# JSC Progress Bank

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

31 December 2015

**CONTENTS**

## 1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for JSC Progress Bank (the "Bank").

The Bank was incorporated and is domiciled in Georgia. The Bank is a closed joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2014 the Bank's immediate parent company was Webion Investments Limited and the Bank was ultimately controlled by Mr. Mike Zoi. As of 31 December 2015 the Bank's immediate parent company was Pintex Group Corporation.

| | **% of ownership interest held as at:** | |
|---|---|---|
| **Shareholders** | **31 December 2015** | **31 December 2014** |
| Webion Investments Limited | - | 78.29% |
| Pintex Group Corporation | 78.29% | - |
| Mr. Bidzina Ivanishvili | 21.71% | 21.71% |

***Principal activity.*** The Bank's principal business activity is commercial and retail banking operations in Georgia. The Bank has operated under a full banking license issued by the National Bank of Georgia ("NBG") since 2007. The Bank has 8 (2014: 3) branches in Georgia.

***Registered address and place of business.*** The Bank's registered address is: #8 Baratashvili Street, Tbilisi 0105, Georgia.

***Presentation currency.*** These financial statements are presented in Georgian Lari ("GEL"), unless otherwise stated.

## 2 Operating Environment of the Bank

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

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

## 3 Summary of Significant Accounting Policies

***Basis of Preparation.*** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, available-for-sale financial assets and financial instruments categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

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

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

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

**3 Summary of Significant Accounting Policies (Continued)**

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

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

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

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

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

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

***Impairment of financial assets carried at amortized cost.*** Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

## 3 Summary of Significant Accounting Policies (Continued)

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

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

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

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

***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 recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized 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 each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required settling the commitment at the balance sheet date.

## 3 Summary of Significant Accounting Policies (Continued)

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

***Premises and equipment.*** Premises are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

The costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalized 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 for the year (within other operating income or expenses).

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized 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 recognized as profit or loss from disposal of fixed assets.

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

| | |
|---|---|
| Premises | 50 years; |
| Computers and communication equipment | 4 to 5 years; |
| Furniture, fixtures and other | 4 to 5 years; and |
| Vehicles | 4 to 5 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 each balance sheet date.

## 3 Summary of Significant Accounting Policies (Continued)

***Intangible assets.*** The Bank's intangible assets have definite useful life and primarily include capitalized computer software and licenses.

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives of 5 to 10 years.

***Investment properties.*** Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank.

Investment properties are stated at fair value, which is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains or losses arising from changes in the fair value of investment property is included in net profit or loss for the period in which it arises. If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

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

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

***Operating leases.*** Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. All the operating lease agreements concluded by the Bank are for the next twelve-month period, and operating lease contracts are renewed at the end of the contract period.

***Due to banks.*** Amounts due to banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

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

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

## 3 Summary of Significant Accounting Policies (Continued)

***Dividends.*** Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate 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. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

***Share capital.*** Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

***Foreign currency translation.*** The Bank's functional and presentation currency is the national currency of Georgia, Georgian Lari ("GEL").

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

## 3 Summary of Significant Accounting Policies (Continued)

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

Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2015 the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.3949 and EUR 1 = GEL 2.6169.

***Offsetting.*** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

***Earnings per share.*** Preference shares are not redeemable and are considered to be participating shares. Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

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

## 4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

***Going concern.*** The Bank is subject to certain statutory regulations set by the NBG related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Bank including penalties imposed by the NBG. The Bank was in breach of capital adequacy requirement regulations as of 31 December 2015 and 2014 and required by NGB according to Basel II new capital ratios as of 31 December 2015.

Overall as at the end of 2015, the Bank was in breach with the following NBG requirements (Notes 27):

***Basel 2 - Other indicators:***

- One insider ratio.

During 2015 and up to the report issue date no penalties and fines or other adverse actions were imposed by the NBG.

The Bank actively works to eliminate the breach in order to satisfy the NBG requirements. The financial statements are prepared on a going concern basis. In making this judgment the management has considered current trends and budgets, the profitability of operations and access to financial resources.

## 4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

***Impairment losses on loans and advances to customers.*** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The management considers the impact of financial crisis on Bank's customers conservatively during estimation and calculation of loan loss provision.

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

***Treasury shares***. If the Bank reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Such treasury shares may be acquired and held by the Bank. Consideration paid or received shall be recognized directly in equity. The amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with IAS 1 Presentation of Financial Statements. The Bank provides disclosure in accordance with IAS 24 Related Party Disclosures if the entity reacquires its own equity instruments from related parties (Note 30).

IFRS does not mandate a specific method of presenting the treasure shares within equity. In this financial statement the cost method is used. Under the cost method, the purchase of treasury stock is recorded by debiting treasury stock account by the actual cost of purchase. The cost method ignores the par value of the shares and the amount received from investors when the shares were originally issued.

When the treasure shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

***Initial recognition of related party transactions.*** In the normal course of business, the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

## 5 Application of New or Revised Standards and Pronouncements

For the preparation of these financial statements, the following new or amended standards are mandatory for the first time for the financial year beginning 1 January 2015.

- Amendment to IAS 16 and IAS 38 (Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how the gross carrying amount and the accumulated depreciation /amortisation are treated where an entity uses the revaluation model. As the Bank does not use the revaluation model, there was no effect on its financial statements.

- Amendments to IAS 19 titled Defined Benefit Plans: Employee Contributions (issued in November 2013) – The amendments, applicable to annual periods beginning on or after 1 July 2014, clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognised as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service). As the Bank has no post-employment benefit plans requiring employees or third parties to meet some of the cost of the plan, the amendments had no effect on the Bank's financial statements.

