JSC Terabank

Consolidated Financial Statements for 2016

Contents

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Independent Auditors' Report

To the Shareholders of JSC Terabank

Opinion

We have audited the consolidated financial statements of JSC Terabank and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 were audited by other auditors who expressed an unmodified opinion on those statements on 21 June 2016.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Andrew Coxshall

15 May 2017

KPMG GEORGIA LIMITED LIABILITY COMPANY • 404437695 •

GEL'000	Notes	2016	2015
Assets			
Cash and cash equivalents	4	91,555	81,889
Mandatory reserve deposit with the National Bank of Georgia		72,573	44,052
Loans to customers	6	434,943	436,584
Investment securities	5	29,465	33,949
Premises and equipment	7	18,153	16,096
Goodwill	8	20,374	20,374
Other intangible assets		4,109	5,013
Current tax asset		509	209
Repossessed property	6	22,084	19,281
Other assets		2,875	1,358
Total assets		**696,640**	**658,805**
Liabilities			
Loan from financial institution	10	10,696	21,291
Subordinated loans	11	33,705	36,012
Deposits and balances from banks	12	416	40,979
Current accounts and deposits from customers	13	520,602	450,768
Deferred tax liability	9	315	597
Other liabilities	14	12,408	6,568
Total liabilities		**578,142**	**556,215**
Equity	15		
Share capital		121,372	111,000
Accumulated losses		(2,874)	(8,410)
Total equity		**118,498**	**102,590**
Total liabilities and equity		**696,640**	**658,805**

These consolidated financial statements were approved by the Management Board on 15 May 2017 and were signed on its behalf by:

Thea Lortkipanidze
General Director

Sophie Jugeli
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

GEL'000	**Notes**	**2016**	**2015**
Interest income	16	63,093	57,619
Interest expense	16	(36,029)	(30,116)
Net interest income		**27,064**	**27,503**
Loan impairment loss	6	(10,014)	(8,492)
Net fee and commission income	17	2,744	2,313
Net gain from trading in foreign currencies		3,483	2,455
Net gain from foreign exchange translation		5,206	1,473
Other income		917	774
Operating income		**29,400**	**26,026**
Personnel expenses		(10,149)	(10,257)
Depreciation and amortization		(4,162)	(3,452)
Other provisions		(426)	(169)
Other operating expenses	18	(9,409)	(7,811)
Profit before income tax		**5,254**	**4,337**
Income tax benefit/ (expense)	9	282	(265)
Profit and total comprehensive income for the year		**5,536**	**4,072**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

GEL'000	Share capital	Accumulated losses	Total equity
Balance at 1 January 2015	99,516	(12,482)	87,034
Total comprehensive income for the year			
Profit and total comprehensive income for the year	-	4,072	4,072
Transactions with owners, recorded directly in equity			
Issue of share capital (note 15)	11,484	-	11,484
Balance at 31 December 2015	**111,000**	**(8,410)**	**102,590**
Balance at 1 January 2016	111,000	(8,410)	102,590
Total comprehensive income for the year			
Profit and total comprehensive income for the year	-	5,536	5,536
Transactions with owners, recorded directly in equity			
Issue of share capital (note 15)	10,372	-	10,372
Balance at 31 December 2016	**121,372**	**(2,874)**	**118,498**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

GEL'000	Notes	2016	2015
Cash flows from operating activities			
Interest received		62,047	58,927
Interest paid		(38,487)	(32,569)
Fees and commissions received		6,348	4,761
Fees and commissions paid		(3,512)	(2,403)
Realised gains less losses from dealing in foreign currencies and operations with foreign currency derivatives		3,483	2,455
Other operating income received		937	253
Personnel expenses paid		(10,551)	(9,974)
Other operating expenses paid		(9,406)	(6,532)
Cash flows from operating activities before changes in operating assets and liabilities		**10,859**	**14,918**
Changes in:			
Mandatory reserve deposits with the National Bank of Georgia		(21,536)	(5,327)
Loans to customers		13,199	(122,370)
Other assets		(917)	1,508
Deposits and balances from banks		(36,805)	8,357
Current accounts and deposits from customers		49,140	93,047
Other liabilities		2,917	(3,412)
Net cash from/ (used in) operating activities		**16,857**	**(13,279)**
Cash flows from investing activities			
Acquisition of investment securities		(13,564)	(9,799)
Proceeds from redemption of investment securities		18,100	22,420
Acquisition of premises and equipment		(4,134)	(4,538)
Acquisition of other intangible assets		(1,183)	(1,356)
Net cash (used in)/ from investing activities		**(781)**	**6,727**
Cash flows from financing activities			
Repayment of the loan from the financial institution		(11,726)	-
Repayment of the subordinated loans		(693)	-
Proceeds from issue of share capital		5,433	11,484
Net cash (used in)/ from financing activities		**(6,986)**	**11,484**
Effect of exchange rates changes on cash and cash equivalents		576	5,092
Net increase in cash and cash equivalents		**9,666**	**10,024**
Cash and cash equivalents, beginning	4	**81,889**	**71,865**
Cash and cash equivalents, ending	4	**91,555**	**81,889**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

1. Reporting entity

(a) Georgian business environment

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

(b) Organisation and operations

These consolidated financial statements comprise the financial statements of JSC Terabank (the Bank) and its subsidiary (the Group). The Bank was established in Georgia as a joint stock company on 30 December 2007 under the legal name of JSC Kor Standard Bank. On 23 May 2016 the Bank changed its legal name to JSC Terabank.

