Paving the way to Asia

Annual Report 2016

ბაზისბანკი
BASISBANK
Hualing Group Member

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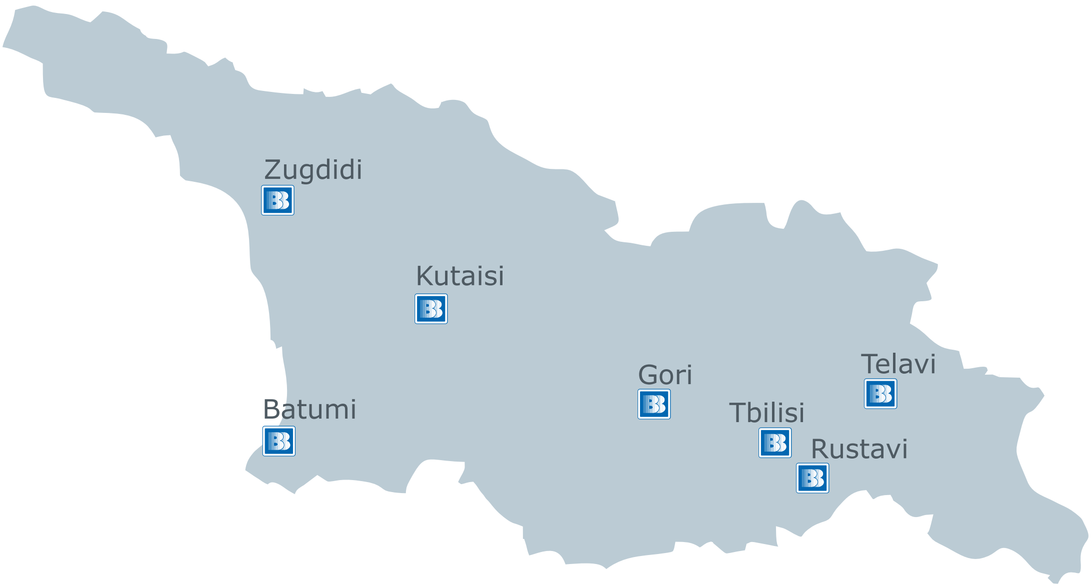
Overview



BRANCHES

21

ATMS

58

EMPLOYEES

348

ABOUT US

Incorporated more than two decades ago, Basisbank (BB) represents a fast growing, mid-sized banking institution operating in Georgia with a sound market reputation, international recognition and solid international support. Headquartered in Tbilisi, BB spans its operations across the most economically active regions in Georgia through the network of 21 branches and 348 sales force and is the 8th largest bank in the country by the end of 2016.

For more than a decade BB has been actively expanding its network of international strategic partnerships and cooperation backed by long-term successful alliances and implemented projects; The Bank has a record of cooperation with such recognized organizations as: World Bank (WB), European Bank for Reconstruction and Development (EBRD), Overseas Private Investment Corporation (OPIC), Worldbusiness Capital, Inc (WBC), United States Agency for International Development (USAID), Black Sea Trade and Development Bank (BSTDB), World Bank, Asian Development Bank(ADB), OFID(OPEC Fund for International Development), CDB (China Development Bank), Bank of Urumqi, BlueOrchard.

EBRD, as a strategic partner and shareholder of the bank (2007-2013) played a momentous role in the transformation of the bank into universal, solid banking institution with sound corporate governance system based on the best international practices. In the years of BB-EBRD strategic collaboration the Bank has undergone fundamental changes, preparing the groundwork for the Bank's robust growth and development. For realization of its growth strategy the time came for the Bank to turn its attention on looking out for potential strategic investors who would be interested in making solid investments for the Bank's further rapid development and business acceleration. In 2012, BB found such an investor and Xinjiang Hualing Industry & Trade (Group) Co. as such became the majority stakes owner of the Bank.

The new strategic alliance with one of the largest Chinese conglomerate "Hualing Group" has brought an important new dimension to BB which is to foster cooperation and business relations between China and Georgia as well as increasing the Bank's capital base and capturing market share in the country.

The Bank has demonstrated impressive progress on the market since the entrance of Hualing Group in 2012 - the main tasks were to ensure substantial growth, retain sound financial and earnings history against the background of diligent risk management practices to retain sustainability of the Bank's long term development path.

Backed with strong capital base, accumulated superior expertise in doing business, most importantly with Asian companies balanced with strong financial support (considerable investments from China), BB has gained competitive edge on the market in supporting development of corporate and SME businesses through:

- strong capitalization above 18%
- strong corporate customer base in the leading economic and public sectors; industry leaders in healthcare, wine and food production, construction, energy and many more
- tailored, functional organizational structure – to serve corporate / SME businesses and retail
- selected branch network - matched location of branches in most active business centers and regions
- solid business expertise in corporate and SME financing

Chinese company Xinjiang Hualing Industry & Trade (Group) Co. Ltd, has entered Georgian Banking sector in September 2012 with a clear vision of developing strong healthy banking institution with Universal banking model, targeting profitable growth supported by Chinese investments in Georgia and benefiting from the development prospects of the region.

The objective is to build up a most customer-oriented successful universal banking institution well presented in retail and business segments.
Together with the new owner and solid capital infusion BB started to rigorously execute its redefined strategy that encompassed ambitious growth.

- Focus on healthy earnings growth - improving the financials of the bank, enhancing credit activity;
- Growing on competitive market – diversification of earning assets through Corporate, SME and Retail segments;
- Improve operating and technical / technological platform and the organization structure;
- Maintain high standards for asset quality through disciplined risk management;
- Increase market share expanding financial services and products, channels of services by following disciplined growth strategy, delivering high quality customer service.

OUR MAIN SHAREHOLDER

- A private Chinese enterprise group established in **1988**
- Areas of operation: commodities wholesale market, market rental & management, real estate development, property management, tourism, hotels, constructions, financial industry, development of modern livestock slaughter industry, logistic transportation and international trade
- Over **30** affiliated companies, more than **3000** employees and assets of over **3.4** bln. USD
- The largest supplier of premier building material in Western China
- Chairman - Mi Enhua one of the wealthiest persons in China according to Euromoney China
- The largest Chinese investor in Georgia since **2007** - total investments of **550** million USD

HUALING GROUP's projects up until now in Georgia include:

- Hualing Tbilisi Sea New City
- 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

BB's progress on the market since the entrance of Hualing Group in 2012 was considerable - the main task was to ensure substantial growth, retain sound financial and pre-tax earnings history and achieve these targets with careful risk management practices to retain sustainability of the long term development path.

Significant part of the future strategy is to explore full capacity and opportunity of its geographic location – shortest route connecting Europe to Asia through construction of Anaklia port. Implementation of the project will facilitate transit, logistical and industrial potential. The Port will establish a new maritime corridor between China and Europe, helping restore the historic Silk Road and stimulating national and regional economies.

The restoration of the Silk Road has been a major priority for Georgia and makes it more important as Georgia has signed Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union in December 2014, successful completion of free trade negotiations with China will further contribute to this project.

Many Chinese companies and financial institutions are interested to expand their businesses in strategically important regions and countries along "Silk Road" corridor. In this case a bank operating under Chinese capital on the Georgian market will significantly contribute to the attraction of resources from China. Taking into account the value and scale of importance of strategic projects of Chinese companies, it is important that a partner bank involved in investment process were connected with China through its Chinese founders. It is important to attract financial institutions and partners to increase the scale of investments where Hualing Group may perform an important role.

Hualing Group understands the necessity and the potential of financial services for local and non-resident enterprises. It is expected that the Chinese companies will increase investments and extend their trading operations in Georgia. This will bring more opportunities for the banks to concentrate on these companies, to strengthen communication and attract businesses, prioritize development of trade finance. With support of Hualing Group BB signed first credit agreement with China Development Bank (CDB) and URUMQI CITY COMMERCIAL BANK, this is the first case a Georgian bank receives direct funding from Chinese bank, with support of Hualing Group these connections will be further strengthened and co-operation enhanced.

CHAIRMAN OF SUPERVISORY BOARD'S STATEMENT

Zhang Jun
Chairman of Supervisory Board, JSC Basisbank

"I AM VERY PROUD AND PLEASED THAT, BASISBANK HAS MANAGED TO ACHIEVE STRONG FINANCIAL RESULTS FOR CONSECUTIVE FOUR YEARS, SINCE HUALING GROUP BECAME A NEW SHAREHOLDER OF THE BANK IN 2012. IN SPITE OF THE CHALLENGING ENVIRONMENT, THE BANK AGAIN DELIVERED RECORD EARNINGS AND EXCELLENT VALUE TO SHAREHOLDERS.

I would like to take this opportunity and on behalf of each member of Supervisory Board thank our Management team for the strong leadership in driving the Bank's success forward, our dedicated employees for all of the hard work they put forth in achieving Bank's financial results, for the commitment of the whole BB's team in providing outstanding service to our customers and delivering on key targets set for the year 2016. I would like to express deep appreciation to our valuable partners and loyal clients for doing business with us.

We have consistently shown we can adapt to the challenges in the environment we operate in and we remain confident in the Bank's Management team and employees to continue delivering for all of the Bank's Shareholders. 2016 was a good year for the bank. We strengthened our relationships with our clients and partners and our engaged workforce moved the Bank forward recording net profit of 25.5 mln. GEL, the highest level since the Bank commenced its operations under new ownership in 2012.

Our strong capital position and financial performance over the years provide the foundation for reliable partnership and successful collaboration. Throughout 2016, BB attracted a number of new significant partners, further cemented its position as the most customer friendly bank and the leading expert in doing business with Asian counterparties.

OUR UNIQUE ADVANTAGE

- BB is well positioned to create solid platform for Chinese-Georgian businesses:
- Georgia – the Key to China's "Belt and Road" as the major hub between Asia and Europe for China's Silk Road plans
- Privileged access to EU - Georgia signed Deep and Comprehensive Free Trade Agreement (DCFTA) with EU in **2014**
- Ongoing negotiations on FTA with China
- Investment friendly Tax Policy
- Strategic position on the Black Sea: BATUMI Port – a bridge connecting to the Euro-Asian Transport Corridor.
- A new deep-water Black Sea port at Anaklia (ADC) – Anaklia Development Consortium under construction. Located on the eastern edge of the Black Sea, Anaklia strategically sits on the shortest route from China to Europe
- China Ranks Georgia's fourth trading partner with **823** mln. USD trade turnover in **2016** accounting for about **72%** of Georgia's total turnover
- FDI from China was more than **39** mln. USD in **2016**
- Exports from Georgia to China have increased by around **2000%** compared to **2009**

The Bank continued to make significant progress in expanding its business connections and outreach not only with European partner institutions but Asian region as well. In this regards, BB made noteworthy advancement and partnered "China Development Bank" one of the largest Chinese bank and Bank of Urumqi in 2016. Through these alliances the Bank acquired unique position as the best services provider and the major link between Georgian and Asian counterparties.

Establishing strong business ties with Asian market, and in particular China is part of our strategic priorities as our two countries strategic cooperation and business relations reach their peak with Georgia being perceived as the major hub between Asia and Europe for China's Silk Road plans, we are well positioned to provide a solid platform as we represent the only Bank with Chinese roots on the local market so far and a strong, experienced facilitator for Georgian and Chinese entrepreneurs and cross-border contacts.

The progress made through new collaborations with Asian institutions distinguish us from the local competitors on the market. Through alliances with the newly acquired partners, we have acquired extensive experience and use our knowledge of how to do business in the region to help our customers in every aspect on their way to their growth through Asia.

We will continue to maintain our engagement in banking with Asian region as part of our strategy and remain committed to continued innovation through deepening our strategic alliances with solid international financial institutions.

Having overseen the Bank's performance over the year, we are very comfortable with the outstanding progress and advancements the Bank as a whole made to date and with laid footprint of being one of the most reliable, customer-focused, successful financial institution.

GENERAL DIRECTOR'S STATEMENT

David Tsaava
General Director, JSC Basisbank

“ WITH STRENGTHENING OF OUR LOCAL PROFILE, WE HAVE MADE SIZABLE PROGRESS TO INCREASE OUR GLOBAL REACH, IN PARTICULAR, ENCOMPASSING ASIAN REGION AS PART OF OUR STRATEGY TO DIFFERENTIATE OURSELVES AS THE FIRST CHOICE BANK WITH DEEP ASIAN INSIGHTS AND EXPERTISE. OUR AIM IS TO INTERMEDIATE TRADE AND INVESTMENT FLOWS BETWEEN ASIA AND GEORGIA AND TO BECOME ONE OF THE MOST ACTIVE PARTICIPANT IN ASIAN'S GROWING BUSINESS AFFLUENCE IN THE REGION.

On behalf of JSC Basisbank, I am pleased to share our 2016 Annual Report.

I would like to thank our team members for their dedicated hard work, our Supervisory Board for their guidance and most importantly our loyal customers for the trust they place in our bank.

In recent years, BB has delivered strong results in terms of growth and profitability. 2016 has been another, very important and yet challenging year for the bank. Although Georgian economy has performed relatively well, geopolitical tensions and currency depreciation in neighboring countries, continued pressure on margins due to the impact of the sustained low interest rate environment, competitive pricing in the market, and further lari depreciation against USD made it difficult to back up market share gains and distinctive competitive advantage. Against the backdrop of ongoing market volatility, neighboring countries political uncertainty, historically low interest rates and tough market competition I am pleased to note that, we overcame continued pressures on operating environment and ended the year in a strong position with excellent value to shareholders. We displayed 10% increase of pre-tax profit, reported GEL 25.5 million in net profit and showed 14.7% and 3.3% ROAE - ROAA profitability indicators. Improved profitability was reinforced by improvements in cost efficiency.

Our lending business also continues to deliver strong growth with our low risk appetite. BB has outperformed the banking sector in terms of loan growth and at the same time managed to preserve excellent portfolio quality. Throughout 2016, Bank maintained traditionally strong capitalization and solid liquidity positions and reached significant progress on KEY fronts. Through array of business expansion projects on energy efficiency, trade financing, loans for agriculture development, guarantees, projects financing, consumer loan campaigns and new product offerings our lending growth reached 32% YoY.

Throughout the last year, we maintained our focus on customer service and convenience excellence by optimizing our network of sales and investing in our digital channel development, including mobile and online banking. In 2016, we continued upgrading our distance banking services and introduced innovative mobile and online solutions to help our customers build and manage their business in most convenient ways, through adding new features like instant approval of consumer loans and automated instant loans with desirable terms within the availability of pre-approved credit limit and advantage of withdrawing cash through credit cards without visiting the Bank service-centers.

We also continued to make strong progress in building and deepening relationships with international partners and institutions. In particular, 2016 proved to be a milestone year for the bank in acquiring new partners and expanding collaboration with financial institutions covering European and Asian regions.

In 2016, BB established successful partnership with China Development Bank and Bank of Urumqi which will play instrumental role in our efforts to promote Georgian-Chinese business relations, deepening relationships with the leading Chinese institutions contributing in that way to the increasing demand of the Bank's customers in paving their way to Asian region. 2016 was in particular marked with a series of new alliances and partnerships. Aside of successful collaboration with Chinese financial institutions, BB partnered Asian Development Bank and OFID, OPEC Fund for international Development to further develop our trade finance business. It is noteworthy that BB is the first bank in Georgia to partner China Development Bank and Bank of Urumqi, the second bank to cooperate with OFID and the third Bank to work with Asian Development Bank within the TFP program framework.

In 2017, we will stay committed to our strategy and continue working on development and introduction of best-in-class products and services for our corporate and retail customers, we will develop and multiply our international partner base and successful alliances, enrich our customer base and reinforce our position as an attractive, reliable and proficient financial institution on the market.

GOVERNING AND EXECUTIVE BOARD

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

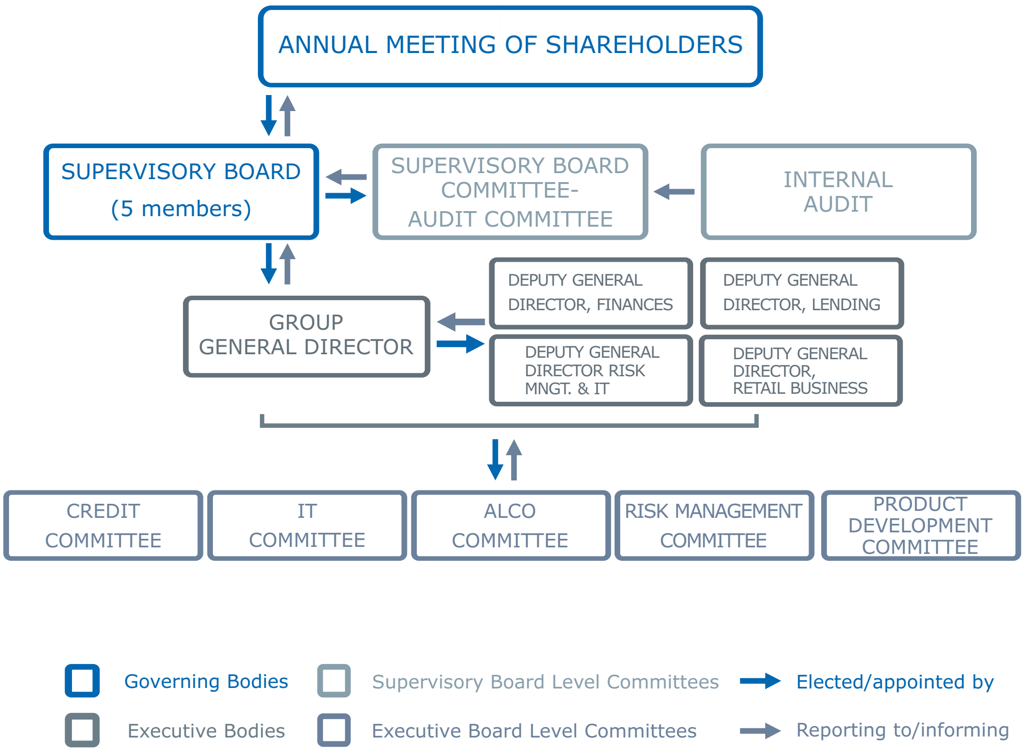
DAVID KAKABADZE

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



PERFORMANCE

BUSINESS STRATEGY

Key statement - Our aim is to be the best commercial bank that earns the lasting loyalty of our customers, partners, and shareholders; BB's core strategy is centered on dynamic market share growth, products and services excellence and diversity, strong international partnership alliances with reputable Western and Asian financial institutions.