- Amendment to IAS 24 (Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how payments to entities providing key management personnel services are to be disclosed. This amendment had no effect on the Bank's financial statements.

- Amendment to IAS 40 (Annual Improvements to IFRSs 2011–2013 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies the application of IFRS 3 and IAS 40 in respect of acquisitions of investment property. IAS 40 assists preparers to distinguish between investment property and owner-occupied property, and then IFRS 3 helps them to determine whether the acquisition of an investment property is a business combination. The amendment had no effect on the Bank's financial statements.

- Amendment to IFRS 3 (Annual Improvements to IFRSs 2011–2013 Cycle, issued in December 2013) - The amendment, applicable prospectively to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 excludes from its scope the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself. This had no effect on the Bank's financial statements.

- Amendment to IFRS 8 (Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets are required only if the segment assets are reported regularly. These clarifications had no effect on the Bank's financial statements.

- Amendment to IFRS 13 (Annual Improvements to IFRSs 2011–2013 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that the portfolio exception in IFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non-financial) within the scope of IAS 39 / IFRS 9. This had no effect on the Bank's financial statements.

## 5 Application of New or Revised Standards and Pronouncements (Continued)

New and amended standards in issue but not yet effective

The Bank has not applied the following new or amended standards that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2015

The Management anticipate that the new standards and amendments will be adopted in the Bank's financial statements when they become effective. The Bank has assessed, where practicable, the potential effect of all these new standards and amendments that will be effective in future periods.

- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are not expected to have a material effect on the Bank's financial statements.

- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortization (issued in May 2014) – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January 2016. The Management do not anticipate any effect on the Bank's financial statements.

- Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, define bearer plants – i.e. living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41. As the Bank does not have agricultural activity, the management do not anticipate any effect on its financial statements.

- Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable to annual periods beginning on or after 1 January 2016, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. This is not expected to have an effect on the Bank's financial statements.

- Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. It is not applicable to the Bank as it deals only with separate financial statements.

- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. This is not expected to have an effect on the Bank's financial statements.

## 5 Application of New or Revised Standards and Pronouncements (Continued)

- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. This is not expected to have an effect on the Bank's financial statements.

- IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
  - IFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
  - For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
  - For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.
  - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
  - The derecognition provisions are carried over almost unchanged from IAS 39.

The Management anticipate that IFRS 9 will be adopted in the Bank's financial statements when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) – The amendments, applicable prospectively to annual periods beginning on or after 1 January 2016, address a current conflict between the two standards and clarify that gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. This is not expected to have an effect on the Bank's financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, clarify the application of the consolidation exception for investment entities and their subsidiaries. This is not expected to have any effect on the Bank's financial statements.

- Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014) – The amendments, applicable prospectively to annual periods beginning on or after 1 January 2016, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). This is not expected to have an effect on the Bank's financial statements.

## 5 Application of New or Revised Standards and Pronouncements (Continued)

• IFRS 15 Revenue from Contracts with Customers (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The Management anticipate that

IFRS 15 will be adopted in the Bank’s statements when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the Bank’s revenue. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

## 6 Cash and Cash Equivalents

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash on hand | 2,961,977 | 3,918,231 |
| Cash balances with the NBG | 848,716 | 736,136 |
| Correspondent accounts and overnight placements with: | | |
| - Georgia | 17,142,070 | 4,079,107 |
| - Other countries | 22,742,017 | 721,792 |
| **Total cash and cash equivalents** | **43,694,780** | **9,455,266** |

Cash balances with the NBG (other than mandatory reserve) represent correspondent account balance in the amount of GEL 848,716 (as at 31 December 2014: GEL 736,136) related to settlement activity and were available for withdrawal at year end.

The outstanding balance of current accounts and overnight placements with other banks consist of non-interest bearing correspondent account balances with resident and non-resident banks in the amount of GEL 39,884,087 (31 December 2014: GEL 4,800,899).

The analysis by credit quality of cash and cash equivalents at 31 December 2015 is as follows:

| | Cash on hand | Cash balances with the NBG (other than mandatory reserves) | Correspondent accounts and overnight placements with other banks | Total |
|---|---|---|---|---|
| Current and not impaired | | | | |
| - Cash on hand | 2,961,977 | - | - | **2,961,977** |
| - Government of Georgia | - | 848,716 | - | **848,716** |
| - Top 15 Georgian banks | - | - | 17,142,070 | **17,142,070** |
| - Other Georgian banks | - | - | - | **-** |
| - OECD banks | - | - | - | **-** |
| - CIS banks | - | - | 22,742,017 | **22,742,017** |
| **Total current and not impaired** | **2,961,977** | **848,716** | **39,884,087** | **43,694,780** |
| **Total cash and cash equivalents** | **2,961,977** | **848,716** | **39,884,087** | **43,694,780** |

## 6 Cash and Cash Equivalents (Continued)

The analysis by credit quality of cash and cash equivalents at 31 December 2014 is as follows:

| | **Cash on hand** | **Cash balances with the NBG (other than mandatory reserves)** | **Correspondent accounts and overnight placements with other banks** | **Total** |
|---|---|---|---|---|
| Current and not impaired | | | | |
| - Cash on hand | 3,918,231 | - | - | **3,918,231** |
| - Government of Georgia | - | 736,136 | - | **736,136** |
| - Top 15 Georgian banks | - | - | 4,079,107 | **4,079,107** |
| - Other Georgian banks | - | - | - | **-** |
| - OECD banks | - | - | - | **-** |
| - CIS banks | - | - | 721,792 | **721,792** |
| **Total current and not impaired** | **3,918,231** | **736,136** | **4,800,899** | **9,455,266** |
| **Total cash and cash equivalents** | **3,918,231** | **736,136** | **4,800,899** | **9,455,266** |