The Bank's principal activities are deposit taking, customer account maintenance, credit operations, issuing guarantees, cash and settlement operations, and securities and foreign exchange transactions. The Bank's activities are regulated by the National Bank of Georgia (NBG). The Bank has a general banking license issued by NBG on 25 January 2008.

The Bank's registered legal address is 3, K. Tsamebuli Avenue, Tbilisi 0103, Georgia. The Bank operates through 18 branches, which are located in all major cities of Georgia.

The Bank has one subsidiary, Standard Insurance LLC, which does not have operations in 2016 and 2015.

As at 31 December 2016 and 2015, the Bank's shareholding structure is as follows:

Owners	**Ownership interest, %**
Sheikh Nahayan Mabarak Al Nahayan	45%
Sheikh Hamdan Bin Zayed Alnehayan	20%
Sheikh Mohamed Butti Alhamed	15%
Sheikh Mansoor Binzayed Binsultan Al-Nahayan	15%
Investment Trading Group LLC	5%
	100%

Related party transactions are described in detail in note 23.

2. Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Group is the Georgian Lari (GEL) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The GEL is also the presentation currency for the purposes of these consolidated financial statements.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 6;
- goodwill impairment test – note 8.

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by the Bank and its subsidiary.

Basis of consolidation

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

Financial instruments

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

The Group classifies all financial assets as loans and receivables, except for the investment securities, which are classified as held-to-maturity investments.

Recognition of financial instruments

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement of financial instruments

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. All financial liabilities are classified as other financial liabilities, except for swaps, which are designated at fair value through profit or loss.

Amortized cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument

Cash and cash equivalents and mandatory reserve with the NBG

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding mandatory reserves, amounts due from credit institutions and other highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the NBG and whose withdrawability is restricted. The mandatory reserve deposit with the NBG is not considered to be a cash equivalent, due to restrictions on its withdrawability.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement of fair value

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition of financial instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Group writes off assets deemed to be uncollectible.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of comprehensive income. The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at cost when acquired and included in premises and equipment, other financial assets or inventories depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Credit related commitments

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

Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2019 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, if it is not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2019, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2019 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2019 and hence, no deferred income tax assets and liabilities will arise, there on.

Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Premises	25 years
Office and computer equipment	5-15 years
Vehicles	5 years
Furniture, fixtures and other fixed assets	5 years
Leasehold improvements	5-10 years

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Bank tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Bank monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets other than goodwill

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 10 years.

Share capital

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Georgia. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Recognition of income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

4. Cash and cash equivalents

GEL'000	2016	2015
Cash on hand	**36,834**	**30,596**
Nostro accounts with the NBG	**13,809**	**19,314**
Current accounts with other credit institutions		
- rated A- to A+	3,530	930
- rated BBB to BBB+	33,703	30,033
- rated from BB- to BB+	3,619	902
- not rated	60	114
Total current accounts with other credit institutions	**40,912**	**31,979**
Total cash and cash equivalents	**91,555**	**81,889**

No cash and cash equivalents are impaired or past due.

As at 31 December 2016 the Group has 1 bank (2015: 2 banks), whose balance exceeds 10% of equity. The gross value of this balance is GEL 33,514 thousand (2015: GEL 29,694 thousand).

5. Investment securities

Investment securities of GEL 29,465 thousand (2015: GEL 33,949 thousand) represent debt securities with the Government of Georgia. All investment securities are denominated in GEL and their contractual interest rates and maturities are as follows:

	31 December 2016		**31 December 2015**	
	Nominal interest rate, %	**Maturity**	**Nominal interest rate, %**	**Maturity**
Debt securities with the Ministry of Finance	7 – 11	2017 - 2020	6 -7	2015 - 2019

No investment securities are impaired or past due.

6. Loans to customers

GEL'000	2016	2015
Business loans	184,893	126,871
Consumer loans	147,710	121,655
Gold pawn loans	95,956	173,598
Mortgage loans	38,268	40,566
Gross loans to customers	**466,827**	**462,690**
Less: allowance for impairment	(31,884)	(26,106)
Net loans to customers	**434,943**	**436,584**

(a) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within Georgia who operate in the following economic sectors:

GEL'000	2016	2015
Individuals	185,978	162,220
Gold pawn loans	95,956	173,598
Trading and service sector	87,073	56,105
Construction sector	40,863	18,738
Financial Institutions	17,248	9,518
Health Care	15,793	13,474
Energy sector	14,847	17,719
Agriculture and food processing	5,800	9,310
Other	3,269	2,008
Gross loans to customers	**466,827**	**462,690**

(b) Significant credit exposures

As at 31 December 2016 and 2015 none of the Group's borrower's balance exceeds 10% of equity.

As at 31 December 2016, the Bank had a concentration of loans represented by GEL 79,400 thousand due from the ten largest third party borrowers (2015: GEL 93,590 thousand). An allowance of GEL 4,073 thousand (2015: GEL 3,529 thousand) was recognised against these loans.