We are the 8th largest Georgian based bank with assets measured at 940 million GEL and high capitalization supported by a strong Chinese shareholder "Xinjiang Hualing Industry & Trade (Group) Co" with vast experience of working in Chinese market and implementing the biggest projects and FDI in Georgian economy. We serve the real economy needs of our corporate/SME and private clients. Our franchise and growth path remained strong despite of all challenges and downturns of the economic environment in 2013/2016.

OUR STRAREGY

CAPTURING OF THE MARKET SHARE AND UPGRADING OUR POSITION TO ONE OF THE TOP 5 BANKS ON THE MARKET

INTENSIFYING BUSINESS RELATIONSHIPS WITH CHINA AND BECOMING EXCLUSIVE MEDIATOR AND FINANCIAL SERVICE PLATFORM FOR EUROPE AND ASIA

INCREASING VALUE AND MARKET SHARE OF THE BANK THROUGH STRATEGIC M&A AS A UNIQUE PLATFORM FOR COMMERCIAL SYNERGY OF ACCUMULATED KNOWLEDGE, EXPERTISE, CULTURE, BRANCH NETWORK AND CLIENT OUTREACH

ENHANCING LENDING BUSINESS AND STREAMLINING OUR OPERATIONS INTO THREE DISTINCT STRATEGIC BUSINESS SEGMENTS: RETAIL BANKING, CORPORATE BANKING, AND SME

FORMATION OF AN ATTRACTIVE FINANCIAL INSTITUTION FOR FOREIGN INVESTORS AND PREPARING THE BANK FOR IMPLEMENTATION OF IPO

WHY CHOOSE BB

TRUST, LONGEVITY, PERFORMANCE, CONSISTENCY – the values inherent in our historic tradition of quality financial services provision - one of the few banks that survived transition to a free market economy from regulated and centralized economy.

STRONG INTERNATIONAL SUPPORT - Expanding number of international strategic partnerships and cooperation backed by long-term successful alliances and implemented projects.

POWERFUL SHAREHOLDER AND MANAGEMENT – privately owned by Hualing Group, which has contributed $ 45 million in capital since acquisition in 2012 to support the Bank's further development, experienced management team and board with excellent track record in banking business.

EFFICIENT CORPORATE GOVERNANCE PRACTICES IN PLACE – BB is a signatory Bank to the Corporate Governance Code (CG Code) adopted by the Banking Association of Georgia since 2009. The CG Code follows the main corporate governance standards of the Basel Committee.

STRONG RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM – Efficient Risk Management and Financial Risk Management structure, three-way on-going monitoring process of accounts and transactions.

ALM and KYC strict internal control and KYC system, customer due diligence procedures, systematic training of staff on AML and risk prevention procedures

FATCA COMPLIANT BANK

- STATUS - REPORTING MODEL 1 FFI
- GIIN – YAGCHZ.99999.SL.268

TARGETS DECLARATION

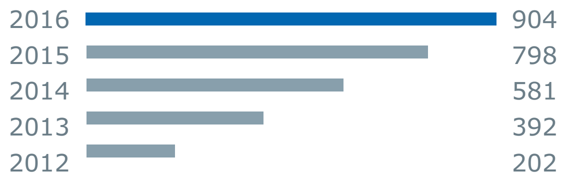
Upon entrance of Hualing in JSC Basisbank's ownership we outlined our strategy built on our core strengths – our business model and the client base. Together with the new owner and solid capital infusion BB started to rigorously execute its redefined strategy that encompassed ambitious growth. Key strategies and goals are concentrated on capturing greater market share and upgrading our position among top 5 banks on the market through the key strategies:

- Focus on healthy earnings growth - improving the financials of the bank, enhancing credit activity; growing on competitive market – diversification of earning assets through Corporate, SME and Retail segments;
- Increase market share and expanding financial services and products, channels of services by following disciplined growth strategy, delivering high quality customer service;
- Improve operating and technical / technological platform and the organization structure;
- Maintain high standards for asset quality through disciplined risk management - targeting profitable growth, but retaining full command of credit and operational risks and adhering to the highest standards of risk and corporate governance; Ensure better run with core aim to be more efficient, less risky, well capitalized;
- Create a solid ground for the development of business co-operation between Georgia and China;
- Support Chinese companies' increased interest in Georgia as a gateway to Europe via DCFTA;
- Building up unique business platform in trade and exclusive banking services provider to Chinese companies in Georgia.

In line with the declared priorities and development plan, BB is following its strategy by creating basis for a resilient growth in all business directions Corporate/SME/Retail. BB's progress on the market since the entrance of Hualing Group in 2012 was considerable; Hualing group's investment of US$ 45 million laid the foundation and impetus for the stable and intensive expansion of the business.

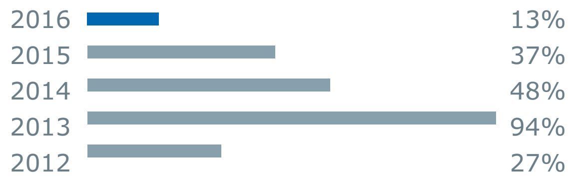
Starting from end of 2012 the bank's growth in loan portfolio and assets for four consecutive years averaged to 60%, the key task for the bank was to reach sufficient growth and exercise its potential fully loading inner resources and strengthening them further including technical base and staff force; retain sound financial, pre-tax earnings history and achieve this level with careful risk management practices and sound risk management strategy to ensure sustainability of the long term development path.

TOTAL ASSETS GELm



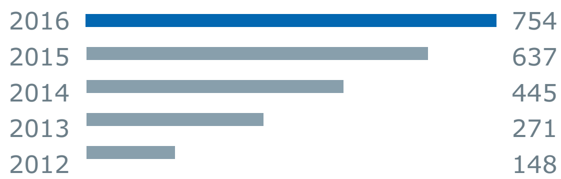
Share of liquid assets 34%

YEARLY GROWTH OF ASSETS %



Highest growth in assets in 2013 due to entrance of a new shareholder

TOTAL LIABILITIES GELm

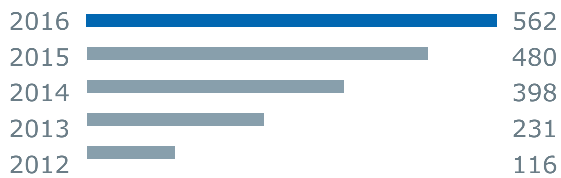


Share of customer deposits in total liabilities -75%, share of IFI funding 16%

YEARLY GROWTH OF LIABILITIES %

Highest growth in liabilities in 2016 is attributed to customer deposits (+17%) and IFI funding (+146%) growth

CUSTOMER DEPOSITS GELm

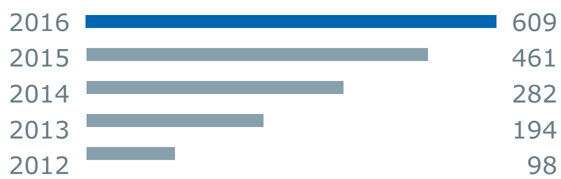


Share of business deposits - 73%, retail – 27%

YEARLY GROWTH OF CUSTOMER DEPOSITS %

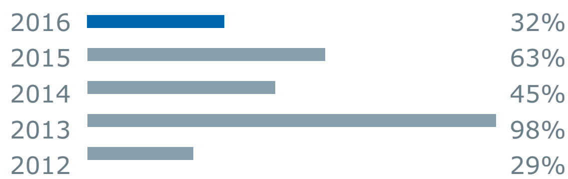
Share of term deposits – 58%
Highest growth in customer deposits in 2016 falls on corporate deposits 15% with average tenor of 12 months.

TOTAL LENDING GELm



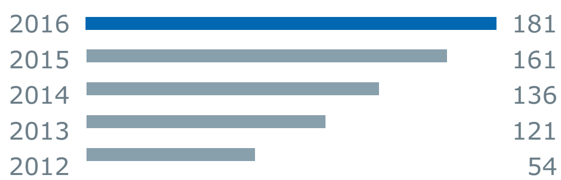
Share of business loans 78%, retail loans 22%

YEARLY GROWTH OF LENDING BUSINESS %



Fully deploying its capacities, BB ensured most dynamic growth since 2012 above market average of 20%

TOTAL SHAREHOLDERS’ EQUITY GELm



YEARLY GROWTH IN EQUITY %

Highest growth in equity in 2012 and in 2013 respectively are attributed to the additional investments in capital made by a new shareholder

UPDATE ON STRATEGY EXECUTION – 2016 YEAR DEVELOPMENTS

In 2016 BB continued to focus on its strategy and improved its market position and financial metrics enhancing performance in Corporate/SME units, achieving operational targets which proved to be challenging on constantly changing market environment - create a strong basis and reach rapid progress on the market, establish the bank as a leading financial institution with businesses encompassing wide range of beneficiaries in corporate and retail banking, increase its investment capacity and gain strong position among leading banks in Georgia.

Throughout 2016, the Bank has maintained strong capitalization and solid liquidity positions and has reached significant progress on KEY fronts and achieve growth targets:

- → Market position – 8th largest bank out of 16 commercial banks operating in Georgia;
- → Lending growth reached 32% YoY and deposits growth to 17% YoY in 2016;
- → SME business expansion projects implemented in Energy efficiency, Trade Financing, loans for agriculture development, guarantees, projects financing implemented with the support and funding from IFIs;
- → The bank enhanced its international support through expanding number of international strategic partnerships and cooperation backed by long-term successful alliances and implemented projects;
- → Retained strong fundamentals – Capital and asset quality;
- → We continued to focus on investing in technology, extending our international cards businesses, supporting stronger retail with remote banking service channels;
- → Improving our branch network and geography, simplifying processes, ensure more efficient usage of resources;
- → Strengthening further our risk management framework in line with the BASEL II/III requirements and ICAAP;
- → Enhanced KYC and AML processes and procedures.

YE 2017 STRATEGY

Year 2017 will be mostly oriented towards further growth of the Bank's share on the market. Under compelling market circumstances, the Bank will concentrate more on its SME and Corporate businesses, considerable image enhancement and strengthening of its retail business. The Management already adopted structural changes in 2016 to support the bank's growth strategy for the next year.

Special accent will be put on enhancement of distance channel services (which includes cards business unit) and further development of this direction.

Main targets set for 2017 are:

- → Healthy earning segmentation growth - through diversification of earning assets in Corporate/SME and Retail segments with 70% and 30% (the target) share of each;
- → Enhancing credit activity through active marketing and direct sales to selected retail clients, directing active campaigns for approaching selected client niche;
- → Extension of sales channels and enhancement of Branch Network - expanded network with enhanced focus on regional development, supported by extended number of active new customers and new regional officers dedicated to ensure BB's expansion in regions, retain strong corporate customer base in Businesses as well as wealthy individuals in key sectors;
- → Increase participation of IFIs and obtain significant financial and technical support from European IFIs and Chinese banks;
- → Supporting the growth of the bank by enhanced measures in technological development to improve the quality and products, introduce the banking innovations on other markets;
- → Staff management – Improve staff motivation schemes, focusing the staff on the long-term plans of the bank, enhancing remuneration system by adapting performance-based bonus system to new priorities; enhanced training; staff allocation to front and back offices supporting the increased operating requirements;
- → Improve operating platform and organization structure to support future growth and diversification – enhance corporate government practice and systems in line with best practices, the organization's functional units, decision and controlling bodies, reporting and compliances units' functional enhancement;
- → Maintain high standards for asset quality through disciplined risk management – streamlining the business management and monitoring system; implementation of IFRS 9, ICAAP disclosures; stress testing, the modeling and reporting results to be delivered by the reporting and analysis and risk departments;
- → Maintain and upgrade credit rating history to support the image of BB for investors;
- → Particular commitment of the Bank will be directed on strengthening the bank's financial position - assets and portfolio growth, portfolio quality, profitability, balanced structure of assets and liabilities.

BUSINESS LINES

MAIN DRIVERS OF THE GROWTH IN CORPORATE FINANCING

With over GEL 477 million of exposure to corporate and SME, JSC Basisbank holds about 4.5% of the market share in business financing, reaching 40% YoY growth as of year-end 2016.

Based on our main business model and activity on the market where clients are at the center of everything we do, BB has established itself as an active business partner for large, small and medium enterprises. Development of Corporate and SME segments is very important to stimulate on one hand the economy and on the other BB's business lending growth. With our growth plans and need of gaining healthy borrowers and depositors we concentrate our interest on:

- Mid-sized clients with different financial needs in lending and funds placements;
- Development of our Corporates and SME lending backed with prudential risk management policy.

The bank has resources to support its corporate business growth, good /wealthy clients' base; the bank has efficient organizational structure matched to serve both corporate and SME businesses, selected branch network located in almost every part of the country - active business centers and regions.

Corporate segment is especially sensitive to prices and services offered. Therefore, we direct our efforts on balancing our funding base in such way as to offer attractive and competitive prices on the market. The bank will remain committed to its corporate culture to be the most "Mobile" and "Friendly" bank for its customers.

Equipped with business expertise in corporate and SME financing and strong corporate customer base in the leading sectors, along with strong capital and financial support and developed service supply chain, BB represents a significant player on the market and ensures solid competition on the market. BB is committed to becoming one of the largest player ensuring long lasting competition on the market. With the free trade agreements with EU and China and increased presence of Chinese corporates in Georgia it is huge possibility for BB to become a mediator for doing business between Georgia and Asia by providing various financial products and instruments including trade finance.
The bank aims to capture a greater share of clients via

enhanced cross-selling and targeted solutions for the Bank's priority clients. In the corporate segment the Bank envisages significant potential in client segments like transport, infrastructure, energy, healthcare, alongside their product needs in areas like payments, treasury solutions, trade financing, etc.

COMMERCIAL DEPARTMENT OVERVIEW

Commercial Department is organized into three business lines: Corporate, SME and Unique banking divisions.

In 2016, JSC Basisbank took a number of steps to strengthen its corporate business direction through enhancing corporate and SME divisions, channels of sale and regional coverage. To meet our clients' evolving needs, 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. Our organizational setup is now in alignment with our strategy and reflects our strong client focus. Each business line of Commercial Department was modified and enhanced so that to serve selected client base in the most possible efficient way. To ensure speed and flexibility in decision making process as well as provisioning of high tailored products and services, professional corporate bankers with specific expertise and deep product and sector insights were assigned according to the respective business lines. Our Corporate Bankers have in-depth knowledge of their clients' activities and industries as most of their portfolios contain clients in a limited number of sectors.

In addition, BB formed a new division in 2016. To serve our VIP customers, Unique Banking Division was specifically designed and introduced to offer premium services and full spectrum of convenience to the respective client segment as an excellent solution to enjoy benefits of extraordinary expertise, unequaled personal attention, customized product solutions and comprehensive banking services of any type.

In Corporate and SME Divisions we offer clients tailored services based on their financial needs, annual turnover and earnings potential.

In addition, to strengthen the geography and diversification of portfolio at regions, the Bank strengthened staff force and introduced regional managers' function with vast experience and knowledge of business opportunities and requirements that lay in specific locations we operate in. Throughout the year we maintained and intensified our contact with existed and potential clients.

Renewed commercial department is expected to bring top banking expertise, risk management, infrastructure, fast and efficient decision making process, integrated services and products; and to align resources and capital and offer further benefits to the Bank's priority clients.

These organizational changes in corporate division support our strategy of putting clients' interests first.

MAIN DRIVERS OF THE GROWTH IN RETAIL

JSC Basisbank is established on the market as an active business/lending partner for corporate and SME segments. Strong retail business is an important factor for the universal bank institutional development. Synergy of the businesses in Business and private banking is a significant requisite for capturing leading position on the market. BB forms about 1.5% of retail portfolio on the market, with bigger share in mortgages forming 2.7% of the market and 21% of share in gross portfolio. BB intends to intensify retail business in 2017

RETAIL SECTOR – for developing on that market the focus is mainly made on customers whose objective is to receive variety of services and innovative products, smart banking solutions and consummate services. Our strategy is oriented on selected niche of customers. For this type of customers we constantly seek for new solutions, enhanced multichannel offer (branches, mobile banking, internet banking, ATMs and installment desks), advisory capabilities and highly automated processes.

The Bank has formed new structure – enhanced business units in retail, card business and sales staff; distance service development unit was formed to intensify and develop the segment still further.

Retail business faces the most real challenges in Georgian market with very competitive offers, swift and flexible service.

In 2017 BB strategy will emphasis on exclusive products and services - remote banking services, distance lending solutions, credit cards with new premium offers, number of universal deposit products, etc.

Mortgage Projects with developer companies - Georgian market shows attractive segment of new customers for mortgage lending. This is the option to make best offer for the market with solutions oriented on customer satisfactions.

New offerings also will include technology advancements in terms of products, each oriented on flexibility and making the payment for customers even more easy and competitive.