The analysis by credit quality of cash and cash equivalents at 31 December 2015 is as follows:

| | **Cash balances with the NBG (other than mandatory reserves)** | **Correspondent Accounts and overnight placements** | **Total** |
|---|---|---|---|
| Current and not impaired | | | |
| - Central Bank of Georgia | 848,716 | - | **848,716** |
| - A- to A+ rated | - | 9,017,680 | **9,017,680** |
| - Lower than A- rated | - | 30,866,407 | **30,866,407** |
| **Total cash and cash equivalents, excluding cash on hand** | **848,716** | **39,884,087** | **40,732,803** |

The analysis by credit quality of cash and cash equivalents at 31 December 2014 is as follows:

| | **Cash balances with the NBG (other than mandatory reserves)** | **Correspondent Accounts and overnight placements** | **Total** |
|---|---|---|---|
| Current and not impaired | | | |
| - Central Bank of Georgia | 736,136 | - | **736,136** |
| - A- to A+ rated | - | 652,385 | **652,385** |
| - Lower than A- rated | - | 4,148,514 | **4,148,514** |
| **Total cash and cash equivalents, excluding cash on hand** | **736,136** | **4,800,899** | **5,537,035** |

## 7 Mandatory Reserve with the NBG

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Mandatory reserve with the National Bank of Georgia | 16,067,093 | 9,187,335 |
| **Total mandatory reserve with the NBG** | **16,067,093** | **9,187,335** |

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

## 8 Due from Other Banks

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Short-term deposits with banks of Georgia | 19,365,034 | - |
| **Total due from other banks** | **19,365,034** | **-** |

On 19 May 2015 the Bank signed a deposit agreement with Bank of Georgia in amount of GEL 4,030,000 with an interest rate of 5% and maturity date of 19 April 2015. Within 2015 the agreement was extended for another month every month and have been closed on 11 January 2016.

On 8 April 2015 the Bank signed a deposit agreement with Bank of Georgia in amount of GEL 15,335,034 with an interest rate of 1% and maturity date of 8 May 2015. Within 2015 the agreement was extended for another month every month and have been closed in 25 January 2016.

Management of the Bank did not determine any objective evidence of impairment of the balances due from other banks and therefore, no provision for impairment was recorded at 31 December 2015.

## 9 Loans and Advances to Customers

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Corporate loans | 74,343,262 | 26,053,273 |
| Loans to individuals - mortgage | 20,216,232 | 23,767,393 |
| Loans to individuals - consumer loans | 2,779,060 | 3,554,815 |
| Loans to individuals - cash cover | 399,828 | 343,140 |
| Loans to individuals - car purchase | 145,029 | 117,697 |
| Loans to individuals - overdraft | 97,722 | 92,118 |
| Loans to individuals - agro | 50,465 | 95,631 |
| Loans to individuals - loans to employees | 11,297 | 53,755 |
| Less: Provision for loan impairment | (6,896,911) | (4,161,423) |
| **Total loans and advances to customers** | **91,145,984** | **49,916,399** |

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

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| **Individuals** | | | | |
| Mortgage | 20,216,232 | 20.62% | 23,767,393 | 43.95% |
| Consumer loans | 2,779,060 | 2.83% | 3,554,815 | 6.57% |
| Cash cover | 399,828 | 0.41% | 343,140 | 0.63% |
| Car purchase | 145,029 | 0.15% | 117,697 | 0.22% |
| Overdraft | 97,722 | 0.10% | 92,118 | 0.17% |
| Agro loans | 50,465 | 0.05% | 95,631 | 0.18% |
| Loans to employees | 11,297 | 0.01% | 53,755 | 0.10% |
| **Total individuals** | **23,699,633** | **24%** | **28,024,549** | **52%** |
| Trade and services | 37,921,741 | 38.68% | 19,164,384 | 35.44% |
| Other legal entities | 23,093,787 | 23.55% | 1,040,106 | 1.92% |
| Construction | 7,476,090 | 7.63% | 994,612 | 1.84% |
| Sole Proprietor | 5,847,208 | 5.96% | 4,139,373 | 7.65% |
| Mining and processing industries | 4,436 | 0.00% | 8,932 | 0.02% |
| Agriculture and forestry | - | - | 705,866 | 1.31% |
| **Total corporate loans** | **74,343,262** | **76%** | **26,053,273** | **48%** |
| **Total loans and advances to customers (before impairment)** | **98,042,895** | **100%** | **54,077,822** | **100%** |

At 31 December 2015, the Bank's top 30 borrowers had an aggregated gross loan amount of GEL 52,358,296 or 53% (2014: GEL 27,837,496 or 51%) of the gross loan portfolio.

## 9 Loans and Advances to Customers (Continued)

The movement in the provision for loan impairment during 2015 is as follows:

| | Corporate loans | SME and Micro loans | Loans to individuals | Total |
|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2015** | **767,982** | **1,837,598** | **1,555,843** | **4,161,423** |
| Provision and recovery for loan impairment during the year | (527,409) | 2,862,305 | 400,592 | **2,735,488** |
| **Provision for loan impairment at 31 December 2015** | **240,573** | **4,699,903** | **1,956,435** | **6,896,911** |

The movement in the provision for loan impairment during 2014 is as follows:

| | Corporate loans | SME and Micro loans | Loans to individuals | Total |
|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2014** | 185,000 | 997,000 | 1,376,050 | **2,558,050** |
| Provision and recovery for loan impairment during the year | 582,982 | 840,598 | 179,793 | **1,603,373** |
| **Provision for loan impairment at 31 December 2014** | **767,982** | **1,837,598** | **1,555,843** | **4,161,423** |

