

2015

წლიური ანგარიში
ANNUAL REPORT



ბაზისბანკი
BASISBANK

Hualing Group Member

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ABOUT BASISBANK



BASISBANK - OUR STORY

THE BIRTH OF THE BANK - EARLY YEARS

In 1993 a group of friends – physicists and mathematicians, graduates from Moscow State University decide to set up a bank. Equipped with only one office a few employees and GEL 5 million in capital at that time, the Bank has managed to weather various changes and meet many challenges along the way: Post-soviet era, transition to a free market economy, adaptation to new economic realities, difficult political and economic situation and many more.

Being the only bank in Georgia to have a diversified Georgian shareholding and no foreign ownership or support in the beginning, the Bank could have ended as swiftly as it began as out of more than 300 banks operating in 90s the majority collapsed due to their inability of adapting to difficult changes and lack of proper management. However, it wasn't Basisbank's (BB) story. Backed by the sound management, the Bank evolved through its organic growth and prepared attractive platform for the entrance of an experienced, growth-oriented strategic investor.

From the initial stage the Bank's management had a clear and simple aim to connect its resources to the needs of its clients and to prepare a solid ground for a successful activities of the bank in a long-term run. Thus, BB's Management directed all their resources to accomplish a major business conception—creation of a niche Bank with a customer-focused approach based on strong communication ties with customers.

From the beginning the bank has strived for:

- Continuous care for the financial welfare of its customers
- Business success of its clients
- Creation of the best long-term partnership with promising, development oriented SMEs
- Formation of the efficient, reputable institution in the country
- Gaining recognition and status of a reliable regional partner among active IFIs

Throughout the early years of operation, the Bank was steadily growing. By the time EBRD's strategic alliance with BB, it was a very different institution from the tiny business.

YEARS OF STRATEGIC ALLIANCE WITH EBRD SUPPORTING GROWTH

Prior to strategic alliance with EBRD, BB put forth a hard work to upgrade its operations to adapt it to the best international practices. By the time EBRD became BB's shareholder, the bank already had functional

organization structure, efficient corporate governance structure adjusted to the size of the Bank and reporting system. In the years of BB/EBRD strategic partnership the Bank has undergone fundamental changes. The Management of the Bank was completely reorganized; new significant structures were introduced and established; with EBRD's entrance the format of communications between Supervisory Board (SB) and Management Board (MB) changed encompassing regular meetings and interactions, the strategic development plan was reformulated according to the mutual interests of the new and existing owners.

A new and enhanced corporate governance system has been jointly formulated by the Bank's local personnel and European consultants. Two years EBRD initiated Institution Building Plan was carried out with the help of international consulting company DAI (Development Alternative, Inc (DAI Europe). Under IBP program extensive consulting services were provided by the European professionals to transform the Bank's organization structure to meet the best international practices.

The tremendous work that has been done by the Bank's Management and dedicated staff brought BB recognition as an efficient, reliable bank with strong position among its peers and built a reputation that endures the present day. The aforementioned four year work has led to the upgrading of BB's credit ratings: International credit rating agency "Fitch Ratings" increased its ratings to BB from long-term CCC to B- and from short-term C to B with a stable outlook in 2010 and reaffirmed it in 2011.

The bank has grown far beyond its primary vision of a locally owned and managed institution that understood local needs. It won the confidence and loyalty of its staff, clients, partners, shareholders and assured that this once-small local bank became a prominent actor and a trustworthy partner on the market.

2012 – UP TO PRESENT DAYS ENTRANCE OF A NEW STRATEGIC INVESTOR – HUALING GROUP

While EBRD/BB strategic alliance was a period of BB's significant organizational transformations and developments, it has prepared the groundwork for the Bank's robust organic growth strategy.

On the background of already developed, strong financial institution, the right time came for the Bank to look further for increasing its capital base and capturing market share.

BB was already prepared for a more dynamic growth, however further solid capital infusion was needed and the Bank turned its attention on looking out for potential strategic investors as a possible vehicle to realize the Bank's robust growth strategy.

In 2012, BB found such an investor who would be interested in the company's further rapid development and who would inject additional capital in the Bank's business acceleration. China's Xinjiang Hualing Industry & Trade (Group) Co., Ltd (the "Hualing Group") – a big Chinese company acquired 90% equity stake in BB. By that period BB already had:

- Efficient organization structure based on best Corporate Governance Principles
- Fast, efficient and responsive services
- Full package of banking services for Retail, Corporate and SME segments
- Knowledgeable and equipped staff to handle local and global business challenges for the clients
- Well developed branch network

Together with the new owner and solid capital infusion the Bank started to rigorously execute its redefined 5 year strategy that encompassed ambitious growth.



HUALING GROUP

ABOUT HUALING GROUP

Xinjiang Hualing Industry & Trade Co. Ltd (Hualing Group), the major shareholder of the Bank, is a private enterprise group established in 1988. The Group operates in many different areas, more specifically focuses on the commodities wholesale market (rental and management services), and diversifies into international trade, development of modern livestock slaughter industry, logistic transportation, constructions, hotel, tourism etc. Hualing Group has 4 wholesale markets, more than 30 affiliated companies and more than 3000 employees in Xinjiang of China.

Hualing first entered Georgian market in 2007 and invested in local forestry exploration, wood processing and mining. Up till now, Hualing Group has invested USD 550 million and has implemented several major projects in Georgia.

Investment Projects of “Hualing Group” in Georgia include:

- “Hualing Kutaisi Free Industry Zone” officially opened in 2015, with ongoing construction of infrastructure facilities and installation of equipment and number of cost-effective and operational benefits available for registered companies.

- “Hualing Tbilisi Sea New City” is the largest project of Hualing Group in Georgia, which is located in Tbilisi, near Tbilisi Sea, one of the environmentally cleanest areas. The project area occupies 420 hectares of land. The estimated completion time is ten years. The project is focused on the economic and urban development of the district. It comprises Residential and commercial areas. The residential space offers apartment and villa complexes, recreation zones etc. There is an international trade center, 5-star hotel, fitness center and other facilities; Development of post office, new hospitals, international school, police station etc. other facilities is planned, to ensure that “Hualing

Tbilisi Sea New City” has everything necessary for the ideal functioning.

- “Hualing Tbilisi Sea Residence” consists of 2 million m² of living area. It offers apartments, villa complexes, recreational zones etc. From the beginning of 2015 sale of the stated residential apartments has commenced. Currently 27 apartment buildings are completed and 12 are under construction. Tbilisi Sea New City is where the Olympic village was located, which hosted the Thirteenth European Olympic Festival “Tbilisi 2015”, accommodating more than 4000 athletes from all around the world.

- “Tbilisi Sea Plaza” is an international trading center, located in Hualing Tbilisi Sea New City. Total construction area of “Tbilisi Sea Plaza” is 150 000 m², out of which 24 000 m² of brand exhibition hall, 18 000 m² of universal hall, 15 000 m² of bonded area and warehouse area were already completed in 2014. Construction of 110 000 m² of main building was completed in 2016. “Tbilisi Sea Plaza” is scheduled to open in December of 2016, thus becoming the largest trading center not only in Georgia, but in whole Caucasus region as well.

- In 2015 yet another remarkable project of Hualing Group – the 5-star hotel “Hotels & Preference Hualing Tbilisi” opened its doors. “Hotels & Preference Hualing Tbilisi” is located in Hualing Tbilisi Sea New City, is designed in modern European style, has 246 suites and stands out with the largest conference hall in Georgia and very spacious guest rooms. The hotel has recreational center, large parking territory etc.

In 2011 the group decided to enter the Georgian financial market. The key stimulus for the decision was to benefit from the development prospects of the region and the sector itself. The banking institutions are the most important means for market development and banking is one of the most growing sectors in Georgia.

Hualing Group intends to support the establishment of

strong financial institution with high-quality financial services, to strengthen and promote its sustainable growth and development.

Following the acquisition of 90% stakes in BB by Xinjiang Hualing Industry & Trade Co. Ltd, additional capital injection in the amount of 45 million USD was made by the Bank's new major shareholder.

Statement of the Chairman of Supervisory Board



Zhang Jun
Chairman of the Supervisory Board

As a Chairman of Supervisory Board of BB I am particularly proud to say it again this year, that 2015 was another successful year in the history of our bank's development. Achieved positive results became a clear

proof of accuracy and adequacy of BB's strategy. It is with great pleasure that I voice that the plans outlined at the beginning of this year have been successfully implemented; number of retail and

Statement of the Chairman of Supervisory Board

corporate clients have been increased, significant growth has been recorded in our lending business, new service centers have been opened, existing ones have been renovated and new projects enabling provisioning of even more flexible services have been implemented.

We are proud that the Bank is actively engaged in the financing of SME businesses and Agriculture Projects which contributes to the economic development of our country.

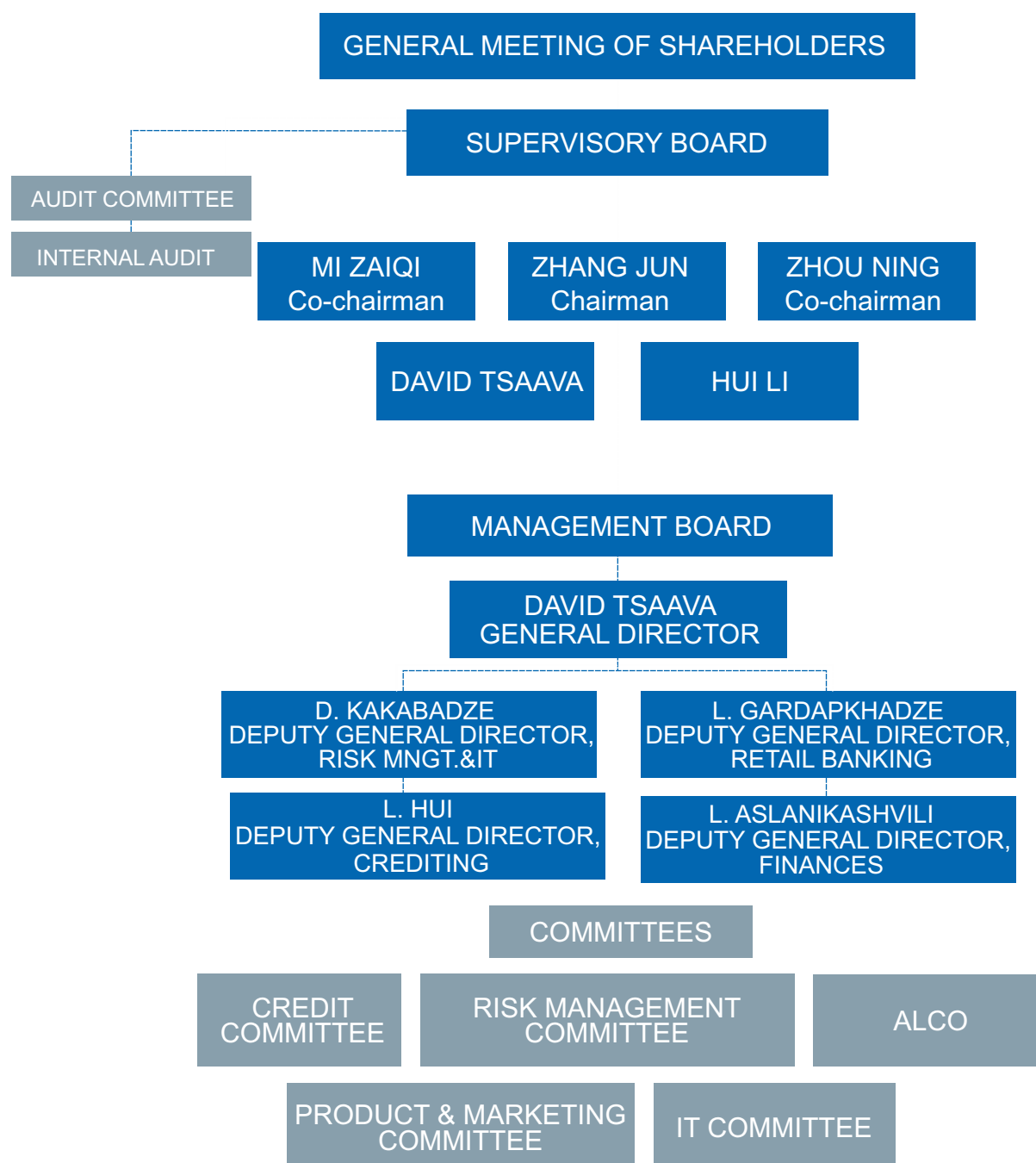
Following the tradition, we will again retain consistent growth trend during 2016.

Despite challenging environment and heavy competition, I am confident that with the help of dedicated and professional staff and through the support of the Bank's shareholder, "Hualing Group", BB will further strengthen its position to achieve even greater success.

GOVERNING BODIES



Executive Group



Executive Group



Zhang Jun
Chairman
of Supervisory Board



Mi Zaiqi
Vice Chairman
of Supervisory Board



Zhou Ning
Vice Chairman
of Supervisory Board



David Tsaava
Member of Supervisory Board,
General Director



Hui Li
Member of Supervisory Board,
Deputy General Director,
Lending



David Kakabadze
Deputy General Director,
Risk Management and IT



Lia Aslanikashvili
Deputy General Director,
Finances



Levan Gardapkhadze
Deputy General Director,
Retail Business

BUSINESS PROFILE



Statement of the General Director



David Tsaava
General Director

2015 was quite successful year for BB. The major prerequisite to success for any financial institution is attainment of its customers' needs absolute

satisfaction. Owing to the top quality banking services provision and adoption of innovative products throughout the last year, BB has confirmed once again

Statement of the General Director

its established image of being a reliable, sound and stable banking institution and has respectively managed to attract a number of new customers. The main objective of the Bank was based upon quality and excellence in each and every service and product offering. The new banking products have been designed and are still created under the stated principle, which is introduction of new products, adoption of new technologies and opening of new service-centers customized and oriented at clients requirements and needs. BB is a progress-oriented bank which never stops on what is already achieved.

With support of powerful/strong investor “Hualing Group” BB has gained opportunity to attract financial resources not only from European markets, but also to

have access to Asian markets. Bank is actively cooperating with number of international financial institutions, as in Europe as well as in Asia and USA. Nowadays BB stands out as a completely different, new type of market player which is attractive for its reliability, integrity, novation and scale.

In addition, BB creates the best conditions and work environment for career development, giving thus excellent opportunity to its employees for healthy competition, experience sharing. We attach particular importance to promoting contemporary education and creating useful environment for young generation and their development as real professionals in the country.

We do believe that capacity of BB is inexhaustible.

Open

Business Directions

Business Directions

RETAIL BANKING

Year 2015 was very successful in retail service sphere. Banking business is mainly focused on service. Relatively to BB the quality of customer service has a leading position. We carried out annual study of Customer's demand and needs and have introduced new products taking into account the interests of clients, we improve already existing products and throughout the year we have offered campaigns to our customers within which they have the best conditions on credit products and deposits.