(c) Movement in allowance for impairment of loans to customers

GEL'000	Business loans	Consumer loans	Mortgage loans	Gold pawn loans	Total
At 1 January 2016	6,400	6,153	1,897	11,656	26,106
Charge/ (reversal) for the year	(174)	5,253	(14)	4,949	10,014
Recoveries	107	765	37	-	909
Amounts written off	(553)	(4,374)	(218)	-	(5,145)
At 31 December 2016	**5,780**	**7,797**	**1,702**	**16,605**	**31,884**
Individual impairment	1,256	417	223	16,605	18,501
Collective impairment	4,524	7,380	1,479	-	13,383
	5,780	**7,797**	**1,702**	**16,605**	**31,884**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**7,477**	**417**	**479**	**36,196**	**44,569**

GEL'000	Business loans	Consumer loans	Mortgage loans	Gold pawn loans	Total
At 1 January 2015	7,310	7,296	1,106	7,196	22,908
Charge for the year	2,324	593	1,115	4,460	8,492
Recoveries	12	325	-	-	337
Amounts written off	(3,246)	(2,061)	(324)	-	(5,631)
At 31 December 2015	**6,400**	**6,153**	**1,897**	**11,656**	**26,106**
Individual impairment	2,544	587	10	11,656	14,797
Collective impairment	3,856	5,566	1,887	-	11,309
	6,400	**6,153**	**1,897**	**11,656**	**26,106**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,051**	**676**	**214**	**31,799**	**47,740**

(d) Key assumptions and judgments for estimating loan impairment

The Group estimates loan impairment for loans to customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

As at 31 December 2016, GEL 422,258 thousand of gross loan portfolio (2015: GEL 414,950 thousand) was assessed on a collective basis and GEL 13,383 thousand (2015: GEL 11,309 thousand) amount of loan loss allowance was created against it, which represents 3.17% (2015: 2.72%) of loss rate on the loan portfolio assessed collectively. In determining the impairment allowance for loans to customers, management uses estimates based on historical loss experience of past 3 years for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans.

As at 31 December 2016, GEL 44,569 thousand (2015: GEL 47,740 thousand) of gross loan portfolio was determined to be individually impaired and an allowance of GEL 18,501 thousand (2015: GEL 14,797 thousand) was created. The Bank makes individual assessment of the loan loss allowance as a difference between the carrying amount of the loan and the present value of estimated future cash flows for loans to customers for which the Bank assessed that loss event exists. The future cash flow are determined as the value of the collateral pledged and expected future repayments, discounted for the delay of approximately 2 years in obtaining proceeds from the foreclosure of collateral. The management monitors market value of the collateral on a regular basis and seeks for the independent expert opinion, where applicable. Determination of loss event primarily depends on the borrowers' debt service. The loan loss allowance on gold pawn loans is mainly attributable to the loans that were provisioned as a result of the fraudulent activity by the bank employees in 2015 and previous years. Particularly, for some gold pawn loans the overstated amount of collateral received was recorded, therefore loan collateralization was inadequate. The Bank hired independent external valuators to examine and revalue potentially suspicious collateral. The revaluation of collateral by the independent external valuators revealed instances of loan disbursements in breach of the Bank's policies and credit limits. As a result, individual impairment loss was recognized in respect of the gold pawn loans.

(e) Analysis of collateral and other credit enhancements

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests borrowers to provide it.

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

The main types of collateral obtained are as follows:

- for gold pawn lending, gold and other precious metals and jewelry;
- for commercial lending, charges over real estate properties, movable property, and inventory;
- for retail lending, real estate, vehicles and other movable properties.

Management ensures, that major part of the business loans, gold pawn loans and mortgage loans are fully covered by the market value of the collateral.

GEL'000	**Net exposures**					
At 31 December 2016	**Real estate**	**Cash collateral**	**Other**	**No collateral**	**Precious Metals**	**Total**
Business	142,600	18,167	15,776	1,560	1,010	179,113
Consumer	86,202	2,198	1,028	50,485	-	139,913
Mortgage	36,187	-	-	379	-	36,566
Gold pawn	491	-	-	3,169	75,691	79,351
Total	**265,480**	**20,365**	**16,804**	**55,593**	**76,701**	**434,943**

GEL'000	**Net exposures**					
At 31 December 2015	**Real estate**	**Cash collateral**	**Other**	**No collateral**	**Precious Metals**	**Total**
Business	98,185	3,327	16,449	1,765	746	120,472
Consumer	58,604	3,454	1,393	52,051	-	115,502
Mortgage	38,347	-	-	321	-	38,668
Gold pawn	-	-	-	249	161,693	161,942
Total	**195,136**	**6,781**	**17,842**	**54,386**	**162,439**	**436,584**

The tables above excludes overcollateralisation. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. The majority of the loans with no collateral represents payroll loans, which include loans secured with personal guarantees.

(f) Repossessed collateral

Repossessed collateral mainly represents real estate assets acquired by the Bank in settlement of overdue loans. These assets are treated as inventories, are recognized at cost when acquired and subsequently measured at the amount lower of cost and net realizable value. The Group's policy is to sell the repossessed collateral as soon as it is practicable.

During 2016, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of GEL 3,161 thousand (2015: GEL 15,016 thousand). There were no material sales of the repossessed collateral during 2016 or 2015.

As at 31 December 2016, approximately 70% of the property (2015: 80%) is repossessed from one counterparty. As at 31 December 2016, the Bank is temporarily restricted to use or sell the property following the legal case initiated by the borrower against the Bank. Based on the consultations with the external and internal lawyers, the management believes that the Bank will win the case.

