JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN – GEORGIA

Financial Statements and Independent Auditor's Report
For the Year Ended December 31, 2015

Joint Stock Company International Bank of Azerbaijan - Georgia

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JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN - GEORGIA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

Management is responsible for preparation of the financial statements that present fairly the financial position of Joint Stock Company International Bank of Azerbaijan – Georgia (the "Bank") as at December 31, 2015, the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2015 were authorized for issue by Management Board of the Bank on March 21, 2016.

On behalf of the Management Board:

Emil Abasbayli
General Director

21 March 2016
Tbilisi

Giorgi Naroushvili
Chief Accountant

21 March 2016
Tbilisi

The notes on pages 8-59 form an integral part of these financial statements.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Joint Stock Company International Bank of Azerbaijan – Georgia:

We have audited the accompanying financial statements of Joint Stock Company International Bank of Azerbaijan – Georgia (the "Bank"), which comprise the statement of financial position as at December 31, 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the 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 Bank'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 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 financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

March 21, 2016
Tbilisi, Georgia

JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN - GEORGIA

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015
(in thousands of Georgian Lari)

	Notes	December 31, 2015	December 31, 2014
ASSETS:			
Cash and cash equivalents	5	40,354	17,037
Mandatory cash balance with the National Bank of Georgia		12,353	11,201
Due from banks	6, 28	-	27,733
Loans to customers	7, 28	80,720	82,850
Available-for-sale financial assets	8	54	54
Current income tax assets		300	-
Deferred income tax assets	23	-	1,258
Property and equipment	9	10,950	997
Intangible assets		307	332
Other assets	10	1,962	757
Assets classified as held for sale	11	-	6,304
TOTAL ASSETS		**147,000**	**148,523**
LIABILITIES:			
Deposits by banks	12, 28	43,640	62,052
Deposits by customers	13, 28	40,065	18,284
Borrowed funds	15, 28	2,427	22,901
Current income tax liabilities		-	450
Deferred income tax liabilities	23	2,737	-
Provosions	14	-	3,110
Other liabilities	16	100	246
Subordinated debt	17, 28	16,767	13,047
TOTAL LIABILITIES		**105,736**	**120,090**
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	18	22,688	22,688
Property revaluation reserve		204	204
Retained earnings		18,372	5,541
TOTAL EQUITY		41,264	28,433
TOTAL LIABILITIES AND EQUITY		**147,000**	**148,523**

On behalf of the Management Board:

Emil Abasbayli
General Director

21 March 2016
Tbilisi

Giorgi Naroushvili
Chief Accountant

21 March 2016
Tbilisi

The notes on pages 8-59 form an integral part of these financial statements.

JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN – GEORGIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Georgian Lari)

	Notes	2015	2014
Continuing operations			
Interest income	19, 28	15,196	12,520
Interest expense	19, 28	(7,161)	(5,893)
Net interest income before impairment (recovery)/(losses) on interest bearing assets		8,035	6,627
Impairment recovery/(losses) on interest bearing assets	7	3,357	(2,250)
Net interest income		**11,392**	**4,377**
Net gain on foreign exchange operations	20	2,481	1,287
Fee and commission income	21, 28	1,444	1,071
Fee and commission expense		(434)	(243)
Gain on the sale of assets held for sale	11	2,939	-
Recovery/(provision) on other operations	14	3,110	(1,572)
Other expense, net		(302)	(16)
Net non-interest income		**9,238**	**527**
Operating income		**20,630**	**4,904**
Operating expenses	22, 28	(3,106)	(2,985)
Profit before income tax		**17,524**	**1,919**
Income tax expense	23	(4,693)	(296)
Net profit for the year		**12,831**	**1,623**
Other comprehensive income			
Net gain resulting on revaluation of property		-	179
Income tax		-	(27)
Other comprehensive income after income tax		-	**152**
Total comprehensive Income		**12,831**	**1,775**

On behalf of the Management Board:

Emil Abasbayli
General Director

21 March 2016
Tbilisi

Giorgi Naroushvili
Chief Accountant

21 March 2016
Tbilisi

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JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN - GEORGIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Georgian Lari)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity attributable to owners of the Bank
January 1, 2014		**22,688**	**52**	**4,826**	**27,566**
Profit for the year		-	-	1,623	1,623
Other comprehensive income after		-	152	-	152
Dividends declared		-	-	(908)	(908)
December 31, 2014		**22,688**	**204**	**5,541**	**28,433**
Profit for the period		-	-	12,831	12,831
December 31, 2015		**22,688**	**204**	**18,372**	**41,264**

On behalf of the Management Board:

Emil Abasbayli
General Director

21 March 2016
Tbilisi

Giorgi Naroushvili
Chief Accountant

21 March 2016
Tbilisi

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JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN - GEORGIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Georgian Lari)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		17,524	1,919
Adjustments for non-cash items:			
(Recovery)/provision for impairment losses on interest bearing assets	7	(3,357)	2,250
(Recovery)/provision on other operations	14	(3,110)	1,572
Provision for impairment of other assets		302	-
Gain from disposal of assets held for sale	11	(2,939)	-
Loss from disposal of property and equipment		-	53
Foreign exchange gain	20	(185)	(103)
Depreciation and amortization	22	330	306
Net change in accrued interest		(4,217)	(3,136)
Cash flows from operating activities before changes in operating assets and liabilities		4,348	2,861
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		819	4,305
Due from banks		27,733	(27,923)
Loans to customers		21,232	(9,006)
Other assets		206	106
Increase/(decrease) in operating liabilities:			
Deposits by banks and short-term borrowed funds		(17,267)	19,324
Deposits by customers		13,428	3,818
Other liabilities		(146)	75
Cash inflow/(outflow) from operating activities before taxation		50,353	(6,440)
Income tax paid		(1,446)	(279)
Net cash from/(used in) operating activities		48,907	(6,719)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property and equipment		(10,206)	(130)
Proceeds on disposal of assets held for sale	11	9,243	-
Payments for intangible assets		(52)	(168)
Net cash used in investing activities		(1,015)	(298)

JOINT STOCK COMPANY INTERNATIONAL BANK OF AZERBAIJAN - GEORGIA

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Georgian Lari)

	Notes	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from other borrowed funds		2,201	-
Repayment of other borrowed funds		(29,256)	-
Payment of dividends		-	(908)
Net cash used in from financing activities		(27,055)	(908)
Effect of exchange rate changes on the balance of cash held in foreign currencies		2,480	634
Net increase/decrease) in cash and cash equivalents		23,317	(7,291)
CASH AND CASH EQUIVALENTS, beginning of the year	5	17,037	24,328
CASH AND CASH EQUIVALENTS, end of of the year	5	40,354	17,037

Interest paid and received by the Bank during the year ended December 31, 2015 amounted to GEL 8,346 thousand and GEL 12,128 thousand, respectively. Interest paid and received by the Bank during the year ended December 31, 2014 amounted to GEL 5,608 thousand and GEL 9,099 thousand, respectively.