In addition to favorable conditions on products also it is rather important development of service channels. The year was quite successful for BB in this direction as well. Three new Service-Centers were opened and have been renewed existing ones including Head Office of the Bank which is equipped with the latest technology. Besides within 2015 has been continued strategy of development of remote service which has been started in 2014.

By the end of the year we have offered to the customer updated mobile bank application which makes possible for users to carry out any desired banking operation from any place and so save the time. Also internet banking of BB was functionally improved and became more versatile, the number of active user of which has been doubled.

During 2015 was scheduled and carried out campaign on consumer loans. The new and current customer had possibility of unprecedented offer on the market and had the most acceptable conditions. The campaign was held with success, the satisfaction of customers have directly proportional mapped on increasing of portfolio and on attraction of new clients. Many of campaigns were carried out for Deposits. In respect of deposits was emphasized willingness of market growth, trust the Bank and save time. Twice per year at the beginning



and in autumn we have offered to the clients the best interest rate for Term Deposits which provides opportunity to attract the new customers and to improve their satisfaction for the long-term period as well as loyalty of existing clients. In addition to all we have offered the best interest rate for opening of Children Deposits.

Several incentive actions was proposed during the year for the users of credit cards: Lady Card and Megobarati in frames of this different valuable prizes were awarded

Business Directions



Considering the fierce competition on the retail banking market, it is important to focus on not only high service quality and well-developed network of service centers and ATMs but also on diversity of products and their useful terms. In 2016, BB will continue to be active in the retail segment and customarily respond to the market demands.

COMMERCIAL BANKING

BB provides its corporate and SME clients a wide range of financial products backed by high quality service and relationship management. The Bank's commercial banking business covers the emerging corporate segment and small and medium enterprises. BB has two business groups, corporate and SME, catering to these segments with a wide range of banking services covering their working capital, term finance, international trade services, foreign exchange and advisory requirements and needs.

2015, as the previous years, became a new successful milestone in corporate and SME business development. Bank significantly increased its client base and outperformed banking sector in terms of loan portfolio growth, while maintaining strong asset quality. Business lending increased by 74% compared to 32% for the overall Georgian banking sector. Retail loan portfolio growth was 39% YoY, mainly driven by increase in mortgage loans. At the end of 2015 BB served about 4,932 business entities. Bank managed to increase funding base through increase in borrowed funds from International financial Institutions by 70% YoY, as well as increase in total customer deposits by 20% YoY.

Noteworthy is that Bank offers to corporate Customers not only useful products and conditions but also create for them appropriate environment in order to attract new partners and widen the sales area. A striking example of it is Business Club of BB existing already two years. For the companies members of BB Club has been created special business portal by means of which the Bank permanently proposes variety of alluring offers. Besides systematically is held meeting with the Club Members where they have opportunity to introduce their business and novelties of each other. As well they attend different trainings and lectures on variety of topics interesting for them. The lectures are conducted by Georgian and Foreign specialists specially invited for the Club members.

Another important area, where Bank enhanced its activities referred to agriculture lending.

The agricultural sector is one of the strategically



to active owners of credit cards which helped to increase customer's loyalty.

By the end of 2015, BB's retail loan portfolio demonstrated a 39% increase and reached GEL 118 million, driven primarily by a growth in mortgage loans. Deposits to Individuals grew by 48% and amounted GEL 115 million.



Business Directions

important sectors/direction of Georgian economy. Nearly half of the population of Georgia lives and is self-employed in rural areas. Georgia has very high potential for the development of agricultural sector due to Georgia's favorable natural conditions and the strategic location for the international trade. Today only a small part of agricultural capacity is being utilized in Georgia and therefore this sector has great prospects for the future development.

In the last years, state programs have significantly contributed to the development of the agricultural sector and increased farmers access to credits, therefore the agricultural field has become attractive for banks.

BB assessed importance of agricultural development for the country and increased the financing of the agricultural sector since 2015. An agricultural credit unit was created on the basis of BB credit department, which specializes only in financing agricultural direction. The representatives of the unit in Tbilisi and in regional branches serve farmers throughout the country.



In 2015 Basisbank was the first bank in Georgian which opened an agro branch in Tbilisi. This branch specializes only in agricultural credit direction and offers our clients a full range of banking services in this direction

In 2015 agricultural credit portfolio increased and exceeded (10 million GEL)

In 2015, BB started publishing educational Agro magazine - AgroBasis, which offers our clients interesting scientific articles about new approaches and technologies in agro field. The magazine also contains the articles which reflect the current issues in Georgian agricultural field.

For the next years, the bank aims to expand the network of branches, employ more staff in order to become more active in financing agriculture sector.

In 2015 BB continues to closely cooperate with different international financial institutions to raise investments to



Business Directions

fund SME loans.

China continues to be of strategic importance to the Bank and presents a significant long-term growth opportunity.

Putting together cross-border deals through growing Chinese business presence in Georgia, leveraging our network of partners and being able to take advantage of established strong business ties with Asian market combined together with global products capabilities is of the utmost significance for the Bank. Therefore, BB launched series of negotiations with several Chinese financial institutions to capture opportunities that lies in Asian region and follow its growth strategy.

In 2015, BB partnered Urumqi City Commercial Bank, a Chinese commercial bank and signed a long-term cooperation memorandum to receive long-term, multi-level and diversified strategic cooperation to exchange knowledge and experience in the area of services and products offerings through technical support as well as financial support for the trade business development. The same year BB commenced discussions with CDB,

one of the World's largest banks by assets and value to enter into partnership and connect increasing demand of customers doing business within Georgia-China domains to include financing of clients cross-border activities and provisioning of secured trading opportunity to our customers. The collaboration will enter into force from the beginning of the next year.

Aside of acquiring new partners, BB continued deepening of its cooperation with its long-term partners, EBRD and BSTDB. In 2015 BB attracted a \$36.5 million package of loans to support business needs of its customers from EBRD and BSTDB. In particular, the package includes \$20 million financing for corporate, \$5.5 million – additional trade finance limit, and \$10 million for small and medium-sized enterprises, inclusive line of credit for energy efficiency investments under the Caucasus Energy Efficiency Programme. It is noteworthy that it was a first energy efficiency investment project for BB which will allow us to enter and develop a new business segment by promoting and financing energy efficiency investments among local businesses and retail clients.

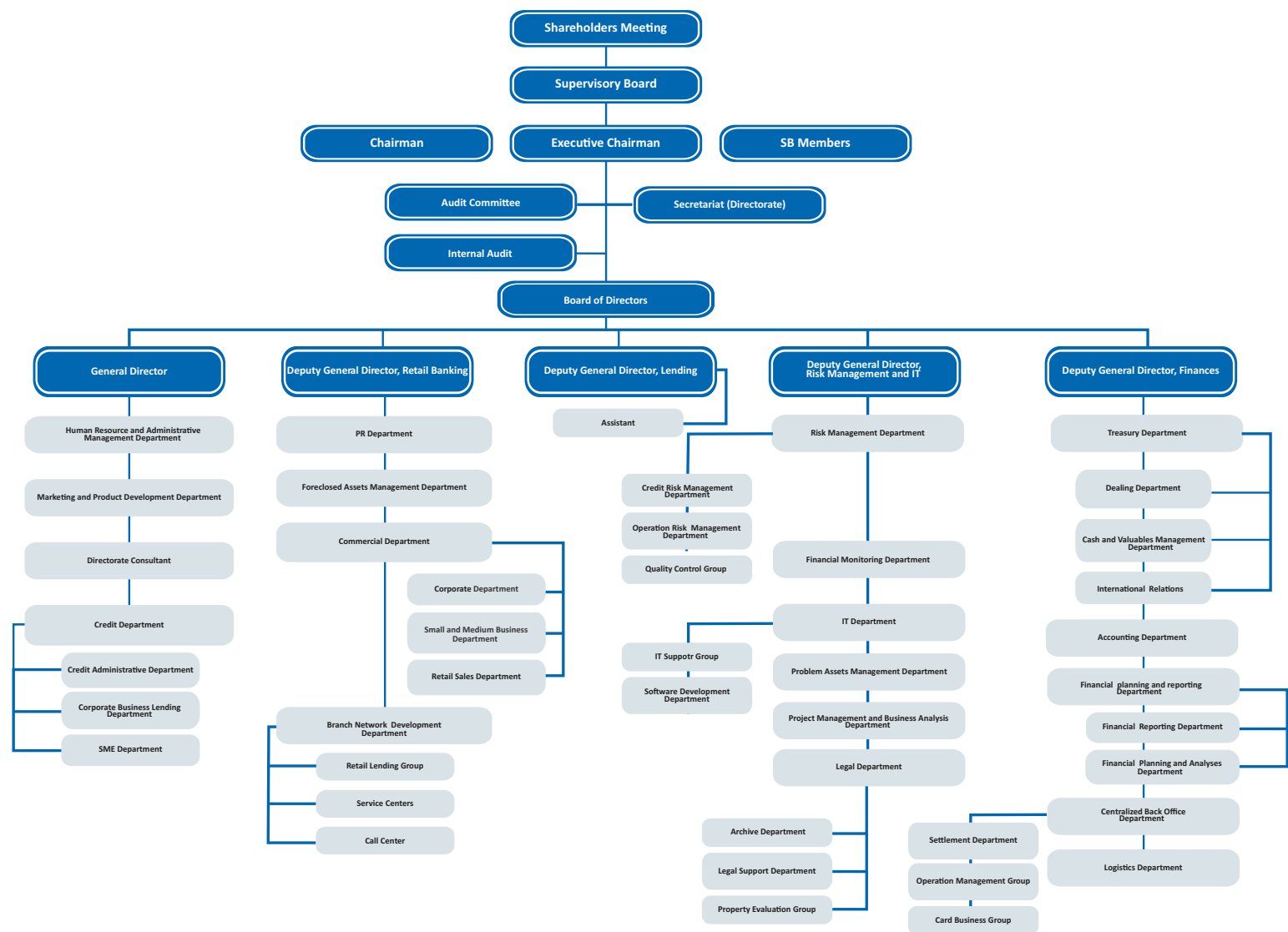


CORPORATE GOVERNANCE AND RISK MANAGEMENT



Corporate Governance and Risk Management

Organization Structure



Corporate Governance

BB has established a robust system of corporate governance in accordance with high international standards which ensures effective allocation and clear separation of roles and responsibilities between shareholders, supervision and management. The bank is committed to ensure responsible management and adequate, efficient control systems based on a strong framework - a prerequisite for future sustainable development and growth and important factor for ongoing operational performance. The Bank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009, which follows the corporate governance standards of the Basel Committee including areas related to the control environment.

The corporate Governance is executed through these key elements:

The General Meeting of Shareholders is the supreme governing body of the Bank, which takes decisions on the most important issues. The General Meeting of Shareholders elects members of the SB. The rules for recruiting of SB members are regulated by the law of Georgia, the Bank's Charter and Policy of the SB.

The responsibilities of the MB and the SB outlining the functions and decision-making capacity of each of these bodies are clearly separated. The SB sets the main targets and directions for the bank development, actively performs its strategic and oversight functions by providing general supervision of the Bank's activities; decisions on business directions by setting operating and strategic priorities; sets succession plans for the MB; ensures existence of effective and trustworthy system of internal and risk management controls; supervises activities of the executive bodies and is responsible and accountable to the General Meeting of

Shareholders as a supreme governing body of the Bank. The decisions affecting the Bank are approved by the SB. The MB is reporting to the SB which reviews the efficiency of its work on a regular basis (at least four times a year).

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

The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives set out by the SB. The SB appoints the members, the functions, the structure and the role in governance, responsibilities and remuneration is clearly defined by the SB. The accountability of the management, the function, responsibilities, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the SB.

BB has a comprehensive organizational structure which ensures solid control environment-effective functioning and interaction between the SB, the Management Team, the Audit Committee, the Internal Audit Service. The Bank has the interest in strengthening and enhancing corporate governance practices in the Bank, particularly in the area of the control environment.

Risk Management

The risk management framework of the Bank is comprised of all key functions responsible for designing and implementing the risk strategy—The SB and its Internal Audit Committee; The MB through Risk Management Committee and other related functions within the bank - the Risk Management Unit, Assets Liability Management Committee (ALCO) and other units.

The SB sets the general principals and polices of risk management according to its strategy and risk appetite. The MB is responsible for implementing the risk management strategy, risk preferences and policies determined by the SB as well as implementing monitoring and control, is accountable for the risk undertakings. The risk management is the area where involvement of the management team is particularly important. Based on reports of the risk management unit, the management is assessing the risk strategy and the risk governance framework which ensures that risks are controlled in a proper way; develops a risk management culture, which implies an adequate communication at all levels of the organization, ensures that risk management unit carries the risk identification, assessment, monitoring and control at all levels in accordance with the risk management policy and procedures. In addition the management ensures that the risk management framework is up-to-date and reflects all relevant risks and controlling tools are in place to reflect the changes in business environment, the bank's strategic focus, the business plan, operating

environment or other factors. The management conducts such review and initiates appropriate adjustments at least on an annual basis in case of necessity.

The risk strategy of the Bank is derived from the business strategy, which is approved by the SB and needs to be modified at any time when strategy is revised by the Bank. The Risk management processes are constructed in a way to support the execution of the risk strategy in the daily processes of the Bank and management and the reporting system also is built up in to support risk governance.

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

The Bank has elaborated ICAAP Policy which is requirement under Pillar 2 of new Basel regulations and was submitted to NBS for review and discussion. ICAAP Policy reviews every major category of risks the bank faces, and introduces which is and discussion and introduces methods to quantify those risks, describes how these risks are managed by the bank and what the limits systems are: Credit Risk, portfolio induced Market Risk, Op. Risk, market risk, interest rate risk, FX risk, business model risk, reputational risk etc. Management of each material risk types are defined within the ICAAP framework of the Bank.





Corporate Governance



The successful operation of our Bank in many respects caused by its qualified staff. That is why we so appreciate the competence and innovation of our workers and the value of professional staff.

First of all employees of our Bank have an open and attentive attitude to clients. The personnel is quite young which ensure it's alive, energetic and bright.

For HR Department 2015 was rather multifarious. We were able to merge the business with entertainment and has received interesting result. The focus was made as on development as well as on entertainment.

For increasing of employees' incentive we've started to

strengthen the motivation of employees, we started an incentive campaign on credit cards. As a result of active involvement a considerable prize fund was distributed among the five winners.

On the initiative of general Deputy Director Mrs. Hui Li was arranged competition of cashiers. It was an unprecedented case, similar events have not yet carried out in Georgia. The four winners have been identified: the best cashier, the fastest cashier and the most attentive cashier. The winners were awarded with money prizes and the first place winner went to a trip to China.

In 2015 the Bank began to publish new magazine Agrobasis. Presentation of magazine were held on cozy environment during a diner with pleasant music. Concurrently with presentation was held a meeting of middle management with Executive Board where were considered outcome of 2014.

