banks	**59,982**	**64,659**

The Group pledged debt securities as collateral for short-term loans with NBG with carrying amount of GEL 39,416 thousand at the end of the reporting period (2016: debt securities pledged for short-term loans with NBG: GEL 44,443 thousand).

Refer to Note 37 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 18. Information on related party balances is disclosed in Note 39.

19 Customer Accounts

In thousands of Georgian Lari	2017	2016
State and public organisations		
- Current/settlement accounts	151,595	66,792
- Term deposits	13,638	50,929
Other legal entities		
- Current/settlement accounts	136,032	90,957
- Term deposits	171,321	202,233
Individuals		
- Current/demand accounts	93,866	78,303
- Term deposits	111,368	73,056
Total customer accounts	**677,820**	**562,270**

State and public organisations exclude government owned profit orientated businesses.

19 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2017		2016	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	205,233	30%	151,359	27%
Production/Manufacturing	77,675	11%	109,213	19%
Transportation or Communication	67,695	10%	45,842	8%
Energy	62,598	9%	48,809	9%
Service	58,565	9%	36,781	6%
Construction	54,944	8%	37,037	7%
Financial Institutions	51,296	8%	67,094	12%
Trade	30,898	5%	19,930	4%
State Deposits	29,245	4%	25,227	4%
Education	21,635	3%	11,065	2%
Other	18,036	3%	9,913	2%
Total customer accounts	**677,820**	**100%**	**562,270**	**100%**

At 31 December 2017, the Group had five customers (2016: six customers) with balances above 10 % of total equity. The aggregate balance of these customers was GEL 199,693 thousand (2016: GEL 222,430).

Refer to Note 37 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

20 Other Borrowed Funds

In thousands of Georgian Lari	**2017**	**2016**
Loans from Blue Orchard	52,913	-
Loans from China Development Bank	51,513	13,190
Loans from European Bank for Reconstruction and Development (EBRD)	48,808	36,548
Loans from URUMQI CITY COMMERCIAL BANK	47,496	5,407
Loans from Black Sea Trade and Development Bank	41,904	54,107
Loans from The OPEC Fund for International Development (OFID)	12,903	12,258
Loans from BANCA POPOLARE DI SONDRIO SCPA	7,882	-
Loans from Commerzbank	6,851	-
Other	10	20
Total other borrowed funds	**270,280**	**121,530**

Refer to Note 37 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	Note	2017	2016
Settlement Operations		6,473	1,670
Payables for services		586	424
Debit or credit card payables		481	82
Other accrued liabilities		134	345
Total other financial liabilities		**7,674**	**2,521**

The financial liability on settlement operations represents the amounts for which the Bank's customers initiated transfer from their customer accounts to other commercial banks and which have not been transferred as at 31 December 2017. These amounts have been deducted from the customer accounts and included in other financial liabilities.

Refer to Note 37 for disclosure of the fair value of each class of other financial liabilities.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	Note	2017	2016
Taxes payable other than on income		-	24
Accrued employee benefit costs		1,254	1,051
Other		600	252
Total other liabilities		**1,854**	**1,327**

23 Share Capital

In thousands of Georgian Lari except for number of shares	Number of vested shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2016	**15,941**	**15,941**	**73,967**	**89,908**
Shares Issued under share-based payment scheme	116	116	956	1,072
At 31 December 2016	**16,057**	**16,057**	**74,923**	**90,980**
Shares Issued under share-based payment scheme	-	-	-	-
At 31 December 2017	**16,057**	**16,057**	**74,923**	**90,980**

The total authorised number of ordinary shares is 16,097 thousand shares (2015: 16,057 thousand shares), with a par value of GEL 1 per share (2016: GEL 1 per share). The total number of issued ordinary shares is 16,097 thousand shares (2016: 16,057 thousand shares). All issued ordinary shares are fully paid. The table above does not include 40 thousand (2016: nil) shares issued to management which are not yet vested.

23 Share Capital (Continued)

All outstanding ordinary shares carry same voting rights. Share premium represents the excess of contributions received over the nominal value of shares issued.

24 Share Based Payments

In July 2013, the Supervisory Board of the Bank approved a Senior Management Bonus scheme for the years 2013 – 2014 and granted 73 000 new shares to the members of senior management of the Group. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated and separate financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth and profitability metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants. The awarded shares carry service conditions and before those conditions are met, the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. The awarded shares vested in July 2016, these shares were removed of all post-vesting restrictions.

The Group considers 26 July 2013 as the grant date. The fair value per share at the grant date was estimated at GEL 7.85 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the former owners of the Bank and the Bank's current major shareholder. Based on management's assessment, the share purchase transaction can be considered as an orderly transaction between willing and unrelated market participants. All staff costs related to this Senior Management Bonus scheme is recognized during the vesting period.

In April 2015, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2015 – 2016 and granted 71,000 new shares to the members of senior management of the Bank subject to service conditions. These shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties before the service conditions are met.

Shares 2015 vested in July 2016 and these shares were removed of all post-vesting restrictions. 2016 tranche were issued on 27 July 2017. These shares are subject to post-vesting restrictions, July 2019 (the end of first lock-up period) will remove restrictions on 50% of vested shares and 1 July 2022 (the end of second lock-up period) is when the post-vesting restrictions expire entirely.

The Group considers 8 April 2015 as the grant date. The fair value per share at the grant date was estimated at GEL 11.34 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the owners of the Bank.

In March 2017, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2017 – 2021 and granted 169,000 new shares to the members of senior management of the Bank subject to service conditions.

The Group considers 27 March 2017 as the grant date. The fair value per share at the grant date was estimated at GEL 12.55 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the owners of the Bank.