On behalf of the Management Board:

Emil Abasbayli
General Director

21 March 2016
Tbilisi

Giorgi Naroushvili
Chief Accountant

21 March 2016
Tbilisi

The notes on pages 8-59 form an integral part of these financial statements.

1. Organization

JSC International Bank of Azerbaijan – Georgia (the "Bank") is a joint-stock bank, which was incorporated in Georgia in 2007. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 0110242. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees, and taking customer deposits.

The registered office of the Bank is located at 18, Bochorma street, 0144, Tbilisi, Georgia

As at December 31, 2015 and 2014 the Bank had one branch operating in Tbilisi, Georgia.

As at December 31, 2015 and 2014 the following shareholders owned the issued shares of the Bank:

Shareholder	31 December 2015	31 December 2014
First level shareholders:		
OJSC "International Bank of Azerbaijan" (Azerbaijan)	75.00%	75.00%
OJSC "Industrial Bank of Azerbaijan" (Azerbaijan)	12.50%	12.50%
Ivane Chkhartishvili (Georgia)	6.25%	12.50%
Natia Chkhartishvili (Georgia)	6.25%	-
Total	**100.00%**	**100.00%**

The ultimate controlling party of the Bank is the Government of the Republic of Azerbaijan.

These financial statements were authorized for issue on March 21, 2016 by the Management Board of the Bank.

2. Significant Accounting Policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared assuming that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of *Georgian Lari ("GEL")*, unless otherwise indicated.

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank is registered in Georgia and maintains its accounting records in accordance with Georgian law. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 27.

Functional currency. Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the Georgian Lari ("GEL"). The presentational currency of the financial statements of the Bank is the GEL. All values are rounded to the nearest thousand Lari, except when otherwise indicated.

2. Significant accounting policies (continued)

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided.

Financial instruments. The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

2. Significant accounting policies (continued)

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The principal financial assets of the Bank are cash and cash equivalents, Mandatory cash balance with the NBG, due from banks and loans and receivables.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the the National Bank of Georgia (the "NBG") with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Mandatory cash balance held with the National Bank of Georgia. Mandatory cash balance with the National Bank of Georgia (the "NBG") are carried at amortised cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from banks balances, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

2. Significant accounting policies (continued)

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets. The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2. Significant accounting policies (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by a Bank entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities. Financial liabilities, including deposits by banks, deposits by customers, borrowed funds, subordinated debt and other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2. Significant accounting policies (continued)

The Bank as lessee. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment. Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	5%
Computers and office equipment	25%
Furniture and fixtures	25%
Vehicles	25%
Other	25-33%

2. Significant accounting policies (continued)

Any revaluation increase arising on the revaluation of such premises is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such premises is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for premises relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of premises and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued premises is recognised in profit or loss. On the subsequent sale or retirement of revalued premises, the attributable revaluation surplus remaining in the revaluation reserve for premises is transferred directly to retained earnings.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recognized on a straight-line basis over their estimated useful lives of 5 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2. Significant accounting policies (continued)

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. Significant accounting policies (continued)

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Operating taxes. Georgia also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit or loss.

Provisions. Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts. Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Contingencies. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies. In preparing the financial statements of the Bank entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

2. Significant accounting policies (continued)

	December 31, 2015	December 31, 2014
GEL/1 US Dollar	2.3949	1.8636
GEL/1 Euro	2.6169	2.2656

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves. The reserve recorded in equity (other comprehensive income) on the Bank's statement of financial position includes property revaluation reserve which comprises revaluation reserve of land and building.

Non-current assets held for sale. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal group) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the Bank management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2015 and 2014 the gross loans and receivables totaled GEL 95,626 thousand and GEL 101,113 thousand, respectively, and allowance for impairment losses amounted to GEL 14,906 thousand and GEL 18,263 thousand, respectively.

Useful lives of property, plant and equipment. Certain property (land and building) is measured at revalued amounts. The date of the latest appraisal is December 31, 2014. The carrying value of revalued property amounted to GEL 10,060 thousand and GEL 633 thousand as at December 31, 2015 and 2014, respectively.

4. Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*;
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle;

Annual Improvements to IFRSs 2010-2012 Cycle. The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

These amendments do not have a significant effect on the financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The application of these amendments does not have a significant effect on the financial statements.

The Bank did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

New and revised IFRSs in issue but not yet effective.

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or amended standard or interpretation	**Effective date[1] -** for annual periods beginning on or after
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*	1 January 2016
Amendments to IAS 1 – *Disclosure Initiative*	1 January 2016
Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*	1 January 2016
Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined by the IASB[2]
Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment Entities: Applying the Consolidation Exception*	1 January 2016
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to IAS 27 - *Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.
[2] The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

IFRS 9 *Financial Instruments.*

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

4. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

[The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.]

IFRS 16 *Leases*

IFRS 16 *Leases* brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	December 31, 2015	December 31, 2014
Cash	930	1,403
Balances with the NBG	1,820	897
Correspondent accounts and time deposits with original maturities up to 30 days	37,604	14,737
Total cash and cash equivalent	**40,354**	**17,037**

6. Due from banks

Due from banks comprise:

	December 31, 2015	December 31, 2014
Time deposits	**-**	**27,733**
Less: allowance for impairment losses	-	-
Total due from banks	**-**	**27,733**

As at December 31, 2014 accrued interest income on due from banks balances amounted to GEL 35 thousand.

7. Loans to customers

Loans to customers comprise:

	December 31, 2015	December 31, 2014
Loans to customers	95,626	101,113
Less: allowance for impairment losses	(14,906)	(18,263)
Total loans to customers	80,720	**82,850**

7. Loans to customers (continued)

The table below summarizes carrying value of loans to customers analysed by sector:

	December 31, 2015	December 31, 2014
Loans to legal entities		
Construction	39,659	70,253
Trade and service	28,359	15,304
Energy	21,849	10,990
Other	1,985	976
Total loans to legal entities	**91,852**	**97,523**
Loans to individuals		
Mortgage loans	3,130	2,798
Consumer loans	644	617
Employee loans	-	40
Other	-	135
Total loans to Individuals	3,774	**3,590**
Gross loans to customers	95,626	101,113
Less: allowance for impairment losses	(14,906)	(18,263)
Total loans to customers	**80,720**	**82,850**

As at December 31, 2015 and 2014 the Bank granted loans to seven and nine customers, totaling GEL 75,389 thousand and GEL 82,106 thousand, respectively, which individually exceeded 10% of the Bank's equity.