## 9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2015 is as follows:

| | Corporate loans | Consumer loans | Car purchase | Overdraft | Mortgage | Agro loans | Cash cover | Loans to employees | Total |
|---|---|---|---|---|---|---|---|---|---|
| Unsecured loans | 9,689,949 | 96,667 | 29,766 | 97,722 | 6,932,723 | - | - | 7,509 | **16,854,336** |
| Loans collateralized by: | | | | | | | | | |
| -deposit | 25,929,738 | - | - | - | 1,682,041 | - | 399,828 | - | **28,011,607** |
| -real estate | 23,643,171 | 1,795,302 | - | - | 6,975,667 | 50,465 | - | - | **32,464,605** |
| -guarantee | 13,802,334 | 768,500 | 6,661 | - | 4,625,802 | - | - | - | **19,203,297** |
| -movable property | 331,162 | 118,591 | 108,602 | - | - | - | - | - | **558,355** |
| -equipment | 132,125 | - | - | - | - | - | - | - | **132,125** |
| -other property | 814,783 | - | - | - | - | - | - | 3,787 | **818,570** |
| **Total loans and advances to customers** | **74,343,262** | **2,779,060** | **145,029** | **97,722** | **20,216,233** | **50,465** | **399,828** | **11,296** | **98,042,895** |

Information about collateral at 31 December 2014 is as follows:

| | Corporate loans | Consumer loans | Car purchase | Overdraft | Mortgage | Agro loans | Cash cover | Loans to employees | Total |
|---|---|---|---|---|---|---|---|---|---|
| Unsecured loans | - | 315,717 | 1,336 | 121,088 | 10,485,271 | - | - | 19,621 | **10,943,033** |
| Loans collateralized by: | | | | | | | | | |
| -real estate | 13,918,890 | 2,229,626 | 2,806 | - | 7,454,656 | 460,395 | - | - | **24,066,373** |
| -deposit | 89,145 | 193,067 | - | - | - | - | 351,809 | - | **634,021** |
| -movable property | 209,862 | 477,851 | 171,555 | - | 14,330 | - | - | - | **873,598** |
| -equipment | - | - | - | - | 15,164 | - | - | - | **15,164** |
| -guarantee | 3,927,179 | 859,848 | 4,287 | - | 8,917,111 | 203,932 | - | - | **13,912,357** |
| -state securities | 2,780,554 | - | - | - | - | - | - | - | **2,780,554** |
| -other property | 817,231 | - | - | - | - | - | - | 35,491 | **852,722** |
| **Total loans and advances to customers** | **21,742,861** | **4,076,109** | **179,984** | **121,088** | **26,886,532** | **664,327** | **351,809** | **55,112** | **54,077,822** |

## 9 Loans and Advances to Customers (Continued)

The analysis of loans to customers by impairment:

| | | December 31, 2015 | | | December 31, 2014 | |
|---|---|---|---|---|---|---|
| | **Carrying value before allowance** | **allowance for impairment losses** | **Carrying value** | **Carrying value before allowance** | **allowance for impairment losses** | **Carrying value** |
| *Loans to customers* | | | | | | |
| Individually determined to be impaired | 33,017,525 | (3,271,782) | 29,745,743 | 6,753,859 | (1,130,714) | 5,623,145 |
| *Loans to customers* | | | | | | |
| Collectively determined to be impaired | 18,626,460 | (3,625,129) | 15,001,331 | 5,723,442 | (2,103,581) | 3,619,861 |
| Unimpaired loans | 46,398,910 | - | 46,398,910 | 41,600,521 | (927,128) | 40,673,393 |
| **Total** | **98,042,895** | **(6,896,911)** | **91,145,984** | **54,077,822** | **(4,161,423)** | **49,916,399** |

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date.

## 10 Investment securities held to maturity

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Pintex Group coupon securities | 11,974,500 | - |
| Alliance Co. Oil LTD discount securities | 866,540 | - |
| MFO Rico Express coupon securities | - | 1,118,160 |
| Accrued interest | 1,021,616 | - |
| **Total loans and advances to customers (before impairment)** | **13,862,656** | **1,118,160** |

The movements in investment securities held to maturity are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Carrying amount at 1 January** | **1,118,160** | **1,041,780** |
| Interest income accrued | 1,236,150 | 38,750 |
| Interest income received | (214,534) | (38,750) |
| Purchases | 15,975,430 | 1,118,160 |
| Redemption | (4,252,550) | (1,041,780) |
| **Carrying amount at 31 December** | **13,862,656** | **1,118,160** |