According to the new share based scheme the Management Shares will be subject to the similar restrictions and cannot be sold by the Directors within 2 (two) years after the acquisition ("the Lock-up Period"). After the Lock-up Period, half of the Management Shares owned by the Directors can be sold. All of the Management Shares owned by the Directors can be transferred only after the Directors' resignation.

24 Share Based Payments (Continued)

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	**2017**	**2016**
Number of unvested shares at the beginning of the year	**44,000**	**144,000**
Change in estimate of number of shares expected to vest based on performance conditions	40,000	16,630
Number of shares vested	-	(116,630)
Number of unvested shares at the end of the year	**84,000**	**44,000**
Value at grant date per share (in GEL)	12.55	11.34
Expense on equity-settled part	463	624
Expense recognized as staff cost during the year	**463**	**624**

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period and corresponding entry is credited to share based payment reserve in equity. The share based payment reserve included in equity amounted to GEL 851 as at 31 December 2017 (GEL 388 as at 31 December 2016).

25 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Georgian Lari	**Note**	**Revaluation reserve for available for sale securities**	**Revaluation reserve for premises**	**Total**
Year ended 31 December 2016				
Available-for-sale investments:				
- Gains less losses recycled to profit or loss upon disposal or impairment		(219)	-	**(219)**
Revaluation of premises and equipment				
Income tax recorded directly in other comprehensive income		-	1,235	**1,235**
Total other comprehensive income		**(219)**	**1,235**	**1,016**
Year ended 31 December 2017				
Available-for-sale investments:				
- Gains less losses recycled to profit or loss upon disposal or impairment		(85)	-	**(85)**
Income tax recorded directly in other comprehensive income		-	-	-
Total other comprehensive loss		**(85)**	**-**	**(85)**

26 Interest Income and Expense

In thousands of Georgian Lari	2017	2016
Interest income		
Loans and advances to customers	66,559	55,284
Bonds carried at amortized cost	10,334	9,710
Due from other banks and mandatory balances held with the NBG	1,735	959
Total interest income	**78,628**	**65,953**
Interest expense		
Term deposits of legal entities	10,129	9,299
Term deposits of individuals	5,300	4,855
Current/settlement accounts	4,431	3,725
Borrowings from banks and other financial institutions	9,076	5,243
Due to other banks	3,686	1,968
Total interest expense	**32,622**	**25,090**
Net interest income	**46,006**	**40,863**

27 Fee and Commission Income and Expense

In thousands of Georgian Lari	2017	2016
Fee and commission income		
Fee and commission income not relating to financial instruments at fair value through profit or loss:		
- Plastic card fees	1,584	1,307
- Settlement transactions	1,312	1,183
- Fees related to guarantees	1,119	888
- Cash transactions	595	533
- Distant banking fees	149	127
- Other	214	116
Total fee and commission income	**4,973**	**4,154**

In thousands of Georgian Lari	2017	2016
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Plastic card fees	1,328	998
- Settlement transactions	426	316
- Cash Collection & Transaction fees	148	118
- Expenses Related to Guarantees	96	47
- Commissions for credit lines	92	4
- Other	148	104
Total fee and commission expense	**2,238**	**1,587**
Net fee and commission income	**2,735**	**2,567**

28 Other Operating Income

In thousands of Georgian Lari	Note	2017	2016
Gains less losses on disposal of repossessed property		517	50
Rental income		171	188
Fines and penalties		8	66
Reversal of impairment of repossessed property		-	233
Gains less losses on disposal of premises and equipment		-	8
Other		-	5
Total other operating income		**696**	**550**

Rental income related to investment properties amounted to GEL 20 thousand (2016: GEL 33 thousand).

29 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2017	2016
Employee compensation		11,014	9,504
Depreciation and amortisation	14	1,369	1,265
Professional services		1,176	1,065
Occupancy		1,008	872
Advertising and marketing		994	675
Communications and information services		695	950
Security		623	607
Repairs and maintenance		441	86
Taxes other than on income		270	274
Office supplies		206	137
Insurance		204	138
Impairment of other financial assets	15	183	47
Impairment of repossessed property		116	-
Travel and training		99	130
Other		935	748
Total administrative and other operating expenses		**19,333**	**16,498**

Included in employee compensation for 2017 is expense recognized as staff costs under the share based payment part of the Senior Management Bonus scheme of GEL 463 thousand (2016: GEL 624 thousand). For details on the scheme, refer to Note 24.

Direct operating expenses for investment properties that generate rental income amounted to GEL 19 thousand (2016: GEL 29 thousand) and consisted of costs of utilities, maintenance and taxes. Direct operating expenses for investment properties that did not generate rental income amounted to GEL 1 thousand (2016: GEL 2 thousand).

Professional service fee above includes GEL 226 thousand (2016: GEL 165 thousand) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

30 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Georgian Lari	**2017**	**2016**
Current tax	(2,390)	(2,542)
Deferred tax	648	1,567
Income tax expense for the year	**(1,742)**	**(975)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2017 income is 15% (2016: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2016: 15%). . A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	**2017**	**2016**
Profit before tax	**31,631**	**26,441**
Theoretical tax charge at statutory rate (2017: 15%; 2016: 15%)	(4,745)	(3,966)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (Government /NBG's securities and deposits)	1,695	1,453
- Other income which is exempt from taxation	-	182
- Imputed benefits	(38)	(38)
- Effect of change in tax legislation	1,369	1,615
- Non-deductible expenses	(23)	(221)
Income tax expense for the year	**(1,742)**	**(975)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2016: 15%).