As usual the main part of our activity has been associated with the selection and retraining of human recourses. The three new Service-centers were staffed: in Rustavi, Gori and Vazisubani. Effortful work was carried out together with the branches network development department, so a great base of new



Corporate Governance



employees was established.

During 2015 in total 62 new employees have started career with BB; have been promoted – 20 employees. BB is focused on personnel career promotion preserving the old base culture. for us is very important career development of our employees and appreciation of their loyalty towards us.

In 2015 the first time were arranged outdoor activity for grape harvest in Kakheti region. The spirit of teamwork, unanimity and positive were felt there. The host of the event was one of the significant customer of the Bank “Winery Khareba”. Our employees have shown enthusiasm and initiative in collecting of grapes.

The next Olympic competitions took place at “Chateau-Mukhrani”. There were conducted a lot of fascinated, sports and entertainment games. The staff had an opportunity to visit the gorgeous castle of prince

Mukhran-Batoni, ancient wine cellar and relax in enchanting environment. It was an excellent relaxation at the end of hard week. Exciting and joyful were game relay “Sport for fun” with teams staffed with bankers. Traditionally the winner team was awarded with the “Best team” Cup.

2015 Year was completed with Corporate New Year Party with “fairy tales” imaging. Fancy dress ball was full of glamorous stars, represented by our employees. 19 honored employees were named who were awarded with title of “honored worker of the Bank” and valuable prizes. Has been carried out drawn lots and were announced the best amusing nominees of 2015. The evening was faery and left an indelible track on the memories of 2015.



PROJECTS AND SOCIAL RESPONSIBILITY



Projects and Social Responsibility



BB has awarded the next laureates of Pascal prize!

On 21st of December was held award ceremony of 4 laureates with Pascal Prize in Ilia University. BB has awarded each of them with prize of GEL 3000.

Priority of the Bank in term of social responsibility is supporting of education. In the Bank is established "Fund of education supporting" which implement such a useful projects as; funding of students studying course, issuance of nominal scholarship, financing of different students conferences etc.

Pascal award is a money prize equal to GEL 3000 and any young scientist affiliated with State Ilia University could be granted with it who has published significant international publication in international refereed journal included in thematic base of Thomson Reuters.

„Fund supporting Education“ of BB actively operates in Imereti region

On February 17 was held meeting between the General Director of BB Mr. Tsaava and other representatives of the Bank with the Deputy Governor of Imereti region, the First Deputy and Mayor of Kutaisi.

Within the meeting were discussed issues of supporting of variety Projects in Education and Social spheres. Noteworthy that priority of BB in terms of social responsibility is supporting of education. In the Bank is established „Fund supporting education“ by means of which is implemented number of useful Projects.

During the meeting was discussed issues of bilateral cooperation and the both parties have expressed their satisfaction.

BB has operated in Kutaisi since May, 2013 and has scheduled implementation of numerous significant Projects in Imereti region in the nearest future.

„Crime prevention Center“ and BB have concluded the Memorandum of Mutual Cooperation.

The ceremony of signing has been held in the Ministry of Justice. Document was signed by Director of LEPL "Crime Prevention Center" Mr. Johnny Kvinikadze and General Director of BB David Tsaava.

The ceremony of signing was presented by Deputy Minister of Justice Mr. Mikheil Sarjveladze. As a Director of Crime prevention Center Johnny Kvinikadze has stated with support of BB the Center has already implemented variety of significant events including the Olympiad "Juvenile crime prevention" for the school pupils, as well the program "Two generations". „Within the frames of Memorandum we have jointly scheduled more interesting and significant programs.

“I believe that with the joint efforts of state and business sector is possible to form a new educated and erudite generation. The joint Projects already implemented and I hope for the future active cooperation will enhance social responsibility among the future generation and their formation as responsible citizens.“ – has stated David Tsaava.



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Projects and Social Responsibility



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Projects and Social Responsibility



BB has sponsored team of GIPA

Team of GIPA has participated for the first time in the 22-nd Contest named after Willem C. Vis –the simulation of process of international commercial law and arbitration.

The target of mentioned contest is improvement the knowledge of students from different countries in international commercial law and arbitration. Noteworthy is that team of GIPA is the first Georgian team who has won simulated process of preliminary stage in Tbilisi and took the first place between the 11 teams of the Universities of Georgia, Belarus, Latvia and Germany.

Trip of GIPA team to Vienna on final contest was financed by BB.

Between the University of Sulkhani-Saba Orbeliani and BB has been concluded memorandum of cooperation

Between the University of Sulkhani-Saba Orbeliani and BB has been concluded memorandum of cooperation within the frames of which BB will grant the 5 students with the best academic performance with monthly semester scholarship. As well Memorandum provides training and practice of students in the BB.

Following the signing of Memorandum was held ceremony of certificates transfer.

As already known the priority of BB in terms of social responsibility is promotion of education. Within the Bank is established "Fund Supporting Education, by means of

which is implemented number of useful Projects.

In the State University of Tbilisi was provided simulated trial by school pupils and students with support of BB

In the State University of Tbilisi of Ivane Javakhishvili was held the final stage of Project "Simulated trial for school pupils II". The Project was implemented bilaterally by Crime prevention center of Ministry of Justice and by Training center of Justice. The participants of the Project were pupils and students. Within the trial the roles of "Defendant", "Judge", "Prosecutor" and "Defense Counsel" were performed by the pupils and the role of "Jury" was preformed by the students. At the court "session" was considered the case of premeditated murder. With regard to the relevant criteria the members of jury were announced the three best participants of the trial.

The members of Jury consists of Director of Crime Prevention center Mr. Johnny Kvinikadze, Acting Director of Justice Training Center Mrs. Lela Tsertsvadze, The Head of Public Relations Department of BB Mrs. Tamar Khaduri and Representative of German International Cooperation Society Mr. Tornike Darjania.

BB has held presentation of magazine Agrobasis

BB has held presentation of new Agricultural magazine Agrobasis.

One of the priorities of BB is financing of agribusiness: will be issued agro credits for the local farmer or persons involved in agribusiness for development of their



Projects and Social Responsibility

farming. Noteworthy that Bank is participated in Project, designed by the Ministry of Agriculture “Project of favorable Agro Credits” . In this direction the loan portfolio has exceeded GEL27 mln.

BB has not only finances agribusiness but also provides informational support of Businessmen. Exactly is proven by the publishing of new agro magazine Agrobasis. The new issue of the magazine will be published quarterly, interesting and typically for the BB - including useful articles and full of illustrations.

As is well known the history of BB already counts 22 years. During this period, the bank has created the image of a stable, reliable and progressive bank. The great experience of the bank was enriched by the financial resources of the new investor - the largest Chinese conglomerate Hualing Group.

Bank continues to constantly taking care of their customers and taking into account their interests, plans and implements a variety of useful and projects.

"Hualing Group" jointly with BB has donated for the victims of disaster GEL 150 000

“Hualing Group“ and BB expresses deepest sympathy in connection with tragedy happened in Tbilisi and join the Charity Marathon. Company has provided financial assistance in amount of GEL 150 000 and, besides, has provided the City Hall with construction of technique facilities.

Ilia State University and BB have held presentation of joint scholarship program

Memorandum on mutual cooperation has been concluded between Ilia State University and BB and has been held presentation of joint scholarship program.

Program involves establishing of scholarship voucher program is the establishment of a scholarship vouchers for successful students who continue to study in an undergraduate program and will be internationally accredited at the University of San Diego in computer and electronic engineer. Students graduated from the said Bachelor's course will get the American Diploma.

Value of joint scholarship program of Ilia State University



and BB for 2015 amounts to GEL 20 000, which involves issuance of ten one-time scholarship vouchers in amount of GEL 2000.

Upon signing of memorandum was held presentation of Bachelor's program of San-Diego University , which was led by Dean of Campus of San-Diego University in Georgia Mr. Ken Walsh.

“This is the first but not the only Project which we carry out in cooperation with Ilia University in 2015. I am pleased that we have the opportunity to promote diligent students and young scientists in obtaining an education and finding the desired place in society”- has stated General Director of the Bank Mr. David Tsaava.

“Noteworthy is that cooperation between business and educational sphere is accepted practice in USA. I'm pleased that BB is involved in this project and provides assistance in obtaining the high quality education which leads to the prosperity of the country” – has stated Ken Walsh.

Projects and Social Responsibility



BB has awarded with GEL 2000 scholarships the students enrolled to San Diego State University Bachelor's Program in Ilia University of Georgia

10 successful first-year students enrolled to San Diego State University Bachelor's program with international accreditation provided by Tbilisi Ilia State University were awarded with GEL 2000 scholarship. Students were presented with gifts and they received congratulations on their achievements from Rector of Ilia State University Mr. Giga Zedanya, Dean of Program of San Diego State University Ken Walsh and Head of Public Relations Department of BB Mrs. Tamar Khaduri.

As was stated by the Chancellor of Ilia State University Mr. Giga Zedanya on the ceremony the volume of bilateral scholarship program of Ilia State University and BB amounts to GEL 20 000.

Ilia State University carried out bilaterally with State University of San Diego Bachelor's Program in Engineering Science. The Students will have education in full compliance with USA requirements.

Noteworthy is that BB has relationship with University over the 10 years and they have implemented variety of bilateral projects.

"University is focused on constant innovations and our Bank as a financial institution is trying to contribute to the fulfillment of such useful programs", - has stated the Head of Public Relations Department of BB Mrs. Tamar Khaduri.



BB has provided training for the entities involved in Agricultural sector

On December 25th BB has provided training in city of Gori for the entities involved in Agriculture sector. The training was led by specially invited Chinese specialist Doctor of Agricultural Science Mr. Jun Yang. Mr. Jun has presented to Georgian farmers technology of energy-saving greenhouses whose operation is based on the consumption of solar energy.

Upon completion of presentation the event was continued in Q&A format.

Local farmers have expressed their satisfaction due the opportunity to get acquainted with the latest technologies.

BB provides active support to Agricultural sector. Noteworthy that the Bank has issued on quarterly basis agricultural-magazine Agrobasis, besides, the Bank is involved in Program "Preferential agro-credit" initiated by the Ministry of Agriculture of Georgia.



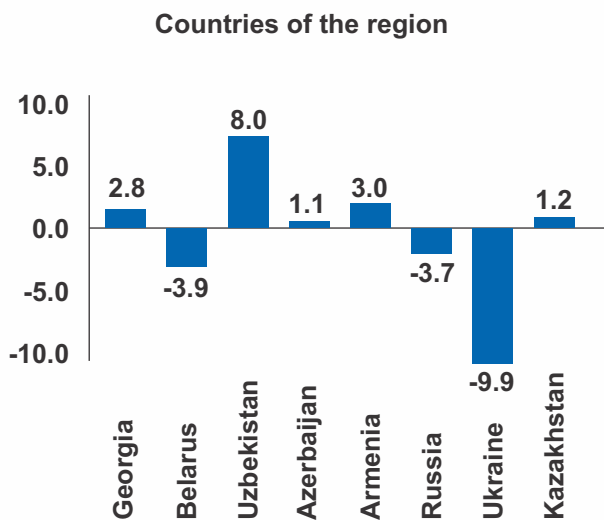
FINANCIAL REPORT



Financial Report

ECONOMIC REVIEW

Year 2015 proved to be challenging, despite of exacerbated external factors the growth of the Georgian economy was maintained at 2.8%. The growth was modest but positive. Georgia has responded to external shocks better than the countries of the region - the CIS region showed a negative average growth of -2.6% in 2015.



The economic slowdown and currency depreciations experienced by the country's main trading partners have lowered Georgia's exports and remittances: External trade turnover shrank by 14%, exports down by 30% and imports by 12% in 2015, remittances dropped by 28% in 2015 y/y due to sharply declining money transfers from Russia and Greece.

Worldwide strengthening of the US\$ combined with high dollarization levels in the country caused depreciation of the national currency Lari – the trend that persisted throughout the entire year. The appreciated US\$ has weighed heavily on all regional currencies and economies. Georgia responded to these external shocks adequately, by focusing on inflation management, keeping free floating rate and implementing responsible monetary policies. External imbalances were absorbed by the Georgian Lari which

depreciated by almost 30%. Local currency depreciation allowed the country to decrease its export-import imbalances which also was supported with stable inflows from FDI and tourism proceeds. Georgia spent a much smaller share of reserves than regional peers did. With their different exchange rate regimes central banks in Armenia, Moldova, Russia, Ukraine, Azerbaijan, and Belarus lost a significant share of their reserves. The floating exchange rate supported with limited interventions by The National Bank of Georgia (NBG) helped to achieve nominal and real exchange rate correction without spending reserves. As a result, the economy maintained its stability in 2015.

Georgian Lari depreciated in 2015 against the US\$ by 29% y/y. Over the same period GEL lost 15% of its value against EUR. While depreciation of real exchange rate of GEL was very high, nominal effective exchange rate depreciated by 4% y/y in 2015, showing that GEL behaved in line with the developments in major trading partners of Georgia and helped to maintain external competitiveness of the country.

Lari remained more stable against other regional currencies and the currencies of key Georgian trading partners, but its depreciation against the US\$ was serious problem for economy because dollarization levels are very high in the country (70% as at 31 December 2015). National Currency depreciation helped to absorb the external shocks, but with the high dollarization rate of loans and a notable currency imbalance between income and expenditure it has also increased the debt burden of borrowers with dollar loans, both in business and consumer sectors.

Local currency depreciation against US\$ since December 2014 has raised inflation expectations. Responding to inflation threats and consistent with its inflation-targeting regime, NBG has gradually increased its monetary policy rate from 4% in the beginning of 2015 up to 8%. The tightening of monetary policy, together with lower oil prices, helped contain inflation during 2015 to 4.9% close to targeted 5%.

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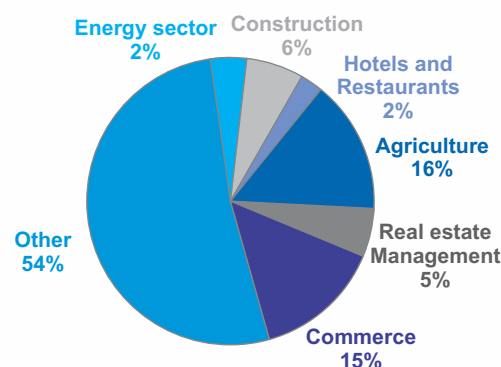
Maintaining healthy economic growth is a priority and main challenge for the state. GDP growth rates over the past decade were quite substantial. Since 2010 Georgia's five year real GDP growth stood at 4.7%, after 2008-2009 shocks experienced due to global economic crisis, for 2015 real GDP growth was for 2.8%. During the same period, GDP per-capita increased from US\$ 924 in 2003 up to US\$ 3,759 in 2015.

Several factors were impacting the growth - increase of consumption and investments pushed by the Government increased spending in capital investments, supported by significant FDI inflows and public infrastructure spending which supported increase in imports of capital goods, eased monetary policy and fiscal stimulus supported by public investments.