In retail banking BB offers its retail customers' standardized banking and financial service products designed to meet all basic financial needs. Its core products are saving accounts, mortgage and consumer loans, and card services in all three payment system VISA, Mastercard and Union pay. These products are offered through BB Distribution Channels which encompasses wide network of branches across country with 7 key locations in regions and 14 number of service points in Capital. Additionally BB uses around 550 partner bank ATM services, where customers can access their card accounts. Our call center enables customers to interact and get any information regarding personal accounts and receive assistance on any interested bank products or new offerings for 24x7. We also continued to enhance our website and mobile apps so that customers can bank easily with us while they are on the move, or in the comfort of their own homes. Our customers can use our online platform to make everyday transactions such as payments, checking on their bank accounts and balances, remit funds, perform online shopping, get instant loan within preapproved limit without visiting the branch, get installments on private accounts and many other Internet and Mobile Banking services adjusted to meet our customers' needs and convenience.

In line with our strategy we plan to continue to optimize our branch network and improve our efficiency in 2017 to offer customers more comfortable service at new locations, to penetrate new markets, obtain new segment of customers and enlarge its market share. Benchmarking of service quality and flexible branch network will be part of a continuous improvement strategy of the Bank.

GLOBAL PARTNERSHIP AND FINANCING - 2016 was a significant year for the bank in acquiring new partners and expanding its collaboration with financial institutions encompassing Asia and thus embracing huge potential that lies across the region.

BB established efficient, trustworthy partnership with China Development Bank and Bank of Urumqi to promote Georgian-Chinese business relations contributing in that way to the increasing demand of the Bank's customers in paving their way to Asian region through developing complex proposals and strong connectivity of commerce between the two countries. This is the first, unprecedented case when Asian banks cooperated commercial bank in Georgia.

Through the newly acquired Asian partners and concluded successful deals, the Bank acquires unique advantage to penetrate into Asian region and establish significant partnership with other large Chinese financial institutions to provide a solid business platform for Georgian and Chinese entrepreneurs and facilitate to the establishment of the cross-border contacts and trade.

Aside of acquiring new partners from China, BB was successful in partnering several new international financial institutions ADB and OFID as well as deepening cooperation with the existing partners BSTDB, EBRD

In 2016, BB signed its first cooperation agreement with China Development Bank on 5 million USD to develop International Trade Financing between China and Georgia. The facility is dedicated to finance local clients who are involved in business with Chinese counterparties, or have any connection with China.

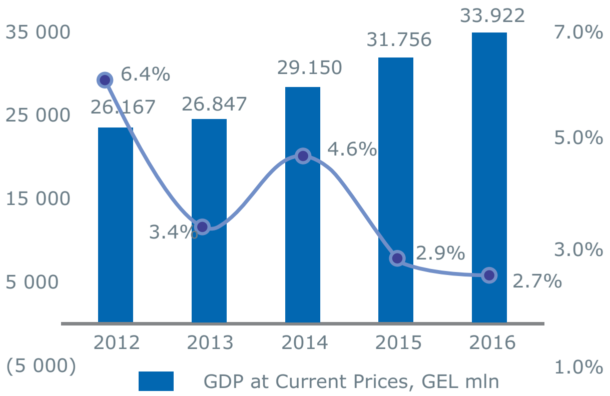
Another new Chinese bank, Bank of Urumqi partnered BB the same year - the agreement on 2 million USD financing was signed In June, 2016. Aside of the new Chinese Partner Banks, BB enlarged its list of International partners by cooperating with Asian Development Bank and OFID (OPEC Fund for International Development).

In 2016, BB also concluded another successful deal with its long-term partner financial institution, BSTDB to support SME business development.

MANAGEMENT REPORT

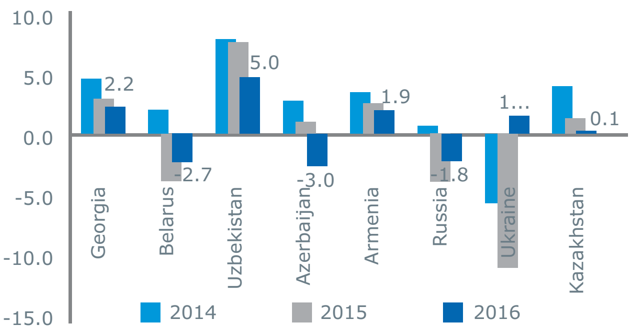
OPERATING AND FINANCIAL REVIEW

REGIONAL AND LOCAL ECONOMY TRENDS - Despite slowing down in regional economies Georgia maintained macro-economic stability throughout 2016. Well diversified structure of GDP made Georgian economy less vulnerable to the crises relative to trading partners. According to GeoStat's estimates Georgia's real GDP growth slowed to 2.7% y/y in 2016 compared to 2.9% y/y growth in 2015. Lower growth in 2016 – less than the forecasted 3% by the state budget.



The growth was negatively impacted by still lasting external shocks: lower external demand and reduced remittances, sharply depreciated local currency. Weakening economic conditions of Georgia's trading partners alongside with the general global economic environment has impacted negatively on major macro parameters.

GDP FORECAST – COUNTIRES OF REGION



But still Georgia responded to external shocks better than the countries of the region and recorded positive growth during three consecutive years

- Economic growth has averaged 2.8% in 2015-16, the highest among Georgia's regional trading partners and inflation remained below 3%.
- The appreciated US$ has weighed heavily on all regional economies. The impact of shocks on regional currencies resulted in high inflation and recession of the economies;
- The floating exchange rate supported in Georgia helped to achieve both nominal and real exchange rate correction without spending reserves. External imbalances were absorbed by the Georgian Lari which depreciated by almost 30pct in 2015 and by 10pct in 2016;
- The external factors should however exhaust and according to the State budget and NBG expectations the growth in 2017 should reach 4%, which should be supported with planned fiscal stimulus initiated by the government, infrastructure projects. These measures will positively contribute to the growth and confidence of local and foreign investors;
- The IMF's economic growth forecast is further optimistic and expects that Georgia will be top performer in region for upcoming years.

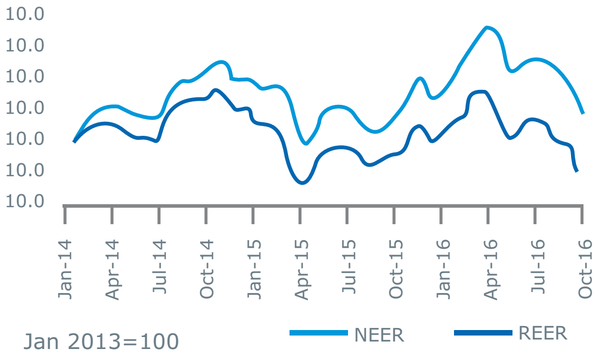
The annual inflation rate in 2016 was below NBG's targeted 3% and in December stood at 1.8%. This was mainly due to weaker demand, reduced commodity prices on international markets and currency depreciations of trading partners that further reduced imported inflation. However US$ appreciation and new changes in tax rates (increased on petroleum, imported cars) has pushed the prices and inflationary expectations at the end of the year.

It is expected that inflation will temporarily above its target in 2017; and to contain inflationary pressure on the market NBG has increased its monetary policy rate up to 6.75% (up from previous 6.5%). Normalization of the monetary policy rate should be expected by 2018; and in mid-term will remain at 5.5%-6%. New targeted inflation level is 4pct.

FX appreciation still remains the main concern – The factors mentioned above resulted in FX rate movements. FX rate stood at $=2.3949 Lari by the end of 2015, while during December 2016 reached to its highest level 2.8 Lari. The movement in FX rate was influenced by several factors: global strengthening of the US dollar against other currencies and the depreciation of the Turkish Lira. High appreciation of US$ was also caused by some extra demand on consumption side on imported goods which led to speculative expectations; later FX rate begun to stabilize and return to average I $=2.5 Lari.

In order to stabilize increased exchange rate fluctuations and reduce uncertainty emerged in the financial market, the NBG actively intervened in the foreign exchange market. In 2016 the NBG totally sold $280 million mainly in the second half of the year and bought $278 million in first half of 2016.

EFFECTIVE EXCHANGE RATES

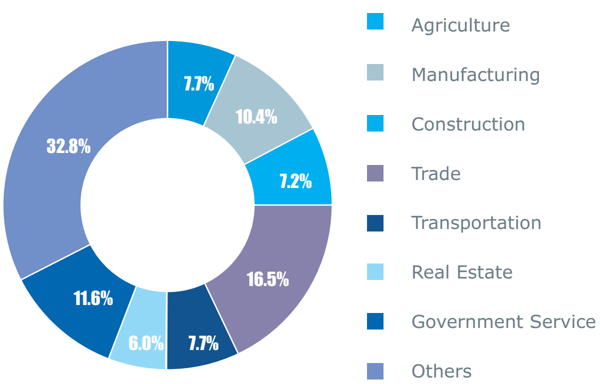


Jan 2013=100
Sourse: NBG

Georgian economy continued to be significantly affected by the economic environment of neighboring countries through lower export (Russia, Ukraine and Azerbaijan) and lower remittances. The positive impact was from tourism and FDIs.

The decomposition of GDP yearly growth showed that main drivers of 2016 yearly growth were construction +8.1%, manufacturing +4.8% and real estate +6.7%, which led to following distribution of GDP:

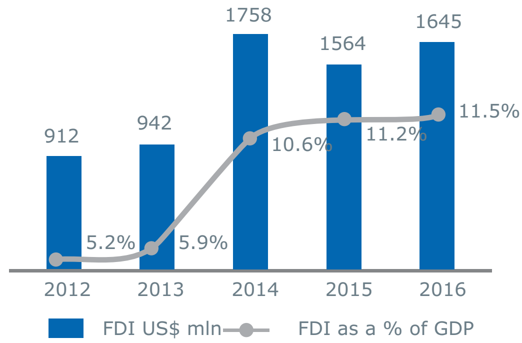
STRUCTURE OF GDP



Source:GeoStat

Sustainable economic growth in combination with business-friendly environment continues to support inflow of foreign direct investments (FDIs) to Georgia over the past decade which have helped to drive economic growth in finance, tourism, logistics, transportation and energy. Capital inflows boosted growth and productivity, but at the expense of a growing current account deficit. According to GeoStat's last estimates FDIs' in Georgia increased by 5.2% y/y hitting $1.645 billion in 2016.

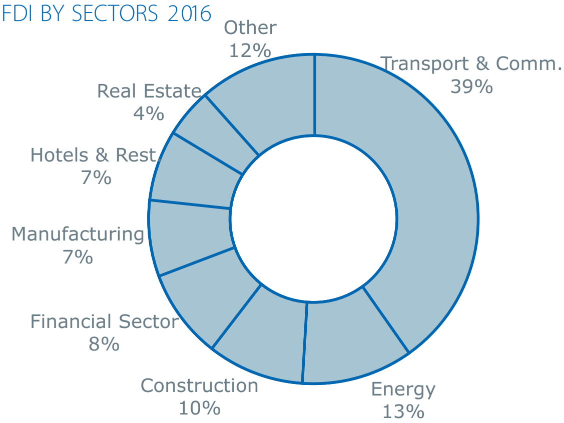
FDI GROWTH DYNAMICS



Main recipient of FDIs' were transport and communication sector (US$645 million), holding 39.2% in total FDIs' with 10.3 % annual growth. Energy and Construction sector followed with 63.9% and 47.7% annual growth with 12.3% and 9.9% shares in total FDIs.

Recovery in external markets and projected FDI inflows should support the GDP growth and decrease the current account deficit in coming years. To accelerate reforms to make Georgia a more attractive place for doing business and for investing, for creating jobs, and for boosting growth in the future by seeking out new private investments, boosting savings through pension reform and capital market development, reforms in the education.

FDI BY SECTORS 2016



Growth factors – Economic activity during 2016 was driven by domestic demand. In sectoral terms, a significant contribution was made by the construction sector, a number of other private and public infrastructure projects were also important.

The Government plans to intensify structural reforms, including those to mobilize domestic savings (including pension reform), and expand the usage of Lari in the economy; design projects to stimulate internal production, replace import and support increase of share of pure exporters in the country.

The Government initiated elimination of income tax beginning of 2017 is to stimulate re-investments and raise internal capital sources, stimulate local private investments; the government abolished VAT on import of fixed assets to support capital spending.

Several programs in support of agriculture development, including the Small Farmers Assistance Project, Financing Processing Companies, Agriculture Insurance Program, were introduced by the Georgian government and IFIs joint contribution and support. The programs are designed to stimulate the sector and development of farmers.

Other measures in administration and further reduction of bureaucracy, stimulus offered by the government related to financing of new business and start-ups in SME sector must ensure more efficient investment climate.

THE BANKING INDUSTRY

HIGHLIGHTS

- 16 COMMERCIAL BANKS perating in Georgia
- SOUND Banking supervision, regulation and corporate governance standards compared to regional peers.
- ROBUST asset quality and high level of capitalization
- SIGNIFICANT potential for banking sector growth and increase in financial inclusion
- FROM JUNE 2014, next to Basel I, all commercial banks comply with New Basel II/III framework of capital adequacy requirements
- DOLLARIZATION is the main risk to the banking sector but De-dolarization process is also in place

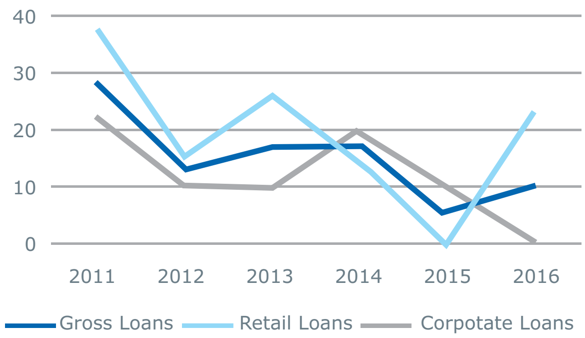
Georgian Banking sector has one of the most important role in development of the Country's economy and represents most stable, well- regulated, healthy field with sustainable growth potential.

Despite of some moderation in recent years, in 2016 the banking sector growth was solid, by the end of 2016 total credit amounted 19 billion Georgian Lari, 18.0% y/y increase, reaching 55.7% of GDP.

Georgian banking sector remains resilient to macro shocks and economy slowdown. Liquidity is solid and regulatory requirements are quite high to keep significant buffers and loss absorption capacity (by the end of the year average CAR was 15%). The sector's profitability is high and maintained credit ratings with a stable outlook. FX will continue to impact the market still further with its still high level of fluctuation. Macroeconomic stabilization and the positive movements in the economy should loosen these risks.

For Georgian banks the macro-economic environment and market conditions remains the main challenge. The BS reached 18% of growth in gross portfolio and 20% in assets by the end of 2016, partly affected by appreciated US$, FX adjusted growth reached 10.7%.

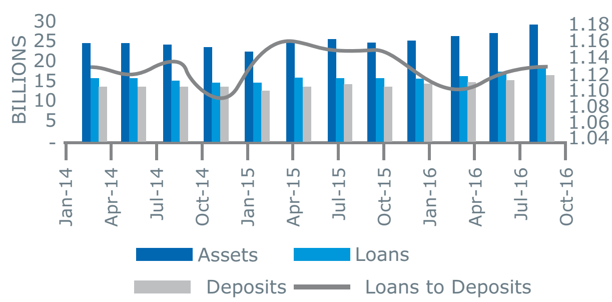
FX ADJUSTED SECTOR PORTOFLIO GROWTH



Main driver of 2016 portfolio growth was retail sector primarily due to the expansion in the mortgage business and consumer lending displaying 44% y/y and 32% y/y annual growth respectively, (31.2% y/y and 28.8% excluding exchange rate effect). Loans to businesses continued to experience very subdued growth, roughly 9% y/y, (FX adjusted growth was not more than 2% y/y). The sectorial distribution of the loan portfolio is well-diversified. Throughout 2016, the share of sectors - real estate development, real estate management, production and trade of construction materials, production and trade of durable goods in the banking sector's loan portfolio remained moderate and stable.

In 2016, total non-banking deposits reached 16 billion Georgian Lari with 18.4% y/y growth (10.4% excluding exchange rate effect). As a result, in December of 2016 loans to deposits ratio stood at 1.12.

BANKING SECTOR



On liabilities side, the strong growth in individuals deposits continued (approximately 24 % p.a.), and inflows from legal entities deposits climbed to almost 12%. Interest rates fell further.

During 2016 dollarization of loan book and deposits were more or less stable. Dollarization of loan book decreased slightly and stood at 65.9%, and dollarization of deposits amounted 71.8% versus 72.0% in the end of 2015. Gradually de-dollarization of financial sector will reduce financial risks, reduce exchange rate fluctuations and improve monetary policy efficiency for the future. For a given level of dollarization portfolio quality is quite sensitive with respect to foreign exchange shocks. Depreciation of local currency in 2016 affected households' ability to repay their debt.

FX RISKS/ NEW NBG INITIATIVES

National Bank of Georgia (NBG) continues to direct its supervisory efforts towards improving its existing approaches to foreign exchange risk management.

NBG in cooperation with Georgian government worked out a special plan, which includes several changes in regulations in order to enhance the availability of long-term GEL resource and therefore activate the lending process in local currency. According to the new regulation, starting from January 15, 2017 financial institutions are not allowed to issue foreign currency denominated loans under 100 000 GEL.

Additionally, National bank has used another useful monetary instrument - Minimum Reserve requirement rate for commercial banks, to promote the development of Lari monetary market. From the second half of 2016, NBG decreased Minimum Reserve requirement rate from 10% to 7% for all attracted funds in local currency, but instead regulator increased Minimum Reserve rate for attracted funds in foreign currencies, from existed 15% to 20%. Probably all these de-dollarization initiatives will show their result in following years.