## 11 Premises, Equipment and Intangible Assets

| *In Georgian Laris* | Buildings | Computer & communication equipment | Motor vehicles | Furniture & equipment | Other fixed assets | Leasehold improvements | Total premises and equipment | Intangible assets | CIP | Uninstalled equipment | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net book amount at 1 January 2014** | **1,785,699** | **193,887** | **100,532** | **224,575** | **100,623** | **91,562** | **2,496,878** | **304,966** | **-** | **-** | **2,801,844** |
| Additions | - | 41,820 | - | 15,368 | 3,599 | - | **60,787** | 44,141 | - | 302,617 | **407,545** |
| Disposals/sales | - | - | - | - | - | - | **-** | - | - | - | **-** |
| Depreciation/amortization charge | (39,767) | (43,815) | (24,991) | (36,531) | (14,100) | (13,125) | **(172,329)** | (49,340) | - | - | **(221,669)** |
| Depreciation eliminated on disposal | - | - | - | - | - | - | **-** | - | - | - | **-** |
| Cost at 31 December 2014 | 1,988,335 | 550,102 | 334,125 | 834,966 | 172,897 | 114,442 | **3,994,867** | 493,952 | - | 302,617 | **4,791,436** |
| Accum. depreciation/amortisation | (242,403) | (358,210) | (258,584) | (631,554) | (82,775) | (36,005) | **(1,609,531)** | (194,185) | - | - | **(1,803,716)** |
| **Net book amount at 1 January 2015** | **1,745,932** | **191,892** | **75,541** | **203,412** | **90,122** | **78,437** | **2,385,336** | **299,767** | **-** | **302,617** | **2,987,720** |
| Additions | - | 245,024 | 123,636 | 164,143 | 122,065 | 59,741 | **714,609** | 91,079 | 376,091 | 112,182 | **1,293,961** |
| Disposals/sales | - | (24,963) | - | - | (15,540) | - | **(40,503)** | (16,599) | (500) | - | **(57,602)** |
| Depreciation/amortization charge | (39,767) | (63,799) | (29,063) | (44,628) | (18,640) | (19,481) | **(215,378)** | (54,848) | - | - | **(270,226)** |
| Depreciation eliminated on disposal | - | 15,470 | - | - | 15,540 | - | **31,010** | 16,599 | - | - | **47,609** |
| **Net book amount at 31 December 2015** | **1,706,165** | **363,624** | **170,114** | **322,927** | **193,547** | **118,697** | **2,875,074** | **335,998** | **375,591** | **414,799** | **4,001,462** |
| Cost at 31 December 2015 | 1,988,335 | 770,163 | 457,761 | 999,109 | 279,422 | 174,183 | **4,668,973** | 568,432 | 375,591 | 414,799 | **6,027,795** |
| Accum. depreciation/amortisation | (282,170) | (406,539) | (287,647) | (676,182) | (85,875) | (55,486) | **(1,793,899)** | (232,434) | - | - | **(2,026,333)** |
| **Net book amount at 31 December 2015** | **1,706,165** | **363,624** | **170,114** | **322,927** | **193,547** | **118,697** | **2,875,074** | **335,998** | **375,591** | **414,799** | **4,001,462** |

## 12 Other Financial Assets

| *In Georgian Laris* | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Other financial assets | 1,451,345 | 50,763 |
| Provision for other financial assets | (191,707) | - |
| **Total other financial assets** | **1,259,638** | **50,763** |

Movements in the provision for impairment of other financial assets during 2015 and 2014 are as follows:

| | |
|---|---|
| **Provision for impairment at 1 January 2014** | **-** |
| Provision for impairment during the year | - |
| Recovery of amounts previously written off | - |
| **Provision for impairment at 31 December 2014** | **-** |
| Provision for impairment during the year | (191,707) |
| Recovery of amounts previously written off | - |
| **Provision for impairment at 31 December 2015** | **(191,707)** |

The analysis by credit quality of other financial receivables outstanding at 31 December 2015 is as follows:

| | Settlements with payment system operators | Amounts in the course of settlement | Accrued interest for guarantee letters | Other | Total |
|---|---|---|---|---|---|
| Current and not impaired | | | | | |
| - Top 5 money transfer entities | 1,437 | - | - | - | **1,437** |
| - Top 5 card issuing companies | - | - | - | - | **-** |
| - Other companies | - | - | 22,603 | 1,220,727 | **1,243,330** |
| - Receivables of payment terminals | - | 14,871 | - | - | **14,871** |
| **Total other financial assets** | **1,437** | **14,871** | **22,603** | **1,220,727** | **1,259,638** |

The analysis by credit quality of other financial receivables outstanding at 31 December 2014 is as follows:

| | Settlements with payment system operators | Amounts in the course of settlement | Accrued interest for guarantee letters | Other | Total |
|---|---|---|---|---|---|
| Current and not impaired | | | | | |
| - Top 5 money transfer entities | 7,887 | - | - | - | **7,887** |
| - Top 5 card issuing companies | - | - | - | - | **-** |
| - Other companies | - | - | 16,933 | 12,374 | **29,307** |
| - Receivables of payment terminals | - | 13,569 | - | - | **13,569** |
| **Total other financial assets** | **7,887** | **13,569** | **16,933** | **12,374** | **50,763** |

The primary factors that the Bank considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any.

## 13 Other Assets

| *In Georgian Laris* | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Reposessed assets | - | 721,377 |
| Advances paid | 330,521 | 121,050 |
| Other prepayments | 33,491 | 3,325 |
| Prepaid expenses | 7,220 | 5,418 |
| Provision for other assets | (9,775) | - |
| **Total other assets** | **361,457** | **851,170** |

As at 31 December 2015, advances of GEL 330,521 (2014: GEL 121,050) are paid for purchase accounting software, computer equipment and furniture.

Movements in the provision for impairment of other assets during 2015 and 2014 are as follows:

| | |
|---|---|
| **Provision for impairment at 1 January 2014** | **-** |
| Provision for impairment during the year | - |
| Recovery of amounts previously written off | - |
| **Provision for impairment at 31 December 2014** | **-** |
| Provision for impairment during the year | (9,775) |
| Recovery of amounts previously written off | - |
| **Provision for impairment at 31 December 2015** | **(9,775)** |

## 14 Factoring Receivables

| *In Georgian Laris* | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Factoring receivables | 3,728,387 | - |
| **Total factoring receivables** | **3,728,387** | **-** |

The loan issued by the Bank to LTD “World Technics” was sold to “Lurton Capital Investment Group” S.A. for USD 1,556,802.86 (equivalent in GEL 3,728,387).