7. Premises and equipment

GEL'000	Land	Premises	Office and computer equipment	Vehicles	Furniture, fixtures and other fixed assets	Leasehold improve-ments	Total
Cost							
As at 1 January 2015	32	12,364	3,572	686	5,519	2,843	25,016
Additions	-	1,310	2,410	62	699	58	4,539
Disposals	-	-	(3)	(72)	(28)	(76)	(179)
Transfers	-	4	-	-	(16)	12	-
Transfer from repossessed assets	417	135	-	-	-	-	552
As at 31 December 2015	**449**	**13,813**	**5,979**	**676**	**6,174**	**2,837**	**29,928**
As at 1 January 2016	449	13,813	5,979	676	6,174	2,837	29,928
Additions	-	1,353	1,136	5	1,453	187	4,134
Disposals	-	-	(236)	-	(175)	(5)	(416)
Transfers	-	(63)	-	-	27	36	-
As at 31 December 2016	**449**	**15,103**	**6,879**	**681**	**7,479**	**3,055**	**33,646**
Accumulated depreciation							
As at 1 January 2015	-	2,030	2,942	525	4,815	2,064	12,376
Depreciation charge	-	559	327	69	360	261	1,576
Disposals	-	-	(1)	(72)	(16)	(31)	(120)
As at 31 December 2015	**-**	**2,589**	**3,268**	**522**	**5,159**	**2,294**	**13,832**
As at 1 January 2016	-	2,589	3,268	522	5,159	2,294	13,832
Depreciation charge	-	590	739	78	418	252	2,077
Disposals	-	-	(236)	-	(175)	(5)	(416)
As at 31 December 2016	**-**	**3,179**	**3,771**	**600**	**5,402**	**2,541**	**15,493**
Net book value							
1 January 2015	**32**	**10,334**	**630**	**161**	**704**	**779**	**12,640**
31 December 2015	**449**	**11,224**	**2,711**	**154**	**1,015**	**543**	**16,096**
31 December 2016	**449**	**11,924**	**3,108**	**81**	**2,077**	**514**	**18,153**

8. Goodwill

Goodwill of GEL 20,374 thousand fully relates to the acquisition of JSC Standard Bank in 2008 by JSC Kor. JSC Kor was established as a commercial bank with a view of acquiring JSC Standard Bank and had no operations of its own prior to business combination.

The Group is considered as a one cash-generating unit (the CGU) for the impairment test purposes. The recoverable amount of the CGU is based on the value in use, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represented management's assessment of future trends in the banking industry, projected growth rate of the country's economy and were based on historical data from both external and internal sources.

In percent	**2016**	**2015**
Discount rate	11%	11%
Terminal value growth rate	5%	5%
Budgeted growth rate of free cash flows (average of next five years)	5%	5%

The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD.

The estimated recoverable amount of the CGU exceeded its carrying amount. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

9. Taxation

GEL '000	**2016**	**2015**
Current tax expense		
Current year	-	-
Movement in temporary differences due to origination and reversal of temporary differences	282	(265)
Total income tax benefit / (expense)	**282**	**(265)**

In 2016, the applicable tax rate for current and deferred tax is 15% (2015: 15%).

Reconciliation of effective tax rate:

GEL'000	**2016**	**%**	**2015**	**%**
Profit before tax	5,254		4,337	
Income tax at the applicable tax rate	788	15	651	15
Change in recognised deferred tax liabilities due to change in the legislation (note 3)	(576)	(11)	-	-
Net non-taxable income	(494)	(9)	(386)	(9)
	(282)	**(5)**	**265**	**6**

Movement in temporary differences during the year

GEL'000	1 January 2016	Recognised in profit or loss	31 December 2016
Loans to customers	877	(2,314)	(1,437)
Goodwill and other intangible assets	(1,789)	1,855	66
Tax loss carry-forwards	115	1,265	1,380
Other	200	(524)	(324)
	(597)	**282**	**(315)**

GEL'000	1 January 2015	Recognised in profit or loss	31 December 2015
Loans to customers	(423)	1,300	877
Goodwill and other intangible assets	(1,716)	(73)	(1,789)
Tax loss carry-forwards	1,638	(1,523)	115
Other	169	31	200
	(332)	**(265)**	**(597)**

Tax loss carry-forwards

Deferred tax assets have not been recognised in respect of the following items:

GEL'000	31 December 2016	31 December 2015
Tax loss carry-forwards	**847**	-

The Group's tax loss carry-forwards by expiration date comprise:

GEL'000	31 December 2016	31 December 2015
2019	115	115
2021	2,112	-
	2,227	**115**

In accordance with the Georgian tax legislation, tax losses may be carried forward for up to 5 years. However due the changes in the Georgian tax legislation (note 3), tax losses will expire from 1 January 2019. Deferred tax asset of GEL 1,380 thousand is recognised only to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised.

10. Loan from financial institution

			31 December 2016		31 December 2015	
'000 GEL	Currency	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Black Sea Trade and Development Bank (BSTDB)	USD	2018	10,696	10,696	21,291	21,291

At 31 December 2015, as a result of the assessment of gold pawn loans involved in fraud (note 6) on an individual basis and an increase of the related loan loss provision, the Bank violated Open Credit Exposure to Capital ratio (maximum 25%, actual 33.62%) with BSTDB. The Bank has not obtained the waiver from BSTDB as at 31 December 2015. As at 31 December 2016 the Bank is in compliance with the BSTDB financial covenants.

11. Subordinated loans

				31 December 2016		31 December 2015	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Standard Capital Georgia Ltd	USD	11%	2025	7,183	7,183	7,222	7,222
Standard Capital Georgia Ltd	USD	11%	2026	5,341	5,341	4,833	4,833
Dhabi contracting*	USD	6%	2022	21,181	21,181	23,957	23,957
Total subordinated loans				**33,705**	**33,705**	**36,012**	**36,012**

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

***** In 2016 the subordinated loan of USD 2,000 thousand (GEL 4,939 thousand) was settled against the issue of the share capital of the Bank (note 15).