7. Loans to customers (continued)

As at December 31, 2015 and 2014 a significant amount of loans (99% of total loans to customers) is granted to companies operating in the Georgia, which represents a significant geographical concentration in one region.

The analysis by credit quality of loans outstanding as at December 31, 2015 is as follows:

	Corporate loans	Loans to individuals - mortgage loans	Loans to individuals - consumer loans	Total
Current and not impaired				
Secured loans	30,783	-	-	**30,783**
Unsecured loans	9,142	-	-	**9,142**
Loans renegotiated in 2015	34,717	-	-	**34,717**
Total current and not impaired	**74,642**	**-**	**-**	**74,642**
Total past due but not impaired	**-**	**-**	**-**	**-**
Impaired loans				
current	1,047	282	312	**1,641**
up to 90 days overdue	-	-	-	**-**
90 to 180 days overdue	3,929	-	1	**3,930**
180 to 360 days overdue	-	-	9	**9**
over 360 days overdue	5,874	2,812	298	**8,984**
Loans renegotiated in 2015	6,360	36	24	**6,420**
Total impaired loans	**17,210**	**3,130**	**644**	**20,984**
Less: provision for loan impairment	**(11,856)**	**(2,787)**	**(263)**	**(14,906)**
Total loans and advances to customers	**79,996**	**343**	**381**	**80,720**

As at 31 December 2015 and 2014, 68% and 63% of the gross loan portfolio, respectively is collateralized by cash deposits.

From loans not impaired and renegotiated in 2015 with carrying value of GEL 34,717 as at 31 December 2015, 86% are collateralized by cash deposits, 10% of these loans were repaid subsequently to the reporting period.

As at December 31, 2015 and 2014, deposits from the parent Bank of GEL 42,397 thousand and GEL 52,956 thousand, respectively, were pledged as collateral for specific loans to customers. Those deposits bear interest rate from 7.25% to 10.00%. (Note 12)

7. Loans to customers (continued)

The analysis by credit quality of loans outstanding as at December 31, 2014 is as follows:

	Corporate loans	Loans to individuals -mortgage loans	Loans to individuals -consumer loans	Loans to individuals - employees	Loans to individuals - other purposes	Total
Current and not impaired						
Secured loans	32,773	36	-	-	-	**32,809**
Unsecured loans	9,943	-	-	-	-	**9,943**
Loans renegotiated in 2014	7,011	-	-	-	-	**7,011**
Total current and not impaired	**49,727**	**36**	**-**	**-**	**-**	**49,763**
Total past due but not impaired	**-**	**-**	**-**	**-**	**-**	**-**
Impaired loans						
current	26,995	339	198	40	-	**27,572**
up to 90 days overdue	160	-	62	-	-	**222**
90 to 180 days overdue	4,714	-	-	-	-	**4,714**
180 to 360 days overdue	1,978	-	183	-	-	**2,161**
over 360 days overdue	5,269	2,423	174	-	135	**8,001**
Loans renegotiated in 2014	8,680	-	-	-	-	**8,680**
Total impaired loans	**47,796**	**2,762**	**617**	**40**	**135**	**51,350**
Less: provision for loan impairment	**(15,237)**	**(2,374)**	**(496)**	**(21)**	**(135)**	**(18,263)**
Total loans and advances to customers	**82,286**	**424**	**121**	**19**	**-**	**82,850**

The movements in allowance for impairment losses on loans to customers were as follows:

	Loans to customers
January 1, 2014	**16,013**
Additional provisions recognized	2,250
December 31, 2014	**18,263**
Recovery of provision	(3,357)
December 31, 2015	**14,906**

7. Loans to customers (continued)

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Bank:

	December 31, 2015	December 31, 2014
Loans collateralized by deposits	65,153	64,355
Loans collateralized by pledge of real estate	6,217	7,346
Loans collateralized by guarantees	3,391	7,788
Loans collateralized by vehicles and equipment	90	85
Unsecured loans	20,775	21,539
Gross loans to customers	95,626	101,113
Less: allowance for impairment losses	(14,906)	(18,263)
Total loans to customers	**80,720**	**82,850**

As at 31 December 2015 and 2014, 65% and 83% of deposits pledged as collateral for the specific loans are placed by the parent Bank.

During 2012 the Bank received non-financial asset by taking possession of collateral it held as security for loans. As at December 31, 2014 the carrying value of the asset was GEL 302 thousand included in other assets as repossessed assets. As at 31 December 2015 the asset was still not realized and management has no plans to sell or use the asset in the Bank's business operations and therefore an impairment expense of 100% of the assets carrying value was recognised in the statement of profit or loss.

8. Available-for-sale financial assets

Available for sale financial assets comprise:

	% of ownership	December 31, 2015	December 31, 2014
OJSC United Clearing Center	6,25%	54	54
Total available-for-sale financial assets		**54**	**54**

Management could not reliably estimate the fair value of the Bank's investment in the shares of OJSC United Clearing Center. This investment is carried at cost. This investee company has not published its recent financial information about its operations. Its shares are not quoted and recent trade prices are not publicly accessible as at December 31, 2015.

9. Property and equipment

Property and equipment comprise:

	Land	Building	Computers and office equipment	Furniture and fixture	Vehicles	Leasehold improve-ments	Other	Properties under construction	Total
At initial/revalued cost									
January 1, 2014	**1,082**	**534**	**820**	**89**	**564**	**58**	**157**	**5,169**	**8,473**
Additions	-	-	59	10	17	-	4	53	143
Revaluation	-	99	-	-	-	-	-	-	99
Reclassified as held for sale	(1,082)	-	-	-	-	-	-	(5,222)	(6,304)
Disposals	-	-	-	(1)	-	-	(53)	-	(54)
December 31, 2014	**-**	**633**	**879**	**98**	**581**	**58**	**108**	**-**	2,357
Additions	-	9,459	340	34	124	-	250	-	10,207
Disposals	-	-	-	-	-	-	-	-	-
December 31, 2015	**-**	**10,092**	**1,219**	**132**	**705**	**58**	**358**	**-**	**12,564**

9. Poperty and equipment (Continued)

	Land	Building	Computers and office equipment	Furniture and fixture	Vehicles	Leasehold improve-ments	Other	Properties under construction	Total
Accumulated depreciation									
January 1, 2014	**-**	**(54)**	**(583)**	**(76)**	**(372)**	**(49)**	**(68)**	**-**	**(1,202)**
Depreciation charge	-	(26)	(113)	(10)	(72)	(3)	(15)	-	(239)
Eliminated on revaluation	-	80	-	-	-	-	-	-	80
Eliminated on disposal	-	-	-	1	-	-	-	-	1
December 31, 2014	**-**	**-**	**(696)**	**(85)**	**(444)**	**(52)**	**(83)**	**-**	**(1,360)**
Depreciation charge	-	(32)	(91)	(8)	(99)	(3)	(21)	-	(254)
Eliminated on disposal	-	-	-	-	-	-	-	-	-
December 31, 2015	**-**	**(32)**	**(787)**	**(93)**	**(543)**	**(55)**	**(104)**	**-**	**(1,614)**
Net book value									
As at December 31, 2015	**-**	**10,060**	**432**	**39**	**162**	**3**	**254**	**-**	**10,950**
As at December 31, 2014	**-**	**633**	**183**	**13**	**137**	**6**	**25**	**-**	**997**

9. Property and equipment (continued)

As at December 31, 2015 and 2014 included in property and equipment were fully depreciated assets totalling GEL 635 thousand and GEL 422 thousand, respectively.