→ The profitability of the banking system was positively affected by the growth of assets and the subsequent increase in effectiveness due to economies of scale;

→ The rate of banking system profitability has been stable in recent years and improved even more during 2016. For the 12 months period ended 31 December 2016 the return on assets (ROA) for the Georgian banking system was 2.7%, while the same indicator amounted to 2.3% in the same period of 2015, or the 12 months period ended 31 December 2016 the return on equity (ROE) was 19.2% (same period 2015: 15.4%);

→ The financial sector continues to operate with strong capital, liquidity and asset quality;

→ Georgian banks exhibit comfortable levels of liquid assets to total assets. Liquid assets constitute 23% of total assets. During 2016 amount of liquid assets were stable high and were not characterized by fluctuations. Banks maintained a sufficient level of liquid assets, which appropriately corresponded to the liability structure risks;

→ Throughout 2016, the ratio of loans to deposits for the Georgian banking system remained stable and as of 31 December 2016 stood at 112%;

→ Important legislative change during 2016, in terms of liquidity, was finalizing process of calibration and implementation of the Basel III's liquidity coverage ratio (LCR). This represents a modern and effective approach to short-term liquidity management (up to 30 days). Liquidity coverage ratio requirement will come in force from 1 September 2017;

→ Despite of depreciation of the GEL against the US dollar throughout 2016, the Georgian banking system maintained adequate capitalization in terms of the capital adequacy framework based on both Basel I and Basel II/III;

→ NBG (Basel II,III) Tier 1 CAR of banking system amounts 10.5% compared to minimum requirement 8.5%, while total CAR, according to NBG (Basel II,III), stood at 15.1% compared to minimum requirement 10.5%.

BASISBANK'S PERFORMANCE

KEY PERFORMANCE INDICATORS

BB Key Performance Indicators (in ml. Lari)	End of 2016	End of 2015
Net revenues	47.7	43.2
Income (loss) before income taxes	26.4	24.1
Net income (loss)	25.5	21.9
Pre-impairment operating profit on average shareholders' equity	18.0%	19.3%
Pre-impairment operating profit on average assets	4.0%	3.9%
Pre-tax return on average shareholders' equity	15.3%	16.7%
Operating costs	(16.5)	(15.3)
Cost/income ratio	34.7%	35.4%
Post-tax return on average shareholders' equity (ROAE)	14.7%	15.2%
Post-tax return on average assets (ROAA)	3.3%	3.1%
Risk-weighted assets (RWA)	896.3	689.6
Common Equity Tier 1 ratio	15.0%	18.0%
Regulatory CAR	18.0%	21.0%

BB has been delivered strong results in terms of growth and profitability in recent years and again 2016 has proved to be a very important year. Despite of all tensions and challenges prevailing on the market BB displayed 10% y/y growth of Pre-tax profit, earned GEL 25.5 million of net income and showed up 14.7% and 3.3% ROAE - ROAA profitability indicators, which were reinforced with improvements in cost efficiency. BB has outperformed the banking sector in terms of Loan growth and at the same time managed to maintain the portfolio quality. The Bank maintains strong capitalization and solid liquidity and reached significant progress on KEY fronts:

- Lending growth reached 32.3% YoY and deposits growth to 17.2% YoY in 2016;
- Projects on Energy efficiency, Trade Financing, agriculture development, guarantees, projects financing implemented with the support and funding from IFIs.
- Strong international support - expanding number of international strategic partnerships and cooperation backed by long-term successful alliances and implemented projects;
- Retaining strong fundamentals – capital and asset quality;
- We continued to focus on investing in technology, extended our international cards business;
- Improving our branch network and geography, simplifying processes for more efficient usage of resources;
- Strengthening further our risk management framework.

RESULTS OF OPERATIONS

CONDENSED CONSOLIDATED INCOME STATEMENT

			2016 increase (decrease) from 2015	
in ml. Lari	End of 2016	End of 2015	in ml. Lari	in %
Net interest income	40.9	36.2	4.7	12.9%
Other non-interest income (net)	6.8	6.9	(0.1)	-1.7%
Total net operating revenues	47.7	43.2	4.5	10.5%
Total noninterest expenses	-16.5	-15.3	(1.2)	7.9%
Provision for loan impairment	-4.8	-3.8	(1.0)	N/M
Income (loss) before income taxes	26.4	24.1	2.3	9.7%
Income tax expense (benefit)	(1.0)	(2.2)		N/M
Net income (loss)	25.5	21.9		16.2%
Average Interest Earning Assets	619.5	573.4	46.1	8.0%
Net interest margin (NIM)	6.7	6.3		

BB's profitability has been stable throughout the year and Bank has closed year with net income of GEL 25.5 million and Total Comprehensive income (COI) of GEL 26.5 million. The principal drivers of the Bank's increased profitability were solid net interest margin (NIM) and low cost to income ratio 34.7% by the end the year. 2015: (35.4%), Profitability metrics are adequate - ROAE and ROAA are standing at 14.7% and 3.3% respectively (year end 2015: ROAE 15.2% and 3.1% ROAA).

Net interest income grew by 12.9% YoY resulting from 14.5% higher total interest income and 17.4% higher total interest expense. Interest Income for the period, mostly gained on lending (GEL 55.3 million) supported with revenue from Bonds (GEL 9.7 million) resulted in rise of Net interest income up to GEL 40.9 million from last year GEL 36.2 million.

Interest expense increased by GEL 3.7 million, or 17.4%, due to the increase in BB's total funding throughout the year in order to support business needs of customers. Increase in total interest expense is result of increase in Interest expense on customer deposits by 33.9%, GEL 4.5 million, also increase in interest expense on borrowed funds from credit institutions, by 54.4%, GEL 1.8 million and decrease in interest expense on deposits from commercial banks by GEL 2.6 million - 57.5% YoY.

Intense competition in Banking Sector caused decrease in interest rates on loans, but interest rates on loans have been declining at a faster pace compared to rates on customer deposits. So improvement of profitability in 2016 was somehow negatively affected by a decrease of interest rate spreads, but overall strong loan portfolio growth more than offset this decline.

NIM remains solid 6.7 but is expected that market movements may put some pressure on pricing and consequently on yields on both loans and funding side. The pricing on lending are shrinking constantly mainly due to banks race of gaining higher shares on the market, while economy growth and business activities were subdued for last two years.
AIR for BB's portfolio stands at average 10% and at 11.5% for the sector at the year-end 2016. BB maintains competitive pricing in Business lending and SME, difference is on the retail side, where BB has different positions due to its established business structure and background which formed BB as more of a Business lending bank.

The difference in the structure is reflected in profitability metrics portfolio pricing and cost of risk; The portfolio profitability is compensated by lower portfolio cost of risk due to better quality loans as compared to the market; under NBG standards the average LLPR for gross portfolio is 6.2% for BB same stands at 4.4%;

Total Operating expenses increased slightly by 7.9% YoY, from GEL 15.2 million up to GEL 16.5 million. This increase primarily resulted from one million GEL increase in staff costs, related to the increased performance of BB's business activities; still efficiency ratio metric remains at lower level 34.7%. We expect that the cost base will be increased in following years due to the higher expenses from increased operational needs, investments in infrastructure, extension of service units and development costs. But BB is targeting to maintain this ratio under 40% by focusing on increased efficiency.

Increase in total gross loan portfolio during the second half of 2016 was correspondingly reflected in increase of provision amounts for loan impairment. Allowances for credit losses amounted GEL 4.7 million as of the end of 2016. BB's portfolio quality remains healthy, cost of risk (cost of risk is defined as provision charge for the period divided by period end portfolio) for the year equaled to 0.9%, consuming the pre-impairment operating profit for the period by 15%.

FINANCIAL POSITION

CONDENSED CONSOLIDATED BALANCE SHEET

in ml. Lari	End of 2016	End of 2015	2016 increase (decrease) from 2015 in ml. Lari	in %
Securities	128	113	15	13.3%
Gross loan portfolio (GLP)	609	461	149	32.3%
thereof: Business loans	477	342	134	39.2%
Retail loans	132	118	14	12.2%
Loan Impairment provision (LIP)	15	-11		N/M
LIPR	2.43%	2.39%		
Net loans	594	450	145	32.2%
Total assets	940	798	142	17.8%
Gross Customer deposits	562	480	82	17.2%
thereof:Current accounts	141	142	(1)	-0.7%
Demand deposits	95	63	32	50.8%
Time Deposits	326	275	51	18.5%
Borrowings	163	139	23	16.7%
Total liabilities	754	637	117	18.3%
Total equity	186	161	25	15.5%

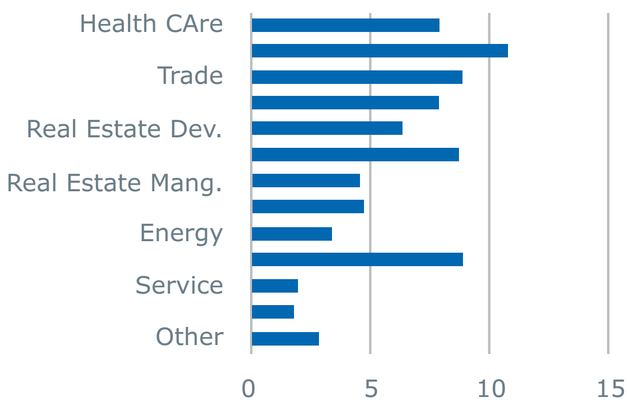
In 2016 BB continued to focus on improving its market position and financial metrics enhancing performance in Corporate/SME units, achieving operational targets. Although the challenges remain in several areas.

Movements in Assets - The overall increase of BB's total assets compared to previous year reached 17.8%, up by GEL 142 million and at the end of 2016 amounting to GEL 940 million. Growth is primarily driven by an increase in loan portfolio. At the end of the year share of net loans in total assets equaled 65%, followed by 14% investments in securities portfolio, 11% of assets were placed as mandatory cash balances at NBG, 7.8% other cash and cash equivalents.

In 2016, BB's total lending grew by 32.3% YoY, from previous years GEL 461 million up to GEL 609 million at the year-end 2016, or by 23.0% on a constant currency basis, while the overall Georgian banking sector growth accounted 18% and 11% respectively. The main driver of loan portfolio growth was GEL 134 million increase in Business lending, same as 39.2% YoY growth. (Growth on constant currency basis was 29.3%). Retail loan portfolio was characterized by 12.1% growth, same as GEL 14 million, mainly driven by increase in consumer loans. (Growth on Constant currency basis was 5.0%).

During 2016, loan portfolio segmentation has changed only slightly. At the End of 2016 out of total loans 78% comes on Business segment and remaining 22% on Retail segment lending. (At 31 December 2015: 74% and 26% respectively).The sectorial distribution of the loan portfolio is still well-diversified. Largest loan exposures according to economic groups are concentrated in growth oriented, high-potential sectors like: financial sector, trade, health care, hotels and tourism, amounting GEL 220 million and 36% of total loan portfolio.

STRUCUTRE OF PORTFOLIO BY SECTORS



Portfolio growth of 32.3% was achieved through intense concentration on Corporate and SME lending. In corporate lending the accents were made on priority sectors: (health care, truism related sectors, Production, agriculture and energy), these sectors will remain priority in future strategy as well. The risk of high concentration in each of these sectors is limited by the BB's policy – not more than 15% of total portfolio for each sector and 5% in rural agriculture. These concentration is well matched with market averages and there is still room for further growth to reach that level;

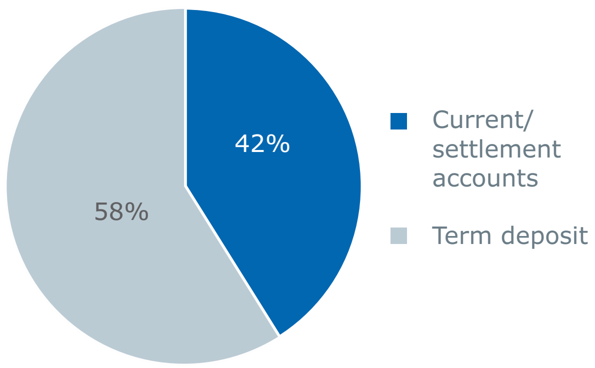
Retail portfolio growth reached 12.2% YoY, in previous years main growth was achieved in mortgage portfolio with average growth of 50%. During 2016, in the midst of the intense market competition, the bank has concentrated on regaining its market share in mortgages and increased its activities in consumer lending. BB adjusted its offers on the market following to the market demand; introduced incentives and led active campaigns for new products and loan offers which resulted in increased consumer portfolio by the end of the year by more than 50%. Retail portfolio is comprised of 69% in mortgage loans, 27% of consumer loans and 4% of card loans.

BB's loan book is dominated by foreign currency (FC) loans, share of FC loans in total loan portfolio stands at 74% at the year-end. High dollarization and limited hedged borrowers are typical for Georgian banking sector. In BB's case, share of hedged loans in total loans is 25%. In recent years the debt burden of FC borrowers increased significantly due to the Georgian Lari depreciation against US$. However, the qualitative parameters of the portfolio did not deteriorate significantly, BB applies conservative lending standards to un-hedged borrowers with FX-denominated exposures.

Movements in Liabilities - BB's funding Structure is diversified, as of 31 December 2016 customer deposits represents 75% of the total liabilities, while 22% comes on total borrowed funds. At the end of 2016 compared to previous year-end, total liabilities increased by 18.3%, up by GEL 117 million. This growth was mainly driven by increase in borrowed funds from International financial Institutions and growth of total customer deposits.

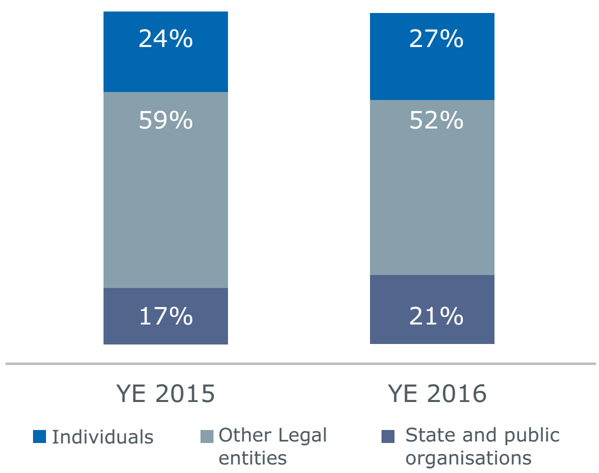
Overall funding still largely depends on funds attracted from customers. The volume of total deposits increased from GEL 480 million at the end of 2015 up to GEL 562 million at the end of 2016, which is 17.2% YoY growth and 8.5% on a constant currency base. Slowdown in deposit growth, compared to past years, has been initiated by slower pace in country's economic activities.

DEPOSIT CONCETRATION



Individuals and legal entities' deposit growth amounted to 31.3% and 9.9% respectively. As a result of it share of individual's deposits in total customer deposit portfolio increased from 24% to 27% in 2016, but major part of attracted resources still comes on corporate deposits, which comprises 73% of total deposit portfolio. The share of on-demand deposits, including both settlement accounts and demand deposits, are 42% in total funding, remaining 58% comes on term deposits. Share of term deposits is high, which significantly reduces the risk of outflows. Weighted average contractual maturity of term deposits equals 1.5 years. Share of state and public organizations comprise 21% of total deposit base.

DEPOSIT CONCENTRATION BY CLIENTS



From the end of 2015 deposit placements in local currency has gradually increased, but after second half of 2016, due to the expectations of exchange rate depreciation, savings in foreign currency again became more intense. As of 31 December 2016 Gel denominated placements stands at 20.5% (2015: 21.0%) while remaining 79.5 % comes on foreign currency deposits (2015: 79.0%).

Long-term funding is sourced mainly from international financial institutions. During 2016 BB was successful in partnering with a number of new financial institutions, namely BB attracted a US$ 20 million package of loans from its new partners, OFID, CDB, Bank of Urumqi and ADB, and US$ 5 million from its long term partner BSTDB to support business needs of its customers. In particular, the package includes US$ 17 million financing for its corporate and small and medium enterprises, US$ 8 million for trade financing. Additionally, In order to increase share of long term borrowings in total funding, the bank has started negotiations with Blue Orchard, IFC, China Development Bank and Bank of Urumqi to ensure solid funding base for the following years.

Liquidity - BB continues to operate with solid liquidity positions. Loan to deposit ratio stands at 108% at the end of 2016 and the average liquidity ratio, as defined by the National Bank of Georgia, stands at 55%, far high above NBG liquidity requirement 30%. BB has sufficient liquidity buffers, allowing the bank to sustain significant outflows of customer accounts.

FUNDING

	End of 2016	End of 2015
Loans / Deposits	108%	96%
Liquid Assets / Total liabilities	33%	39%
Liquid Assets /Total assets	41%	49%
Customer deposits / Total funding	78%	78%

BASEL III framework for liquidity risk measurement standards requires commercial banks to ensure adequate level of liquid assets to cover the liquidity outflows for 30 days (LCR). The total expected cash outflows under the scenario are to be calculated for 30 calendar days and coverage ratio should not be less than 100%. For BB total liquidity coverage ratio as of 31 December 2016 stands at 168.9%. (2015: 170%)

Liquidity reserves (including: cash and cash equivalents, mandatory reserves, Investment securities) amounted to GEL 307 million as of 2016, which generates a positive liquidity stress results. 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, 2016.

EQUITY AND REGULATORY COMPLIANCE

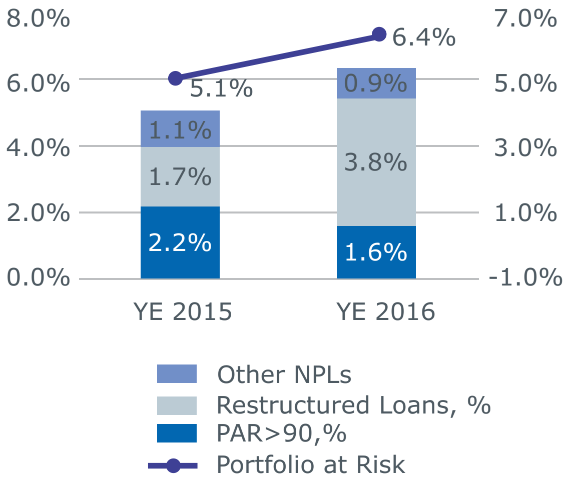
BB's capital and liquidity indicators are at comfortable level in terms of financial stability and ability to absorb additional shocks. Despite of depreciation of the GEL against the US$ throughout 2016, BB maintained adequate capitalization in terms of framework of Basel I and Basel II/III significantly above the NBG's minimum requirements and higher than the Banking sector average.