12. Deposits and balances from banks

GEL’000	**2016**	**2015**
Loan from the NBG	-	25,000
Time deposits from banks	-	12,642
Short-term placements of other banks	416	3,337
Total deposits and balances from banks	**416**	**40,979**

The loan from the NBG of GEL 25,000 thousand as at 31 December 2015 was bearing interest rate of 9.2% and matured in 2016.

13. Current accounts and deposits from customers

GEL’000	**2016**	**2015**
Current accounts	241,063	196,207
Time deposits	279,539	254,561
Total current account and deposits from customers	**520,602**	**450,768**
Held as a security against guarantees and letters of credit issued	**14,197**	**7,901**

As at 31 December 2016, the Group has 12 customers (2015: 9 customers), whose balances exceed 10% of equity. These balances as at 31 December 2016 are GEL 226,227 thousand (2015: GEL 169,901 thousand).

GEL’000	**2016**	**2015**
Private enterprises	301,533	226,846
Individuals	145,472	126,031
State and budgetary organizations	73,597	97,891
Total current account and deposits from customers	**520,602**	**450,768**

An analysis of amounts due to customers by economic sector is as follows:

GEL'000	**2016**	**2015**
Individuals	145,472	126,031
State and budgetary organizations	73,597	97,891
Trade and service	51,791	44,278
Energy	43,461	25,316
Transport and communication	42,323	33,410
Construction	39,826	13,582
Non-banking credit organizations	19,220	25,623
Insurance	15,943	16,209
Mining	3,269	3,001
Other	85,700	65,427
Total current account and deposits from customers	**520,602**	**450,768**

14. Other liabilities

GEL'000	**2016**	**2015**
Swap agreements	6,917	3,930
Settlement on plastic card and money transfer operations	2,687	370
Other	1,785	1,920
Total other financial liabilities	**11,389**	**6,220**
Provisions for guarantees and credit related commitments	360	181
Other	659	167
Total other liabilities	**12,408**	**6,568**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2016		**2015**	
GEL'000	**Notional amount**	**Fair value liabilities**	**Notional amount**	**Fair value liabilities**
Foreign exchange contracts				
Swaps – domestic	34,439	6,917	37,012	3,930

15. Equity

Number of shares	**Ordinary shares**	
	2016	**2015**
In issue at 1 January	1,110,000	995,160
Issued in cash, fully paid	54,329	114,840
Set off with the subordinated loan (note 11)	49,391	-
In issue at 31 December, fully paid	**1,213,720**	**1,110,000**
Authorised shares - par value	**100**	**100**

All ordinary shares rank equally with regard to the Bank's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank. No dividends were declared or paid in 2016 and 2015.

16. Net interest income

GEL'000	2016	2015
Loans to customers	58,751	52,548
Investment securities	3,172	2,797
Cash and cash equivalents and mandatory reserve with the NBG	1,170	2,274
Total interest income	**63,093**	**57,619**
Current accounts and deposits from customers	31,003	24,631
Loan from financial institution	2,355	2,874
Subordinated loans	2,671	2,611
Total interest expense	**36,029**	**30,116**
Net interest income	**27,064**	**27,503**

17. Fee and commission income and expenses

GEL'000	2016	2015
Plastic card transactions	2,578	1,588
Settlement transactions	1,338	1,053
Cash transactions	995	1,047
Guarantees and letters of credit issued	800	346
Other	591	682
Total fee and commission income	**6,302**	**4,716**
Plastic card transactions	2,415	1,508
Settlement transactions	442	342
Cash transactions	377	214
Other	324	339
Total fee and commission expenses	**3,558**	**3,661**
Net fee and commission income	**2,744**	**2,313**

18. Other operating expenses

GEL'000	**2016**	**2015**
Lease expenses	2,410	2,047
Advertising and marketing services	1,381	929
Professional services	1,169	1,217
Taxes other than on income	596	336
Representative expenses	546	489
Transportation and cash collection	373	275
Communications	370	343
Security expense	369	320
Repair and maintenance	355	361
Office supply	329	285
Insurance	255	152
Plastic card expenses	161	97
Business trip expenses	122	55
Other	973	905
Total other operating expenses	**9,409**	**7,811**

19. Credit related commitments

The Group has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

GEL'000	**2016**	**2015**
Credit related commitments		
Guarantees	33,352	18,783
Letters of credit	386	2,350
Total credit related commitments	**33,738**	**21,133**
Less: cash held as security against guarantees and letters of credit	(14,197)	(7,901)
Net exposure to guarantees and letters of credit	**19,541**	**13,232**
Undrawn loan commitments	**5,102**	**16,518**

20. Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2016, the Group’s internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group’s significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the NBG.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chief Executive Officer and indirectly to the Board of Directors.

The Supervisory Board has responsibility for controlling the Group’s compliance with risk limits and capital adequacy ratios as established by the Group’s internal documentation. With the view of controlling effectiveness of the Group’s risk management procedures and their consistent application the Supervisory Board and management bodies of the Bank periodically receive reports prepared by the internal audit function and the Risk department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

Credit risk

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. The Bank further established 3 levels of credit committees which are responsible for approving credit limits for individual borrowers. Review and approval limits for each credit committee differs per loan type. Only sanctioned retail loans (payroll/credit card/overdraft) with the maximum amount of GEL 17 thousand are issued on branch level. Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit.

In order to monitor credit risk exposures, regular reports are produced by the portfolio analysis manager and reviewed by the credit risk department. Monitoring includes review of the customer's financial performance.