Based on the IMF's 5-year projections Georgia has a potential to generate 5% annual average real growth over the next decade. Though 2016 year still remains challenging but following years should show more steady growth.

Growth decelerated from 4.8% in 2014 to 2.8% in 2015, largely because of a weaker external environment, but succeeded relatively well in facing the external shocks than countries of the region. Despite the overall slowdown, growth was supported by construction with real growth reaching 15.2%, and services where Hotels (7%), Transport (2.9%) and communications (5%) were important. Construction sector was a significant factor in 2015 yearly growth driven by investments of both public and private sector, in infrastructure projects and residential construction and contributed to the GDP growth for 0.8 percentage points of the entire 2.8%

GDP per sectors for 2015 in constant prices



growth; another driver of GDP – transportation, hotels and restaurants is a result of increased tourism; manufacturing and export have negative impact on growth- the export oriented production sector suffered the most, industrial production contracted by -4.9% in 2015.

Attractive business environment supported inflow of FDI to Georgia over the past decade which have helped to drove economic growth in finance, tourism, logistics, transportation, and energy sectors. Capital inflows have boosted growth and productivity, but at the expense of a growing current account deficit. Investment and capital accumulation since 2004 have been financed largely by FDI, 2014 have posted high of US\$ 1.8bln with some decline in 2015 US\$ 1.6 bln.

Georgia's exceptional business environment, its commitment to continued reforms, and the free trade agreement with European Union and China can help sustain capital flows in coming years. FDIs which compose almost 11% of GDP and remains the main sources of external financing and with other sources of external income low foreign capital inflows continue to finance the current account deficit, therefore the FDI will be crucial in supporting the economic growth and stability.

Transport and communication, construction, and manufacturing were the main recipients of FDI in 2014-2015. Transport and communication received US\$ 1 bln (30% of FDI), construction US\$ 427 - mln (13%),

IMF Growth outlook	2014A	2015A	2016F	2020F
Georgia	4.8	2.8	3	5
Russia	0.6	-3.8	-0.6	2.5
Turkey	2.9	3	2.9	3.5
Azerbaijan	2.8	4	2.5	3.4
Ukraine	-6.8	-9	2	4
Armenia	3.4	2.5	2.2	3.5
Kazakhstan	4.3	1.5	2.4	4.5

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Manufacturing – US\$ 403 mln (12%). Followed by Energy (9%), Financial (9%) and HORECA (8%). These flows have boosted economic growth and export potential, we expect this environment to persist over the medium term and the will be further supported by FDI and capital inflows.

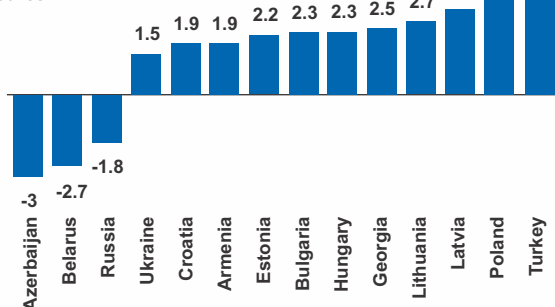
With continued external weakness, forecasts about growth in 2016 are not high. According to IMF 2016 growth is expected to remain low at level of 2.5%, while expecting the growth of 4.5% in 2017. Forecasts of the World Bank are similar, estimating economic growth of Georgia at 3% in 2016, 4.5% in 2017 and 5.0% in 2018.

The government continues reforms aimed at improving the investment environment in the country. Authorities

capital spending the government abolished VAT on import of fixed assets; other measure in administration and further reduction of bureaucracy other stimulus offered by the government related to financing of new business and start-ups in SME sector must ensure more efficient investment climate.

Georgia is to continue its economic progress over the next decade with a potential of average of 5% growth annually. The necessary prerequisites are in place - infrastructure and investments projects in transport, communication, Energy (energy production and transition), Government support to start-ups and new production; institutional changes, a business friendly environment, the potential to establish itself as a regional service hub, and the related expected inflow in

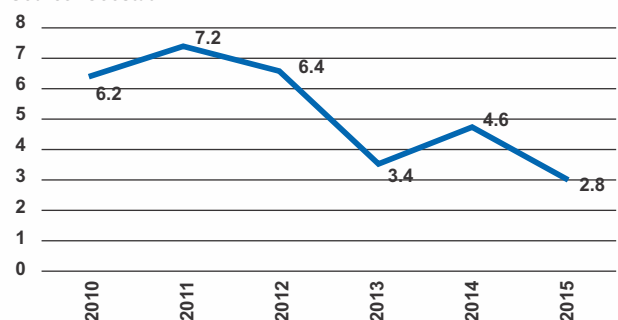
GDP growth forecast for 2016 (%)
Source: IMF



seek to maintain a sound macroeconomic environment, backed by prudent fiscal, monetary and financial policies. For the development of businesses it is essential to maintain balanced fiscal policy, more oriented on capital spending and to conduct efficient efforts for improving investment climate for local and foreign investors. The Georgian Government designs special projects to simulate internal production, replace import and support increase of share of exporters in the country.

The Government initiated remove of income tax is to stimulate re-investments and raise internal capital sources. The application corporate income tax to only distributed profits will start from January 1, 2017 which should stimulate local private investments; to support

Annual Real GDP growth %
Source: Geostat



FDIs provide a solid base for the future growth following years.

In 2014, Georgia signed an Association Agreement with the European Union including DCFTA (Deep and Comprehensive Free Trade Agreement). The Agreement is aimed at enhancing Georgia's trade and economic growth through bringing its legislation closer to that of the EU. It also removes the existing barriers on the trade of goods and services with the EU. The restoration of the Silk Road has been a major priority for Georgia, successful completion of free trade negotiations with China and US, activation of projects in energy sector, transit and tourism should help to generate positive results for Georgia.

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Significant investment projects were declared and the expectations are high. Investments in energy sector – construction of small and medium size hydro power plans, public infrastructure projects, etc. Anaklia port construction, which is shortest route connecting Europe to Asia, will be supported with infrastructure projects in transport and communication (including railway, road rehabilitation and construction of free industrial zone, etc) 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 government's priorities are to strengthening the country's capacity as a regional hub in transport and logistic, infrastructure; to promote social protection /healthcare, education; agricultural development and new productions for replacement of imported goods and food production; tourism and energy sector and services are strategically important sectors.

Despite a lower growth outlook and external risks stemming from regional economic problems, Georgia has managed to keep its macro fundamentals healthy, which will provide a strong base for a quick pick-up once regional turbulence subsides.

BANKING SECTOR

In 2015, banking sector assets grew by 22% (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%.

In 2015 total assets of the banking sector amounted to GEL 25.2 billion. In 2015 the total loan portfolio

increased reached GEL 16 billion, however in real terms (excl. FX effect) growth of the loan portfolio was approximately 6%.

From Sector's total gross loan portfolio 37% of lending falls on large businesses and corporations, 23% on MSME and 40% on Retail segment respectively. The portfolio distribution according to economic sectors are mainly in Trade, Construction, Hotels and tourism and agriculture. The government initiation of new program for supporting the sector has pushed the investments in agriculture.

For Georgian banks the macro-economic environment and market conditions remains the main challenge, despite of downturn in major macro-economic parameters the growth still remains positive, but challenged by the quality pressure on the banks' financial metrics.

With high dollarization level of the Georgian economy and high depreciation of the local currency against Dollar (about 30% in 2015) the financial sector is enduring asset quality pressure, though still supported with high capitalization level have sufficient capacity to absorb the losses which could arise due to deterioration of assets, but impairments could hit the sectors' profitability.

Georgian banking sector remains exposed to exchange rate risk through unhedged borrowers as most bank assets and liabilities continue to be denominated in FX rather than the local currency (GEL), but prudent macroeconomic policies work towards increasing confidence in the national currency and de-dollarization of the financial sector.

The major risk for the banking sector (BS) is in risk of quality deterioration of FX denominated assets, creating more pressures on solvency of borrowers and

	2008	2009	2010	2011	2012	2013	2014	2015
Loans to GDP	31%	29%	30%	32%	33%	39%	45%	51%
BS assets to GDP	46%	46%	51%	52%	55%	64%	71%	79%
GDP Real Growth, Percent	2%	-4%	6%	7%	6%	3%	5%	3%
Banking Assets Growth	23%	-6%	27%	20%	13%	20%	19%	22%
Banking Loans Growth	31%	-13%	21%	24%	13%	21%	24%	23%

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more significantly on retail borrowers whose income is fixed in local currency and have no access to hedging instruments. As per latest information NPLs (Non-performing loans) stand at 7.5% and the LLPR (Loan loss provision rate) is 6.4% under NBG standards (end of 2014: NPLs stood at 7.6 and LLPR at 6.1%). Same quality data for BB as at year-end 2015 stands as- NPL rate 3.3%, NBG LLPR 4.6%.

The BS's capitalization is strong, the capital adequacy ratios as at year-end under Basel II standards stand at 17% which help to offset the pressure on assets quality. NPLs management is the key to support the profitability. Margins remain sufficiently wide, but with expected low growth of the sector and increased LIBOR and NBG refinancing rates the margins would be placed under pressure. The BS is reducing USD funding rates in order to increase the funding structure in Local currency and soften the pressure on margins. Lending in Lari will be more limited due to increase of refinancing rate as well which for 2015 year end stands at 8%.

Increase of the economic activity should impact the trend positively, though the tension in the region remains and investment activity is relatively low, but the announced Government's projects and balanced budget spending should support the growth.

BB'S PERFORMANCE 2015

In 2015 BB continued to work towards its Business Strategy - 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; and enjoy a competitive position of having strong links to China, use it to create strong link between Georgian and Chinese Financial and Business sector. BB's strategic plan is centered on dynamic market share growth, products and services excellence and diversity, strong international partnerships expansion.

The bank made significant progress towards goals and

targets set by the strategy. In 2015 BB continued to focus on improving its market position, further enhancing performance in Corporate/SME units, achieving operational excellence and cost efficiency.

BB's performance has reached solid results as at year end 2015. Despite of tensions and unfavorable market conditions and increased risks, BB displayed 46% increase of Pre-tax profit, maintained low level of assets deterioration (the risk quality measures are lower than the market's average) and solid progress on KEY fronts:

- Lending growth reached 63% and deposits growth to 20% in 2015
- SME business expansion projects on Energy efficiency, Trade Financing, loans for 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, ensure more efficient usage of resources
- Strengthening further our risk management framework

As of end of 2015 the BB's result stands at + GEL 218 million increase in assets and capital generated through net increase of profit by GEL 22 million, the total comprehensive income reached to GEL 26 million which have resulted in the following KPIs:

Earning assets is displaying about 51% of growth similar to year 2014 (+55%), the growth in 2015 was mainly driven by increased average loan portfolio + 73% (year-end 2014: +61%) reflected in increased share in total average assets 57% from 2014 year-end 47% where increase of interest earning assets was partly caused by lending expansion and partly by investments in securities.

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Profit measures are healthy - ROAE and ROAA are standing at 15.2% and 3.1% respectively (year end 2014: ROAE 11.3% and 3.1% of ROAA) supported with increased pre-impairment profit for 48% and low cost to income ratio 35% by the end the year.

In 2015, the Bank closed year with net income of GEL 22 million and Total Comprehensive income (COI) of GEL 26 million. The principal drivers of Bank's increased profitability were solid net interest margin (NIM) and low cost to income ratio. Net interest Income for the period, mostly gained on lending (GEL 46.4 million) supported with revenue from Bonds (GEL 10 million) giving rise of Net interest income up to GEL 36 million from last year GEL 26 million which is 37% growth. The average loan yields decreased from 13.7% to 12.2%, but strong loan

Allowances for credit losses was GEL 3.7 million as of the end of 2015. Bank as well as sector remains exposed to exchange rate risk through unhedged borrowers as about 63% of portfolio loans are denominated in USD while significant part of the borrowers gain their income in Local currency Lari. Management of the Bank monitors the changes in exchange rates and assesses the impact using stress tests with different shock scenarios. As a result of Lari depreciation and imbalance between income and expenditure, Bank expected deterioration of retail portfolio. Last year the bank assessed its expected losses at the beginning of the year and provided for additional allowances for increased risks by adding GEL 1.5 million to portfolio reserve. 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 3.7 million. The portfolio reserve composes 2.4% of gross portfolio, the cost of risk defined as reserve charges as of year-end portfolio composes 0.8% in 2015 and 0.9% at the end of 2014.

The overall increase of assets compared to December 31 2014 is for 37.7%, GEL 218 million, primarily driven by a growth in loans and liquid assets (comprising cash and cash equivalents, amounts due from other banks, mandatory cash balances and investment securities). Average Loan portfolio reached +73% of year 2014 results, with slight decrease in securities portfolio

portfolio growth more than offset this decline in loan yields. High revenues from Bonds reflect high investments in Government securities (GEL 114 million for the end of the year and average investment portfolio for 12 month GEL 142 million) which compose 14% of total assets.

Efficiency ratio, a metric to evaluate expenses as a percentage of income remains lower level at 35%. In 2015, total operating expenses increased by 16% Y/Y, from GEL 13 million to GEL 15 million. We expect that the cost base will be increased in following years due to higher expenses from increased operational needs, investments in infrastructure, extension of service units and development costs. But BB is targeting to maintain this ratio at lower 40% by focusing on increased efficiency.

Key performance indicators (KPIs)	2015 Actual	2014 Actual
ROAE	15.2%	11.3%
ROAA	3.1%	3.1%
Yearly growth of average earning assets	50.7%	55.4%
Yearly growth of average loan portfolio	73.5%	61.4%
Yearly growth of RWAs	53.0%	27.6%
Average Interest bearing assets / total Assets	83.9%	80.0%
Average Loans / Average Assets	57.0%	47.2%
Risk weighted assets /total assets	86.9%	77.4%
CAR (Basel I_NBG)	21.4%	28.8%
Overhead ratio	34.1%	40.1%
Liquidity Ratio (Liquid Assets / Total Liabilities)	48.8%	62.4%
Liquid Assets (Liquid Assets /Total Assets)	38.9%	47.8%
Loans To Deposits	96.0%	70.9%

Consolidated Statement of Profit or Loss In thousands of Georgian Lari	Y_End 2015	Y_End 2014	Change
Interest income	57,583	37,750	52.5%
Interest expense	(21,380)	(11,316)	88.9%
Net interest income	36,203	26,434	37.0%
Fee and commission income	4,480	3,291	36.1%
Fee and commission income	(1,682)	(1,126)	49.4%
Net fee and commission income	2,798	2,165	29.2%
Other Noninterest Income	4,222	3,776	11.8%
Operating income	43,223	32,375	33.5%
Operating expenses	(15,154)	(13,078)	15.9%
Net Operating Income before provisions	28,069	19,297	45.5%
Impairment losses on loans	(3,751)	(2,597)	44.4%
Impairment losses on other assets and provisions	(214)	(168)	27.4%
Income before taxes	24,104	16,532	45.8%
Income tax expense	(2,197)	(1,555)	41.3%
Net income	21,907	14,977	46.3%
Other Comprehensive Income	4,240	(452)	NMF
Total comprehensive income	26,147	14,525	80.0%

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Balance Sheet items development	2015	2014	Yearly change in %
Total liquid assets	310,843	277,301	12%
Gross Loans	460,537	282,458	63%
Corporate Loans	255,890	145,775	76%
SME Loans	86,540	51,456	68%
Retail Loans	118,107	85,227	39%
Mortgage Loans	88,459	59,231	49%
Consumer Loans	23,849	20,276	18%
Card Loans	5,799	5,720	1%
Loan Loss Reserves	(11,007)	(7,696)	43%
LLRR	2,4%	2,7%	-11%
Net Loans	449,530	274,762	64%
Total Assets	798,280	579,738	38%
Customer Deposits	479,791	398,460	20%
Current Deposits	141,805	98,664	44%
Demand Deposits	62,706	69,195	-9%
Time Deposits	275,280	230,600	19%
Borrowings	49,370	29,573	67%
Subordinated Debt	4,499	3,447	31%
Total Liabilities	637,425	444,082	44%
Total Shareholders' Equity	160,885	135,661	19%

In thousand GEL

overall growth of average earning assets is about 51%. The loan portfolio share in total assets is 57.7% and Average earning assets is composing 84% of average assets.