30 Income Taxes (Continued)

In thousands of Georgian Lari	1 January 2017	Business combi-nations	Transfer to non-current held for sale	Credited/ (charged) to profit or loss	Credited/ (charged) to other compre-hensive income	Credited/ (charged) directly to equity	31 Dec 2017
Tax effect of deductible/(taxable) temporary							
Premises and equipment:	(246)			232			(14)
Loan impairment provision	(1,176)			378			(799)
Guarantee impairment provision	(63)			43			(20)
Accruals	179			71			250
Other	457			(85)			373
Share Based Payment	49			9			58
Net deferred tax asset/(liability)	**(800)**	**-**	**-**	**648**	**-**	**-**	**(152)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In thousands of Georgian Lari	1 January 2016	Business combi-nations	Transfer to non-current held for sale	Credited/ (charged) to profit or loss	Credited/ (charged) to other compre-hensive income	Credited/ (charged) directly to equity	31 Dec 2016
Tax effect of deductible/(taxable) temporary differences							
Premises and equipment:	(2,805)			1,324		1,235	(246)
Loan impairment provision	(1,412)			236			(1,176)
Guarantee impairment provision	(100)			37			(63)
Accruals	197			(18)			179
Other	486			(29)			457
Share Based Payment	32			17			49
Net deferred tax liability	**(3,602)**	**-**	**-**	**1,567**		**1,235**	**(800)**

31 Dividends

	2017		2016	
In thousands of Georgian Lari	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January				
Dividends declared during the year	2,545	-	2,191	-
Dividends paid during the year	(2,545)	-	(2,191)	-
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year	**0.16**	**-**	**0.14**	**-**

All dividends are declared and paid in Georgian Lari.

32 Net Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities	
In thousands of Georgian Lari	**Borrowed funds**	**Total**
Net debt at 1 January 2017	**121,530**	**121,530**
Cash flows	150,444	150,444
Foreign exchange adjustments	(2,507)	(2,507)
Other non-cash movements	813	813
Net debt at 31 December 2017	**270,280**	**270,280**

33 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. The Group manages the identification, assessment and mitigation of risks through an internal governance process, the risk management tools and processes to mitigate the impact of these risks on the Group's financial results, its long term strategic goals and reputation.

Responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer. The risk management function is split between following risk management units: The Supervisory Board, the Management Board, Audit Committee, Risk Management committee, Assets and Liabilities Management Committee ("ALCO"), Risk Management department, Treasury department, and Credit Committees.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board sets the general approach and principles for risk management by assessing the Bank's risk profile and the adequacy and effectiveness of the Bank's risk management framework, approving individual risk strategies, setting risk appetite and the risk control framework.

33 Financial Risk Management (Continued)

The Risk Management policies approved by the Supervisory Board of the Bank cover main type of risks, assign responsibility to the management for specific risks, set the requirements for internal control frameworks. The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board defines appropriate procedures for managing all inherent risks in each business line, with the role of structuring business to reflect risk, ensuring adequate segregation of duties and adequate procedures in place, defining operational responsibilities of subordinate staff. The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters.

Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees; to facilitate efficient decision-making, the Group establishes a hierarchy of credit committees depending on the type and amount of the exposure.

Market and liquidity risks are managed by the Asset and Liability Management Committee in coordination with the Treasury Department and the Risk Management department. The Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, structural interest rate exposures, and controls and manages foreign exchange risk exposure.

The Bank sets principles about risk taking and risk management which are reflected in the internal rules and policies, and applied consistently throughout the organisation. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment,
- adequate and effective monitoring and reporting system,
- proper quantification of risks using proper methodologies in line with the size and complexity of the Bank,
- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices via using international standards,
- operating effective risk governance by maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest,
- the observation of risk management considerations upon the launch of new activities, business lines or products

Both external and internal risk factors are identified and managed throughout the Group’s organisational structure. Particular emphasis is placed on developing risk maps that are used to identify a wide range of risk factors and serve as a basis for determining the level of comfort over the current risk mitigation procedures.

33 Financial Risk Management (Continued)

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 0. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The senior credit committee reviews and approves limits above USD 300 thousand. It is also responsible for issuing guidance to lower level credit committees;
- The junior credit committees review and approve credit limits USD 100-300 thousand
- Risk Management Department reviews and approve credit limits up to USD 100 thousand
- Retail approval group– approves loans up to USD 20 thousand

The Committees are responsible for considering all applications within the limits set forth above: applications concerning bank loans, guarantees, overdrafts and assess their suitability, volume, purpose, loan issuance-repayment terms and schedule. Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Credit Department.

Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance.

The Respective Credit Committee reviews the loan/credit application on the basis of submission by the Credit Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee. For credit applications which are above GEL 300 thousand, risk management department prepares conclusion and calculates internal credit rating, before the application is submitted to Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed either by the Group's specialists or, in case of large or riskier collaterals, by independent appraisal companies, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Loans Department through the use of scoring models and application data verification procedures.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Senior Credit Committee with regard to credit concentration and market risks.

In order to monitor credit risk exposures, regular reports are produced by the Risk Management Department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to Senior Credit committee on a monthly basis and reviewed by the Supervisory Board on a quarterly basis.

33 Financial Risk Management (Continued)

The Group's risk management reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 10.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to one single borrower and single borrowers' group, related party concentrations, large borrowers' group Concentrations, sector concentrations. Refer to Note 10.

The Group uses the following steps to measure and manage credit risk:

- Establishment of an appropriate credit risk management environment. This is achieved through written Credit Policy and Credit Manual related to target markets, portfolio mix, price and non-price terms, the structure of limits, approval authorities and exception processing and reporting.
- Operating under a sound credit-granting process. This involves the consideration of a number of elements in credit granting, including, but not limited to: segregation of duties between loan origination, approval, disbursement, and monitoring processes and procedures; prudent analysis of the borrowers' financial position; conservative assessment of sufficiency of collateral (e.g. Loan-to-Value ratio).