The financial assets of the Bank exposed to credit risk can be analysed as follows:

GEL'000 31 December 2016	**Neither past due nor impaired**			**Past due but not impaired**	**Individually impaired**	**Total**
	High grade	**Standard**	**Sub-standard**			
Cash and cash equivalents	54,721	-	-	-	-	54,721
Mandatory reserve deposit with the NBG	72,573	-	-	-	-	72,573
Loans to customers						
Consumer loans	2,202	82,166	49,964	12,961	417	147,710
Business loans	19,191	127,444	22,199	8,584	7,475	184,893
Mortgage loans	-	35,145	464	2,181	479	38,269
Gold pawn loans	36,572	135	22,696	356	36,196	95,955
	57,965	**244,890**	**95,323**	**24,082**	**44,567**	**466,827**
Investment securities	29,465	-	-	-	-	29,465
Other financial assets	1,232	-	-	233	-	1,465
Total	**215,956**	**244,890**	**95,323**	**24,315**	**44,567**	**625,051**

GEL'000 31 December 2015	**Neither past due nor impaired**			**Past due but not impaired**	**Individually impaired**	**Total**
	High grade	**Standard**	**Sub-standard**			
Cash and cash equivalents	51,293	-	-	-	-	51,293
Mandatory reserve deposit with the NBG	44,052	-	-	-	-	44,052
Loans to customers						
Consumer loans	3,454	56,537	52,266	8,721	676	121,654
Business loans	4,074	87,576	18,561	1,612	15,051	126,874
Mortgage loans	-	37,509	472	2,370	214	40,565
Gold pawn loans	133,811	-	7,181	806	31,799	173,597
	141,339	**181,622**	**78,480**	**13,509**	**47,740**	**462,690**
Investment securities	33,949	-	-	-	-	33,949
Other financial assets	673	-	-	149	-	822
Total	**271,306**	**181,622**	**78,480**	**13,658**	**47,740**	**592,806**

An analysis of past due loans is provided below. The majority of the past due loans are not considered to be impaired because of high quality and adequacy of collateral.

Neither past due nor impaired financial assets of the Bank are classified as follows:

- High grade: A financial asset with no overdue days secured by deposit or precious metals. The Bank treats mandatory reserve deposit amount with the NBG, together with Ministry of Finance treasury bills and bonds and deposit certificated of the NBG as high grade financial assets.
- Standard grade: A financial asset with no overdue days secured by real estate.
- Substandard grade: A financial asset with no overdue days secured by other collateral or not fully collateralized.

Aging analysis of past due but not impaired loans per class of financial assets:

GEL'000 31 December 2016	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Loans to customers					
Consumer loans	6,279	1,922	604	4,156	12,961
Business loans	6,162	155	1,081	1,187	8,585
Mortgage loans	983	168	-	1,029	2,180
Gold pawn loans	356	-	-	-	356
Total	**13,780**	**2,245**	**1,685**	**6,372**	**24,082**

GEL'000 31 December 2015	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Loans to customers					
Consumer loans	2,692	703	354	4,971	8,720
Business loans	616	56	-	940	1,612
Mortgage loans	379	269	822	901	2,371
Gold pawn loans	806	-	-	-	806
Total	**4,493**	**1,028**	**1,176**	**6,812**	**13,509**

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

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Realisable value of collateral and expected future cash flows is considered when determining allowance amounts. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration historical losses on the portfolio.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of the Bank's financial assets is set out below:

	2016				2015			
GEL'000	**Georgia**	**OECD**	**CIS and other foreign countries**	**Total**	**Georgia**	**OECD**	**CIS and other foreign countries**	**Total**
Assets								
Cash and cash equivalents	54,262	37,012	281	91,555	50,812	30,624	453	81,889
Mandatory reserves with the NBG	72,573	-	-	72,573	44,052	–	–	44,052
Loans to customers	423,541	3,459	7,943	434,943	436,584	–	–	436,584
Investment securities	29,465	-	-	29,465	33,949	–	–	33,949
Other financial assets	1,465	-	-	1,465	674	–	–	674
	581,306	**40,471**	**8,224**	**630,001**	**566,071**	**30,624**	**453**	**597,148**

Liquidity risk and funding management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Management Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The Bank's liquidity policy is comprised of the following:

- projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- maintaining a funding plan commensurate with the Bank's strategic goals;
- maintaining a diverse range of funding sources thereby increasing the Bank's borrowing capacity, domestically as well as from foreign sources;
- maintaining highly liquid and high-quality assets;
- adjusting its product base by time bands against available funding sources;
- daily monitoring of liquidity ratios against regulatory requirements; and
- constant monitoring of asset and liability structures by time-bands.

Treasury function within the Bank is charged with the following responsibilities:

- compliance with the liquidity requirements of the NBG as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- daily reports to management, including reporting to management on the levels of liquid assets in the main currencies (GEL, USD, EUR), cash positions;
- weekly reports to management on the forecasted levels of cash flows in the main currencies (GEL, USD, EUR);
- constantly controlling/monitoring the level of liquid assets;
- monitoring of deposit and other liability concentrations; and
- maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBG. According to the NBG regulation monthly average liquidity ratio should not be less than 30%. ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by ALCO.

The Group maintains unused credit line of USD 5 million with the BSTDB (see note 10).