## 15 Investment Properties

| *In Georgian Laris* | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Investment properties | 269,898 | - |
| **Total investment properties** | **269,898** | **-** |

The investment property consist of the repossessed collateral acquired by the Bank in settlement of overdue loans. The building used for rent and classified as an investment properties.

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

## 16 Non-Current Assets Held for Sale

| *In Georgian Laris* | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Non-Current assets held for sale | 440,338 | - |
| **Total Non-Current assets held for sale** | **440,338** | **-** |

As at December 31, 2015, non-current assets held for sale consist of the real estates which have been received in satisfaction of non-performing loans. Management believes that these assets will be sold within a year after reporting date.

## 17 Due to Banks

| *In Georgian Laris* | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Correspondent accounts | 1,001,378 | 1,000,000 |
| Term deposits | 62,648,298 | 1,863,600 |
| Accrued interest | 807,736 | 259 |
| **Total** | **64,457,412** | **2,863,859** |

Term deposits from KB Razvitye in total amount equivalent to GEL 28,978,290 (original currency is USD 12,100,000) consist of the following deposits:

- Deposit in amount equivalent to GEL 8,861,130 at an interest rate of 1% with the maturity date at 15 July 2016;
- Deposit in amount equivalent to GEL 6,466,230 at an interest rate of 1% with the maturity date at 27 July 2016; and
- Deposit in amount equivalent to GEL 13,650,930 at an interest rate of 3% (accrued interest as at 31 December 2015: GEL 22,752) with the maturity date at 12 December 2016.

Term deposits from JSC Bank of Georgia in total amount equivalent to GEL 19,300,608 (original currency is EURO 1,500,000 and USD 6,420,000) consist of 4 deposits:

- GEL 6,346,485 (accrued interest as at 31 December 2015: GEL 1,216) with the maturity date at 25 January 2016 at an interest rate of 2%;

## 17 Due to banks (Continued)

- GEL 4,957,443 (accrued interest as at 31 December 2015: GEL 0) with the maturity date at 25 January 2016 at an interest rate of 2%;
- GEL 4,071,330 (accrued interest as at 31 December 2015: GEL 780) with the maturity date at 25 January 2016 at an interest rate of 2%; and
- GEL 3,925,350 (Accrued interest: GEL 654) with the maturity date at 11 January 2016 at an interest rate of 2%.

Term deposits from JSC Kartu Bank in total amount equivalent to GEL 14,369,400 (original currency is USD 6,000,000) (2014: GEL 1,863,600) consist of 2 deposits:

- GEL 11,974,500 (accrued interest as at 31 December 2015: GEL 782,334) with the maturity date at 29 February 2016 at an interest rate of 7%; and
- GEL 2,394,900 (accrued interest as at 31 December 2015: GEL 0) with the maturity date at 12 January 2016 at an interest rate of 3%.

Also, the bank has non-interest bearing Loro account from JSC Kartu Bank with the amount of GEL 1,000,000 (2014: GEL 1,000,000).

## 18 Customer Accounts

| *In Georgian Laris* | **31 December 2015** | **31 December 2014** |
|---|---|---|
| State and public organisations | | |
| - Accrued interest | 718,252 | 233,057 |
| - Term deposits | 25,914,441 | 7,231,645 |
| Other legal entities | | |
| - Accrued interest | 779,527 | 385,606 |
| - Current/settlement accounts | 30,470,202 | 4,577,995 |
| - Term deposits | 24,060,854 | 11,607,957 |
| - Guarantee deposits | 2,323,045 | 387,500 |
| Individuals | | |
| - Accrued interest | 519,264 | 1,283,906 |
| - Current/demand accounts | 1,843,621 | 860,236 |
| - Term deposits | 29,183,631 | 30,050,456 |
| - Guarantee deposits | 955,431 | - |
| **Total customer accounts** | **116,768,268** | **56,618,358** |

## 18 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| *In Georgian Laris* | **Amount** | **%** | **Amount** | **%** |
| Trade and services | 38,766,354 | 33.20% | 10,138,251 | 17.91% |
| Individuals | 30,774,851 | 26.36% | 30,897,123 | 54.57% |
| State interprise | 26,883,123 | 23.02% | 7,231,645 | 12.77% |
| Other | 14,564,732 | 12.47% | 5,262,686 | 9.30% |
| Guarantee deposits | 3,278,476 | 2.81% | 387,500 | 0.68% |
| Construction | 453,769 | 0.39% | 82,958 | 0.15% |
| Industry | 28,557 | 0.02% | 7,916 | 0.01% |
| Enery | 1,262 | 0.00% | 1,258 | 0.00% |
| Agriculture | 101 | 0.00% | 706,452 | 1.25% |
| Accrued interest for corporate | 779,527 | 0.67% | 385,606 | 0.68% |
| Accrued interest for state enterprise | 718,252 | 0.62% | 233,057 | 0.41% |
| Accrued interest for individuals | 519,264 | 0.44% | 1,283,906 | 2.27% |
| **Total customer accounts** | **116,768,268** | **100%** | **56,618,358** | **100%** |

Balance of top 25 customers with amounts to GEL 93,241,380 which is 80% of total customer accounts as of 31 December 2015 (31 December 2014 top 25 customers: GEL 36,803,272 which is 65% of total customer accounts). Portion of current accounts is equal to 52%, term deposits - 47%, demand deposits - 1%.

The balance amount of customer accounts is their fair values as of 31 December 2015 and 31 December 2014. The fair value of customer accounts is GEL 116,768,268 as of 31 December 2015 (31 December 2014: GEL 56,618,358).

Refer to Note 29 for the disclosure of the fair value of each class of customer accounts. The interest rate analysis of customer accounts is disclosed in Note 26. The information on related party balances is disclosed in Note 30.