  Maintenance of appropriate credit administration, measurement and monitoring processes. This involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty, compliance with existing covenants', collateral coverage relative to the borrower's current condition, and contractual payment delinquencies. Also it involves monitoring of levels of credits in the credit portfolio to specific types of borrowers to avoid concentrations of risk. Such concentrations occur when there are high levels of direct or indirect credits to a single counterparty, a group of connected counterparties, or a particular industry or economic sector. Lastly, The Bank is using appropriate credit administration, measurement and monitoring processes which involves certain key areas in the process of stress testing to help the bank identify possible events or economic changes that could affect the bank's credit exposures and assess its ability to withstand such changes.
- Maintenance of appropriate portfolio quality reporting: Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management as control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, and exposures by sectors.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insomuch as such change may adversely affect the Bank revenues, equity, liquidity and creditworthiness.

33 Financial Risk Management (Continued)

The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a consolidated on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital.

However, ALCO introduces intra-day and overnight open currency position limits in aggregate and for individual currencies, within which the Bank may operate. Such limits are reviewed by ALCO from time to time to respond to market conditions. Bank's internal limits are significantly lower than the limits set by the NBG. Current limit equals 5% of the regulatory capital. The Group monitors under ICAAP framework it is exposure to currency risk, according 99% confidence level VaR at 10 day holding period.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2017			At 31 December 2016		
In thousands of Georgian Lari	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Georgian Lari	437,991	(225,755)	212,236	357,249	(175,036)	182,213
US Dollars	731,642	(730,753)	889	558,625	(555,110)	3,515
Euros	65,693	(65,509)	184	24,051	(24,010)	41
Other	632	(586)	46	415	(420)	(5)
Total	1,235,958	(1,022,603)	213,355	940,340	(754,576)	185,764

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2017	At 31 December 2016
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2016: strengthening by 20%)	178	596
US Dollar weakening by 20% (2016: weakening by 20%)	(178)	(596)
Euro strengthening by 20% (2016: strengthening by 20%)	37	7
Euro weakening by 20% (2016: weakening by 20%)	(37)	(7)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. The Group's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

33 Financial Risk Management (Continued)

In thousands of Georgian Lari	**Average exposure during 2017** **Impact on profit or loss**	**Average exposure during 2016** **Impact on profit or loss**
US Dollar strengthening by 20% (2016: strengthening by 20%)	34	87
US Dollar weakening by 20% (2016: weakening by 20%)	(34)	(87)
Euro strengthening by 20% (2016: strengthening by 20%)	(1)	(2)
Euro weakening by 20% (2016: weakening by 20%)	1	(2)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2017						
Total financial assets	306,156	172,509	192,159	382,545	135,395	1,188,764
Total financial liabilities	353,803	311,399	136,949	31,548	182,057	1,015,756
Net interest sensitivity gap at 31 December 2017	**(47,647)**	**(138,890)**	**55,210**	**350,997**	**(46,662)**	**173,008**
31 December 2016						
Total financial assets	86,185	81,894	107,729	436,815	189,928	902,551
Total financial liabilities	81,927	239,590	130,489	52,854	246,120	750,980
Net interest sensitivity gap at 31 December 2016	**4,258**	**(157,696)**	**(22,760)**	**383,961**	**(56,192)**	**151,571**

Most of interest bearing assets and liabilities are placed at fixed rates, part of loans and advances to customers and borrowings are based on floating interest rates. 31 December 2017, if interest rates at that date had been 200 basis points lower (2016: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 277 thousand higher (2016: GEL 440 thousand higher), mainly as a result of lower interest expense on variable interest liabilities by GEL 943 thousand which exceed decrease in interest income from floating rate loans by GEL 666 thousand. (2016: mainly as a result of lower interest expense on variable interest liabilities).

If interest rates had been 200 basis points higher (2016: 200 basis points higher), with all other variables held constant, profit would have been GEL 277 thousand lower (2016: GEL 440 thousand lower), mainly as a result of higher interest expense on variable interest liabilities which exceed growth of interest income from floating rate loans (2016: mainly as a result of higher interest expense on variable interest liabilities).

33 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2017			2016		
	GEL	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash equivalents	2.0%	1.0%	-	5.1%	0.1%	-
Mandatory cash balances with the NBG	-	1.0%	-0.6%	-	0.3%	-0.4%
Due from other banks	4.0%	-	-	-	-	-
Loans and advances to customers	11.8%	8.7%	7.1%	10.2%	9.9%	8.5%
Bonds carried at amortized cost	8.0%	-	-	8.4%	-	-
Repurchase receivables	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
Liabilities						
Due to other banks	7.4%	-	-	7.4%	3.5%	-
Customer accounts	7.0%	3.1%	1.9%	6.8%	3.7%	3.1%
- current and settlement accounts	7.3%	3.4%	0.9%	6.3%	3.7%	0.6%
- term deposits	6.5%	3.0%	2.0%	7.3%	3.7%	3.3%
Other financial liabilities	-	-	-	-	-	-
Borrowings from banks and other financial institutions	-	5.0%	3.8%	-	6.0%	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2016: no material impact).

The management of interest rate risk is regulated by the Assets and Liabilities Management ("ALM") Policy of the Bank. The Risk Management department regularly produces a report on interest sensitivity gap by repricing periods. The report is used to assess the impact of changes in interest rates on the profit of the Bank. The amount of the stress (expressed in basis points) of the interest rates incorporated in the report is defined by the Risk Management department, based on observed fluctuations in interest rates for relevant currencies. The limit of tolerable potential impact on the profit of the Bank is defined as up to 1% of the regulatory capital.