CAPITALIZATION

	End of 2016	End of 2015
Tier I capital	15.0%	18.0%
Total regulatory capital under Basel I	18.0%	21.0%
Tier I capital ratio Basel II/III	15.0%	20.0%
Regulatory capital ratio Basel II/III	16.0%	22.0%
Equity / Total assets	19.0%	20.0%
Total Liabilities / Equity	4.1	4.0

corporate segment equaled 4.3% and NPL's at Retail segment 3.7%.
NPL's were fully covered by loan loss reserves during the year and NPL coverage ratio stood at strong level, on average at 122% and at the year - end 2016 at 112%.

PORTFOLIO AT RISK



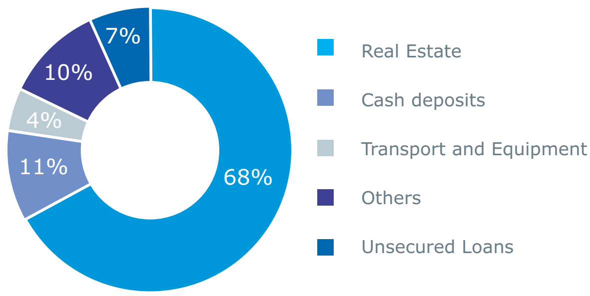
Portfolio at risk, including loans par > 90, also loans restructured during last 12 month and remaining NPLs, compose 6.4% of gross portfolio. (2015: 5.1%) Loan portfolio provisioning rate remains at the same rate as it was in previous year 2.4% (2015: 2.4%). Separately by segments, loan loss reserves to total business loans equals 2.1% (2015: 2.0%) and for retail loans 3.5% (2015: 3.4%).

The cost of risk defined as reserve charges as of year-end divided to average gross loan portfolio increased only slightly by 0.1 pp YoY, from 0.9% at the end of 2015 to 1% in 2016. Share of total written off loans during the year are still very low and equals 0.3% of average loan portfolio.

Loan portfolio collateralization is very strong, real estate and cash covers represents a major share of collaterals. As of 31 December 2016 79% of total loans are collateralized by real estate and cash covers. (2015: 87%) In terms of segments 66% in business segment and 81% in retail segment are secured by real estate, 14% of Business loans are cash covered. The collateral accepted against a loan depends on the type of credit product and on the credit risk of the borrower. Share of unsecured loans (not including third party guarantees) in total loan portfolio stands at 3.3% (2015: 3.0%), while separately in business and retail loans unsecured loans share stands at 1.3% and 11.0% respectively.

PORTFOLIO BREAKDOWN BY SECURITY TYPE

79% OF TOTAL PORTFOLIO IS SECURED BY CASH AND REAL ESTATE



Lending risk assessment ratio same as loan-to-value ratio (LTV ratio), not including third party guarantees as collaterals, stands at 43.0% for total loan portfolio, 43.1% for business loans and 42.6% for retail loans.

LTV BY SEGMENTS

EXCHANGE RATE RISK – BB, as well as whole banking sector, remains exposed to exchange rate risks through unhedged borrowers. About 74% of BB's loans are denominated in FC while significant part of the borrowers gain their income in Local currency Lari. Dollarization risks are largely addressed in lending standards, capital requirements and regulatory stress-tests.

BB's Management monitors the changes in exchange rates and assesses the impact using stress tests with different shock scenarios. Stress tests are periodically performed on both retail and business loans. In bank's ICAAP this risk is a key part of capital assessment process, and effects of stress scenarios are taken into consideration in setting internal capital requirement. Adequacy of LLP is monitored on monthly bases and in case of sharp deterioration of FX rate LLP is adjusted accordingly. Currently we consider that the most of portfolio losses were already realized during the year, and provisions provided for the portfolio reflect all realized risks, therefore the net of impact on P&L for the period is GEL 4.7 million.

OUTLOOK – RISK AND OPPORTUNITIES

Though 2016 year remained challenging 2017 should show up growth trend. The growth decelerated from 5% in 2014 to 2.9% in 2015 and down to 2.7% in 2016, largely because of a weaker external environment, but succeeded relatively well in facing the external shocks than countries of the region.

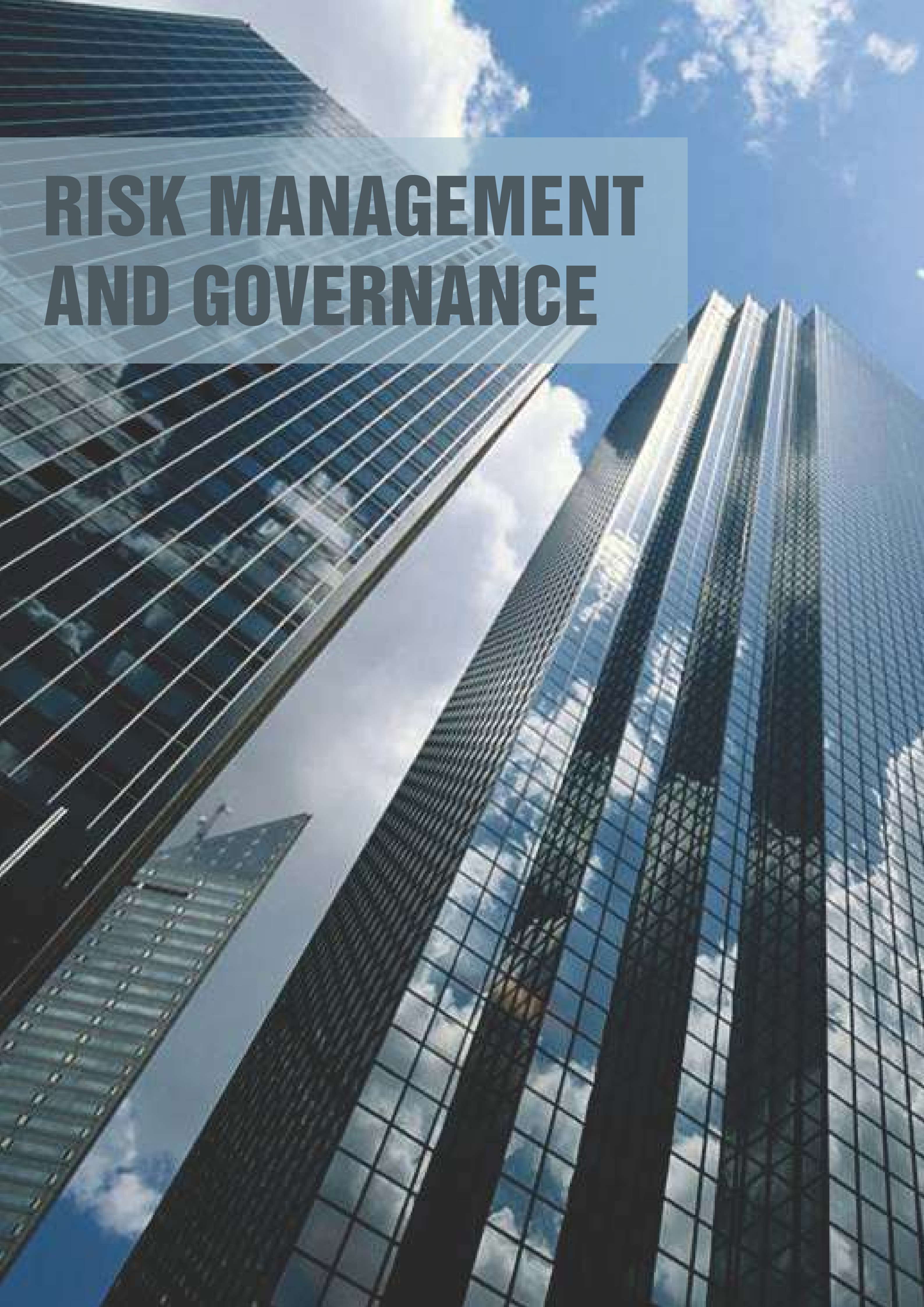
Real GDP growth is projected to pick up to 4.0% in 2017 according to the state budget supported by government projects, fiscal stimulus, and increased confidence and envisaged investments. Based on the IMF's 5-year projections, Georgia has a potential to generate 5% annual average real growth over the next decade. Growth is to remain at moderate 3%-3.5% with gradual increase in the following years - under IMF projection the growth should return to average 5% by 2020, though with more optimistic assessment the growth path will be recovered by 2018 at 4.5% average (WB, Fitch assessment).

In 2015, banking sector assets grew by 23% (year-on-year) to 79% of GDP, 51% of GDP by lending and client deposits in banks grew by 23%. With average GDP growth of 6% after post crisis period of years (2008/2009) the BS growth averaged to strong 20%. Year 2016 growth reached 18%. Estimated average growth for the banking sector on YoY in 2017 can still be within the range of 12%-15% (without significant FX impact). Without significant improvement in business climate the sector growth in 2017 will be moderate, but with sound fundamentals and the recent pick-up in consumer and business confidence, there is a possibility for healthy growth in bank lending.

Georgian Lari displayed depreciation by the end of 2016 with more than 10% since YE 2015. We anticipate no further depreciation and FX impact on YoY basis.

BB is permanently oriented towards development. Main focus is to improve its market position, further enhance performance and achieve operational excellence and cost efficiency. BB's Management seeks to reach long-term growth and profitability, while maintaining healthy and high quality assets.

RISK MANAGEMENT AND GOVERNANCE



RISK MANAGEMENT AND GOVERNANCE

Maintaining adequate level of capital at any given time of operation of the Bank is mandatory, therefore 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 bank.

RISK STRATEGY AND FRAMEWORK

Risk strategy of BB is derived from the business strategy, which is approved by the Supervisory Board and needs to be reviewed and modified at any time when strategy is revised by the Bank, but at least annually.

Risk strategy defines BB's approach to risk management including general methodologies to identify, assess, control, report and manage relevant risks and the risk governance structure of the Bank is designed accordingly to support these activities within the everyday operation of the Bank.

The Bank's risk management policy provides a framework for the effective and efficient risk management of assets, liabilities and equity given changing macro-economic environment, adherence to the Georgian legislation and norms of the NBG as well as best Risk Governance principles and practices.

RISK GOVERNANCE

Risk Management is a fundamental part of BB's business activity and an essential component of its planning process. To keep risk management at the center of the executive agenda, it is embedded in the everyday management of the business.

The Bank ensures that it has the functional capacity to manage the risk in new and existing businesses. Our risk management objectives are:

- → To define BB'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 to ensure that financial soundness remain possible under a range of adverse business conditions.

In pursuit of these objectives, risk management is provided for the portfolio reflect all realized risks, therefore the net of impact on P&L for the period is GEL 4.7 million.

OUTLOOK – RISK AND OPPORTUNITIES

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BB is permanently oriented towards development. Main focus is to improve its market position, further enhance performance and achieve operational excellence and cost efficiency. BB's Management seeks to reach long-term growth and profitability, while maintaining healthy and high quality Assets.

Overall planning and internal control processes in BB are outlined below:

- Management oversight and control culture: For BB this 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 BB this 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 BB this involves the 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: These are indicated by the 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.

The Organizational structure of BB will have following units for effective governance and risk management.

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 principals, 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 ALM policies enable the Bank to measure, aggregate and report risk internally, as well as 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.

Key risks are identified by the Executive Board, and elevated to the attention of, and discussed with, the Supervisory Board through the functioning of the Audit Committee.

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.

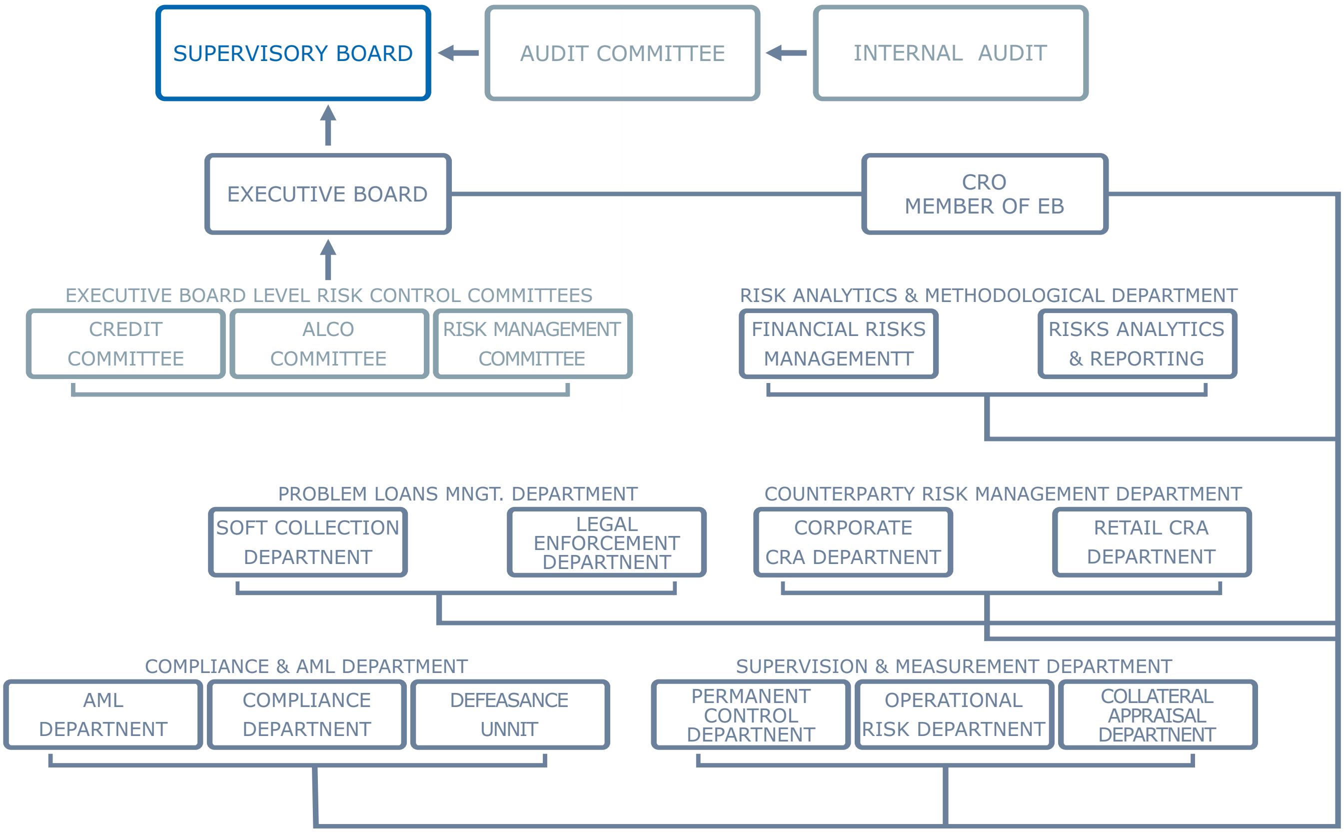
The Chief Risk Officer ("CRO"), who is a member of the Executive Board, is a top-level executive responsible for overall risk management in credit, market and operational risks as well as for the comprehensive control of risk, and continuing development of methods for risk measurement; provides overall 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.

THE STRUCTURE OF DEPARTMENTS UNDER CRO

Risk Management Division

- Counterparty Risk Management Department
  - CORPORATE Counterparty Risk Assessment Department
  - RETAIL Counterparty Risk Assessment Department
- Supervision and Measurement Department
  - Permanent Control Department
  - Operational Risk Department
  - Collateral Appraisal Department
- Risk Analytics & methodological Department
  - Financial Risks management
  - Risk Analytics & Reporting Department
- Problem Loans Management Department
  - Soft Collection Department
  - Legal Enforcement Department
- Compliance & Anti-Money Laundering Department
  - AML Department

RISK GOVERNANCE STRUCTURE



- Compliance Department
- Defeasance Department (Unit)

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 framework, coordination of ICAAP 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 to the operation 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

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;
- → 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.

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 are 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 to 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 Treasury Department 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. repricing gap analysis, duration gap analysis, and different VaR approaches.

OPERATIONAL RISK - the measurement and management of operational risk is done as a distinct risk category. 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 lays 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.

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.

Impacts resulting from erroneous corporate decisions or poor reactions to changes in the competitive environment are substantially mitigated by the Bank's adequate, well-elaborated business strategy development system and back-testing methodology.

In addition the bank is assessing in ICAAP document other risks to which the bank can be exposed. Some of these risks are discussed below.