The Bank's buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value of the buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties.There has been no change to the valuation technique during the year.

Details of the Bank's buildings and information about the fair value hierarchy as at December 31, 2015 and 2014 are as follows:

	Level	Fair value as at December 31, 2015	Fair value as at December 31, 2014
Buildings in following region:			
- Tbilisi	Level 3	10,092	633
Total		**10,092**	**633**

Had the Bank's buildings (other than land and buildings classified as held for sale or included in a disposal group) been measured on a historical cost basis, their carrying amount would have been GEL 9,807 thousand as at December 31, 2015 (December 31, 2014: GEL 385 thousand).

10. Other assets

Other assets comprise:

	December 31, 2015	December 31, 2014
Other financial assets		
Receivables on other transactions	370	88
Accrued commissions	100	157
Other non-financial assets		
Prepayments for fixed assets	1,411	-
Tax settlements, other than income tax	48	39
Prepayments for operating expenses	33	171
Repossessed assets	-	302
Total other assets	**1,962**	**757**

11. Assets classified as held for sale

	December 31, 2015	December 31, 2014
Land held for sale	-	1,082
Properties under construction	-	5,222
Total assets classified as held for sale	**-**	**6,304**

During 2015 the Bank disposed of its property perviously classified as held for sale for the consideration of GEL 9,243 thousand. As a result of this transaction Bank has generated a gain in the amount of GEL 2,939 thousand

12. Deposits by banks

Deposits by banks comprise:

	December 31, 2015	December 31, 2014
Correspondent accounts of other banks	43	32
Term deposits of banks and other financial institutions	43,597	62,020
Total deposits by banks	**43,640**	**62,052**

As at December 31, 2015 and 2014, included in due to banks balances are interest expenses accrued in the amount of GEL 1,200 thousand and GEL 2,379 thousand, respectively.

As at December 31, 2015 and 2014, deposits from the parent of GEL 42,397 thousand and GEL 52,956 thousand, respectively, were pledged as collateral for specific loans to customers. Those deposits bear interest rate from 7.25% to 10.00% and have maturity of maximum 1 year from the reporting date (note 7).

13. Deposits by customers

Deposits by customers comprise:

	December 31, 2015	December 31, 2014
- Repayable on demand	39,529	14,766
- Term deposits	536	3,518
Total deposits by customers	**40,065**	**18,284**

As at December 31, 2015 and 2014 deposits by customers totaling GEL 31,025 thousand and GEL 13,474 thousand (79% and 75% of total deposits by customers), respectively, were due to 3 customers, which represents a significant concentration.

As at December 31, 2015 and 2014 included in customer accounts balances are deposits collateralized for guarantee purposes in the amount of GEL 443 thousand and GEL 2,786 thousand, respectively.

	December 31, 2015	December 31, 2014
Analysis by economic sector/customer type:		
Construction	29,675	12,468
Energy	5,868	132
Individuals	1,549	3,960
Trade	1,188	346
Transport and communication	654	-
Mining and Mineral Processing	2	-
Agriculture	1	2
Other	1,128	1,376
Total deposits by customers	**40,065**	**18,284**

14. Provisions

The movements in provisions were as follows:

	Guarantees
January 1, 2014	**1,538**
Provision recognized during the year	1,572
December 31, 2014	**3,110**
Provision recognized during the year	(3,110)
December 31, 2015	**-**

The Bank applies same rate for the provision of guarantees issued and loans to customer for each borrower. As at 31 December 2015 The Bank did not have guarantees issued to the borrowers with the impaired loans.

15. Borrowed funds

As at December 31, 2015 and 2014 borrowed funds comprise:

	Currency	Maturity	Nominal interest rate %	December 31, 2015	Nominal interest rate %	December 31, 2014
Loans from Isbank AG	USD	Mar-16	4.54%	2,427	-	-
Loans from Commerzbank AG	EUR	Dec-15	-	-	3.75%	4,521
Loans from CityBank N.A	USD	Dec-15	-	-	4,35%	18,380
Total other borrowed funds				**2,427**		**22,901**

These liabilities are measured at amortized cost.

16. Other liabilities

Other liabilities comprise:

	December 31, 2015	December 31, 2014
Other financial liabilities:		
Accounts payable	100	237
Other non-financial liabilities:		
Taxes payable, other than income tax	-	6
Other	-	3
Total other liabilities	**100**	**246**

17. Subordinated debt

As at December 31, 2015 and 2014 subordinated debt comprises:

	Currency	Maturity date year	Nominal interest rate %	Weighted average effective rate	December 31, 2015	December 31, 2014
OJSC “International Bank of Azerbaijan	USD	Sep-20	5.25%	5.19%	16,767	-
OJSC “International Bank of Azerbaijan	USD	Sep-19	5.25%	5.06%	-	13,047
Total subordinated debt					**16,767**	**13,047**

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank’s liabilities to all other creditors.

18. Share capital

As at December 31, 2015 and 2014 the Bank's authorised, issued and fully paid in capital amounts to GEL 22,688 thousand, comprising 22,688 common shares with a par value of GEL 1,000 per each.

In 2014 the Bank declared and paid dividends of GEL 908 thousand.