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables below. These balances are included in amounts due in less than three months in the tables below:

GEL'000 As at 31 December 2016	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Loans from financial institutions and deposits and balances from banks	3,325	2,874	5,534	-	11,733
Current accounts and deposits from customers	377,068	126,189	29,801	564	533,622
Other financial liabilities	11,389	-	-	-	11,389
Subordinated loans	733	3,284	14,290	34,991	53,298
Total undiscounted financial liabilities	**392,515**	**132,347**	**49,625**	**35,555**	**610,042**

GEL'000 As at 31 December 2015	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Loans from financial institutions and deposits and balances from banks	62,415	-	-	-	62,415
Current accounts and deposits from customers	263,147	148,884	57,264	133	469,428
Other financial liabilities	6,220	-	-	-	6,220
Subordinated loans	774	2,066	11,018	44,586	58,444
Total undiscounted financial liabilities	**332,556**	**150,950**	**68,282**	**44,719**	**596,507**

The Bank considers the maximum liquidity risk of all its financial guarantees and undrawn loan commitments as less than 3 months, as this is the earliest period when the guarantees can be called or the loan commitments can be drawn. However, based on the past experience, the management believes, that the Bank is exposed to liquidity risk from its financial commitments and contingencies according to their contractual expiry dates:

GEL'000	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
31 December 2016	10,625	10,823	17,343	49	**38,840**
31 December 2015	22,137	10,231	5,283	-	**37,651**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk mainly arises from open positions in interest rate financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group manages its market risk by following NBG's prudential ratio requirements on open currency position limits. These limits are monitored on a daily basis and the monitoring process is supervised by the Management Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at 31 December 2016 and 2015, the Group is not materially exposed to the interest rate risk as does not have material balances of financial assets or liabilities, bearing variable interest rates.

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %			2015 Average effective interest rate, %		
	GEL	**USD**	**Other currencies**	**GEL**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	6	-	-	8	-	-
Loans to customers	14	11	9	13	12	11
Investment securities	10	-	-	7	-	-
Interest bearing liabilities						
Loans from financial institutions and deposits and balances from banks	-	6	-	9	5	2
Current accounts and deposits from customers	7	4	1	9	5	3
Subordinated loans	-	8	-	-	8	-

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following tables show the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016 and 2015:

GEL'000 **31 December 2016**	**GEL**	**EUR**	**USD**	**Other currencies**	**Total**
ASSETS					
Cash and cash equivalents	26,040	23,472	39,462	2,581	91,555
Mandatory reserves with the NBG	-	10,151	62,422	-	72,573
Loans to customers	147,012	15,444	272,487	-	434,943
Investment securities	29,465	-	-	-	29,465
Other financial assets	247	546	670	2	1,465
Total assets	**202,764**	**49,613**	**375,041**	**2,583**	**630,001**
LIABILITIES					
Loans from financial institutions and deposits and balances from banks	416	-	10,696	-	11,112
Current accounts and deposits from customers	180,623	49,250	288,273	2,456	520,602
Subordinated loans	-	-	33,705	-	33,705
Other financial liabilities	2,968	120	8,302	-	11,390
Total liabilities	**184,007**	**49,370**	**340,976**	**2,456**	**576,809**
Net balance sheet position	**18,757**	**243**	**34,065**	**127**	**53,192**

GEL'000 **31 December 2015**	**GEL**	**EUR**	**USD**	**Other currencies**	**Total**
ASSETS					
Cash and cash equivalents	33,082	26,199	16,871	5,737	81,889
Mandatory reserves with the NBG	-	4,150	39,902	-	44,052
Loans to customers	167,854	4,765	263,965	-	436,584
Investment securities	33,949	-	-	-	33,949
Other financial assets	182	45	447	-	674
Total assets	**235,067**	**35,159**	**321,185**	**5,737**	**597,148**
LIABILITIES					
Loans from financial institutions and deposits and balances from banks	25,010	7,862	29,398	-	62,270
Current accounts and deposits from customers	196,043	27,244	222,418	5,063	450,768
Subordinated loans	-	-	36,012	-	36,012
Other financial liabilities	1,920	-	4,300	-	6,220
Total liabilities	**222,973**	**35,106**	**292,128**	**5,063**	**555,270**
Net balance sheet position	**12,094**	**53**	**29,057**	**675**	**41,878**

The Group is also exposed to currency risk from its off-balance sheet items, such as guarantees and letters of credits (note 19), swap and forward agreements (note 14), that are denominated in USD. Therefore, total net currency position differs from the balance sheet position shown above.

A (weakening)/ strengthening of the GEL, as indicated below, against USD at 31 December 2016 and 2015, would have affected equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

GEL’000	2016	2015
10% weakening of USD against GEL	(556)	342
10% strengthening of USD against GEL	556	(342)

The following significant exchange rates applied during the year:

in GEL	Average rate 2016	Average rate 2015	Reporting date spot rate 31 December 2016	Reporting date spot rate 31 December 2015
USD 1	2.3667	2.2702	2.6468	2.3949
EUR 1	2.6172	2.5204	2.7940	2.6169

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at 31 December 2016 and 2015, the Group is not significantly exposed to other price risk.

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

21. Fair value measurements

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group estimates the fair value of financial assets and liabilities to be not materially different from their carrying values. The fair value estimate for financial assets and liabilities at fair value through profit or loss are categorized into Level 2 of the fair value hierarchy, because of the use of valuation models where all significant inputs are observable.

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

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

22. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are contractually due to be recovered or settled.