33 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

In thousands of Georgian Lari	**Georgia**	**China**	**OECD**	**Non-OECD**	**Total**
Financial assets					
Cash and cash equivalents	61,121	1	78,448	7	139,577
Mandatory cash balances with NBG	130,824				130,824
Due from Other Banks	15,094				15,094
Loans and advances to customers	757,874				757,874
Investment securities available for sale	63				63
Held-to-maturity investments	143,903				143,903
Other financial assets	1,429				1,429
Total financial assets	**1,110,308**	**1**	**78,448**	**7**	**1,188,764**
Financial liabilities					
Due to other banks	59,982				59,982
Customer accounts	533,096	144,724			677,820
Other borrowed funds	9	-	158,358	111,913	270,280
Other financial liabilities	7,674				7,674
Total financial liabilities	600,761	144,724	158,358	111,913	1,015,756
Net position in on-balance sheet financial instruments	**509,547**	**(144,723)**	**(79,910)**	**(111,906)**	**173,008**
Credit related commitments	**105,777**	**2,347**	**-**	**-**	**108,124**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with counterparties outstanding to/from companies ultimately controlled by the entities located in China are allocated to the caption "China".

33 Financial Risk Management (Continued))

The geographical concentration of the Group's financial assets and liabilities at 31 December 2016 is set out below:

In thousands of Georgian Lari	**Georgia**	**China**	**OECD**	**Non-OECD**	**Total**
Financial assets					
Cash and cash equivalents	65,272	171	7,976	267	**73,686**
Mandatory cash balances with NBG	105,421	-	-	-	**105,421**
Loans and advances to customers	594,289	-	-	-	**594,289**
Investment securities available for sale	63	-	-	-	**63**
Held-to-maturity investments	128,441	-	-	-	**128,441**
Other financial assets	651	-	-	-	**651**
Total financial assets	**894,137**	**171**	**7,976**	**267**	**902,551**
Financial liabilities					
Due to other banks	64,659	-	-	-	**64,659**
Customer accounts	409,425	152,845	-	-	**562,270**
Borrowings from banks and other financial institution	20	-	90,655	30,855	**121,530**
Other financial liabilities	2,521	-	-	-	**2,521**
Total financial liabilities	**476,625**	**152,845**	**90,655**	**30,855**	**750,980**
Net position in on-balance sheet financial instruments	**417,512**	**(152,674)**	**(82,679)**	**(30,588)**	**151,571**
Credit related commitments	**50,368**	**12,775**	**-**	**-**	**63,143**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group manages liquidity risk according to the Asset-Liability Management Policy and Regulation of Liquidity Management, where detailed processes and limit system connected to liquidity management is defined. The Asset/Liability Committee is responsible for the implementation of the Asset-Liability Management Policy, the daily management of liquidity is the responsibility of Treasury Department.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements.

33 Financial Risk Management (Continued)

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG, which is defined as average ratio of liquid assets to liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis. The average liquidity ratio was 57% at 31 December 2017 (2016: 55%);

The group manages liquidity risk according to the ALM Policy and Regulation of Liquidity Management, which detail liquidity management processes and procedures and relevant limits. The Regulation of Liquidity Management defines limits on:

- Liquidity Coverage Ratio ("LCR")
- Cumulative liquidity gaps

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

33 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2017 is as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	139,577	-	-	-	-	**139,577**
Mandatory cash balances with the NBG	130,824	-	-	-	-	**130,824**
Due from other banks	-	15,094	-	-	-	**15,094**
Loans and advances to customers	13,611	117,206	194,569	261,911	170,577	**757,874**
Investment securities available for sale	-	-	-	-	63	**63**
Bonds carried at amortized cost	10,681	40,180	45,311	47,731	-	**143,903**
Other financial assets	1,202	-	205	-	22	**1,429**
Total	**295,895**	**172,480**	**240,085**	**309,642**	**170,662**	**1,188,764**
Liabilities						
Due to other banks	44,028	15,954	-	-	-	**59,982**
Customer accounts – individuals	112,444	29,566	44,439	23,197	1,462	**211,108**
Customer accounts – other	303,058	60,646	91,320	22,413	591	**478,028**
Other borrowed funds	60,157	68,872	80,111	67,514	-	**276,654**
Other financial liabilities	7,590	84	-	-	-	**7,674**
Financial guarantees issued	102	17,639	6,785	5,985	467	**30,978**
Performance guarantees issued	10,943	5,196	2,585	7,765	180	**26,669**
Undrawn credit line commitments	50,477	-	-	-	-	**50,477**
Total potential future payments for financial obligations	**588,799**	**197,957**	**225,240**	**126,874**	**2,700**	**1,141,570**
Liquidity gap arising from financial instruments	**(292,904)**	**(25,477)**	**14,845**	**182,768**	**167,962**	**47,194**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

33 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2016 is as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	73,686	-	-	-	-	**73,686**
Mandatory cash balances with the NBG	105,421	-	-	-	-	**105,421**
Loans and advances to customers	13,692	96,084	117,336	226,474	140,703	**594,289**
Investment securities available for sale	-	-	-	-	63	**63**
Bonds carried at amortized cost	9,925	21,793	22,775	70,659	3,289	**128,441**
Other financial assets	447	-	72	-	132	**651**
Total	**203,171**	**117,877**	**140,183**	**297,133**	**144,187**	**902,551**
Liabilities						
Due to other banks	64,659	-	-	-	-	**64,659**
Customer accounts – individuals	88,094	24,635	30,957	10,798	1,306	**155,790**
Customer accounts – other	172,001	65,001	51,356	132,407	180	**420,945**
Other borrowed funds	7,940	30,047	49,808	39,023	-	**126,818**
Other financial liabilities	2,422	99	-	-	-	**2,521**
Financial guarantees issued	403	9,710	3,322	326	-	**13,761**
Performance guarantees issued	205	7,394	2,621	4,127	27	**14,374**
Undrawn credit line commitments	34,932					**34,932**
Letters of credit	76	-	-	-	-	**76**
Total potential future payments for financial obligations	**370,732**	**136,886**	**138,064**	**186,681**	**1,513**	**833,876**
Liquidity gap arising from financial instruments	**(167,561)**	**(19,009)**	**2,119**	**110,452**	**142,674**	**68,675**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Georgian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