In 2015, BB's total lending grew by 63% Y/Y, or by 40.6% on a constant currency basis, compared to 18.7% and 6%, respectively, for the overall Georgian banking sector. Loan portfolio growth was largely related to GEL 145 million increase in Business lending. Retail loan portfolio was characterized by 39% growth (GEL 33 million), mainly driven by increase in mortgage loans primarily in GEL floating interest rate products. The portfolio distribution according to economic sectors are mainly in Trade, Construction, Hotels and Tourism and Financial sector. Portfolio segmentation at the End of 2015 was following: 74% in corporate and SME and 26% in Retail segment.

Bank managed to deliver robust profitability and at the same time maintain sound asset quality as a result of prudent management policies. NPL's increased slightly from 2% at the end of 2014 to 3.3% at end of 2015, reflecting primarily the slowdown of the economy and exchange rate depreciation pressures, , but overall loan portfolio quality remains healthy. NPL coverage remained strong at 138%. The total overdue portfolio more than 30 days, including portfolio which was

restructured during last 12 month is composing 4.4% of gross portfolio. Loan portfolio provisioning rate equaled to 2.4%, compared to the end of 2014 2.7%. FX induced credit risk exposures still remains high above 60%, which increases the risk in case of sharp depreciation of local currency. BB monitors FX induced credit risk by periodically performing stress tests both on 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;

As at end of 2015 the total liabilities increased by GEL 193 million (+44%) compared to year-end 2014. This growth was mainly driven by increase in borrowed funds from International financial Institutions by 70% as well as growth of total deposits by 20% Y/Y. BB funding is largely based on deposit portfolio (75%). Share of retail deposits increased from 19% to 24% in 2015, but major part still comes on corporate deposits, which are 76% of total deposit portfolio. The share of on-demand deposits (both settlement account as well as Interest bearing demand deposit) in total funding are above 43%. From term deposits about 52% have the contractual maturity of less than 6 month. Long-term funding is sourced mainly from international financial institutions;

Borrowed funds from International financial Institutions compose 8% of total liabilities. In 2015 Basis bank attracted a \$36.5 million package of loans from its long-term partners, EBRD and BSTDB, to support business needs of its customers. In particular, the package includes \$20 million financing for corporate, \$5.5 million – additional trade finance limit, and \$10 million for small and medium-sized enterprises, inclusive line of credit for energy efficiency investments under the Caucasus Energy Efficiency program. Additionally, In order to increase share of long term borrowings in total funding bank has negotiated with Urumqi City Commercial Bank, China Development Bank and other financial institutions which will increase Bank's funding base for the following years.

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Liquidity

Composition of funding sources:

<i>In thousands of GEL</i>	<i>2015</i>	<i>Share in total funding</i>	<i>2014</i>	<i>Share in total funding</i>
State and public organizations	81,276	15%	64,738	15%
Other legal entities	283,653	53%	256,082	59%
Individuals	114,862	22%	77,640	18%
Total customer accounts	479,791	90%	398,460	92%
Loans from Banks and other Financial Institutions	49,370	9%	29,573	7%
Subordinated debt	4,499	1%	3,447	1%
Total funding	533,660		431,480	

BB continues to operate with solid liquidity positions as loan to deposit ratio stands at 96% at the end of 2015. BB has a significant liquidity buffer, as average liquidity stands at 47% of customer deposits and other liabilities, which is above NBG liquidity requirement 30%. Liquidity reserves (including: Cash and cash equivalents, mandatory reserves, unbound securities) amounted to GEL 274 million as of 2015, 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.

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%. In case of BB, Lari demand on liquidity is covered by 160% and FX demand by 175%, total Liquidity coverage ratio stands at 171% at the End of 2015.

Bank continues to keep conservative approach and retains capital adequacy ratios that are quite high compared to the NBG's minimum requirements, which are 7.6% Tier I and 11.4% CAR under Basel I regulations. BB's Tier 1 capital as of 2015 was GEL 125 million (2014 GEL 112 million) and total regulatory capital GEL 148 million (2014 GEL 130 million). Capital ratios were 18.2% (Tier I) and 21.4% (CAR) respectively.

The risk weighted assets according to NBG were GEL

690 million as of 2015, GEL 239 million (53%) higher, than at the end of 2014 (GEL 451 million). NBG puts a very high risk weighting on FX denominated loans-175%, 100% to cover credit risk and 75% to cover currency risk. So increase in RWA largely reflects significant growth in FX part of loan portfolio.

From June 2014, next to Basel I, all commercial banks must also comply with New Basel II/III framework of capital adequacy requirements. New regulation better reflects each commercial bank's risk profile and imposes additional requirements for better monitoring of capital structure and quality. Basel I requirements are gradually being phased out and will be fully replace by the end of 2017 with Basel II/III approach. This latter version of capital regulation incorporates calculations of capital requirements for credit risk, credit induced market risk and operational risks. As of 31 December 2015, according to Basel II/III regulation, the BB's Tier I capital adequacy ratio stood at 18.2% and total CAR stood at 19.9%, against the minimum requirement of 8.5% and 10.5% respectively.

The capital requirement calculations are further enhanced under Pillar II, where the internal capital requirement based on the bank's internal model is calculated. The bank elaborated different stress testing models, where stress scenarios are based very tough macroeconomic assumptions and include all areas of the bank's functioning, including but not limited to credit Deterioration in case of significant downfall of the GDP, FC rate, Interest rates increase, Liquidity stress, impact on operating income and capital sufficiency and solvency.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS REPORT



BASISBANK GROUP

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

31 December 2015

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Independent Auditor's Report

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Independent auditor's report

To the Shareholders and Management of JSC BasisBank:

We have audited the accompanying consolidated financial statements of JSC BasisBank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC BasisBank and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

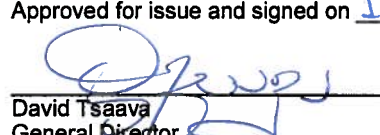
PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch

1 April 2016
Tbilisi, Georgia

BasisBank Group
Consolidated Statement of Financial Position

<i>In thousands of Georgian Lari</i>	Note	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	7	140,754	70,492
Mandatory Cash balances with the NBG	8	56,380	37,181
Loans and advances to customers	9	449,530	274,762
Investment securities available for sale	10	63	169,691
Repurchase receivables	11	36,458	-
Bonds carried at amortized cost	12	77,250	-
Investment properties	13	1,879	2,048
Current income tax prepayment	30	517	72
Other financial assets	15	416	845
Other assets	16	12,368	8,127
Intangible assets	14	587	601
Premises and equipment	14	22,078	15,919
TOTAL ASSETS		798,280	579,738
LIABILITIES			
Due to other banks	17	91,102	9,016
Customer accounts	18	479,791	398,466
Other borrowed funds	19	49,370	29,573
Other financial liabilities	20	7,532	688
Current income tax liability	30	-	4
Deferred income tax liability	30	3,602	1,686
Provisions for liabilities and charges	34	257	186
Other liabilities	21	1,272	1,011
Subordinated debt	22	4,499	3,447
TOTAL LIABILITIES		637,425	444,077
EQUITY			
Share capital	23	15,941	15,941
Share premium		73,967	73,967
Retained earnings		62,654	42,199
Share based payment reserve	24	837	338
Revaluation reserve for premises		6,998	2,638
Revaluation reserve for available-for-sale securities	25	458	578
Net assets attributable to the Bank's owners		160,855	135,661
TOTAL EQUITY		160,855	135,661
TOTAL LIABILITIES AND EQUITY		798,280	579,738

Approved for issue and signed on 1 April 2016.


David Tsaava
General Director


Lia Aslanikashvili
Deputy General Director, Finances

BasisBank Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Interest income	26	57,583	37,750
Interest expense	26	(21,380)	(11,316)
Net interest income		36,203	26,434
Provision for loan impairment		(3,751)	(2,597)
Net interest income after provision for loan impairment		32,452	23,837
Fee and commission income	27	4,480	3,291
Fee and commission expense	27	(1,682)	(1,126)
Gains less losses from financial derivatives		(346)	210
Gains less losses from trading in foreign currencies		3,565	3,319
Foreign exchange translation gains less losses		730	(70)
Provision for credit related commitments	34	(71)	(163)
Other operating income	28	272	317
Administrative and other operating expenses	29	(15,296)	(13,083)
Profit before tax		24,104	16,532
Income tax expense	30	(2,197)	(1,555)
PROFIT FOR THE YEAR		21,907	14,977
Other comprehensive income / (loss):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
<i>Available-for-sale investments:</i>			
- Gains less losses arising during the year	10	-	(433)
- Gains less losses reclassified to profit or loss upon disposal or impairment	10	(222)	(99)
Income tax recorded directly in other comprehensive income		102	80
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of premises and equipment	14	5,130	-
Income tax recorded directly in other comprehensive income		(770)	-
Other comprehensive income / (loss) for the year		4,240	(452)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		26,147	14,525
Profit is attributable to:			
- Owners of the Bank		21,907	14,977
Profit for the year		21,907	14,977
Total comprehensive income is attributable to:			
- Owners of the Bank		26,147	14,525
Total comprehensive income for the year		26,147	14,525

BasisBank Group
Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Bank						Non-controlling interest	Total equity	
		Share capital	Share premium	Share based payments reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings			Total
In thousands of Georgian Lari										
Balance at 31 December 2013		15,941	73,967		1,030	2,638	27,222	120,798		120,798
Profit for the year		-	-	-	-	-	14,977	14,977	-	14,977
Other comprehensive loss		-	-	-	(452)	-	-	(452)	-	(452)
Total comprehensive income for 2014		-	-	-	(452)	-	14,977	14,525	-	14,525
Share Based payments	24	-	-	338	-	-	-	338	-	338
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 payments	24	-	-	499	-	-	-	499	-	499
Dividends Paid		-	-	-	-	-	(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

BasisBank Group
Consolidated Statement of Cash Flows

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Cash flows from operating activities			
Interest received		52,597	34,564
Interest paid		(19,053)	(10,037)
Fees and commissions received		4,483	3,283
Fees and commissions paid		(1,681)	(1,825)
Income received from financial derivatives		263	66
Income received from trading in foreign currencies		3,565	3,319
Other operating income received		196	260
Staff costs paid		(8,394)	(7,567)
Administrative and other operating expenses paid		(5,780)	(3,937)
Income tax paid		(1,398)	(2,646)
Cash flows from operating activities before changes in operating assets and liabilities		24,798	15,480
<i>Net (increase)/decrease in:</i>			
- due from other banks		(9,568)	(12,958)
- loans and advances to customers		(130,330)	(78,491)
- other financial assets		674	(150)
- other assets		(2,646)	268
<i>Net increase/(decrease) in:</i>			
- due to other banks		81,459	9,035
- customer accounts		22,910	156,328
- other financial liabilities		6,025	(816)
- provisions for liabilities and charges and other liabilities		(72)	(187)
- other liabilities		224	-
Net cash (used in)/from operating activities		(6,526)	88,509
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	-	(210,807)
Proceeds from disposal and redemption of investment securities available for sale	10	-	137,097
Acquisition of Bonds carried at amortized cost		(113,221)	-
Proceeds from redemption of Bonds carried at amortized cost		173,516	
Acquisition of premises and equipment		(1,942)	(875)
Proceeds from disposal of premises and equipment		40	108
Disposal of investment properties		240	
Proceeds from disposal of foreclosed properties		4,103	1,452
Acquisition of intangible assets		(104)	(25)
Net cash from/(used) in investing activities		62,632	(73,050)
Cash flows from financing activities			
Proceeds from other borrowed funds		46,465	19,194
Repayment of other borrowed funds		(36,603)	(22,109)
Dividends paid		(1,453)	-
Net cash from/(used in) financing activities		8,409	(2,915)
Effect of exchange rate changes on cash and cash equivalents		5,747	(1,558)
Net increase in cash and cash equivalents		70,262	10,986
Cash and cash equivalents at the beginning of the year		70,492	59,506
Cash and cash equivalents at the end of the year	7	140,754	70,492

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 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 2015 and 2014 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.

Shareholders	% of ownership interest held as at 31 December	
	2015	2014
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.980%	92.980%
Mr. Mi Zaiqi	7.020%	7.020%

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 (2014:18) branches in Georgia and 54 ATMs (2014: 54). The Group had 355 employees at 31 December 2015 (2014: 296 employees).

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

Name	Country of incorporation	Principal activities	Ownership % at 31 December	
			2015	2014
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
BAM-Astoria LLC	Georgia	Asset management	100%	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 2015 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.

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

3 Summary of Significant Accounting Policies (Continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

3 Summary of Significant Accounting Policies (Continued)

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)

Reposessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised 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 reposessed 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 and impairment losses, except of 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

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

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

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

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

	<u>Useful lives in years</u>
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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 2015, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.3949 (2014: USD 1 = GEL 1.8636), EUR 1 = GEL 2.6169 (2014: 1 = GEL 2.2656).

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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

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.

Reclassifications. In order to achieve better and more useful presentation, the management has changed the presentation of a number of financial statement line items in 2015. The following reclassifications were made to 2014 income and expense items:

<i>In thousands of Georgian Lari</i>	As originally presented	Reclassification	As reclassified for 2014
Fee and commission expense	(1,825)	699	(1,126)
Administrative and other operating expenses	(12,376)	(707)	(13,083)
Other operating income	309	8	317

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. The following table provides information on amounts expected to be received or settled before and after twelve months after the reporting period .