	2016			2015		
GEL'000	**Within one year**	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Cash and cash equivalents	91,555	-	91,555	81,889	-	81,889
Mandatory reserve deposit with the NBG	72,573	-	72,573	44,052	-	44,052
Loans to customers	207,980	226,963	434,943	257,282	179,302	436,584
Investment securities	3,486	25,979	29,465	13,195	20,754	33,949
Other financial assets	1,253	212	1,465	368	306	674
Total	**376,847**	**253,155**	**630,001**	**396,786**	**200,362**	**597,148**
Loans from financial institutions and deposits and balances from banks	5,815	5,297	11,112	62,270	-	62,270
Current accounts and deposits from customers	495,714	24,888	520,602	376,825	73,943	450,768
Subordinated loans	1,406	32,299	33,705	86	35,926	36,012
Other financial liabilities	11,390	-	11,390	6,220	-	6,220
Total	**514,325**	**62,484**	**576,809**	**445,401**	**109,869**	**555,270**
Net exposure	**(137,478)**	**190,671**	**53,192**	**(48,615)**	**90,493**	**41,878**

The Bank's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

As at 31 December 2016, total current accounts within amounts due to customers amounted to GEL 241,063 thousand (2015: 196,207 thousand). The Bank conducts analysis of the stability of the current accounts within amounts due to customers for the period of the preceding two years on a monthly basis. Current accounts end-of-month balances have not fallen below GEL 150,639 thousand (2015: GEL 154,247 thousand) for the preceding 24 months. Significant part of total current accounts represent current accounts from legal entities which historically are of long-term nature. As such, it is reasonable to treat these funds for estimation of liquidity position of the Bank as with maturity of more than one year.

23. Related party disclosures

(a) Control relationships

The Bank does not have an ultimate controlling party or ultimate or immediate parent company. The shareholding structure of the Bank is disclosed in note 1 of these consolidated financial statements.

(b) Transactions with key management

Total remuneration included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

GEL'000	2016	2015
Salaries and other benefits	**1,253**	**1,751**

As at 31 December 2016 the Bank has issued loans of GEL 98 thousand (2015: GEL 345 thousand) to its key management. The loans are mainly long-term and bear average interest rate of 11%. In 2016 interest income accrued on the loans to the key management is GEL 26 thousand (2015: GEL 31 thousand).

As at 31 December 2016 the key management placed deposits of GEL 579 thousand with the Bank (2015: GEL 447 thousand). The deposits bear average interest rate of 5.2% and mature within 6 months from the reporting date. In 2016 interest expense accrued on the term deposits from the key management is GEL 16 thousand (2015: GEL 19 thousand).

(c) Transactions with other related parties

'000 GEL	Transaction value 2016	Outstanding balance 2016	Transaction value 2015	Outstanding balance 2015
Entities under common control				
Subordinated loan	-	21,181	-	23,957
Current accounts and term deposits	-	2,632	-	4,478

Terms and conditions of the subordinated loan is disclosed in note 11. In 2016 interest expense of GEL 1,389 thousand was accrued on subordinated loan from the related party (2015: GEL 1,361 thousand). The current accounts and term deposits mainly do not bear interest rate and are on demand. Interest expense of GEL 149 thousand was accrued on terms deposits from related parties (2015: GEL 159 thousand).

In 2015, the Bank issued letter of credit to entity under common control in amount of GEL 2,351 thousand. No such transactions occurred in 2016.

24. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG, (ii) to safeguard the Bank's ability to continue as a going concern and is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant and subsequently submitted to the NBG.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the

Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

In April 2016, the Bank violated established regulatory capital requirements due to the losses attributable to the discovered fraud case (see note 6), which were recorded in April 2016 for the NBG reporting purposes. The Bank had obtained a waiver letter form the NBG granting the Bank right to operate under lower tier 1 capital adequacy level till 31 October 2016. As at 31 December 2016 the Bank is in compliance with the capital adequacy requirements of the NBG.

The NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 10.8% of risk-weighted assets and Tier 1 capital adequacy ratio of 7.2%, computed based on the Bank's standalone special purpose financial statements prepared in accordance with the NBG regulations and pronouncements. As of 31 December, the Bank's capital adequacy ratio on this basis was as follows:

GEL'000	2016	2015
Core capital*	82,902	64,135
Supplementary capital*	23,934	48,359
Total regulatory capital*	**106,835**	**112,494**
Risk weighted assets*	**711,096**	**716,846**
Total capital adequacy ratio*	15.02%	15.69%
Tier 1 capital adequacy ratio*	11.66%	8.95%

The NBG also requires that all banks comply with Basel II regulations in their capital adequacy assessment. This implies the minimum ratio of 10.5% for total regulatory capital coefficient and minimum 8.5% for Tier 1 capital coefficient. The Bank's capital adequacy ratios on the Basel II basis were as follows:

GEL'000	2016	2015
Core capital*	68,835	71,626
Supplementary capital*	38,000	41,613
Total regulatory capital*	**106,835**	**113,239**
Risk weighted assets*	**797,372**	**785,320**
Total capital adequacy ratio*	13.40%	14.42%
Tier 1 capital adequacy ratio*	8.63%	9.12%

*These amounts are unaudited.

25. Contingencies

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26. Standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance of the Group. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 Financial instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 will have an impact on the recognition and measurement, the impairment as well as on the disclosure requirements of financial instruments. The Group expects that the new classification requirements will have a moderate impact. Based on the preliminary assessment, the application of IFRS 9 impairment requirements may result in an increase in loss allowance at the moment of transition and moderate increases for expenses for allowance for losses on loans and advances. The new hedge accounting requirements will not affect the financial statements as the Group does not apply hedge accounting.

IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group does not intend to adopt this standard early. Currently the Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Amendments to IAS 7

Disclosure Initiative (Amendments to IAS 7) requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

27. Events after the reporting date

In 2017 the Bank collected insurance coverage of GEL 2,622 thousand for the losses incurred as a result of fraud (note 6).