33 Financial Risk Management (Continued)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2017						
Financial assets	295,896	172,479	240,085	309,642	170,661	**1,188,763**
Financial liabilities	198,013	208,686	228,051	337,713	66,429	**1,038,892**
Financial and performance guarantees	362	-	-	-	-	**362**
Undrawn credit related commitments	5,048	-	-	-	-	**5,048**
Net liquidity gap based on expected maturities	**92,473**	**(36,207)**	**12,034**	**(28,071)**	**104,232**	**144,461**
Cumulative liquidity gap based on expected maturities	**92,473**	**56,266**	**68,300**	**40,229**	**144,461**	
At 31 December 2016						
Financial assets	203,171	117,877	140,183	297,133	144,187	**902,551**
Financial liabilities	125,288	157,794	158,728	274,802	54,121	**770,733**
Financial and performance guarantees	148	-	-	-	-	**148**
Undrawn credit related commitments	3,493	-	-	-	-	**3,493**
Net liquidity gap based on expected maturities	**74,242**	**(39,917)**	**(18,545)**	**22,331**	**90,066**	**128,177**
Cumulative liquidity gap based on expected maturities	**74,242**	**34,325**	**15,780**	**38,111**	**128,177**	

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

As at 31 December 2017 the management believes it will be able to close the liquidity gap by obtaining sufficient borrowings from NBG (20 million under pledged portfolio) or other banks under committed borrowings as and when necessary arises.

34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum level stated in borrowing agreements.

The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2017 was GEL 312,491 thousand (2016: GEL 185,769 thousand). Compliance with capital adequacy ratios set by the National Bank of Georgia is monitored monthly, with reports outlining their calculation reviewed and signed by the Deputy General Director, Finances. Other objectives of capital management are evaluated quarterly.

Under the National Bank of Georgia Basel I capital requirements set by the NBG in 2017, banks have to maintain a ratio of Tier 1 and Regulatory Capital to risk-weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under NBG accounting rules and amounts to GEL 182,727 thousand (2016: GEL 163,770 thousand). As at 31 December 2017, these minimum levels set by the NBG were 6.4% for primary capital and 9.6% for regulatory capital (2016: 7.2% and 10.8% respectively).

The Group and the Bank have complied with all externally imposed capital requirements throughout 2017 and 2016.

In thousands of Georgian Lari	**2017**	**2016**
Primary capital		
Share capital	16,097	16,057
Share premium	75,284	74,865
Retained earnings according to the NBG regulations	65,530	47,179
Deductions (Intangible Assets)	(861)	(532)
Total primary capital	**156,050**	**137,569**
Secondary capital		
Current year profit according to NBG regulations	19,588	20,773
General reserve	11,390	9,225
Total secondary capital	**30,977**	**29,998**
Deductions (Investments in subsidiary companies)	(4,300)	(3,797)
Total regulatory capital	**182,727**	**163,770**
Risk weighted assets, combining credit, market and operational risks	**1,127,426**	**896,316**
Tier I ratio	**13.8%**	**15.3%**
Regulatory capital ratio	**16.2%**	**18.3%**

After adoption of NBG Basel II/III requirements the Bank, in addition to above capital ratio, calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2013.

In order to transition to Basel III and to increase transparency and comparability and segregate between available Capital instruments to cover the potential risks the National Bank of Georgia ("NBG") amended Capital Adequacy requirements in December 2017 and introduced Pillar 1 and Pillar 2 buffers.

34 Management of Capital (Continued)

The composition of the Bank's capital calculated in accordance with Basel II under Pillar I and Pillar II (affective from December 2017) is as follows

In thousands of Georgian Lari	**2017 Pillar I/II**	**2017 Pillar I**	**2016 Pillar I/II**	**2016 Pillar I**
Primary capital				
Share capital	16,097	16,097	16,057	16,057
Share premium	75,284	75,284	74,865	74,865
Retained earnings according to the NBG regulations	65,530	65,530	47,179	47,179
Revaluation reserve	8,602	8,602	8,602	8,602
Current year profit according to NBG regulations	19,588	19,588	20,774	20,774
Primary capital Before Correction	185,101	**185,101**	**167,477**	**167,477**
Primary capital Corrections	(9,463)	(9,463)	(12,931)	(12,931)
Total primary capital After correction	**175,638**	**175,638**	**154,546**	**154,546**
Secondary capital				
General reserve	11,390	11,390	8,783	9,224
Total secondary capital	**11,390**	**11,390**	8,783	**9,224**
Total regulatory capital	**187,028**	**187,028**	**163,329**	**163,770**
Risk weighted assets, combining credit, market and operational risks	**980,272**	**1,227,106**	**795,362**	**1,026,124**
Minimum Tier 1 Ratio	***10.1%***			***8.5%***
Tier I ratio	**17.92%**	**14.3%**	**19.4%**	**15.1%**
Minimum regulatory capital ratio	***12.7%***			***10.5%***
Regulatory capital ratio	**19.1%**	**15.2%**	**20.5%**	**16.0%**

35 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these consolidated financial statements.

Tax contingencies. Georgian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. A tax year remains open for reviw by the tax authorities during the three subsequent calendar years; however, under certain circumstances tax year may remain open longer.

The Georgian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Group consults with qualified external tax advisors on a regular basis.