19. Net Interest Income

	2015	2014
Interest income comprises:		
Financial assets recorded at amortized cost:		
- impaired financial assets	5,258	7,161
- unimpaired financial assets	9,938	5,359
Total interest income	**15,196**	**12,520**
Financial assets recorded at amortized cost comprises:		
Loans to customers	12,374	11,729
Balances due from banks	2,372	349
Balance due from the NBG	450	442
Total interest income on financial assets recorded at amortized cost	**15,196**	**12,520**
Interest expense comprises:		
Interest on deposits by banks	(4,970)	(4,630)
Interest on customer accounts	(1,361)	(207)
Interest on subordinated debt	(734)	(658)
Interest expense on borrowed funds	(96)	(398)
Total interest expense	**(7,161)**	**(5,893)**
Net interest income before impairment recovery/(losses) on interest bearing financial assets	**8,035**	**6,627**

20. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	2015	2014
Dealing, net	2,296	1,184
Translation differences, net	185	103
Total net gain on foreign exchange operations through profit or loss	**2,481**	**1,287**

21. Fee and Commission Income

Fee and commission income comprise:

	2015	2014
Fee and commission income:		
Agency fees	575	378
Commission from cash collection	392	318
Guarantees	29	126
Settlements	156	119
Cash operations	99	63
Plastic card operations	117	44
Other	76	23
Total fee and commission income	**1,444**	**1,071**

22. Operating expenses

Operating expenses comprise:

	2015	2014
Staff costs	1,538	1,378
Rent cost	382	393
Depreciation and amortization	330	306
Communications	150	160
Professional services	136	218
Taxes other than on income	98	65
Utilities	65	15
Subscription fees	61	43
Fuel expenses	60	68
Security expenses	43	79
Publishing and stationery expenses	24	8
Repair and maintenance	18	26
Business trip expenses	15	23
Insurance expenses	11	21
Representative expenses	5	2
Other	170	180
Total operating expenses	**3,106**	**2,985**

23. Income taxes

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Georgia, which may differ from IFRS. The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2015 and 2014 relate mostly to different methods and timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits according to the Tax Code of Georgia.

23. Income taxes (continued)

Deferred tax assets/(liabilities) as at December 31, 2015 and 2014 comprise:

	December 31, 2015	December 31, 2014
Loans to customers	(2,452)	903
Provisions	29	256
Property and equipment	(277)	117
Intangible assets	(47)	23
Other liabilities	-	19
Other assets	10	12
Borrowed funds	-	(43)
Subordinated debt	-	(29)
Net deferred tax (liability)/asset	**(2,737)**	**1,258**

The effective tax rate reconciliation is as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Profit before income tax	**17,524**	**1,919**
Tax at the statutory tax rate (15%)	2,629	288
Tax effect of permanent differences:		
Permanent differences	44	8
In respect of prior years	2,020	-
Income tax expense	**4,693**	**296**
Current income tax expense	698	998
Deferred tax expense:		
In respect of prior years	2,020	
Deferred tax expense/(benefit):	1,975	(702)
Income tax expense	**4,693**	**296**

Deferred income tax assets/(liabilities)	**2015**	**2014**
As at January 1 – deferred tax assets	**1,258**	**583**
In respect of prior years	(2,020)	-
Changes in deferred income tax balances recognized in other comprehensive income	-	(27)
Change in deferred income tax balances recognized in profit or loss	(1,975)	702
As at December 31- deferred tax assets	**-**	**1,258**
As at December 31- deferred tax liabilities	**(2,737)**	**-**

24. Commitments and contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities totalled GEL nil and GEL 3,110 thousand as at December 31, 2015 and 2014, respectively.

As at December 31, 2015 and 2014 contingent liabilities comprise:

	December 31, 2015	December 31, 2014
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	10,155	19,308
Commitments on loans and unused credit lines	117	3,174
Total contingent liabilities and credit commitments	**10,272**	**22,482**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on the borrowers' financial performance, debt service and other conditions. As at December 31, 2015 and 2014 such unused credit lines come to GEL 117 thousand and GEL 3,174 thousand, respectively.

Capital commitments. The Bank did not have material capital commitments as at December 31, 2015 and 2014.

Operating lease commitments – As at December 31, 2015 and 2014 the Bank did not have any non-cancellable operating lease commitments.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Commercial legislation of Georgia including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.
Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Bank is

24. Commitments and contingencies (Continued)

confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Georgian transfer pricing legislation was amended starting from January 1, 2014 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Bank's transfer pricing positions by the tax authorities cannot be reliably estimated.

Operating Environment. The Banks principal business activities are within Georgia. Since laws and regulations affecting the business environment in Georgia are subject to rapid changes, the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Tax, currency and customs legislation within Georgia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

In 2014 and 2015, economies of the CIS countries experienced political and economic turmoil which significantly affected Georgian economy as well. Currency exchange market was unstable and the Georgian Lari depreciated by 28%, substantially against the United States of Dollar.

Economic situation in Georgia depends, to a large extent, upon success of the Georgian government's efforts, future condition of the Georgian economy and political developments in the CIS. Outcome of these efforts and developments is at this stage difficult to determine.

25. Fair value of financial instruments

IFRS defines fair value as 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.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Cash and cash equivalents, mandatory reserves with NBG due from banks, deposits by banks and deposits by customers

For cash and cash equivalents, mandatory reserves with NBG due from banks, deposits by banks and deposits by customers fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

25. Fair value of financial instruments (Continued)

Loans to customers

Loans to individual customers are made at fixed rates. As there is no active secondary market in Georgia for such loans and advances, there is no reliable market value available for this portfolio. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

Subordinated debt and borrowed funds

The fair values of subordinated debt and borrowed funds is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments.

Other financial assets and liabilities

Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

		December 31, 2015		December 31, 2014	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	Level 3	80,720	90,183	82,850	81,981
Deposits by customers	Level 3	40,065	41,234	18,284	17,881
Subordinated debt	Level 3	16,767	16,812	13,047	12,973

26. Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of its debt and equity balances.

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

The ratios set by the National Bank of Georgia are monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Financial Manager and subsequently submitted to the NBG. Other objectives of capital management are evaluated on an ongoing basis.

Under the current capital requirements set by the NBG banks have to: (a) hold the minimum level of share capital of GEL 12,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%. From June 2014, in addition to the above ratios, banks are also required to calculate capital adequacy in accordance with the regulation on capital adequacy requirements for commercial banks dated 28 October 2013 according to which banks have to (a) maintain a ratio of common equity tier 1 capital to risk weighted assets at or above 7%, (b) maintain a ratio of tier 1 capital to risk weighted assets at or above 8.5%, (c) maintain a ratio of regulatory capital to risk weighted assets at or above 10.5%.

As at December 31, 2015 and 2014 the Bank has complied with all capital requirements imposed by NBG.

The capital structure of the Bank consists of equity, comprising issued capital and accumulated deficit as disclosed in statement of changes in equity.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes based on standalone reports prepared in accordance with the NBG requirements:

	Year ended December 31, 2015	**Year ended December 31, 2014**
Share capital	22,688	22,688
Retained earnings	4,638	2,526
Less: intangible assets	(307)	(332)
Tier 1 capital	27,019	24,882
Profit for the period	1,274	2,084
General provisions (maximum 1.25% credit and market risk weighted assets)	1,126	1,309
Subordinated debt (up to 50% of tier 1 capital)	13,411	12,442
Tier 2 capital	15,811	15,835
Total regulatory capital	**42,830**	**40,717**
Risk weighted assets	**71,360**	**93,859**
Tier 1 capital adequacy ratio	37.86%	26.51%
Total regulatory capital adequacy ratio	60.02%	43.38%

26. Capital risk management (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (12%) and tier 1 capital (8%) to risk weighted assets.