## 19 Share Capital

| *In Georgian Laris, except the number of shares* | **Number of outstanding shares** | **Ordinary shares** | **Total** |
|---|---|---|---|
| At 31 December 2013 | 17,474,500 | 17,474,500 | **17,474,500** |
| At 31 December 2014 | 17,474,500 | 17,474,500 | **17,474,500** |
| At 31 December 2015 | 17,474,500 | 17,474,500 | **17,474,500** |

## 19 Share Capital (Continued)

The total number of authorized ordinary shares is 18,240,000 shares (2014: 18,240,000 shares), with a par value of GEL 1 per share (2014: GEL 1 per share). The total number of issued ordinary shares is 17,475,000 shares (2014: 17,475,000 shares). All issued ordinary shares are fully paid.

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

## 20 Interest Income and Expense

| *In Georgian Laris* | **2015** | **2014** |
|---|---|---|
| **Interest income** | | |
| Correspondent accounts | 351,451 | 126,070 |
| Loans and advances to customers | 11,047,438 | 7,174,801 |
| Investment securities held to maturity | 1,092,518 | 38,750 |
| **Total interest income** | **12,491,407** | **7,339,621** |
| **Interest expense** | | |
| Due to banks | (2,391,718) | (754,688) |
| Customer accounts | (3,979,850) | (3,068,850) |
| **Total interest expense** | **(6,371,568)** | **(3,823,538)** |
| **Net interest income** | **6,119,839** | **3,516,083** |

## 21 Income from Foreign Currency Operations

Gain on foreign exchange operations less losses were as follows:

| | **2015** | **2014** |
|---|---|---|
| Dealing operations, net | 426,080 | 303,940 |
| Revaluation of foreign currency balances, net | (191,071) | (275,686) |
| **Total gain/(loss) on foreign currency operations** | **235,009** | **28,254** |

## 22 Fee and Commission Income and Expense

| *In Georgian Laris* | 2015 | 2014 |
|---|---|---|
| **Fee and commission income** | | |
| - Guarantees | 606,507 | 344,306 |
| - Settlement operations | 160,238 | 84,799 |
| - Cash transactions | 42,071 | 23,362 |
| - Income from brokerage | 81,183 | 14,945 |
| - Other | 69,050 | 6,933 |
| **Total fee and commission income** | **959,049** | **474,345** |
| **Fee and commission expense** | | |
| - Settlement operations | (61,197) | (37,596) |
| - Guarantees | (12,000) | (13,000) |
| - Others | (9,870) | (4,960) |
| **Total fee and commission expense** | **(83,067)** | **(55,556)** |
| **Net fee and commission income** | **875,982** | **418,789** |

## 23 General and Administrative Expenses

| *In Georgian Laris* | 2015 | 2014 |
|---|---|---|
| Staff costs | (3,319,507) | (2,603,829) |
| Consulting and marketing | (621,101) | (468,958) |
| Rent | (318,071) | (92,017) |
| Communication and computer center services | (301,197) | (267,624) |
| Utilities and office supplies | (129,900) | (66,788) |
| Legal services | (126,679) | (152,570) |
| Charity expenses | (83,885) | - |
| Representative expenses | (44,469) | (62,497) |
| Fuel and vehicle maintenance | (43,086) | (42,847) |
| Business trip expenses | (34,530) | (66,138) |
| Taxes other than on income | (33,678) | (32,934) |
| Postal services | (24,309) | (26,966) |
| Security | (15,827) | (13,750) |
| Others | (123,896) | (42,528) |
| **Total general and administrative expenses** | **(5,220,135)** | **(3,939,446)** |

## 24 Income Taxes

Income tax expense comprises the following:

| *In Georgian Laris* | 2015 | 2014 |
|---|---|---|
| Current tax | (115,078) | - |
| Deferred tax | 487,380 | (124,226) |
| **Income tax benefit/(expense) for the year** | **372,302** | **(124,226)** |

The income tax rate applicable to the majority of the Bank's income is 15% (2014: 15%).

Temporary differences as at 31 December 2015 comprise:

| *In Georgian Laris* | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | |
| Premises and equipment | (110,467) | (50,646) |
| Intangible assets | (6,260) | - |
| Investment securities held to maturity | 13,713 | - |
| Investment properties | (5,774) | - |
| Loans and advances to customers | 367,760 | 153,614 |
| Amounts due to customers | 12,001 | - |
| Guarantee impairment provision | (532) | 28,196 |
| Other assets | 9,217 | 2,999 |
| Other liabilities | - | 8,610 |
| Tax loss carry forwards | 235,419 | - |
| **Net deferred tax asset** | **515,077** | **142,773** |

Management has applied judgement in assessment of recoverability of deferred tax asset in respect with tax loss carry-forwards for prior periods.

## 24 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences during 2015 is detailed below and is recorded at the rate of 15% (2014: 15%).

Relationships between tax expenses and accounting profit for the year ended 31 December 2015 are explained as follows:

| *In Georgian Laris* | **Year ended 2015** | **Year ended 2014** |
|---|---|---|
| Profit before income tax | (1,008,635) | (1,914,630) |
| Tax rate | 15% | 15% |
| Theoretical tax charge at statutory rate at the statutory tax rate | 151,295 | 287,195 |
| Tax effect of permanent differences | (14,411) | (18,421) |
| Reassessment related to previous years | - | (340,095) |
| Unrecognized tax loss carry forwards | 235,418 | (52,905) |
| **Current Income tax expense** | **372,302** | **(124,226)** |
| Current income tax expense | - | - |
| Change in the deferred tax liabilities | 372,302 | (124,226) |
| **Income tax expense** | **372,302** | **(124,226)** |

## 25 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

| *In Georgian Laris, except the number of shares* | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Profit for the year attributable to shareholders | (636,333) | (2,038,856) |
| **Profit for the year** | **(636,333)** | **(2,038,856)** |
| Weighted average number of ordinary shares in issue | 17,474,500 | 17,474,500 |
| **Basic and diluted earnings per ordinary share (expressed in GEL per share)** | **(0.04)** | **(0.12)** |

## 26 Financial Risk Management

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

***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 as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position and the amount of guarantees and commitments to extend credit (refer to Note 28). The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committee and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Department. Daily risk management is performed by Credit Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved by the Management Board.