35 Contingencies and Commitments (Continued)

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Georgian Lari	**2017**	**2016**
Not later than 1 year	297	251
Total operating lease commitments	297	251

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Compliance with covenants. The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. As of 31 December 2017, the Bank has breached one covenant under the loan agreement with BlueOrchard Microfinance Fund. Management believes that the Group was in compliance with all other covenants at 31 December 2017.The carrying amount of the affected loan as of 31 December 2017 was GEL 52,913 thousands. The breach has been adequately reflected in the contractual maturity table under the Financial Risk Management note 33. During the year ended 31 December 2016, the Bank breached two covenants under the loan agreement with EBRD. On 29 December 2016 the Bank obtained a waiver letter from the lending institution. The carrying amount of the affected loan as of 31 December 2016 was GEL 36,548 thousands. Management believes that the Group was in compliance with all other covenants at 31 December 2016.

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated in 2004), commonly known as Basel II. The Group complied with this loan covenant.

The composition of the Group’s capital calculated in accordance with the Basel Accord is as follows:

In thousands of Georgian Lari	**2017**	**2016**
Tier 1 capital		
Share capital	90,980	90,980
Cumulative translation reserve		
Retained earnings	113,316	86,312
Non-controlling interest		
Total tier 1 capital	**204,296**	**177,292**
Tier 2 capital		
Revaluation reserves	8,387	8,472
General reserve	8,230	6,420
Total tier 2 capital	**16,617**	**14,892**
Total capital	**220,913**	**192,184**

General reserve included in Tier 2 is defined as lower of (a) IFRS provisions created on loans without signs of impairment and (b) 2% of loans without impairment trigger event.

35 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	**Note**	**2017**	**2016**
Financial guarantees issued		30,979	13,761
Performance guarantees issued		26,669	14,374
Undrawn credit line commitments		50,477	34,932
Letters of credit		-	76
Less: Provision for financial and performance guarantees		(364)	(148)
Total credit related commitments and performance guarantees, net of provision		**107,761**	**62,995**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Credit related commitments are denominated in currencies as follows:

In thousands of Georgian Lari	**Note**	**2017**	**2016**
Georgian Lari		63,415	36,514
US Dollars		41,966	23,669
Euro		2,744	2,921
Other		-	39
Total		**108,125**	**63,143**

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows.

35 Contingencies and Commitments (Continued)

The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

In thousands of Georgian Lari	Note	2017	2016
Construction		10,266	10,227
Trade		1,653	1,692
Service		2,081	979
Other		12,669	1,476
Total guaranteed amounts		**26,669**	**14,374**

Movements in provisions for financial and performance guarantees are as follows:

In thousands of Georgian Lari	Note	2017	2016
Carrying amount at 1 January		**148**	**257**
Loss charged to Profit or Loss		788	657
Unused amounts of provision reversed and utilization of provision		(570)	(778)
Loss charged to Profit or Loss		686	734
Unused amounts of provision reversed and utilization of provision		(706)	(722)
Carrying amount at 31 December		**346**	**148**

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

	Notes	**31 December 2017**		**31 December 2016**	
In thousands of Georgian Lari		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Bonds carried at amortized cost		39,416	30,000	44,443	41,011
Total		39,416	30,000	44,443	41,011

At 31 December 2017 restricted cash balances of GEL 130 thousand (2016: GEL 132 thousand) are placed as a cover for international payment cards transactions.

Mandatory cash balances with the NBG of GEL 130,824 thousand (2016: GEL 105,421 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 8. As at 31 December 2017 there were no loans and advances to customers pledged as collateral against the borrowings from Banks and Financial Institutions (2016: none).

36 Offsetting Financial Assets and Financial Liabilities

At 31 December 2017 and 31 December 2016 no financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented.

37 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2017				31 December 2016			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
NON-FINANCIAL ASSETS								
- Premises	-	-	18,961	18,961	-	-	18,853	18,853
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	-	**18,961**	**18,961**	-	-	**18,853**	**18,853**

(b) Non-recurring fair value measurements

The non-current assets held for sale are measured at FV as of 31 December 2017. The fair value belongs to level 3 measurements in the fair value hierarchy. The fair value is GEL 2,800 thousand.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2017 and December 2016 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2017**	**2016**	**Valuation technique**	**Inputs used**	**Range of inputs used (weighted average)**
NON-FINANCIAL ASSETS					
- Premises	18,961	18,853	Market comparable assets	Price per square meter	1,078-11,381 (3,764)
- Non-current assets held for sale	2,800		Market comparable assets	Price per square meter	26-2,315 (489)
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**21,761**	**18,853**			

37 Fair Value Disclosures (Continued)

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2017				**31 December 2016**			
In thousands of Georgian Lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**
ASSETS								
Cash and cash equivalents								
- Cash on hand	30,341	-	-	30,341	23,498	-	-	23,498
- Cash balances with the NBG	-	27,903	-	27,903	-	9,142	-	9,142
- Correspondent accounts and overnight placements	-	81,333	-	81,333	-	38,546	-	38,546
- Placements with other banks with original maturity of less than three months	-	-	-	-	-	2,500	-	2,500
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	15,094	-	15,094	-	-	-	-
Mandatory balances with the NBG	-	130,824	-	130,824	-	105,421	-	105,421
Loans and advances to customers								
- Corporate loans	-	-	594,712	604,695	-	-	441,009	466,464
- Consumer loans	-	-	51,497	49,140	-	-	34,515	35,355
- Mortgage loans	-	-	110,060	99,049	-	-	85,442	87,905
- Credit cards	-	-	4,991	4,990	-	-	4,569	4,565
Bonds carried at amortized cost								
Georgian government treasury bonds	-	88,721	-	87,747	-	86,096	-	85,229
Georgian government treasury bills	-	56,103	-	56,156	-	38,728	-	38,749
NBG deposit Certificate								
Corporate bonds	-	-	-	-	-	4,549	-	4,463
Other financial assets	-	1,429	-	1,429	-	651	-	651
NON-FINANCIAL ASSETS								
- Investment properties at cost	-	-	1,636	1,078	-	-	1,828	1,283
TOTAL	**30,341**	**401,407**	**762,896**	**1,189,779**	**23,498**	**285,633**	**567,363**	**903,771**