	31 December 2015			31 December 2014		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
<i>In thousands of Georgian Lari</i>						
ASSETS						
Cash and cash equivalents	140,754	-	140,754	70,492	-	70,492
Mandatory cash balances with the NBG	56,380	-	56,380	37,181	-	37,181
Loans and advances to customers	137,569	311,961	449,530	109,799	164,963	274,762
Investment securities available for sale	-	63	63	169,628	63	169,691
Repurchase receivables	36,458	-	36,458	-	-	-
Bonds carried at amortized cost	27,875	49,375	77,250	-	-	-
Investment properties	-	1,879	1,879	-	2,048	2,048
Current income tax prepayment	517	-	517	72	-	72
Other financial assets	296	120	416	752	93	845
Other assets	271	12,097	12,368	262	7,865	8,127
Intangible assets	-	587	587	-	601	601
Premises and equipment	-	22,078	22,078	-	15,919	15,919
TOTAL ASSETS	400,120	398,160	798,280	388,186	191,552	579,738
LIABILITIES						
Due to other banks	91,102	-	91,102	9,016	-	9,016
Customer accounts	455,127	24,664	479,791	376,429	22,037	398,466
Other borrowed funds	37,074	12,296	49,370	29,298	275	29,573
Other financial liabilities	7,532	-	7,532	688	-	688
Current income tax liability	-	-	-	4	-	4
Deferred income tax liability	-	3,602	3,602	-	1,686	1,686
Provisions for liabilities and charges	257	-	257	186	-	186
Other liabilities	1,265	7	1,272	908	103	1,011
Subordinated debt	-	4,499	4,499	-	3,447	3,447
TOTAL LIABILITIES	592,357	45,068	637,425	416,529	27,548	444,077

Amendments of the consolidated financial statements after issue. The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

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 2015 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 1,100 thousand (2014: GEL 770 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 564 thousand (2014: GEL 320 thousand), respectively.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 39.

Valuation of own use premises. As at 31 December 2015 premises of the Group are stated 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.

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

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group:

- Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

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).
- 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.

6 New Accounting Pronouncements (Continued)

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 in 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.

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

- 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).
- 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 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).
- Amendments to IAS 19 - "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 February 2015).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 February 2015).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

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

<i>In thousands of Georgian Lari</i>	2015	2014
Cash on hand	24,477	18,181
Cash-in-transit	-	480
Cash balances with the NBG (other than mandatory reserve deposits)	7,644	28,558
Correspondent accounts and overnight placements with other banks	108,633	19,544
Placements with other banks with original maturities of less than three months	-	3,729
Total cash and cash equivalents	140,754	70,492

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

<i>In thousands of Georgian Lari</i>	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
<i>Neither past due nor impaired</i>				
- 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

As at 31 December 2015 there was 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. (2014: 2 Non-OECD banks with aggregate amount of GEL 107 thousand).

The credit quality of cash and cash equivalents balances analysed based on Fitch's Ratings at 31 December 2014 is as follows:

<i>In thousands of Georgian Lari</i>	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
<i>Neither past due nor impaired</i>				
- National Bank of Georgia	28,558	-	-	28,558
- A- to A+ rated	-	18,466	-	18,466
- Lower than A- rated	-	971	3,729	4,700
- Unrated	-	107	-	107
Total cash and cash equivalents, excluding cash on hand and cash-in-transit	28,558	19,544	3,729	51,831

7 Cash and Cash Equivalents (Continued)

At 31 December 2015 the Group had 1 counterparty bank (2014: 1) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 91,467 thousand (2014: 15,793 thousand).

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

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

8 Mandatory cash balances with the National Bank of Georgia

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

In 2015, 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

<i>In thousands of Georgian Lari</i>	2015	2014
Corporate loans	342,430	197,231
Consumer loans	23,849	20,276
Mortgage loans	88,459	59,231
Credit Cards	5,799	5,720
Less: Provision for loan impairment	(11,007)	(7,696)
Total loans and advances to customers	449,530	274,762

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

<i>In thousands of Georgian Lari</i>	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.

Movements in the provision for loan impairment during 2014 are as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
Provision for loan impairment at 1 January 2014	3,373	352	1,166	208	5,099
Amounts written off during the year as uncollectible	(132)	(125)	(21)	(135)	(413)
Provision for impairment during the year*	628	663	1,557	162	3,010
Provision for loan impairment at 31 December 2014	3,869	890	2,702	235	7,696

*The provision for impairment during 2014 differs from the amount presented in profit or loss for the year due to GEL 413 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:

<i>In thousands of Georgian Lari</i>	2015		2014	
	Amount	%	Amount	%
Individuals	118,107	25%	85,227	30%
Financial Institutions	54,970	12%	13,945	5%
Trade	35,745	8%	22,198	8%
Hotels & Restaurants	33,100	7%	16,299	6%
Health Care	30,291	7%	10,133	4%
Real Estate Development	26,558	6%	17,437	6%
Production & Manufacturing	26,258	6%	23,908	8%
Real Estate Management	25,687	5%	16,919	6%
Wine production	24,485	5%	17,279	6%
Agricultural	23,359	5%	10,037	3%
Construction & Production of Construction Materials	20,776	4%	8,821	3%
Energy	12,852	3%	8,299	3%
Service	12,225	3%	18,499	7%
Other	16,124	4%	13,457	5%
Total loans and advances to customers (before impairment)	460,537	100%	282,458	100%

At 31 December 2015 the Group had 10 borrowers (2014: 6 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 95,225 thousand (2014: GEL 44,462 thousand) or 21% of the gross loan portfolio (2014: 16%).

Information about collateral at 31 December 2015 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>In thousands of Georgian Lari</i>					
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

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2014 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>In thousands of Georgian Lari</i>					
Unsecured loans	9,934	10,281	1,434	5,700	27,349
Loans collateralised by:					
- cash deposits	16,680	884	-	-	17,564
- real estate	163,807	8,742	57,780	-	230,329
- transport and equipment	950	368	17	-	1,335
- other assets	5,860	1	-	20	5,881
Total loans and advances to customers	197,231	20,276	59,231	5,720	282,458

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 amount of GEL 16,772 thousand (2014: GEL 15,718 thousand) were not considered in the above table.

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures.

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>In thousands of Georgian Lari</i>					
<i>Neither past due nor impaired</i>					
- 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
<i>Past due but not impaired</i>					
- 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
<i>Loans individually determined to be impaired (gross)</i>					
- 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 individually 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

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>In thousands of Georgian Lari</i>					
<i>Neither past due nor impaired</i>					
- Large borrowers with credit history over two years	59,398	-	-	-	59,398
- Large new borrowers	64,176	-	-	-	64,176
- Loans to medium size entities	24,797	-	-	-	24,797
- Loans to small entities	345	-	-	-	345
- Loans to individuals with credit limit over GEL 100 thousand	29,161	2,578	23,459	267	55,465
- Loans to individuals with credit limit below GEL 100 thousand	5,188	15,528	31,939	5,272	57,927
Total neither past due nor impaired	183,065	18,106	55,398	5,539	262,108
<i>Past due but not impaired</i>					
- less than 30 days overdue	2,828	618	392	1	3,839
- 30 to 90 days overdue	1,399	-	-	-	1,399
- 91 to 180 days overdue	104	-	-	-	104
- 181 to 360 days overdue	49	-	-	-	49
Total past due but not impaired	4,380	618	392	1	5,391
<i>Loans individually determined to be impaired (gross)</i>					
- Not overdue	6,425	707	959	53	8,144
- less than 30 days overdue	781	396	773	33	1,983
- 30 to 90 days overdue	867	231	651	49	1,798
- 91 to 180 days overdue	489	61	421	29	1,000
- 181 to 360 days overdue	605	113	548	11	1,277
- over 360 days overdue	620	44	89	4	757
Total individually impaired loans (gross)	9,787	1,552	3,441	179	14,959
Less impairment provisions	(3,869)	(890)	(2,702)	(235)	(7,696)
Total loans and advances to customers	193,363	19,386	56,529	5,484	274,762

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 2015:

<i>In thousands of Georgian Lari</i>	Over-collateralised assets		Under-collateralised assets	
	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

The effect of collateral at 31 December 2014:

<i>In thousands of Georgian Lari</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	169,381	521,806	27,850	17,917
Consumer loans	9,841	39,469	10,435	155
Mortgage loans	56,312	149,909	2,919	1,485
Credit Cards	20	22	5,700	-
Total	235,554	711,206	46,904	19,557

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

<i>In thousands of Georgian Lari</i>	2015	2014
Georgian government treasury bonds	-	58,777
Georgian government treasury bills	-	27,314
NBG certificates of deposit	-	83,537
Total debt securities	-	169,628
Corporate shares (not quoted)	63	63
Total investment securities available for sale	63	169,691

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

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Carrying amount at 1 January		169,628	93,512
Fair value gains less losses		-	(433)
Gains less losses reclassified to profit or loss upon disposal or impairment		-	(99)
Interest income accrued		-	6,121
Interest income received		-	(2,651)
Purchases		-	210,276
Redemption at maturity		-	(137,098)
Reclassified to Bonds carried at amortized cost		(169,628)	-
Carrying amount at 31 December		-	169,628

Investment securities available for sale include equity securities with a carrying value of GEL 63 thousand (2014: 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 represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. The repurchase agreements are short-term in nature and mature by 8 January 2016.

<i>In thousands of Georgian Lari</i>	2015	2014
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.

<i>In thousands of Georgian Lari</i>	2015	2014
Georgian government treasury bonds	68,183	-
Georgian government treasury bills	2,542	-
NBG certificates of deposit	1,053	-
Corporate bonds	5,472	-
Total Bonds carried at amortized cost	77,250	-

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

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Gross amount at 1 January		-	-
Additions		113,104	-
Reclassified from investment securities available for sale	10	169,628	-
Redemption		(173,516)	-
Interest income accrual		9,750	-
Interest income received		(5,258)	-
Reclassified to Repurchase Receivables		(36,458)	-
Gross amount at 31 December		77,250	-

12 Bonds carried at amortized cost (Continued)

All Bonds carried at amortized cost are issued by the Georgian government and the National Bank of Georgia except for corporate bonds of GEL 2.36 million issued by AAA rated international financial institution and GEL 3.11 million issued by BB- rated corporate company.

At 31 December 2015 Bonds carried at amortized cost with a carrying value of GEL 40,158 thousand (2014: None) 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

<i>In thousands of Georgian Lari</i>	2015	2014
Investment properties at 1 January	2,048	1,802
Additions	-	27
Depreciation	(15)	(10)
Disposals	(170)	-
Transfer from other assets	16	229
Investment properties at 31 December	1,879	2,048

As of 31 December 2015, the fair value of investment properties was GEL 2,590 thousand (2014: GEL 2,295 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

	Note	Premises	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
<i>In thousands of Georgian Lari</i>							
Cost/valuation at 1 January 2014		13,903	6,919	148	20,970	986	21,956
Accumulated depreciation		-	5,045	-	5,045	318	5,363
Carrying amount at 1 January 2014		13,903	1,874	148	15,925	668	16,593
Additions		159	667	55	881	25	906
Transfers		148	-	(148)	-	-	-
Disposals		-	(124)	-	(124)	-	(124)
Depreciation							
Depreciation charge	29	280	507	-	787	92	879
Disposals		-	(24)	-	(24)	-	(24)
Carrying amount at 31 December 2014		13,930	1,934	55	15,919	601	16,520
Cost/valuation at 31 December 2014		14,210	7,462	55	21,727	1,011	22,738
Accumulated depreciation		280	5,528	-	5,808	410	6,218
Carrying amount at 31 December 2014		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)
Reversals of accumulated 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)
Reversals of accumulated depreciation upon revaluation		(564)	-	-	(564)	-	(564)
Carrying amount at 31 December 2015		19,222	2,856	-	22,078	587	22,665
Cost/valuation at 31 December 2015		19,222	8,586	-	27,808	1,101	28,909
Accumulated depreciation		-	5,730	-	5,730	514	6,244

Construction in progress primarily consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment

Premises have been revalued at fair value at 31 December 2015. The valuation was carried out by an independent valuator, Georgian Valuation Company LLC, which holds recognised and relevant professional qualifications and has recent experience in the valuation of assets in similar locations and in a similar category. Refer to Note 4.

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.

14 Premises, Equipment and Intangible Assets (Continued)

At 31 December 2015, the carrying amount of premises would have been GEL 11,142 thousand (2014: GEL 11,101 thousand) had the assets been carried at cost less depreciation.

15 Other Financial Assets

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Receivables for credit card services and money transfers		151	76
Receivables for sale of repossessed property		-	414
Other financial derivatives	36	21	236
Other receivables		245	152
Less: Provision for impairment		-	(33)
Total other financial assets		416	845

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

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

16 Other Assets

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Repossessed collateral		10,804	6,648
VAT paid		898	927
Litigation prepayments		382	277
Prepayments for services		131	85
Fixed asset prepayments		73	119
Withholding taxes paid		7	6
Other		73	65
Total other assets		12,368	8,127

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

<i>In thousands of Georgian Lari</i>	2015	2014
Correspondent accounts and overnight placements of other banks	75	16
Short-term placements of other banks	5,654	9,000
Short-term loans from NBG	50,000	-
Short-term loans from other banks	35,373	-
Total due to other banks	91,102	9,016

The Group pledged debt securities as collateral for short-term loans with NBG and Georgian banks with carrying amount of GEL 76,616 thousand at the end of the reporting period (2014: none).

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

18 Customer Accounts

<i>In thousands of Georgian Lari</i>	2015	2014
State and public organisations		
- Current/settlement accounts	21,616	32,888
- Term deposits	59,661	31,851
Other legal entities		
- Current/settlement accounts	129,173	87,543
- Term deposits	154,479	168,543
Individuals		
- Current/demand accounts	53,722	47,429
- Term deposits	61,140	30,212
Total customer accounts	479,791	398,466

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Georgian Lari</i>	2015		2014	
	Amount	%	Amount	%
State Deposits	24,197	5%	15,241	4%
Construction	158,395	33%	177,194	45%
Financial Institutions	54,643	12%	20,408	5%
Transportation or Communication	43,631	9%	23,723	6%
Production/Manufacturing	29,716	6%	21,318	5%
Trade	23,303	5%	23,661	6%
Education	11,514	3%	12,750	3%
Energy	6,591	1%	12,218	3%
Service	6,304	1%	6,107	2%
Other	6,635	1%	8,205	2%
Individuals	114,862	24%	77,641	19%
Total customer accounts	479,791	100%	398,466	100%

18 Customer Accounts (Continued)

At 31 December 2015, the Group had four customers (2014: five customers) with balances above 10 % of total equity. The aggregate balance of these customers was GEL 204,379 thousand (2014: GEL 165,678) of total customer accounts.

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

<i>In thousands of Georgian Lari</i>	2015	2014
Loans from World Business Capital	-	9,264
Loans from Black Sea Trade and Development Bank	36,799	18,883
Loans from European Bank for Reconstruction and Development ("EBRD")	12,254	937
Loan from Ministry of Finance	276	429
Other	41	60
Total other borrowed funds	49,370	29,573

Refer to Note 37 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 32. Information on related party balances is disclosed in Note 39.