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 Financial Statements and Independent Auditor's Report

31 December 2016

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To the Shareholders and Management of JSC BasisBank

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the JSC BasisBank (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 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 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 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 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 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Central Asia & Caucasus B V/Georgia Branch

Tbilisi, Georgia
27 March 2017

LASHA JANELIDZE
(Reg #: SARAS-A-562091)

In thousands of Georgian Lari	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	73,686	140,754
Mandatory cash balances with the NBG	8	105,421	56,380
Loans and advances to customers	9	594,289	449,530
Investment securities available for sale	10	63	63
Repurchase receivables	11	-	36,458
Bonds carried at amortized cost	12	128,441	77,250
Investment properties	13	1,283	1,879
Current income tax prepayment	30	64	517
Other financial assets	15	651	416
Other assets	16	14,679	12,368
Premises and equipment	14	21,048	22,078
Intangible assets	14	532	587
TOTAL ASSETS		**940,157**	**798,280**
LIABILITIES			
Due to other banks	17	64,659	91,102
Customer accounts	18	562,270	479,791
Other borrowed funds	19	121,530	49,370
Other financial liabilities	20	2,521	7,532
Current income tax liability	30	1,133	-
Deferred income tax liability	30	800	3,602
Provisions for liabilities and charges	34	148	257
Other liabilities	21	1,327	1,272
Subordinated debt	22	-	4,499
TOTAL LIABILITIES		**754,388**	**637,425**
EQUITY			
Share capital	23	16,057	15,941
Share premium		74,923	73,967
Retained earnings		85,929	62,654
Share based payment reserve	24	388	837
Revaluation reserve for premises		8,233	6,998
Revaluation reserve for available-for-sale securities	25	239	458
Net assets attributable to the Bank's owners		**185,769**	**160,855**
TOTAL EQUITY		**185,769**	**160,855**
TOTAL LIABILITIES AND EQUITY		**940,157**	**798,280**

Approved for issue and signed on 27 March 2017.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

In thousands of Georgian Lari	Note	2016	2015
Interest income	26	65,953	57,583
Interest expense	26	(25,090)	(21,380)
Net interest income		**40,863**	**36,203**
Provision for loan impairment		(4,752)	(3,751)
Net interest income after provision for loan impairment		**36,111**	**32,452**
Fee and commission income	27	4,154	4,480
Fee and commission expense	27	(1,587)	(1,682)
Gains less losses from financial derivatives		(1,350)	(346)
Gains less losses from trading in foreign currencies		3,818	3,565
Foreign exchange translation gains less losses		1,134	730
Provision for credit related commitments		109	(71)
Other operating income	28	550	272
Administrative and other operating expenses	29	(16,498)	(15,296)
Profit before tax		**26,441**	**24,104**
Income tax expense	30	(975)	(2,197)
PROFIT FOR THE YEAR		**25,466**	**21,907**
Other comprehensive income / (loss):			
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		(219)	(222)
Income tax recorded directly in other comprehensive income		-	102
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment	14	-	5,130
Income tax recorded directly in other comprehensive income		1,235	(770)
Other comprehensive income for the year		**1,016**	**4,240**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,482**	**26,147**
Profit is attributable to:			
- Owners of the Bank		25,466	21,907
Profit for the year		**25,466**	**21,907**
Total comprehensive income is attributable to:			
- Owners of the Bank		26,482	26,147
Total comprehensive income for the year		**26,482**	**26,147**

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 2014		**15,941**	**73,967**	**338**	**578**	**2,638**	**42,199**	**135,661**	**135,661**
Profit for the year		-	-	-	-	-	21,907	21,907	21,907
Other comprehensive income /(loss)		-	-	-	(120)	4,360	-	4,240	4,240
Total comprehensive income for 2015		-	-	-	(120)	4,360	21,907	26,147	26,147
Share Based payment accruals	24	-	-	499	-	-	-	499	499
Dividends declared		-	-	-	-	-	(1,452)	(1,452)	(1,452)
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 /(loss)		-	-	-	(219)	1,235	-	1,016	1,016
Total comprehensive income for 2016				-	(219)	1,235	25,466	26,482	26,482
Increase in share capital arising from share based payments		116	956	(1,072)	-	-	-	-	-
Share Based payment accrual	24	-	-	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**

The notes set out on pages 5 to 71 form an integral part of these consolidated financial statements.

In thousands of Georgian Lari	Note	2016	2015
Cash flows from operating activities			
Interest received		62,546	52,597
Interest paid		(25,126)	(19,053)
Fees and commissions received		4,154	4,483
Fees and commissions paid		(1,587)	(1,681)
Income (paid for)/received from financial derivatives		(1,252)	263
Income received from trading in foreign currencies		5,324	3,565
Other operating income received		550	196
Staff costs paid		(8,677)	(8,394)
Administrative and other operating expenses paid		(5,693)	(5,780)
Income tax paid		(953)	(1,398)
Cash flows from operating activities before changes in operating assets and liabilities		**29,286**	**24,798**
Net (increase)/decrease in:			
- due from other banks		(37,535)	(9,568)
- loans and advances to customers		(116,085)	(130,330)
- other financial assets		501	674
- other assets		185	(2,646)
Net increase/(decrease) in:			
- due to other banks		(17,440)	81,459
- customer accounts		38,895	22,910
- other financial liabilities		(5,164)	6,025
- provisions for liabilities and charges and other liabilities		(108)	(72)
- other liabilities		(149)	224
Net cash used in operating activities		**(107,614)**	**(6,526)**
Cash flows from investing activities			
Acquisition of Bonds carried at amortized cost		(108,336)	(113,221)
Proceeds from redemption of Bonds carried at amortized cost		96,362	173,516
Acquisition of premises and equipment		(90)	(1,942)
Proceeds from disposal of premises and equipment		-	40
Disposal of investment properties		596	240
Proceeds from disposal of foreclosed properties		269	4,103
Acquisition of intangible assets		(80)	(104)
Net cash (used in) /from investing activities		**(11,279)**	**62,632**
Cash flows from financing activities			
Proceeds from other borrowed funds		887,409	46,465
Repayment of other borrowed funds		(835,664)	(36,603)
Repayment of subordinated debt	22	(4,491)	-
Dividends paid		(2,191)	(1,453)
Net cash from financing activities		**45,063**	**8,409**
Effect of exchange rate changes on cash and cash equivalents		**6,762**	**5,747**
Net (decrease)/increase in cash and cash equivalents		**(67,068)**	**70,262**
Cash and cash equivalents at the beginning of the year		**140,754**	**70,492**
Cash and cash equivalents at the end of the year	7	**73,686**	**140,754**

The notes set out on pages 5 to 71 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for JSC Basisbank (the “Bank”) and its subsidiaries (the “Group”).

The Bank was incorporated and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2016 and 2015 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	**2016**	**2015**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.305%	92.980%
Mr. Mi Zaiqi	6.969%	7.020%
Other minority shareholders	0.726%	-

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

The Bank has 21 (2015: 21) branches in Georgia and 58 ATMs (2015: 54). The Group had 348 employees at 31 December 2016 (2015: 355 employees).

Subsidiaries. These consolidated financial statements include the following principal subsidiaries:

	Country of		**Ownership % at 31 December**	
Name	**incorporation**	**Principal activities**	**2016**	**2015**
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
BAM-Astoria LLC	Georgia	Asset management	-	100%

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

Presentation currency. These consolidated 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.

During 2016 the exchange rate of GEL continued to depreciate against USD. 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 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, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated 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 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.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie 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.

3 Summary of Significant Accounting Policies (Continued)

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 repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the 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 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.

3 Summary of Significant Accounting Policies (Continued)

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 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 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).

3 Summary of Significant Accounting Policies (Continued)

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

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. 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.

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 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.

Subordinated debt. Subordinated debt includes long-term non-derivative financial liability to a financial institution carried at amortised cost which ranks after other debts in case of liquidation and is included in Tier II capital of the Bank.

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 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.

3 Summary of Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated 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 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 financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

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 2016, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.6468 (2015: USD 1 = GEL 2.3949), EUR 1 = GEL 2.7940 (2015: EUR 1 = GEL 2.6169).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated 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 32 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.

	31 December 2016			**31 December 2015**		
	Amounts expected to be recovered or settled		**Total**	**Amounts expected to be recovered or settled**		**Total**
In thousands of Georgian Lari	**Within 12 months after the reporting period**	**After 12 months after the reporting period**		**Within 12 months after the reporting period**	**After 12 months after the reporting period**	
ASSETS						
Cash and cash equivalents	73,686	-	**73,686**	140,754	-	**140,754**
Mandatory cash balances with the NBG	105,421	-	**105,421**	56,380	-	**56,380**
Loans and advances to customers	227,112	367,177	**594,289**	137,569	311,961	**449,530**
Investment securities available for sale	-	63	**63**	-	63	**63**
Repurchase receivables	-	-	**-**	36,458	-	**36,458**
Bonds carried at amortized cost	54,493	73,948	**128,441**	27,875	49,375	**77,250**
Investment properties	-	1,283	**1,283**	-	1,879	**1,879**
Current income tax prepayment	64	-	**64**	517	-	**517**
Other financial assets	519	132	**651**	296	120	**416**
Other assets	367	14,312	**14,679**	271	12,097	**12,368**
Intangible assets	-	532	**532**	-	587	**587**
Premises and equipment	-	21,048	**21,048**	-	22,078	**22,078**
TOTAL ASSETS	**461,662**	**478,495**	**940,157**	**400,120**	**398,160**	**798,280**
LIABILITIES						
Due to other banks	64,659	-	**64,659**	91,102	-	**91,102**
Customer accounts	419,266	143,004	**562,270**	455,127	24,664	**479,791**
Other borrowed funds	77,032	44,498	**121,530**	37,074	12,296	**49,370**
Other financial liabilities	2,521	-	**2,521**	7,532	-	**7,532**
Current income tax liability	1,133	-	**1,133**	-	-	**-**
Deferred income tax liability	-	800	**800**	-	3,602	**3,602**
Provisions for liabilities and charges	148	-	**148**	257	-	**257**
Other liabilities	1,323	4	**1,327**	1,265	7	**1,272**
Subordinated debt	-	-	-	-	4,499	**4,499**
TOTAL LIABILITIES	**566,082**	**188,306**	**754,388**	**592,357**	**45,068**	**637,425**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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 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.

During 2016 the exchange rate of GEL continued to depreciate against USD. Significant part of the loans issued by the Bank is denominated in USD while significant part of the borrowers gains their income in GEL. Prolonged or further depreciation of GEL may result in certain difficulties of some of these borrowers to repay their loans to the Bank. The management of the Bank monitors the changes in exchange rates and assesses the impact by utilising stress tests with different shock level scenarios to manage credit risk. If significant impact is identified as a result of the estimation, the management sets up additional provision for loan impairment for the increased risk. Due to high estimation uncertainty, the management of the Bank cannot reliably quantify the impact of GEL depreciation on Bank's financial position in the future.

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 1,482 thousand (2015: GEL 1,100 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 394 thousand (2015: GEL 320 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 2016, the management has assessed that the carrying amount of the premises as at 31 December 2016 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.

Deferred and current income tax. On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities.

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

The new code impacts the recognition and measurement principles of the Group's income tax and also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2019, respectively) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

As of 31 December 2016, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2017 to 31 December 2018.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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 2016 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).

6 New Accounting Pronouncements (Continued)

- 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.

The standard is expected to have a significant impact on the Group's loan impairment provisions. The Group is currently assessing the impact of the new standard on its financial statements.

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.

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.

6 New Accounting Pronouncements (Continued)

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 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).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- 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).

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

7 Cash and Cash Equivalents

In thousands of Georgian Lari	2016	2015
Cash on hand	23,498	24,477
Cash balances with the NBG (other than mandatory reserve deposits)	9,142	7,644
Correspondent accounts and overnight placements with other banks	38,546	108,633
Placements with other banks with original maturities of less than three months	2,500	-
Total cash and cash equivalents	**73,686**	**140,754**

The credit quality of cash and cash equivalents balances may be summarised based on Fitch's Ratings as follows at 31 December 2016:

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	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**

As at 31 December 2016 there was 3 placements 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. (2015: one placement with unrated Georgian bank with aggregate amount of GEL 92 thousand, 1 OECD bank with aggregate amount of GEL 37 thousand, and 2 Non-OECD banks with aggregate amount of GEL 154 thousand).

The credit quality of cash and cash equivalents balances analysed based on Fitch's Ratings at 31 December 2015 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Corresponde nt accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
- National Bank of Georgia	7,644	-	-	7,644
- A- to A+ rated	-	91,813	-	91,813
- Lower than A- rated	-	16,538	-	16,538
- Unrated	-	282	-	282
Total cash and cash equivalents, excluding cash on hand	**7,644**	**108,633**	**-**	**116,277**

At 31 December 2016 the Group had no counterparty bank with aggregated cash and cash equivalent balances above 10% of equity. (2015: one bank with GEL 91,467 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 32. Information on related party balances is disclosed in Note 39.

7 Cash and Cash Equivalents (Continued)

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 2016, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Loans and Advances to Customers

In thousands of Georgian Lari	**2016**	**2015**
Corporate loans	476,634	342,430
Consumer loans	36,330	23,849
Mortgage loans	91,375	88,459
Credit Cards	4,772	5,799
Less: Provision for loan impairment	(14,822)	(11,007)
Total loans and advances to customers	**594,289**	**449,530**

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)
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 thousand, 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.

Movements in the provision for loan impairment during 2015 are as follows:

In thousands of Georgian Lari	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Credit cards**	**Total**
Provision for loan impairment at 1 January 2015	**3,869**	**890**	**2,702**	**235**	**7,696**
Amounts written off during the year as uncollectible	(88)	(300)	(3)	(257)	(648)
Provision for impairment during the year*	3,171	114	466	208	3,959
Provision for loan impairment at 31 December 2015	**6,952**	**704**	**3,165**	**186**	**11,007**

*The provision for impairment during 2015 differs from the amount presented in profit or loss for the year due to GEL 208 thousand, 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.

9 Loans and Advances to Customers (Continued)

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

	2016		2015	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	132,477	22%	118,107	25%
Health Care	56,695	9%	30,291	7%
Financial Institutions	56,654	9%	54,970	12%
Trade	53,956	9%	35,745	8%
Hotels & Restaurants	52,633	9%	33,100	7%
Real Estate Management	49,459	8%	25,687	5%
Production & Manufacturing	43,066	7%	26,258	6%
Real Estate Development	34,190	6%	26,558	6%
Agricultural	32,273	5%	23,359	5%
Energy	28,333	5%	12,852	3%
Construction & Production of Construction Materials	19,014	3%	20,776	4%
Wine production	14,436	3%	24,485	5%
Service	14,920	2%	12,225	3%
Other	21,005	3%	16,124	4%
Total loans and advances to customers (before impairment)	**609,111**	**100%**	**460,537**	**100%**

At 31 December 2016 the Group had 22 borrowers (2015: 10 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 204,279 thousand (2015: GEL 95,225 thousand) or 33.5% of the gross loan portfolio (2015: 21%).

9 Loans and Advances to Customers (Continued)

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**

Information about collateral at 31 December 2015 is as follows:

In thousands of Georgian Lari	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Credit cards**	**Total**
Unsecured loans	12,721	10,631	825	5,777	29,954
Loans collateralised by:					
- cash deposits	55,643	802	201	-	56,646
- real estate	255,120	11,884	74,404	-	341,408
- transport and equipment	1,936	530	-	-	2,466
- other assets	17,010	2	13,029	22	30,063
Total loans and advances to customers	**342,430**	**23,849**	**88,459**	**5,799**	**460,537**

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 22,216 thousand (2015: GEL 16,772 thousand) 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.

9 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 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**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2015 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	113,461	-	-	-	113,461
- Large new borrowers	96,095	-	-	-	96,095
- Loans to medium size entities	43,766	-	-	-	43,766
- Loans to small entities	748	-	-	-	748
- Loans to individuals with credit limit over GEL 100 thousand	54,842	3,886	38,312	327	97,367
- Loans to individuals with credit limit below GEL 100 thousand	8,564	17,024	40,288	4,917	70,793
Total neither past due nor impaired	**317,476**	**20,910**	**78,600**	**5,244**	**422,230**
Past due but not impaired					
- less than 30 days overdue	6,660	563	1,832	49	9,104
- 30 to 90 days overdue	585	-	-	6	591
- 91 to 180 days overdue	31	-	-	2	33
- 181 to 360 days overdue	2,028	-	-	3	2,031
- over 360 days overdue	593	-	-	-	593
Total past due but not impaired	**9,897**	**563**	**1,832**	**60**	**12,352**
Loans determined to be impaired (gross)					
- Not overdue	8,480	1,014	4,010	113	13,617
- less than 30 days overdue	795	226	682	65	1,768
- 30 to 90 days overdue	959	349	1,277	165	2,750
- 91 to 180 days overdue	311	145	767	21	1,244
- 181 to 360 days overdue	1,641	405	792	8	2,846
- over 360 days overdue	2,871	237	499	123	3,730
Total impaired loans (gross)	**15,057**	**2,376**	**8,027**	**495**	**25,955**
Less impairment provisions	**(6,952)**	**(704)**	**(3,165)**	**(186)**	**(11,007)**
Total loans and advances to customers	**335,478**	**23,145**	**85,294**	**5,613**	**449,530**

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”.

9 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 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 effect of collateral at 31 December 2015:

	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	313,360	863,655	29,070	16,349
Consumer loans	13,078	60,055	10,771	141
Mortgage loans	86,624	237,449	1,835	1,010
Credit Cards	21	23	5,778	-
Total	**413,083**	**1,161,182**	**47,454**	**17,500**

For the loans with carrying amount more than GEL 100 thousand the Group updates valuations at least once a year. 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.

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 32. Information on related party balances is disclosed in Note 39.

10 Investment Securities Available for Sale

In thousands of Georgian Lari	2016	2015
Corporate shares (not quoted)	63	63
Total investment securities available for sale	**63**	**63**

The movements in investment securities available for sale are as follows:

In thousands of Georgian Lari	Note	2016	2015
Carrying amount at 1 January		63	**169,628**
Reclassified to Bonds carried at amortized cost		-	(169,565)
Carrying amount at 31 December		**63**	**63**

Investment securities available for sale include equity securities with a carrying value of GEL 63 thousand (2015: 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 32. Information on related party debt investment securities available for sale is disclosed in Note 39.

11 Repurchase Receivables

Repurchase receivables represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. There were no repurchase agreements at 31 December 2016.

In thousands of Georgian Lari	2016	2015
Bonds at amortized cost under sale and repurchase agreements		
Georgian government treasury bills	-	11,920
NBG certificates of deposit	-	24,538
Total repurchase receivables representing Bonds at amortized cost	**-**	**36,458**

The primary factor that the Group considers in determining whether a debt security classified as a repurchase receivable is impaired is its overdue status. All of the repurchase receivables of the Group are neither past due nor impaired. The debt securities are not collateralised.