Capital ratios in accordance with the National Bank of Georgia requirements under the new regulation on capital adequacy are as follows:	December 31, 2015
Common equity tier 1 capital	18.7%
Tier 1 capital	18.7%
Regulatory capital	28.8%

27. Risk management policies

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to;

- Credit exposures;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives.

Credit risk. The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The major portion of credit risk arises from the Banks' loans to customers and off-balance sheet credit exposures. For risk reporting purposes, the Bank considers all elements of credit risk exposures such as individual counterparty specific risk, credit environment default risk, and industry risk. The Bank structures the level 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 industry segments.

Risk management and monitoring is performed within set limits of authority. The Bank has established the Credit Committee, which is responsible for approving credit limits for individual borrowers:

- The Parent Bank's credit committee is required to review and approve all amounts above GEL equivalent of USD 1,000 thousand. It is also responsible for issuing guidance to the Bank's credit committee in relation to all other loans;
- The Bank's Credit Committee reviews and approves all amounts below GEL equivalent of USD 1,000 thousand. The Credit Committee meets on a weekly basis.

Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including corporate and personal guarantees. While collateral is an important mitigating factor in assessing the credit risk, it is the Bank's policy to ensure that loans are within the customer's capacity to repay rather than to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the product type or amounts, the facilities may be unsecured.

27. Risk management policies (Continued)

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 Bank is potentially exposed to loss in an amount equal to the total unused commitments. 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 Bank 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.

Credit risk assessment. To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS.

The Bank divides its loan portfolio into individually significant and non-significant borrowers. Individually signficiant are borrowers which exposure exceeds 1% of total equity. Individually significant borrowers are assessed for the probability of default using the Bank's specific methodology. In absence of impairment signs, an individually assessed loan is provided for using the rate that is based on the collective assessment applied to the same borrower category as an individually assessed loan.

Individual assessment. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the borrowers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets and the fair value of collaterals (real estate and deposit). These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

To assess present value of the loan the Bank estimates the financial position of the borrower at maturity date of the loan. The management assumes that return on total assets from reporting date to maturity date will be the same as for the last reporting period. Therefore management can estimate equity, total assets and total liabilites at maturity date. Management assumes that the structure of the balance sheet will not change from reporting date to maturity date (i.e. current assets as % of total assets, current liabilities as % of total liabilites). Based on financial ratios at maturity date management estimates what percentage of principal will be recovered. Then it is discounted along with interest payments at the original effective interest rate.

The Bank assesses fair value of the collaterals and for cash flow estimation purposes determines liquidation value using different haircuts for different type of collaterals. Liquidation value is discounted for the selling period using the original effective interest rate.

Loan loss is calculated as the difference between the carrying amount of the loan and the present value of expected future cash flows.

Collective assessment

Loans other than individually impaired are assessed based on the portfolio probability of default and loan recovery rates. Loan recovery is determined based on the discounted value of property pledged.

To determine probability of default the Bank refers to roll rates in the delinquency buckets. Each delinquency bucket has its own expected roll rate that is defined based on a historical 12 months period.

Credit risk assessment for balances with credit institutions is assessed based on the ratings of international rating agencies.

27. Risk management policies (Continued)

Maximum exposure of credit risk. The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	
	December 31, 2015	**December 31, 2014**
Cash and cash equivalents	39,424	15,634
Mandatory cash balance with the NBG	12,353	11,201
Due from banks	-	27,733
Loans to customers	80,720	82,850
Investments available-for-sale	54	54
Other financial assets	470	245
Guarantees issued and similar commitments	10,155	19,308
Commitments on loans and unused credit lines	117	3,174

Off-balance sheet risk. The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration. The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. The Bank's financial assets and financial liabilities as at December 31, 2015 and 2014 were concentrated in Georgia.

27. Risk management policies (continued)

The geographical concentration of assets and liabilities is set out below:

	Georgia	Other non-OECD countries	OECD countries	December 31, 2015 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	17,684	22,669	1	40,354
Mandatory cash balance with the NBG	12,353	-	-	12,353
Loans to customers	80,705	15	-	80,720
Investments available-for-sale	54	-	-	54
Other financial assets	470	-	-	470
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**111,266**	**22,684**	**1**	**133,951**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Deposits by banks	43	43,597	-	43,640
Deposits by customers	39,200	864	1	40,065
Other financial liabilities	95	-	-	95
Borrowed funds	-	-	2,427	2,427
Subordinated debt	-	16,767	-	16,767
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**39,338**	**61,228**	**2,428**	**102,994**
NET POSITION ON FINANCIAL INSTRUMENTS	**71,928**	**(38,544)**	**(2,427)**	**30,957**

	Georgia	Other non-OECD countries	OECD countries	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	7,545	9,355	137	17,037
Mandatory cash balance with the NBG	11,201	-	-	11,201
Due from banks	-	27,733	-	27,733
Loans to customers	82,648	202	-	82,850
Investments available-for-sale	54	-	-	54
Other financial assets	245	-	-	245
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**101,693**	**37,290**	**137**	**139,120**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Deposits by banks	9,096	52,956	-	62,052
Deposits by customers	14,829	3,454	1	18,284
Other financial liabilities	237	-	-	237
Borrowed funds	-	18,380	4,521	22,901
Subordinated debt	-	13,047	-	13,047
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**24,162**	**87,837**	**4,522**	**116,521**
NET POSITION ON FINANCIAL INSTRUMENTS	**77,531**	**(50,547)**	**(4,385)**	**22,599**

27. Risk management policies (continued)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, guarantees, vehicles and equipment;
- For retail lending, mortgages over residential properties, guarantees, vehicles and equipment.

In 2012, the Bank has taken possession of assets in the amount of GEL 302 thousand that were intended to be sold. The Bank is not in the process of selling these assets as at 31 December 2015, therefore an impairment expense of 100% of the carryng value of the asset was recognised in the statement of profit or loss

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. Fair value of the collaterals as at December 31, 2015 and 2014 amounted to GEL 103,860 thousand and GEL 67,206 thousand. Collaterals valuation were performed by external valuers.