20 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Settlement Operations		6,226	-
Payables for services		392	466
Debit or credit card payables		163	33
Other derivative financial instruments		629	92
Other accrued liabilities		122	97
Total other financial liabilities		7,532	688

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 2015. These amounts have been deducted from the customer accounts and included in other financial liabilities. No such pending transfers were outstanding as at 31 December 2014.

21 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Taxes payable other than on income		33	8
Accrued employee benefit costs		933	904
Other		306	99
Total other liabilities		1,272	1,011

22 Subordinated Debt

Subordinated debt of GEL 4,499 thousand (2014: GEL 3,447 thousand) carries an interest rate of three months LIBOR +5% p.a. and matures in 2021. The debt ranks after all other creditors in the case of liquidation.

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

<i>In thousands of Georgian Lari except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 31 December 2013	15,941	15,941	73,967	89,908
At 31 December 2014	15,941	15,941	73,967	89,908
At 31 December 2015	15,941	15,941	73,967	89,908

The total authorised number of ordinary shares is 16,014 thousand shares (2014: 15,976 thousand shares), with a par value of GEL 1 per share (2014: GEL 1 per share). The total number of issued ordinary shares is 15,941 thousand shares (2014: 15,941 thousand shares). All issued ordinary shares are fully paid.

One share carries one voting right. All ordinary shares carry same voting rights, except for shares reserved under share based payment arrangements with the management; these shares do not have voting rights until completion of the service conditions.

The number of outstanding shares and share capital in the table above differs from the capital under Georgian legislation. All shares issued in the name of management, but not yet vested under the share based arrangements are included in the outstanding share capital under NBG requirements:

23 Share Capital (Continued)

<i>In thousands of Georgian Lari except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 31 December 2013	15,941	15,941	73,967	89,908
New shares issued	35	35	230	265
At 31 December 2014	15,976	15,976	74,197	90,173
New shares issued	38	38	280	318
At 31 December 2015	16,014	16,014	74,477	90,491

At the reporting date, the Group has 73 thousand shares reserved for issuance under share based payment arrangement (2014: 35 thousand shares). Per management's estimate, the total number of shares that the Bank will need to issue under the share based payment arrangements approximates 107 thousand. For share based payments refer to Note 24

Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Georgian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with NBG accounting rules.

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. After the awarded shares vest in July 2017, these shares are subject to certain post-vesting restrictions. August 2017 is when the post-vesting restrictions expire.

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. The total expense on the scheme in 2015 amounted to GEL 236 thousand (2014: GEL 113 thousand).

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.

24 Share Based Payments (Continued)

Shares of each of 2015 and 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.

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. The total expense on the scheme in 2015 amounted to GEL 263 thousand.

Tabular information on the scheme is given below:

<i>In thousands of Georgian Lari except for number of shares</i>	2015	2014
Number of unvested shares at the beginning of the year	73,000	73,000
Number of shares granted	71,000	-
Number of shares vested	-	-
Number of unvested shares at the end of the year	144,000	73,000
Value at grant date per share (in GEL)	11.34	7.85
Expense on equity-settled part	499	113
Expense recognized as staff cost during the year	499	113

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 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:

		Share capital	Reva- luation reserve for availa- ble-for- sale securi- ties	Reva- luation reserve for pre- mises	Retained earnings	Total
<i>In thousands of Georgian Lari</i>	Note					
Year ended 31 December 2014						
Available-for-sale investments:						
- Gains less losses arising during the year		-	(433)	-	-	(433)
- Gains less losses recycled to profit or loss upon disposal or impairment		-	(99)	-	-	(99)
Revaluation of premises and equipment		-		-	-	
Income tax recorded directly in other comprehensive income		-	80	-	-	80
Total other comprehensive income		-	(452)	-	-	(452)
Year ended 31 December 2015						
Available-for-sale investments:						
- Gains less losses arising during the year		-	-	-	-	-
- 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

26 Interest Income and Expense

In thousands of Georgian Lari

	2015	2014
Interest income		
Loans and advances to customers	46,402	30,881
Debt investment securities available for sale	-	6,121
Bonds carried at amortized cost	9,396	-
Repurchase receivables	576	-
Due from other banks and mandatory balances held with the NBG	1,209	748
Total interest income	57,583	37,750
Interest expense		
Term deposits of legal entities	8,190	4,942
Term deposits of individuals	3,107	2,200
Current/settlement accounts	2,057	1,789
Borrowings from banks and other financial institutions	3,395	2,194
Due to other banks	4,631	191
Total interest expense	21,380	11,316
Net interest income	36,203	26,434

27 Fee and Commission Income and Expense

<i>In thousands of Georgian Lari</i>	2015	2014
Fee and commission income		
- Settlement transactions	1,657	1,040
- Plastic card fees	1,332	1,041
- Cash transactions	489	458
- Fees related to guarantees	769	403
- Distant banking fees	153	133
- Other	80	216
Total fee and commission income	4,480	3,291
Fee and commission expense		
<i>Fee and commission expense not relating to financial instruments at fair value through profit or loss</i>		
- Plastic card system fees	1,104	602
-Settlement transactions	299	261
-Cash Collection & Transaction fees	106	44
-Expenses Related to Guarantees	92	104
- Commissions for credit lines	21	-
- Communication and Computer Centre Service fees	6	-
-Other	54	116
Total fee and commission expense	1,682	1,126
Net fee and commission income	2,798	2,165

28 Other Operating Income

<i>In thousands of Georgian Lari</i>	2015	2014
Gains less losses on disposal of repossessed property	9	45
Gains less losses on disposal of Fixed Assets	22	8
Reversal of impairment of repossessed property	-	71
Rental income	195	193
Fines and penalties	46	-
Total other operating income	272	317

Investment properties rental income as at December 2015 amounted to GEL 68 thousand (2014: GEL 100 thousand).

29 Administrative and Other Operating Expenses

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Employee compensation		8,422	7,569
Depreciation and amortisation	14	1,049	879
Professional services		859	821
Advertising and marketing services		974	800
Security services		560	491
Occupancy		864	584
Communications and information services		851	701
Taxes other than on income		252	218
Office supplies		211	141
Impairment of repossessed property		222	-
Impairment of litigation prepayments	15	142	5
Repairs and maintenance		69	59
Insurance		93	92
Travel and training		85	88
Other		643	635
Total administrative and other operating expenses		15,296	13,083

Included in employee compensation for 2015 is expense recognized as staff costs under the share based payment part of the Senior Management Bonus scheme of GEL 499 thousand (2014: GEL 113 thousand). For details on the scheme, refer to Note 24

Direct operating expenses for investment properties that generate rental income amounted to GEL 25 thousand (2014: GEL 30 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 6 thousand (2014: GEL 3 thousand).

30 Income Taxes

(a) Components of income tax expense / (benefit)

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

<i>In thousands of Georgian Lari</i>	2015	2014
Current tax	(949)	(1,295)
Deferred tax	(1,248)	(260)
Income tax expense for the year	(2,197)	(1,555)

(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 2015 income is 15% (2014: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2014: from 15%). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Georgian Lari</i>	2015	2014
Profit before tax	24, 106	16,532
Theoretical tax charge at statutory rate (2015: 15%; 2014: 15%)	(3,616)	(2,480)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (NBG's securities and deposits)	1,501	968
- Other income which is exempt from taxation	211	43
- Imputed benefits	(40)	(49)
- Non-deductible expenses	(253)	(37)
Income tax expense for the year	(2,197)	(1,555)

(d) Deferred taxes in respect of subsidiaries

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 1 thousand (2014: 2 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% (2014: 15%).

30 Income Taxes (Continued)

	1 January 2015	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 Dec 2015
<i>In thousands of Georgian Lari</i>				
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)

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.

	1 January 2014	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 Dec 2014
<i>In thousands of Georgian Lari</i>				
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(1,872)	(55)	-	(1,927)
Loan impairment provision	(116)	(109)	-	(225)
Guarantee impairment provision	(14)	(78)	-	(92)
Fair valuation of investment securities available for sale	(182)	-	80	(102)
Accruals	219	(37)	-	182
Other	459	8	-	467
Share Based Payment	-	11	-	11
Net deferred tax liability	(1,506)	(260)	80	(1,686)

31 Dividends

	2015	2014
<i>In thousands of Georgian Lari</i>		
Dividends payable at 1 January	-	-
Dividends declared during the year	1,452	-
Dividends paid during the year	(1,452)	-
Dividends payable at 31 December	-	-
Dividends per share declared during the year	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.

32 Financial Risk Management (Continued)

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

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

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

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

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

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:

32 Financial Risk Management (Continued)

- 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. 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.

32 Financial Risk Management (Continued)

- Operating under a sound credit-granting process. This involves the consideration of a number of elements in credit granting, including, but not limited to: segregation of duties between loan origination, approval, disbursement, and monitoring processes and procedures; prudent analysis of the borrowers' financial position; conservative assessment of sufficiency of collateral (e.g. Loan-to-Value ratio).
- Maintenance of appropriate credit administration, measurement and monitoring processes. This involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty, compliance with existing covenants', collateral coverage relative to the borrower's current condition, and contractual payment delinquencies. Also it involves monitoring of levels of credits in the credit portfolio to specific types of borrowers to avoid concentrations of risk. Such concentrations occur when there are high levels of direct or indirect credits to a single counterparty, a group of connected counterparties, or a particular industry or economic sector. Lastly, The Bank is using appropriate credit administration, measurement and monitoring processes which involves certain key areas in the process of stress testing to help the bank identify possible events or economic changes that could affect the bank's credit exposures and assess its ability to withstand such changes.
- Maintenance of appropriate portfolio quality reporting: Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management as control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, and exposures by sectors.

Credit risk for off-balance sheet financial instruments is defined as the possibility of 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 inasmuch 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 its 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:

<i>In thousands of Georgian Lari</i>	At 31 December 2015				At 31 December 2014			
	Mone- tary financial assets	Mone- tary financial liabilities	Deri- vatives	Net position	Mone- tary financial assets	Mone- tary financial liabilities	Deri- vatives	Net position
Georgian Lari	317,481	(191,840)	11,775	137,416	301,204	(181,411)	(199)	119,594
US Dollars	435,809	(421,010)	(12,383)	2,416	243,846	(246,569)	2,610	(113)
Euros	18,036	(18,186)	-	(150)	14,917	(12,689)	(2,267)	(39)
CHF	170	(187)	-	(17)	155	(142)	-	13
Pound Sterling	354	(367)	-	(13)	248	(240)	-	8
Russian Roubles	37	(42)	-	(5)	56	(47)	-	9
CNY	47	(33)	-	14	5	-	-	5
Total	771,934	(631,665)	(608)	139,661	560,431	(441,098)	144	119,477

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:

<i>In thousands of Georgian Lari</i>	At 31 December 2015		At 31 December 2014	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 20% (2014: strengthening by 20%)	411	-	(38)	-
US Dollar weakening by 20% (2014: weakening by 20%)	(411)	-	38	-
Euro strengthening by 20% (2014: strengthening by 20%)	(26)	-	(8)	-
Euro weakening by 20% (2014: weakening by 20%)	26	-	8	-

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:

<i>In thousands of GEL</i>	2015		2014	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 20% (2014: strengthening by 20%)	(67)		43	
USD weakening by 20% (2014: weakening by 20%)	67		(43)	
EUR strengthening by 20% (2014: strengthening by 20%)	3		-	
EUR weakening by 20% (2014: weakening by 20%)	(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:

<i>In thousands of Georgian Lari</i>	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 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
31 December 2014						
Total financial assets	239,413	30,807	42,158	181,514	59,079	552,971
Total financial liabilities	100,280	166,062	65,578	20,648	88,622	441,190
Net interest sensitivity gap at 31 December 2014	139,133	(135,255)	(23,420)	160,866	(29,543)	111,781

32 Financial Risk Management (Continued)

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 2015, if interest rates at that date had been 200 basis points lower (2014: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 450 thousand lower (2014: GEL 60 thousand higher), mainly as a result of lower interest income on variable interest assets (2014: mainly as a result of lower interest expense on variable interest liabilities).

If interest rates had been 200 basis points higher (2014: 200 basis points higher), with all other variables held constant, profit would have been GEL 450 thousand higher (2014: GEL 60 thousand lower), mainly as a result of higher interest income on variable interest assets (2014: mainly as a result of higher interest expense on variable interest liabilities).

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:

In % p.a.	2015			2014		
	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash Equivalents	8.5%	-	-	0.1%	0.4%	-
Mandatory cash balances with the NBG	2.8%	-	-	2.0%	-	-
Loans and advances to customers	11.4%	10.8%	10%	11.4%	11.7%	12.8%
Investment securities available for sale	-	-	-	5.7%	-	-
Bonds carried at amortized cost	8.7%	-	-	-	-	-
Repurchase receivables	7.8%	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
Liabilities						
Due to other banks	8.9%	-	2.5%	4.0%	-	-
Customer accounts	5.2%	3.2%	2.6%	3.8%	3.1%	2.9%
- current and settlement accounts	4.0%	1.1%	0.7%	2.9%	1.9%	1.1%
- term deposits	8.2%	4.3%	5.4%	5.0%	3.6%	5.5%
Other financial liabilities	-	-	-	-	-	-
Borrowings from banks and other financial institutions	-	6.1%	-	-	5.4%	-
Subordinated debt	-	5.63%	-	-	5.3%	-

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 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 (2014: 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 2015 is set out below:

<i>In thousands of Georgian Lari</i>	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

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 2014 is set out below:

<i>In thousands of Georgian Lari</i>	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	51,869	59	18,456	108	70,492
Mandatory cash balances with NBG	37,181	-	-	-	37,181
Loans and advances to customers	274,762	-	-	-	274,762
Investment securities available for sale	169,691	-	-	-	169,691
Other financial assets	845	-	-	-	845
Total financial assets	534,348	59	18,456	108	552,971
Financial liabilities					
Due to other banks	9,016	-	-	-	9,016
Customer accounts	248,418	150,048	-	-	398,466
Borrowings from banks and other financial institution	489	-	29,084	-	29,573
Subordinated debt		-	3,447	-	3,447
Other financial liabilities	688	-	-	-	688
Total financial liabilities	258,611	150,048	32,531	-	441,190
Net position in on-balance sheet financial instruments	275,737	(149,989)	(14,075)	108	111,781
Credit related commitments	37,559	23,779	-	-	61,338

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.

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. ALCO 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 47% at 31 December 2015 (2014: 70%);

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 severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2015 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 2015 is as follows:

<i>In thousands of Georgian Lari</i>	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

32 Financial Risk Management (Continued)

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.