Bonds carried at amortized cost reclassified to repurchase receivables continue to be carried at amortised cost in accordance with the accounting policies for this category of assets.

12 Bonds carried at amortized cost

In 2015 the Group has reassessed its intention with regard to some of the securities previously classified as available for sale and has identified certain investments that the Group has both the intention and ability to hold to maturity. Consequently, majority of the securities previously classified as investment securities available for sale have been reclassified to bonds carried at amortised cost in 2015.

In thousands of Georgian Lari	**2016**	**2015**
Georgian government treasury bonds	85,229	68,183
Georgian government treasury bills	38,749	2,542
NBG certificates of deposit	-	1,053
Corporate bonds	4,463	5,472
Total Bonds carried at amortized cost	**128,441**	**77,250**

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

In thousands of Georgian Lari	**Note**	**2016**	**2015**
Gross amount at 1 January		77,250	**-**
Additions		108,336	113,104
Reclassified from investment securities available for sale		-	169,628
Reclassified from Repurchase Receivables		36,458	-
Redemption		(96,362)	(173,516)
Interest income accrual		9,494	9,750
Interest income received		(6,735)	(5,258)
Reclassified to Repurchase Receivables		-	(36,458)
Gross amount at 31 December		**128,441**	**77,250**

All Bonds carried at amortized cost are issued by the Georgian government except for corporate bonds of GEL 2.36 million issued by AAA rated international financial institution and GEL 2.10 million issued by BB-rated corporate company.

At 31 December 2016 Bonds carried at amortized cost with a carrying value of GEL 44,443 thousand (2015: GEL 40,158) have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Note 17.

Refer to Note 37 for the disclosure of the fair value of each class of bonds carried at amortised cost. Interest rate analysis of bonds carried at amortised cost is disclosed in Note 32. Information on related party investment bonds carried at amortised cost is disclosed in Note 39.

13 Investment Properties

In thousands of Georgian Lari	**2016**	**2015**
Investment properties at 1 January	**1,879**	**2,048**
Depreciation	(11)	(15)
Disposals	(1,036)	(170)
Transfer from other assets	451	16
Investment properties at 31 December	**1,283**	**1,879**

13 Investment Properties (Continued)

As of 31 December 2016, the fair value of investment properties was GEL 1,828 thousand (2015: GEL 2,590 thousand).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 2015		14,210	7,462	55	**21,727**	1,011	**22,738**
Accumulated depreciation		280	5,528	-	**5,808**	410	**6,218**
Carrying amount at 1 January 2015		**13,930**	**1,934**	**55**	**15,919**	**601**	**16,520**
Additions		446	1,445	73	**1,964**	104	**2,068**
Transfers		-	128	(128)	**-**	-	**-**
Disposals		-	(449)	-	**(449)**	(14)	**(463)**
Depreciation upon revaluation		(564)	-	-	**(564)**	-	**(564)**
Revaluation		5,130	-	-	**5,130**	-	**5,130**
Depreciation							
Depreciation charge	29	284	631	-	**915**	118	**1,033**
Disposals		-	(429)	-	**(429)**	(14)	**(443)**
Depreciation upon revaluation		(564)	-	-	**(564)**	-	**(564)**
Carrying amount at 31 December 2015		**19,222**	**2,856**	**-**	**22,078**	**587**	**22,665**
Cost at 31 December 2015		19,222	8,586	-	**27,808**	1,101	**28,909**
Accumulated depreciation		-	5,730	-	**5,730**	514	**6,244**
Carrying amount at 31 December 2015		**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**

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 2016, the carrying amount of premises would have been GEL 10 648 thousand (2015: GEL 11 142 thousand) had the assets been carried at cost less depreciation.

15 Other Financial Assets

In thousands of Georgian Lari	**2016**	**2015**
Receivables for credit card services and money transfers	343	151
Other financial derivatives	-	21
Other receivables	308	245
Total other financial assets	**651**	**416**

As at 31 December 2016 and 2015 other financial assets are not impaired.

Other financial derivatives are the currency swap contracts, as at 31 December 2016 there were no swap contracts.

16 Other Assets

In thousands of Georgian Lari	**2016**	**2015**
Repossessed collateral	13,119	10,804
Input VAT	698	898
Litigation prepayments	482	382
Prepayments for services	149	131
Prepaid withholding taxes	105	7
Fixed asset prepayments	58	73
Other	68	73
Total other assets	**14,679**	**12,368**

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.

17 Due to Other Banks

In thousands of Georgian Lari	**2016**	**2015**
Correspondent accounts and overnight placements of other banks	556	75
Short-term placements of other banks	23,092	5,654
Short-term loans from NBG	41,011	50,000
Short-term loans from other banks	-	35,373
Total due to other banks	**64,659**	**91,102**

The Group pledged debt securities as collateral for short-term loans with NBG with carrying amount of GEL 44,443 thousand at the end of the reporting period (2015: debt securities pledged for short-term loans with NBG and Georgian banks: GEL 76,616 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 17. Information on related party balances is disclosed in Note 39.

18 Customer Accounts

In thousands of Georgian Lari	2016	2015
State and public organisations		
- Current/settlement accounts	66,792	21,616
- Term deposits	50,929	59,661
Other legal entities		
- Current/settlement accounts		
- Term deposits	90,957	129,173
	202,233	154,479
Individuals		
- Current/demand accounts	78,303	53,722
- Term deposits	73,056	61,140
Total customer accounts	**562,270**	**479,791**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	151,359	27%	114,862	24%
Production/Manufacturing	109,213	19%	29,716	6%
Financial Institutions	67,094	12%	54,643	12%
Energy	48,809	9%	6,591	1%
Transportation or Communication	45,842	8%	43,631	9%
Construction	37,037	7%	158,395	33%
Service	36,781	6%	6,304	1%
State Deposits	25,227	4%	24,197	5%
Trade	19,930	4%	23,303	5%
Education	11,065	2%	11,514	3%
Other	9,913	2%	6,635	1%
Total customer accounts	**562,270**	**100%**	**479,791**	**100%**

At 31 December 2016, the Group had six customers (2015: four customers) with balances above 10 % of total equity. The aggregate balance of these customers was GEL 222,430 thousand (2015: GEL 204,379).

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 32. Information on related party balances is disclosed in Note 39.

19 Other Borrowed Funds

In thousands of Georgian Lari	2016	2015
Loans from Black Sea Trade and Development Bank	54,107	36,799
Loans from European Bank for Reconstruction and Development (“EBRD”)	36,548	12,254
Loans from China Development Bank	13,190	-
Loans from The OPEC Fund for International Development (OFID)	12,258	-
Loans from Urumqi City Commercial Bank	5,407	-
Loan from Ministry of Finance	-	276
Other	20	41
Total other borrowed funds	**121,530**	**49,370**

19 Other Borrowed Funds (Continued)

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 17. Information on related party balances is disclosed in Note 39.

20 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	Note	2016	2015
Settlement Operations		1,670	6,226
Payables for services		424	392
Debit or credit card payables		82	163
Other derivative financial instruments		-	629
Other accrued liabilities	36	345	122
Total other financial liabilities		**2,521**	**7,532**

Other derivative financial instruments are the currency swap contracts. Refer to Note 37 for disclosure of the fair value of each class of other financial liabilities.

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 2016. 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.

21 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	Note	2016	2015
Taxes payable other than on income		24	33
Accrued employee benefit costs		1,051	933
Other		252	306
Total other liabilities		**1,327**	**1,272**

22 Subordinated Debt

Bank had no Subordinated debt at 31 December 2016 (2015: GEL 4,499 thousand), debt had maturity in 2021, but it was repaid before maturity in June 2016.

Refer to Note 37 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 32. Information on related party balances is disclosed in Note 39.

23 Share Capital

In thousands of Georgian Lari except for number of shares	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 31 December 2014	**15,941**	**15,941**	**73,967**	**89,908**
At 31 December 2015	**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**

The total authorised number of ordinary shares is 16,057 thousand shares (2015: 16,014 thousand shares), with a par value of GEL 1 per share (2015: GEL 1 per share). The total number of issued ordinary shares is 16,057 thousand shares (2015: 15,941 thousand shares). All issued ordinary shares are fully paid.

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 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 vest upon expiry of the continuous employment condition on 1 July 2017. After the awarded shares vest, these shares are subject to post-vesting restrictions, June 2018 (the end of first lock-up period) and June 2019 (the end of second lock-up period) is when the post-vesting restrictions expire.

24 Share Based Payments (Continued)

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.

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	**2016**	**2015**
Number of unvested shares at the beginning of the year	**144,000**	**73,000**
Change in estimate of number of shares expected to vest based on performance conditions	16,630	71,000
Number of shares vested	(116,630)	-
Number of unvested shares at the end of the year	**44,000**	**144,000**
Value at grant date per share (in GEL)	11.34	11.34
Expense on equity-settled part	624	499
Expense recognized as staff cost during the year	**624**	**499**

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 388 as at 31 December 2016 (GEL 837 as at 31 December 2015).

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 2015				
Available-for-sale investments:				
- Gains less losses recycled to profit or loss upon disposal or impairment		(222)	**-**	**(222)**
Revaluation of premises and equipment		-	5,130	**5,130**
Income tax recorded directly in other comprehensive income		102	(770)	**(668)**
Total other comprehensive income		**(120)**	**4,360**	**4,240**
Year ended 31 December 2016				
Available-for-sale investments:				
- Gains less losses recycled to profit or loss upon disposal or impairment		(219)	**-**	**(219)**
Income tax recorded directly in other comprehensive income		-	1,235	**1,235**
Total other comprehensive income		**(219)**	1,235	**1,016**

26 Interest Income and Expense

In thousands of Georgian Lari	2016	2015
Interest income		
Loans and advances to customers	55,284	46,402
Bonds carried at amortized cost	9,710	9,396
Repurchase receivables	-	576
Due from other banks and mandatory balances held with the NBG	959	1,209
Total interest income	**65,953**	**57,583**
Interest expense		
Term deposits of legal entities	9,299	8,190
Term deposits of individuals	4,855	3,107
Current/settlement accounts	3,725	2,057
Borrowings from banks and other financial institutions	5,243	3,395
Due to other banks	1,968	4,631
Total interest expense	**25,090**	**21,380**
Net interest income	**40,863**	**36,203**

27 Fee and Commission Income and Expense

In thousands of Georgian Lari	2016	2015
Fee and commission income		
Fee and commission income not relating to financial instruments at fair value through profit or loss		
- Plastic card fees	1,307	1,332
- Settlement transactions	1,183	1,657
- Fees related to guarantees	888	769
- Cash transactions	533	489
- Distant banking fees	127	153
- Other	116	80
Total fee and commission income	**4,154**	**4,480**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Plastic card fees	998	1,104
- Settlement transactions	316	299
- Cash Collection & Transaction fees	118	106
- Expenses Related to Guarantees	47	92
- Commissions for credit lines	4	21
- Communication and Computer Centre Service fees	-	6
- Other	104	54
Total fee and commission expense	**1,587**	**1,682**
Net fee and commission income	**2,567**	**2,798**

28 Other Operating Income

In thousands of Georgian Lari	**2016**	**2015**
Reversal of impairment of repossessed property	233	-
Rental income	188	195
Fines and penalties	66	46
Gains less losses on disposal of repossessed property	50	9
Gains less losses on disposal of premises and equipment	8	22
Other	5	-
Total other operating income	**550**	**272**

Rental income related to investment properties amounted to GEL 33 thousand (2015: GEL 68 thousand).

29 Administrative and Other Operating Expenses

In thousands of Georgian Lari	**Note**	**2016**	**2015**
Employee compensation		9,504	8,422
Depreciation and amortisation	14	1,265	1,049
Professional services		1,065	859
Communications and information services		950	851
Occupancy		872	864
Advertising and marketing services		675	974
Security services		607	560
Taxes other than on income		274	252
Insurance		138	93
Office supplies		137	211
Travel and training		130	85
Repairs and maintenance		86	69
Impairment of litigation prepayments	15	47	142
Impairment of repossessed property		-	222
Other		748	643
Total administrative and other operating expenses		**16,498**	**15,296**

Included in employee compensation for 2016 is expense recognized as staff costs under the share based payment part of the Senior Management Bonus scheme of GEL 624 thousand (2015: GEL 499 thousand). For details on the scheme, refer to Note 24.

Direct operating expenses for investment properties that generate rental income amounted to GEL 29 thousand (2015: GEL 25 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 2 thousand (2015: GEL 6 thousand).

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	2016	2015
Current tax	(2,542)	(949)
Deferred tax	1,567	(1,248)
Income tax expense/(credit) for the year	**(975)**	**(2,197)**

(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 2016 income is 15% (2015: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2015: 15%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	2016	2015
Profit/(loss) before tax	**26,441**	**24,104**
Theoretical tax charge at statutory rate (2016: 15%; 2015: 15%)	(3,966)	(3,616)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (NBG's securities and deposits)	1,453	1,501
- Other income which is exempt from taxation	182	211
- Imputed benefits	(38)	(40)
- Effect of change in tax legislation	1,615	-
- Non-deductible expenses	(221)	(253)
Income tax expense/(credit) for the year	**(975)**	**(2,197)**

(d) Deferred taxes in respect of subsidiaries

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 3 thousand (2015: GEL 1 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

(f) 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% (2015: 15%).

30 Income Taxes (Continued)

In thousands of Georgian Lari	1 January 2016	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 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)**

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 2015	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(1,927)	(108)	(770)	(2,805)
Loan impairment provision	(225)	(1,187)		(1,412)
Guarantee impairment provision	(92)	(8)		(100)
Fair valuation of investment securities available for sale	(102)		102	-
Accruals	182	15		197
Other	467	19		486
Share Based Payment	11	21		32
Net deferred tax liability	**(1,686)**	**(1,248)**	**(668)**	**(3,602)**

31 Dividends

In thousands of Georgian Lari	2016 Ordinary	2015 Ordinary
Dividends payable at 1 January		
Dividends declared during the year	2,191	1,452
Dividends paid during the year	(2,191)	(1,452)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.14**	**0.09**

All dividends are declared and paid in Georgian Lari.

32 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.

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.

32 Financial Risk Management (Continued)

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.

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 34. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

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 150 thousand. It is also responsible for issuing guidance to lower level credit committees;
- The middle credit committee reviews and approves limits above USD 50 thousand
- The junior credit committees review and approve credit limits above USD 10 thousand
- Retail approval group– approves loans below USD 10 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.

32 Financial Risk Management (Continued)

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.

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 9.

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 9.

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.

32 Financial Risk Management (Continued)

- 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 incurring 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. 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.

32 Financial Risk Management (Continued)

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

	At 31 December 2016				At 31 December 2015			
In thousands of Georgian Lari	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	357,249	(175,036)	-	182,213	317,481	(191,840)	11,775	137,416
US Dollars	558,625	(555,110)	-	3,515	435,809	(421,010)	(12,383)	2,416
Euros	24,051	(24,010)	-	41	18,036	(18,186)	-	(150)
Other	415	(420)	-	(5)	608	(629)	-	(21)
Total	**940,340**	**(754,576)**	**-**	**185,764**	**771,934**	**(631,665)**	**(608)**	**139,661**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 36. The net total represents the fair value of the currency derivatives. 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 2016	At 31 December 2015
In thousands of Georgian Lari	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20% (2015: strengthening by 20%)	596	411
US Dollar weakening by 20% (2015: weakening by 20%)	(596)	(411)
Euro strengthening by 20% (2015: strengthening by 20%)	7	(26)
Euro weakening by 20% (2015: weakening by 20%)	(7)	26

32 Financial Risk Management (Continued)

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:

In thousands of GEL	2016 Impact on profit or loss	2015 Impact on profit or loss
USD strengthening by 20% (2015: strengthening by 20%)	87	(67)
USD weakening by 20% (2015: weakening by 20%)	(87)	67
EUR strengthening by 20% (2015: strengthening by 20%)	(2)	3
EUR weakening by 20% (2015: weakening by 20%)	(2)	(3)

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-interest bearing	Total
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**
31 December 2015						
Total financial assets	154,237	108,060	76,910	293,323	128,321	760,851
Total financial liabilities	117,981	156,365	105,454	34,898	217,596	632,294
Net interest sensitivity gap at 31 December 2015	**36,256**	**(48,305)**	**(28,544)**	**258,425**	**(89,275)**	**128,557**

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. At 31 December 2016, if interest rates at that date had been 200 basis points lower (2015: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 440 thousand higher (2015: GEL 138 thousand higher), mainly as a result of lower interest expense on variable interest liabilities (2015: mainly as a result of lower interest expense on variable interest liabilities).

If interest rates had been 200 basis points higher (2015: 200 basis points higher), with all other variables held constant, profit would have been GEL 440 thousand lower (2015: GEL 138 thousand lower), mainly as a result of higher interest expense on variable interest liabilities (2015: mainly as a result of higher interest expense on variable interest liabilities).

32 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises the weighted 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:

	2016			2015		
In % p.a.	**GEL**	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash Equivalents	5.1%	0.1%	-	8.5%	-	-
Mandatory cash balances with the NBG	-	0.3%	-0.4%	2.8%	-	-
Loans and advances to customers	10.2%	9.9%	8.5%	11.4%	10.8%	10.0%
Investment securities available for sale	-	-	-	-	-	-
Bonds carried at amortized cost	8.4%	-	-	8.7%	-	-
Repurchase receivables	-	-	-	7.8%		
Other financial assets	-	-	-	-	-	-
Liabilities						
Due to other banks	7.4%	3.5%	-	8.9%	-	2.5%
Customer accounts	6.8%	3.7%	3.1%	5.2%	3.2%	2.6%
- current and settlement accounts	6.3%	3.7%	0.6%	4.0%	1.1%	0.7%
- term deposits	7.3%	3.7%	3.3%	8.2%	4.3%	5.4%
Other financial liabilities	-	-	-	-	-	-
Borrowings from banks and other financial institutions	-	6.0%	-	-	6.1%	-
Subordinated debt	-	-	-	-	5.6%	-

The sign "-" in the table above means that the Group does not have the respective interest bearing 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 (2015: 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.