37 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2017				31 December 2016			
In thousands of Georgian Lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	1	-	1	-	556	-	556
- Short-term placements of other banks	-	29,963	-	29,963	-	23,092	-	23,092
- Short-term loans of NBG	-	30,018	-	30,018	-	41,011	-	41,011
Customer accounts								
- Current/settlement accounts of state and public organisations	-	151,577	-	151,577	-	66,792	-	66,792
- Term deposits of state and public organisations	-	-	14,387	13,638	-	-	53,160	50,929
- Current/settlement accounts of other legal entities	-	136,051	-	136,051	-	90,957	-	90,957
- Term deposits of other legal entities	-	-	187,130	171,321	-	-	201,853	202,233
- Current/demand accounts of individuals	-	93,866	-	93,866	-	78,303	-	78,303
- Term deposits of individuals	-	-	128,551	111,367	-	-	73,929	73,056
Other borrowed funds								
- Borrowings from International Financial institutions	-	296,617	-	270,270	-	118,738	-	121,510
- Borrowings from government	-	10	-	10	-	20	-	20
Other financial liabilities	-	7,673	-	7,673	-	2,521	-	2,521
TOTAL	**-**	**745,776**	**330,068**	**1,015,755**	**-**	**421,990**	**328,942**	**750,980**

37 Fair Value Disclosures (Continued)

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

38 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. All of the Group's financial assets fall in the loans and receivables category except financial derivatives and investment securities available for sale. All of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category and were held for trading. Investment securities available for sale belong to available-for-sale measurement category.

39 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

Included in Investments in subsidiary in Separate Statement of Financial Position relates to investments in Basis Asset Management Holding LLC, Hualing Insurance JSC and BHL Leasing JSC.

Name	Principal activities	2017	2016
Basis Asset Management – Holding LLC	Asset management	3,797	3,796
Hualing Insurance JSC	Insurance	4,300	-
BHL Leasing JSC	Leasing	-	-
		8,097	3,796

At 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Ultimate shareholder**	**Other shareholder**	**Immediate Parent Company**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 4% - 24%)	-		-	1	959	36,424
Impairment provisions for loans and advances to customers at 31 December	-		-	-	(6)	-
Customer accounts (contractual interest rate: 0% - 12.25%)	363	1,007	6,757	1,034	1,845	85,837

The loans advanced to related companies are fully covered with pledged deposits.

The income and expense items with related parties for 2017 were as follows:

In thousands of Georgian Lari	**Ultimate shareholder**	**Other shareholder**	**Immediate Parent Company**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**
Interest income	4	-	-	-	56	910
Interest expense	(25)	(28)	(205)	(47)	(128)	(2,044)
(Provision charge)/Recovery of loan impairment	-	-		-	(1)	245
Gains less losses from trading in foreign currencies	9	-	1	1	4	603
Foreign exchange translation gains less losses	-	(23)	(75)	14	(4)	1,087
Administrative and other operating expenses	-	-	-	-	-	(71)

39 Related Party Transactions (Continued)

At 31 December 2017, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	**Other Shareholders**	**Supervisory Board**	**Management Board**	**Companies under common control**
Performance Guarantees issued by the Group at the year end	-	-	-	452
DAFinancial Guarantees issued by the Group at the year end	-	-	-	1,553
Undrawn credit line commitments	98	38	288	-

Aggregate amounts lent to and repaid by related parties during 2017 were:

In thousands of Georgian Lari	**Immediate Parent Company**	**Supervisory Board**	**Management Board**	**Companies under common control**
Amounts lent to related parties during the year	275	-	621	45,654
Amounts repaid by related parties during the year	(733)	-	(453)	(12,723)

At 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Immediate Parent Company**	**Supervisory Board**	**Management Board**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 6% - 24%)	14	-	657	-
Impairment provisions for loans and advances to customers at 31 December	-	-	(8)	-
Customer accounts (contractual interest rate: 0% - 12%)	5,584	992	1,478	18,536

39 Related Party Transactions (Continued)

The income and expense items with related parties for 2016 were as follows:

In thousands of Georgian Lari	Immediate Parent Company	Supervisory Board	Management Board	Companies under common control
Interest income	3	21	67	132
Interest expense	(150)	(34)	(69)	(1,804)
(Provision charge)/Recovery of loan impairment	-	-	8	253
Gains less losses from trading in foreign currencies	7	-	-	572
Foreign exchange translation gains less losses	(723)	(99)	(39)	1,974
Fee and commission income	-	-	1	-
Administrative and other operating expenses	-	-	(1)	(30)

At 31 December 2016, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Immediate Parent Company	Supervisory Board	Management Board	Companies under common control
Performance Guarantees issued by the Group at the year end	-	-	-	5,891
Financial Guarantees issued by the Group at the year end	-	-	-	6,427
Undrawn credit line commitments	72	26	306	-

39 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during 2016 were:

In thousands of Georgian Lari	**Immediate Parent Company**	**Supervisory Board**	**Management Board**
Amounts lent to related parties during the year	493	1,563	1,966
Amounts repaid by related parties during the year	(472)	(1,586)	(1,583)

Compensation for the members of the Supervisory Board is presented below:

	2017		**2016**	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	173	-	150	-
Total	**173**	**-**	**150**	**-**

The management board compensation is presented below:

	2017		**2016**	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	837	-	730	-
- Short-term bonuses	905	780	815	684
Share-based compensation:				
- Equity-settled share-based compensation	463	-	624	-
Total	**2,205**	**780**	**2,169**	**684**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

Annual Report
2017

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