The maturity analysis of financial instruments at 31 December 2014 is as follows:

<i>In thousands of Georgian Lari</i>	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	70,492	-	-	-	-	70,492
Mandatory cash balances with the NBG	37,181					37,181
Loans and advances to customers	16,716	38,895	54,188	98,995	65,968	274,762
Investment securities available for sale	169,628	-	-	-	63	169,691
Gross-settled currency derivatives	2,610	2,503	-	-		5,113
Other financial assets	-	516	-	-	93	609
Total	296,627	41,914	54,188	98,995	66,124	557,848
Liabilities						
Due to other banks	9,016	-	-	-	-	9,016
Customer accounts – individuals	51,252	10,847	11,723	3,661	1,425	78,908
Customer accounts – other	129,245	138,241	37,917	16,890	-	322,293
Borrowings from banks and other financial institutions	-	886	886	31,198		32,970
Subordinated debt					4,167	4,167
Gross-settled currency derivatives	2,701	2,267	-	-	-	4,968
Other financial liabilities		596				596
Financial guarantees issued	1,499	2,288	7,175	1,691	-	12,653
Performance guarantees issued	113	1,254	18,749	5,614	-	25,730
Undrawn credit line commitments	22,771	-	-	-	-	22,771
Total potential future payments for financial obligations	216,597	156,379	76,450	59,054	5,592	514,072
Liquidity gap arising from financial instruments	80,030	(114,465)	(22,262)	39,941	60,532	43,776

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:

	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
<i>In thousands of Georgian Lari</i>						
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	
At 31 December 2014						
Financial assets	296,627	41,914	54,188	98,995	66,124	557,848
Financial liabilities	62,402	163,838	63,727	157,359	5,592	452,918
Financial and performance guarantees	186	-	-	-	-	186
Undrawn credit related commitments	2,277	-	-	-	-	2,277
Net liquidity gap based on expected maturities	231,762	(121,924)	(9,539)	(58,364)	60,532	102,467
Cumulative liquidity gap based on expected maturities	231,762	109,838	100,299	41,935	102,467	-

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.

Although there are no committed borrowings available to the Group as at 31 December 2015 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.

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.

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 2015 was GEL 160,855 thousand (2014: GEL 135,661 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 147,649 thousand (2014: GEL 129,958 thousand). As at 31 December 2015, these minimum levels set by the NBG were 7.6% for primary capital and 11.4% for regulatory capital (2014: 8% and 12%, respectively).

The Group and the Bank have complied with all externally imposed capital requirements throughout 2015 and 2014.

<i>In thousands of Georgian Lari</i>	2015	2014
Primary capital		
Share capital	16,013	15,976
Share premium	74,478	74,197
Retained earnings according to the NBG regulations	35,303	22,864
Deductions (Intangible Assets)	(588)	(601)
Total primary capital	125,206	112,436
Secondary capital		
Current year profit according to NBG regulations	14,077	13,949
General reserve	8,773	5,043
Subordinated borrowings	4,790	3,727
Total secondary capital	27,640	22,719
Deductions (Investments in subsidiary companies)	(5,197)	(5,197)
Total regulatory capital	147,649	129,958
Risk weighted assets, combining credit, market and operational risks	689,623	450,828
Tier I ratio	18.2%	24.9%
Regulatory capital ratio	21.4%	28.8%

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)

<i>In thousands of Georgian Lari</i>	2015	2014
Primary capital		
Share capital	16,013	15,976
Share premium	74,478	74,197
Retained earnings according to the NBG regulations	35,303	22,864
Revaluation reserve	3,470	3,470
Current year profit according to NBG regulations	14,077	13,949
Primary capital Before Correction	143,341	130,456
Primary capital Corrections	(8,080)	(9,268)
Total primary capital After correction	135,261	121,188
Secondary capital		
General reserve	7,970	5,043
Subordinated borrowings	4,790	3,727
Total secondary capital	12,760	8,770
Total regulatory capital	148,021	129,958
Risk weighted assets, combining credit, market and operational risks	743,476	461,844
Minimum Tier 1 Ratio	<u>8.5%</u>	<u>8.5%</u>
Tier I ratio	18.2%	26.2%
Minimum regulatory capital ratio	<u>10.5%</u>	<u>10.5%</u>
Regulatory capital ratio	19.9%	28.1%

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 estimates, 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 review 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:

<i>In thousands of Georgian Lari</i>	2015	2014
Not later than 1 year	215	170
Later than 1 year and not later than 5 years	-	-
Total operating lease commitments	215	170

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 Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2015 and 31 December 2014.

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:

<i>In thousands of Georgian Lari</i>	2015	2014
Tier 1 capital		
Share capital	89,908	89,908
Retained earnings	62,979	42,060
Total tier 1 capital	152,887	131,968
Tier 2 capital		
Revaluation reserves	7,456	3,216
General reserve	4,239	3,861
Subordinated debt	4,499	3,447
Total tier 2 capital	16,194	10,524
Total capital	169,081	142,492

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:

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Financial guarantees issued		11,067	12,653
Performance guarantees issued		31,624	25,730
Undrawn credit line commitments		29,849	22,771
Letters of credit		-	184
Less: Provision for financial and performance guarantees		(257)	(186)
Total credit related commitments and performance guarantees, net of provision		72,283	61,152

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:

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Georgian Lari		49,781	42,798
US Dollars		18,030	16,829
Euro		4,509	1,536
Other		220	175
Total		72,540	61,338

34 Contingencies and Commitments (Continued)

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

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Carrying amount at 1 January		186	22
Initial recognition of provision for issued financial guarantees		632	314
Unused amounts of provision reversed		(620)	(202)
Initial recognition of provision for issued performance guarantees		462	125
Unused amounts of provision reversed		(403)	(73)
Carrying amount at 31 December		257	186

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:

<i>In thousands of Georgian Lari</i>	Note	2015	2014
Construction		21,414	24,032
Service		7,836	975
Other		2,374	723
Total guaranteed amounts		31,624	25,730

The performance guarantees issued to clients operating in construction sector are collateralised with cash deposits of GEL 18,458 thousand at 31 December 2015 (2014: GEL 23,536 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 2015		31 December 2014	
		Asset pledged	Related liability	Asset pledged	Related liability
<i>In thousands of Georgian Lari</i>					
Repurchase receivables	11	36,458	35,373	-	-
Bonds carried at amortized cost	12	40,158	38,150	-	-
Loans and advances to customers	9	15,000	11,850	16,416	9,264
Total		91,616	85,373	16,416	9,264

At 31 December 2015, due from other banks balances of GEL 119 thousand (2014: GEL 93 thousand) are placed as a cover for international payment cards transactions.

Mandatory cash balances with the NBG of GEL 56,380 thousand (2014: GEL 37,181 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 2015, loans and advances to customers with carrying value of GEL 15,000 thousand were pledged as collateral against the borrowings from NBG. (2014: GEL 16,416 thousand against borrowing from World Business Capital)

35 Offsetting Financial Assets and Financial Liabilities

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

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru- ments (d)	Cash collateral received (e)	(c) - (d) - (e)
<i>In thousands of Georgian Lari</i>	(a)	(b)	(c) = (a) - (b)			
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)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2014:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru- ments	Cash collateral received	
<i>In thousands of Georgian Lari</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
- Short-term placements with other banks with original maturities of more than three months	5,113	4877	236	-	-	236
- Receivable for credit and debit card services	62	62	-	-	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	5,175	4,939	236	-	-	236
LIABILITIES						
-Short-term placements with other banks with original maturities of more than three months	4,969	4,877	92	-	-	92
-Payable for credit and debit card service	357	62	295	-	-	295
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	5,326	4,939	387	-	-	387

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 and 31 December 2014 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	2015		2014	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Georgian Lari</i>				
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- GEL receivable on settlement (+)	11,775	-	2,503	-
- GEL payable on settlement (-)	-	-	-	(2,702)
- USD receivable on settlement (+)	-	-	2,610	-
- USD payable on settlement (-)	-	(12,383)	-	-
- Euros payable on settlement (-)	-	-	-	(2,267)
Net fair value of foreign exchange forwards and swaps	-	(608)	144	-

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:

In thousands of Georgian Lari	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
<i>Investment securities</i>								
<i>available for sale</i>								
Georgian government treasury bonds	-	-	-	-	-	58,777	-	58,777
Georgian government treasury bills	-	-	-	-	-	27,314	-	27,314
NBG deposit Certificate	-	-	-	-	-	83,537	-	83,537
<i>Other financial assets</i>								
Foreign exchange forward contracts	-	5	-	5	-	-	-	-
Other financial derivatives	-	16	-	16	-	236	-	236
NON-FINANCIAL ASSETS								
- Premises	-	-	19,222	19,222	-	-	13,621	13,621
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS								
	-	21	19,222	19,243	-	169,864	13,621	183,485
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
<i>Other financial liabilities</i>								
- Other derivative financial instruments	-	629	-	-	-	92	-	92
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS								
	-	629	-	-	-	92	-	92

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 2015:

In thousands of Georgian Lari	Fair value at 31 December		Valuation technique	Inputs used
	2015	2014		
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
<i>Investment securities available for sale</i>				
Georgian government treasury bonds	-	58,777	Discounted cash flows ("DCF")	Government bonds yield curve
Georgian government treasury bills	-	27,314	DCF	Government bonds yield curve
NBG deposit Certificate	-	83,537	DCF	Government bonds yield curve
<i>Other financial assets</i>				
Foreign exchange forward contracts	5	-	DCF	Official exchange rate
Other financial derivatives	16	236	DCF	Official exchange rate, observable yield curve
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2				
	21	169,864		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
<i>Other financial liabilities</i>				
- Other derivative financial instruments	629	92	DCF	Official exchange rate, observable yield curve
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2				
	629	92		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2015 (2014: none).

In thousands of Georgian Lari	Fair value at 31 December		Valuation technique	Inputs used	Range of inputs used (weighted average)
	2015	2014			
NON-FINANCIAL ASSETS					
- Premises	19,222	13,621	Market comparable assets	Price per square meter	1,078-11,381 (3,764)
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3					
	19,222	13,621			
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3					
	19,222	13,621			

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 2015				31 December 2014			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
In thousands of Georgian Lari								
ASSETS								
Cash and cash equivalents								
- Cash on hand	24,477	-	-	24,477	18,181	-	-	18,181
- Cash-in-transit	-	-	-	-	480	-	-	480
- Cash balances with the NBG	7,644	-	-	7,644	28,558	-	-	28,558
- Correspondent accounts and overnight placements	108,632	-	-	108,632	19,544	-	-	19,544
- Placements with other banks	-	-	-	-	-	3,729	-	3,729
Mandatory balances with the NBG	-	56,380	-	56,380	-	37,181	-	37,181
Loans and advances to customers								
- Corporate loans	-	-	319,667	335,477	-	-	184,155	193,362
- Consumer loans	-	-	21,199	23,145	-	-	19,221	19,386
- Mortgage loans	-	-	89,583	85,294	-	-	59,282	56,529
- Credit cards	-	-	5,618	5,614	-	-	5,486	5,485
Bonds carried at amortized cost								
Georgian government treasury bonds	-	63,964	-	68,183	-	-	-	-
Georgian government treasury bills	-	2,541	-	2,542	-	-	-	-
NBG deposit Certificate	-	1,055	-	1,053	-	-	-	-
Corporate bonds	-	5,407	-	5,472	-	-	-	-
Repurchase Receivables								
Georgian government treasury bills	-	24,354	-	24,538	-	-	-	-
NBG deposit Certificate	-	11,924	-	11,920	-	-	-	-
Other financial assets	-	416	-	416	-	845	-	845
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	2,590	1,879	-	-	2,295	2,048
TOTAL	140,753	166,041	438,657	762,667	66,763	41,755	270,439	385,328

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:

In thousands of Georgian Lari	31 December 2015				31 December 2014			
	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								
<i>Due to other banks</i>								
- Correspondent accounts and overnight placements of other banks	-	75	-	75	-	16	-	16
- Short-term placements of other banks	-	5,654	-	5,654	-	9,000	-	9,000
- Short-term loans of NBG	-	50,000	-	50,000	-	-	-	-
- Short-term loans of other banks	-	35,373	-	35,373	-	-	-	-
<i>Customer accounts</i>								
- Current/settlement accounts of state and public organisations	-	21,616	-	21,616	-	32,888	-	32,888
- Term deposits of state and public organisations	-	-	62,103	59,661	-	-	33,169	31,851
- Current/settlement accounts of other legal entities	-	129,173	-	129,173	-	87,542	-	87,543
- Term deposits of other legal entities	-	-	156,216	154,479	-	-	168,717	168,543
- Current/demand accounts of individuals	-	53,722	-	53,722	-	47,429	-	47,429
- Term deposits of individuals	-	-	62,389	61,140	-	-	31,035	30,212
<i>Borrowings from banks and other financial institutions</i>								
- Borrowings from International Financial institutions	-	49,053	-	49,053	-	29,084	-	29,084
- Borrowings from government	-	317	-	317	-	489	-	489
<i>Other financial liabilities</i>	-	7,532	-	7,532	-	688	-	688
<i>Subordinated debt</i>	-	4,499	-	4,499	-	3,447	-	3,447
TOTAL	-	357,014	280,708	632,294	-	210,583	232,921	441,190

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

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
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:

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
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
Fee and commission expense	-	-	-	-
Recovery of provision for credit related commitments	-	-	-	-
Administrative and other operating expenses	-	-	(49)	-

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

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Performance Guarantees issued by the Group at the year end	-	-	-	23,637
Financial Guarantees issued by the Group at the 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:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Amounts lent to related parties during the year	300	-	2,630	-
Amounts repaid by related parties during the year	(259)	-	(2,474)	-

At 31 December 2014, the outstanding balances with related parties were as follows:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 6.5% - 24%)	-	1	518	148
Impairment provisions for loans and advances to customers	-	-	(8)	-
Customer accounts (contractual interest rate: 0 – 11%)	914	2,817	900	147,649

The income and expense items with related parties for 2014 were as follows:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Interest income	11	169	43	29
Interest expense	(166)	(16)	(48)	(1,545)
(Provision charge)/Recovery of loan impairment	1	1	(4)	1
Gains less losses from trading in foreign currencies	1	-	-	934
Foreign exchange translation gains less losses	(255)	205	(19)	(4,294)
Fee and commission income	1	1	3	174
Fee and commission expense	-	-	-	-
Administrative and other operating expenses	-	-	(40)	-

At 31 December 2014, other rights and obligations with related parties were as follows:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Performance Guarantees issued by the Group at the year end	-	-	-	22,670
Undrawn credit line commitments	19	116	186	4

39 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during 2014 were:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Amounts lent to related parties during the year	152	2,427	1,537	231
Amounts repaid by related parties during the year	(140)	(140)	(578)	(260)

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

<i>In thousands of Georgian Lari</i>	2015		2014	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	180	-	454	-
- Short-term bonuses				
Total	180	-	454	-

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

<i>In thousands of Georgian Lari</i>	2015		2014	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	712	26	578	-
- Short-term bonuses	524	540	710	480
<i>Share-based compensation:</i>				
- Equity-settled share-based compensation	499	-	113	-
Total	1,735	566	1,401	480

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

ANNUAL REPORT

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