Credit quality by class of financial assets

The following table details an analysis of assets individually determined to be impaired:

Loans to customers	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total
December 31, 2015	74,642	-	19,420	(14,281)	79,781
December 31, 2014	49,572	-	49,031	(16,495)	82,108

The following table details an analysis of assets collectively determined to be impaired:

Loans to customers	Neither past due nor colletcively impaired	Past due but not colletcively impaired	colletcively impaired	(Impairment allowance)	Total
December 31, 2015	-	-	1,564	(625)	939
December 31, 2014	191	-	2,317	(1,766)	742

Financial assets are graded according to the current credit rating they have been granted by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details credit ratings of financial assets held by the Bank that are neither past due nor impaired:

27. Risk management policies (continued)

December 31, 2015	AAA	AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	-	-	-	18,445	20,976	2	39,423
Loans to customers	-	-	-	-	-	74,642	74,642
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	-	-	-	-	-	470	470
December 31, 2014							
Cash and cash equivalents	-	-	137	-	15,497	-	15,634
Due from banks	-	-	-	-	27,733	-	27,733
Loans to customers	-	-	-	-	-	49,763	49,763
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	-	-	-	-	-	245	245

As at December, 31 2015 and 2014 the balances with the NBG amounted to GEL 12,353 thousand, GEL 11,201 thousand, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level <BBB.

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties.

The credit rating of Georgia according to the international rating agencies corresponded to investment level BB-.

Renegotiated loans and advances. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The table below shows the carrying amount of renegotiated financial assets, by class:

Financial asset class	December 31, 2015	December 31, 2014
Loans to customers	41,137	30,558
Less: allowance for impairment losses	(2,087)	(6,059)

27. Risk management policies (continued)

Liquidity risk

Liquidity risk management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

For the assessment of the liquidity risk the Bank uses daily, monthly and quarterly risk reports. Liquidity coverage ratio, mandatory liquidity requirements and open foreign currency positions reports are prepared on a daily basis.

Monthly liquidity internal reports include reviewing customer deposits: by product types, individuals/legals, residents/non-residents, currency, maturity structures. Top 40 largest depositors are also assessed.

The Bank uses stress tests for the purpose of liquidity risk management on a quarterly basis. Stress test model calculates the effect of deposit outflows in local and foreign currency and simultaneously amount conversions from local to foreign currency.

The ALMC controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability, and
(b) estimated term till maturity of financial assets, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received at a different time.

27. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2015 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	19,014	-	-	-	-	-	19,014
Mandatory cash balance with the NBG	12,353	-	-	-	-	-	12,353
Due from banks	-	-	-	-	-	-	-
Loans to customers	18,633	24,084	28,792	8,602	609	-	80,720
Total interest bearing financial assets	50,000	24,084	28,792	8,602	609	-	112,087
Cash and cash equivalents	21,340	-	-	-	-	-	21,340
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	470	-	-	-	-	-	470
Total non-interest bearing financial assets	21,810	-	-	-	-	54	21,864
TOTAL FINANCIAL ASSETS	**71,810**	**24,084**	**28,792**	**8,602**	**609**	**54**	**133,951**
FINANCIAL LIABILITIES							
Deposits by banks	-	2,888	5,763	34,946	-	-	43,597
Deposits by customers	2	38	354	142	-	-	536
Borrowed funds	-	-	2,427	-	-	-	2,427
Subordinated debt	-	-	-	16,767	-	-	16,767
Total interest bearing financial liabilities	2	2,926	8,544	51,855	-	-	63,327
Deposits by banks	43	-	-	-	-	-	43
Deposits by customers	39,529	-	-	-	-	-	39,529
Other financial liabilities	100	-	-	-	-	-	100
Total non-interest bearing financial liabilities	39,672	-	-	-	-	-	39,672
TOTAL FINANCIAL LIABILITIES	**39,674**	**2,926**	**8,544**	**51,855**	**-**	**-**	**102,999**
Interest sensitivity gap	49,998	21,158	20,248	(43,253)	609	-	
Cumulative interest sensitivity gap	**49,998**	**71,156**	**91,404**	**48,151**	**48,760**	**48,760**	
Liquidity gap	32,136	21,158	20,248	(43,253)	609	54	
Cumulative liqduidity gap	**32,136**	**53,294**	**73,542**	**30,289**	**30,898**	**30,952**	

27. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2014 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	14,298	-	-	-	-	-	14,298
Mandatory cash balance with the NBG	11,201	-	-	-	-	-	11,201
Due from banks	-	-	27,733	-	-	-	27,733
Loans to customers	8,640	6,589	52,867	14,754	-	-	82,850
Total interest bearing financial assets	34,139	6,589	80,600	14,754	-	-	136,082
Cash and cash equivalents	2,739	-	-	-	-	-	2,739
Investments available-for-sale	-	-	-	-		54	54
Other financial assets	245	-	-	-	-	-	245
Total non-interest bearing financial assets	2,984	-	-	-	-	54	3,038
TOTAL FINANCIAL ASSETS	**37,123**	**6,589**	**80,600**	**14,754**	**-**	**54**	**139,120**
FINANCIAL LIABILITIES							
Deposits by banks	-	3,516	52,292	6,213	-	-	62,021
Deposits by customers	955	14	2,522	-	27	-	3,518
Borrowed funds	-	-	22,901	-	-	-	22,901
Subordinated debt	-	92	276	12,679	-	-	13,047
Total interest bearing financial liabilities	955	3,622	77,991	18,892	27	-	101,487
Deposits by banks	31	-	-	-	-	-	31
Deposits by customers	14,766	-	-	-	-	-	14,766
Other financial liabilities	237	-	-	-	-	-	237
Total non-interest bearing financial liabilities	15,034	-	-	-	-	-	15,034
TOTAL FINANCIAL LIABILITIES	**15,989**	**3,622**	**77,991**	**18,892**	**27**	**-**	**116,521**
Interest sensitivity gap	33,184	2,967	2,609	(4,138)	(27)	-	
Cumulative interest sensitivity gap	**33,184**	**36,151**	**38,760**	**34,622**	**34,595**	**35,595**	
Liquidity gap	21,134	2,967	2,609	(4,138)	(27)	54	
Cumulative liqduidity gap	**21,134**	**24,101**	**26,710**	**22,572**	**22,545**	**22,599**	

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

27. Risk management policies (continued)

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2015 Total
Fixed interest rate instruments								
Deposits by banks	9.04%	2,903	5,853	34,841	-	-	-	43,597
Deposits by customers	6.00%	-	-	368	168	-	-	536
Borrowed funds	4.54%	-	2,449	-	-	-	-	2,449
Subordinated debt	5.25%	-	-	-	20,950	-	-	20,950
Total fixed interest bearing financial liabilities		2,903	8,302	35,209	21,118	-	-	67,532
Non-interest bearing instruments								
Deposits by banks		43	-	-	-	-	-	43
Deposits by customers		39,529	-	-	-	-	-	39,529
Other financial liabilities		100	-	-	-	-	-	100
Unused credit lines		117	-	-	-	-	-	117
Guarantees		-	635	3,352	6,168	-	-	10,155
Total non-interest bearing financial liabilities including guarantees and credit line commitments		39,789	635	3,352	6,168	-	-	49,944
Total financial liabilities		**42,692**	**8,937**	**38,561**	**27,286**	**-**	**-**	**117,476**

27. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2014 Total
Fixed interest rate instruments								
Deposits by banks	7.86%	-	3,558	54,408	7,152	-	-	65,118
Deposits by customers	7.65%	955	14	3,221	-	34	-	4,224
Borrowed funds	4.24%	-	-	24,147	-	-	-	24,147
Subordinated debt	5.25%	-	92	276	8,378	-	-	8,746
Total fixed interest bearing financial liabilities		955	3,664	82,052	15,530	34	-	102,235
Non-interest bearing instruments								
Deposits by banks		31	-	-	-	-	-	31
Deposits by customers		14,766	-	-	-	-	-	14,766
Other financial liabilities		237	-	-	-	-	-	237
Unused credit lines		-	-	44	3,130	-	-	3,174
Guarantees		970	3,093	6,508	8,737	-	-	19,308
Total non-interest bearing financial liabilities including guarantees and credit line commitments		16,004	3,093	6,552	11,867	-	-	37,516
Total financial liabilities		**16,959**	**6,757**	**88,604**	**27,397**	**34**	**-**	**139,751**

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Bank could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Bank considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

27. Risk management policies (continued)

Market risk. Market risk is that the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, etc. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank wih a positive interest rate margin. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Bank's profit and equity for the year ended December 31, 2015 would decrease/increase by GEL 487 thousand and GEL 414 thousand, respectively (December 31, 2014: decrease/increase by GEL 233 thousand and 198 thousand, respectively).

27. Risk management policies (continued)

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The

Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBG.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD USD 1 = GEL 2.3949	EUR EUR 1 = GEL 2.6169	Other currency	December 31, 2015 Total
FINANCIAL ASSETS					
Cash and cash equivalents	16,936	23,336	69	13	40,354
Mandatory cash balance with the NBG	-	11,469	884	-	12,353
Due from banks	-	-	-	-	-
Loans to customers	35,567	45,139	14	-	80,720
Investments available-for-sale	54	-	-	-	54
Other financial assets	247	223	-	-	470
TOTAL FINANCIAL ASSETS	**52,804**	**80,167**	**967**	**13**	**133,951**
FINANCIAL LIABILITIES					
Deposits by banks	-	43,640	-	-	43,640
Deposits by customers	15,289	24,720	27	29	40,065
Borrowed funds	-	2,427	-	-	2,427
Subordinated debt	-	16,767	-	-	16,767
Other financial liabilities	40	55	-	-	95
TOTAL FINANCIAL LIABILITIES	**15,329**	**87,609**	**27**	**29**	**102,994**
OPEN POSITION	**37,475**	**(7,442)**	**940**	**(16)**	**30,957**

27. Risk management policies (continued)

	GEL	USD USD 1 = GEL 1.8636	EUR EUR 1 = GEL 2.2656	Other currency	December 31, 2014 Total
FINANCIAL ASSETS					
Cash and cash equivalents	6,933	8,002	2,078	24	17,037
Mandatory cash balance with the NBG	-	10,518	683	-	11,201
Due from banks	-	18,669	9,064	-	27,733
Loans to customers	27,606	55,229	15	-	82,850
Investments available-for-sale	54	-	-	-	54
Other financial assets	103	29	113	-	245
TOTAL FINANCIAL ASSETS	**34,696**	**92,447**	**11,953**	**24**	**139,120**
FINANCIAL LIABILITIES					
Deposits by banks	-	52,988	9,064	-	62,052
Deposits by customers	5,721	12,485	78	-	18,284
Borrowed funds	-	18,380	4,521	-	22,901
Subordinated debt	-	13,047	-	-	13,047
Other financial liabilities	115	122	-	-	237
TOTAL FINANCIAL LIABILITIES	**5,836**	**97,022**	**13,663**	**-**	**116,521**
OPEN POSITION	**28,860**	**(4,575)**	**(1,710)**	**24**	**22,599**

27. Risk management policies (continued)

The following table details the Bank's sensitivity to a 20% increase and decrease in GEL against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Bank where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where GEL strengthens 20% against the relevant currency. For a 20% weakening of GEL against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	December 31, 2015		December 31, 2014	
	GEL/USD +20%	GEL/USD -20%	GEL/USD +20%	GEL/USD -20%
Impact on profit or loss before tax	(1,488)	1,488	(914)	914
Impact on equity	(1,265)	1,265	(776)	776

	December 31, 2015		December 31, 2014	
	GEL/EUR +20%	GEL/EUR -20%	GEL/EUR +20%	GEL/EUR -20%
Impact on profit or loss before tax	187	(187)	(342)	342
Impact on equity	159	(159)	(291)	291

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

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

28. Transactions with related parties

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on and are not disclosed in this note. Details of transactions between the Bank and other related parties are disclosed below:

	December 31, 2015		December 31, 2014	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Cash and cash equivalents	4,223	40,354	9,355	17,037
- the parent	4,083		9,146	
- entities under common control	140		209	
Due from banks	-	-	27,733	27,733
- the parent	-		27,733	
- other related parties	-			
Loans to customers	3,371	95,626	274	101,113
- key management personnel of the Bank	281		274	
- Shareholder	45			
- entities under common control	3,045			
Allowance for impairment losses on loans to customers	(1,898)	(14,906)	(107)	(18,263)
- Shareholder	(4)		-	
- key management personnel of the Bank	(8)		(107)	
- entities under common control	(1,886)		-	
Deposits by banks	(42,397)	(43,640)	(52,956)	(62,052)
- the parent	(42,397)		(52,956)	
Deposits by customers	(14)	(40,065)	(48)	(18,284)
- key management personnel of the Bank	(14)		(48)	
Subordinated debt	(16,612)	(16,767)	(13,047)	(13,047)
- the parent	(16,612)		(13,047)	

The remuneration of the Supervisory Board's and Bank's management was as follows:

	2015		2014	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	582	1,538	582	1,378
Total				

28. Transactions with related parties (continued)

Included in the statement of profit or loss and other comprehensive income for the years ended December 31, 2015 and 2014 are the following amounts which were recognized in transactions with related parties:

	2015		2014	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	351	15,196	153	12,520
- the parent	-		133	
- key management personnel of the entity or its parent	24		20	
- other related parties	327		-	
Interest expense	(5,265)	(7,161)	(5,232)	(5,893)
- the parent	(5,265)		(5,232)	
Fee and commission income	574	1,444	378	1,071
- the parent	574		378	
Operating expenses	(582)	(3,106)	(582)	(2,985)
- the parent	(582)		(582)	

29. Subsequent events

No significant events occurred after the reporting year.

30. Approval of Financial Statements

The financial statements were approved by the Management and authorized for issue on 21 March 2016.