32 Financial Risk Management (Continued)

Geographical risk concentrations. 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**
Subordinated debt	-	-	-	-	**-**
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**

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".

32 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2015 is set out below:

In thousands of Georgian Lari	**Georgia**	**China**	**OECD**	**Non-OECD**	**Total**
Financial assets					
Cash and cash equivalents	47,684	60	92,789	221	140,754
Mandatory cash balances with NBG	56,380	-	-	-	56,380
Loans and advances to customers	449,530	-	-	-	449,530
Investment securities available for sale	63	-	-	-	63
Repurchase receivables	36,458	-	-	-	36,458
Held-to-maturity investments	77,250	-	-	-	77,250
Other financial assets	416	-	-	-	416
Total financial assets	**667,781**	**60**	**92,789**	**221**	**760,851**
Financial liabilities					
Due to other banks	91,102	-	-	-	91,102
Customer accounts	324,290	155,501	-	-	479,791
Borrowings from banks and other financial institution	317	-	49,053	-	49,370
Subordinated debt		-	4,499	-	4,499
Other financial liabilities	7,532	-		-	7,532
Total financial liabilities	**423,241**	**155,501**	**53,552**	**-**	**632,294**
Net position in on-balance sheet financial instruments	**244,540**	**(155,441)**	**39,237**	**221**	**128,557**
Credit related commitments	**45,517**	**27,023**	**-**	**-**	**72,540**

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 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.

32 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 55% at 31 December 2016 (2015: 47%);

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 2016 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial and performance 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.

32 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**
Repurchase receivables	-	-	-	-	-	**-**
Bonds carried at amortized cost	9,925	21,793	22,775	70,659	3,289	**128,441**
Gross-settled currency derivatives	-	-	-	-	-	**-**
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**
Borrowings from banks and other financial institutions	7,940	30,047	49,808	39,023	-	**126,818**
Subordinated debt	-	-	-	-	-	**-**
Gross-settled currency derivatives	-	-	-	-	-	**-**
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**

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.

32 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2015 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	140,754	-	-	-	-	140,754
Mandatory cash balances with the NBG	56,380	-	-	-	-	56,380
Loans and advances to customers	12,430	71,817	77,296	182,112	105,875	449,530
Investment securities available for sale	-	-	-	-	63	63
Repurchase receivables	6,968	29,490	-	-	-	36,458
Bonds carried at amortized cost	10,639	3,186	14,051	46,064	3,310	77,250
Gross-settled currency derivatives	-	8,270	3,505	-	-	11,775
Other financial assets	209	-	66	-	120	395
Total	**227,380**	**112,763**	**94,918**	**228,176**	**109,368**	**772,605**
Liabilities						
Due to other banks	91,102	-	-	-	-	91,102
Customer accounts – individuals	59,587	21,865	24,031	12,921	1,057	119,461
Customer accounts – other	179,398	94,438	87,457	12,590	120	374,003
Borrowings from banks and other financial institutions	-	17,586	20,497	13,394	-	51,477
Subordinated debt	-	135	135	1,078	4,857	6,205
Gross-settled currency derivatives	-	8,736	3,647	-	-	12,383
Other financial liabilities	6,813	90	-	-	-	6,903
Financial guarantees issued	79	4,826	4,611	1,355	-	10,871
Performance guarantees issued	134	24,629	1,705	4,097	998	31,563
Undrawn credit line commitments	29,849	-	-	-	-	29,849
Total potential future payments for financial obligations	**366,962**	**172,305**	**142,083**	**45,435**	**7,032**	**733,817**
Liquidity gap arising from financial instruments	**(139,582)**	**(59,542)**	**(47,165)**	**182,741**	**102,336**	**38,788**

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.

32 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 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**	
At 31 December 2015						
Financial assets	227,380	112,763	94,918	228,176	109,368	772,605
Financial liabilities	168,764	195,575	172,673	94,352	30,170	661,534
Financial and performance guarantees	257	-	-	-	-	257
Undrawn credit related commitments	2,985	-	-	-	-	2,985
Net liquidity gap based on expected maturities	**55,374**	**(82,812)**	**(77,755)**	**133,824**	**79,198**	**107,829**
Cumulative liquidity gap based on expected maturities	**55,374**	**(27,438)**	**(105,193)**	**28,631**	**107,829**	

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.

Although there are no committed borrowings available to the Group as at 31 December 2016 the management believes it will be able to close the liquidity gap by obtaining sufficient borrowings from NBG or other banks as and when necessary.

33 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 total equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2016 was GEL 185,769 thousand (2015: GEL 160,855 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 current capital requirements set by the National Bank of Georgia, 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 163,770 thousand (2015: GEL 147,649 thousand). As at 31 December 2016, these minimum levels set by the NBG were 7.2% for primary capital and 10.8% for regulatory capital (2015: 7.6% and 11.4%, respectively).

The Group and the Bank have complied with all externally imposed capital requirements throughout 2016 and 2015.

In thousands of Georgian Lari	**2016**	**2015**
Primary capital		
Share capital	16,057	16,013
Share premium	74,865	74,478
Retained earnings according to the NBG regulations	47,179	35,303
Deductions (Intangible Assets)	(532)	(588)
Total primary capital	**137,569**	**125,206**
Secondary capital		
Current year profit according to NBG regulations	20,773	14,077
General reserve	9,225	8,773
Subordinated borrowings	-	4,790
Total secondary capital	**29,998**	**27,640**
Deductions (Investments in subsidiary companies)	(3,797)	(5,197)
Total regulatory capital	**163,770**	**147,649**
Risk weighted assets, combining credit, market and operational risks	**896,316**	**689,623**
Tier I ratio	**15.3%**	**18.2%**
Regulatory capital ratio	**18.3%**	**21.4%**

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. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

33 Management of Capital (Continued)

In thousands of Georgian Lari	**2016**	**2015**
Primary capital		
Share capital	16,057	16,013
Share premium	74,865	74,478
Retained earnings according to the NBG regulations	47,179	35,303
Revaluation reserve	8,602	3,470
Current year profit according to NBG regulations	20,774	14,077
Primary capital Before Correction	**167,477**	**143,341**
Primary capital Corrections	(12,931)	(8,080)
Total primary capital After correction	**154,546**	**135,261**
Secondary capital		
General reserve	9,224	7,970
Subordinated borrowings	-	4,790
Total secondary capital	**9,224**	**12,760**
Total regulatory capital	**163,770**	**148,021**
Risk weighted assets, combining credit, market and operational risks	**1,026,124**	**743,476**
Minimum Tier 1 Ratio	***8.5%***	***8.5%***
Tier I ratio	**15.1%**	**18.2%**
Minimum regulatory capital ratio	***10.5%***	***10.5%***
Regulatory capital ratio	**16.0%**	**19.9%**

34 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, 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 four subsequent calendar years; however, under certain circumstances tax year may remain open longer.

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.

34 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	**2016**	**2015**
Not later than 1 year	251	215
Total operating lease commitments	**251**	**215**

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. 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 and all covenants at 31 December 2015.

The Group and the Bank are 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 November 2005), commonly known as Basel I. 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	**2016**	**2015**
Tier 1 capital		
Share capital	90,980	89,908
Retained earnings	86,312	62,979
Total tier 1 capital	**177,292**	**152,887**
Tier 2 capital		
Revaluation reserves	8,472	7,456
General reserve	6,420	4,239
Subordinated debt	-	4,499
Total tier 2 capital	**14,892**	**16,194**
Total capital	**192,184**	**169,081**

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.

34 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**	**2016**	**2015**
Financial guarantees issued		13,761	11,067
Performance guarantees issued		14,374	31,624
Undrawn credit line commitments		34,932	29,849
Letters of credit		76	-
Less: Provision for financial and performance guarantees		(148)	(257)
Total credit related commitments and performance guarantees, net of provision		**62,995**	**72,283**

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**	**2016**	**2015**
Georgian Lari		36,514	49,781
US Dollars		23,669	18,030
Euro		2,921	4,509
Other		39	220
Total		**63,143**	**72,540**

34 Contingencies and Commitments (Continued)

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

In thousands of Georgian Lari	Note	2016	2015
Carrying amount at 1 January		**257**	**186**
Initial recognition of provision for issued financial guarantees		657	632
Unused amounts of provision reversed		(778)	(620)
Initial recognition of provision for issued performance guarantees		734	462
Unused amounts of provision reversed		(722)	(403)
Carrying amount at 31 December		**148**	**257**

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. 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	2016	2015
Construction		10,227	21,414
Trade		1,692	1,006
Service		979	7,763
Other		1,476	1,441
Total guaranteed amounts		**14,374**	**31,624**

The performance guarantees issued to clients operating in construction sector are collateralised with cash deposits of GEL 9,336 thousand at 31 December 2016 (2015: GEL 18,458 thousand).

34 Contingencies and Commitments (Continued)

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

	Notes	31 December 2016		31 December 2015	
In thousands of Georgian Lari		Asset pledged	Related liability	Asset pledged	Related liability
Repurchase receivables	11	-	-	36,458	35,373
Bonds carried at amortized cost	12	44,443	41,011	40,158	38,150
Loans and advances to customers	9	-	-	15,000	11,850
Total		**44,443**	**41,011**	**91,616**	**85,373**

At 31 December 2016, due from other banks balances of GEL 132 thousand (2015: GEL 119 thousand) are placed as a cover for international payment cards transactions.

Mandatory cash balances with the NBG of GEL 105,421 thousand (2015: GEL 56,380 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 2016 there were no loans and advances to customers pledged as collateral against the borrowings from Banks and Financial Institutions as at 31 December 2016. (2015: GEL 15,000 thousand against the borrowings from NBG).

35 Offsetting Financial Assets and Financial Liabilities

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

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2015:

In thousands of Georgian Lari	**Gross amounts before offsetting in the statement of financial position (a)**	**Gross amounts set off in the statement of financial position (b)**	**Net amount after offsetting in the statement of financial position (c) = (a) - (b)**	**Net amount of exposure (c) - (d) - (e)**
ASSETS				
- Short-term placements with other banks with original maturities of more than three months	3,610	3,594	16	16
-Corporate loans	7,947	7,947	-	-
- Foreign exchange forward contracts	218	213	5	5
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**11,775**	**11,754**	**21**	**21**
LIABILITIES				
- Term deposits of legal entities	8,576	7,947	629	629
-Short-term placements with other banks with original maturities of more than three months	3,594	3,594	-	-
- Foreign exchange forward contracts	213	213	-	-
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**12,383**	**11,754**	**629**	**629**

35 Offsetting Financial Assets and Financial Liabilities (Continued)

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Amounts offset as at 31 December 2015 primarily represent deposits placed with other banks and deposits received from banks under currency swap arrangements.

36 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

	Notes	2016		2015	
In thousands of Georgian Lari		**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of					
- GEL receivable on settlement (+)		-	-	11,775	-
- USD payable on settlement (-)		-	-	-	(12,383)
Net fair value of foreign exchange forwards and swaps		**-**	**-**	**-**	**(608)**

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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 2016				**31 December 2015**			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Other financial assets								
Foreign exchange forward contracts	-	-	-	-	-	5	-	5
Other financial derivatives	-	-	-	-	-	16	-	16
NON-FINANCIAL ASSETS								
- Premises	-	-	18,853	18,853	-	-	19,222	19,222
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**-**	**18,853**	**18,853**	**-**	**21**	**19,222**	**19,243**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
Other financial liabilities								
- Other derivative financial instruments	-	-	-	-	-	629	**-**	**-**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	-	-	-	**-**	**629**	**-**	**-**

37 Fair Value Disclosures (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016:

In thousands of Georgian Lari	Fair value at 31 December 2016	Fair value at 31 December 2015	Valuation technique	Inputs used
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Other financial assets				
Foreign exchange forward contracts	-	5	DCF	Official exchange rate
Other financial derivatives	-	16	DCF	Official exchange rate, observable yield curve
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**-**	**21**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Other derivative financial instruments	-	629	DCF	Official exchange rate, observable yield curve
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**-**	**629**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2016 (2015: none).

In thousands of Georgian Lari	Fair value at 31 December 2016	Fair value at 31 December 2015	Valuation technique	Inputs used	Range of inputs used (weighted average)
NON-FINANCIAL ASSETS					
- Premises	18,853	19,222	Market comparable assets	Price per square meter	1,078-11,381 (3,764)
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**18,853**	**19,222**			

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 2016				31 December 2015			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Carry-ing value**	**Level 1**	**Level 2**	**Level 3**	**Carry-ing value**
ASSETS								
Cash and cash equivalents								
- Cash on hand	23,498	-	-	23,498	24,477	-	-	24,477
- Cash-in-transit	-	-	-	-	-	-	-	-
- Cash balances with the NBG	-	9,142	-	9,142	-	7,644	-	7,644
- Correspondent accounts and overnight placements	-	38,546	-	38,546	-	108,632	-	108,633
- Placements with other banks with original maturities of less than three months	-	2,500	-	2,500	-	-	-	-
Mandatory balances with the NBG	-	105,421	-	105,421	-	56,380	-	56,380
Loans and advances to customers								
- Corporate loans	-	-	441,009	466,464	-	-	319,667	335,478
- Consumer loans	-	-	34,515	35,355	-	-	21,199	23,145
- Mortgage loans	-	-	85,442	87,905	-	-	89,583	85,294
- Credit cards	-	-	4,569	4,565	-	-	5,618	5,613
Bonds carried at amortized cost								
Georgian government treasury bonds	-	86,096	-	85,229	-	63,964	-	68,183
Georgian government treasury bills	-	38,728	-	38,749	-	2,541	-	2,542
NBG deposit Certificate	-	-	-	-	-	1,055	-	1,053
Corporate bonds	-	4,549	-	4,463	-	5,407	-	5,472
Repurchase Receivables								
Georgian government treasury bills	-	-	-	-	-	24,354	-	24,538
NBG deposit Certificate	-	-	-	-	-	11,924	-	11,920
Other financial assets	-	651	-	651	-	416	-	416
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	1,828	1,283	-	-	2,590	1,879
TOTAL	**23,498**	**285,633**	**567,363**	**903,771**	**24,477**	**282,317**	**438,657**	**762,667**

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 2016				31 December 2015			
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	-	556	-	556	-	75	-	75
- Short-term placements of other banks	-	23,092	-	23,092	-	5,654	-	5,654
- Short-term loans of NBG	-	41,011	-	41,011	-	50,000	-	50,000
- Short-term loans of other banks	-	-	-	-	-	35,373	-	35,373
Customer accounts								
- Current/settlement accounts of state and public organisations	-	66,792	-	66,792	-	21,616	-	21,616
- Term deposits of state and public organisations	-	-	53,160	50,929	-	-	62,103	59,661
- Current/settlement accounts of other legal entities	-	90,957	-	90,957	-	129,173	-	129,173
- Term deposits of other legal entities	-	-	201,853	202,233	-	-	156,216	154,479
- Current/demand accounts of individuals	-	78,303	-	78,303	-	53,722	-	53,722
- Term deposits of individuals	-	-	73,929	73,056	-	-	62,389	61,140
Borrowings from banks and other financial institutions								
- Borrowings from International Financial institutions	-	118,738	-	121,510	-	49,053	-	49,053
- Borrowings from government	-	20	-	20	-	317	-	317
Other financial liabilities	-	2,521	-	2,521	-	7,532	-	7,532
Subordinated debt	-	-	-	-	-	4,499	-	4,499
TOTAL	**-**	**421,990**	**328,942**	**750,980**	**-**	**357,014**	**280,708**	**632,294**

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.

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

In thousands of Georgian Lari	**Shareholders**	**Supervisory Board**	**Manage-ment 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	-	-	(8)	-
Customer accounts (contractual interest rate: : 0%-12%)	5,584	992	1,478	18,536

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

In thousands of Georgian Lari	**Shareholders**	**Supervisory Board**	**Manage-ment 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	0	0	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	**Shareholders**	**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	**Shareholders**	**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)

At 31 December 2015, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Shareholders**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 7% - 24%)	1	-	747	-
Impairment provisions for loans and advances to customers	-	-	(1)	-
Customer accounts (contractual interest rate: 0 – 10.75%)	2,400	28	852	135,009

The income and expense items with related parties for 2015 were as follows:

In thousands of Georgian Lari	**Shareholders**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**
Interest income	1	-	71	-
Interest expense	(43)	-	(66)	(2,410)
(Provision charge)/Recovery of loan impairment	-	-	7	-
Gains less losses from trading in foreign currencies	5	-	-	25
Foreign exchange translation gains less losses	(102)	-	(12)	(21,538)
Fee and commission income	1	-	3	917
Administrative and other operating expenses	-	-	(49)	-

At 31 December 2015, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	**Shareholders**	**Supervisory Board**	**Management Board**	**Companies under common control**
Performance Guarantees issued by the Group at the year end	-	-	-	23,637
Financial Guarantees issued by the Group atthe year end	-	-	-	1,309
Undrawn credit line commitments	70	24	116	-

39 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during 2015 were:

In thousands of Georgian Lari	**Shareholders**	**Supervisory Board**	**Management Board**
Amounts lent to related parties during the year	300	-	2,630
Amounts repaid by related parties during the year	(259)	-	(2,474)

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

	2016	**2015**
In thousands of Georgian Lari	**Expense**	**Expense**
Short-term benefits:		
- Salaries	150	180
Total	**150**	**180**

Key management compensation is presented below:

	2016		**2015**	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	730	-	712	26
- Short-term bonuses	815	684	524	540
Share-based compensation:				
- Equity-settled share-based compensation	624		499	
Total	**2,169**	**684**	**1,735**	**566**

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

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