The Bank's risk management reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of incurring a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The 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.

## 26 Financial Risk Management (Continued)

Credit risk exposures relating to on-balance sheet assets are as follows:

| *In Georgian Laris* | **2015** | **2014** |
|---|---|---|
| **Loans and advances to customers**: | | |
| **Loans to individuals:** | | |
| - Mortgage | 20,216,232 | 23,767,393 |
| - Consumer loans | 2,779,060 | 3,554,815 |
| - Cash cover | 399,828 | 343,140 |
| - Car purchase | 145,029 | 117,697 |
| - Overdrafts | 97,722 | 92,118 |
| - Agro loans | 50,465 | 95,631 |
| - Loans to employees | 11,297 | 53,755 |
| **Loans to corporate entities:** | | |
| - Trade and services | 37,921,741 | 19,164,384 |
| - Other legal entities | 23,093,787 | 1,040,106 |
| - Construction | 7,476,090 | 994,612 |
| - Sole Proprietor | 5,847,208 | 4,139,373 |
| - Mining and processing industries | 4,436 | 8,932 |
| - Agriculture and foresty | - | 705,866 |
| **Due from Banks** | | |
| Deposits from banks | 19,365,034 | - |
| **TOTAL** | **117,407,929** | **54,077,822** |

Credit risk exposures relating to off-balance sheet items are as follows:

| *In Georgian Laris* | **Maximum exposure 2015** | **Maximum exposure 2014** |
|---|---|---|
| Financial guarantees | 19,080,259 | 11,041,741 |
| Undrawn credit lines | 267,460 | 1,303,400 |
| **Total** | **19,347,719** | **12,345,141** |

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2015, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

## 26 Financial Risk Management (Continued)

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

***Currency risk***. The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insomuch as such change may adversely affect the Bank's revenues, equity, liquidity and creditworthiness. The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is an on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to meet the requirements of the NBG.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

| | At 31 December 2015 | | |
|---|---|---|---|
| | **Monetary financial assets** | **Monetary financial liabilities** | **Position** |
| Georgian Laris | 25,167,954 | 13,299,933 | 11,868,021 |
| US Dollars | 116,595,860 | 120,473,733 | (3,877,873) |
| Euros | 47,193,917 | 47,512,655 | (318,738) |
| GBP | 40,939 | 960 | 39,979 |
| Other | 124,902 | 16,519 | 108,383 |
| **Total** | **189,123,572** | **181,303,800** | **7,819,772** |

| | At 31 December 2014 | | |
|---|---|---|---|
| | **Monetary financial assets** | **Monetary financial liabilities** | **Position** |
| Georgian Laris | 19,994,202 | 7,848,372 | 12,145,830 |
| US Dollars | 40,966,842 | 42,723,784 | (1,756,942) |
| Euros | 8,662,213 | 9,015,061 | (352,848) |
| GBP | 12,964 | 1,694 | 11,270 |
| Other | 91,701 | 12,694 | 79,007 |
| **Total** | **69,727,922** | **59,601,605** | **10,126,317** |

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

## 26 Financial Risk Management (Continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| | impact on profit or loss | impact on profit or loss |
| US Dollars strengthening by 25% | (969,468) | (439,235) |
| US Dollars weakening by 25% | 969,468 | 439,235 |
| Euro strengthening by 10% | (31,874) | (35,285) |
| Euro weakening by 10% | 31,874 | 35,285 |

Other than as a result of any impact on the Bank's profit or loss, there is no other impact on the Bank's equity as a result of such changes in exchange rates.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

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

The Bank was not subject to significant cash flow interest rate risk as at 31 December 2015 and 2014 as all of the Bank's financial assets and liabilities had fixed contractual interest rates or were interest free. As at 31 December 2015 and 2014 the Bank was subject to fair value interest rate risk on the investment securities available for sale.

The Bank monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| *In % p.a.* | GEL | USD | EUR | GEL | USD | EUR |
| **Assets** | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | - |
| Mandatory reserve with the NBG | 2% | - | - | 2% | - | - |
| Due from other banks | 5% | - | 1% | 3.2% | - | - |
| Loans and advances to customers | 13%-26% | 5%-24% | 13%-24% | 17.9% | 16.7% | 15.5% |
| Investment securities held to maturity | - | 9%-9.875% | - | 10% | 10% | 10% |
| Other financial assets | 4%-5% | 4%-6% | - | - | - | - |
| **Liabilities** | | | | | | |
| Due to banks | 0% | 0%-7% | 2% | - | 2.5% | - |
| Customer accounts | 0%-16% | 0%-18% | 0%-11% | 6.2% | 8.4% | 6.1% |

## 26 Financial Risk Management (Continued)

***Geographical risk concentrations.*** The geographical concentration of the Bank's financial assets and liabilities at 31 December 2015 is set out below:

| *In Georgian Laris* | **Georgia** | **CIS countries** | **OECD countries** | **Other countries** | **Total** |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash and cash equivalents | 20,952,763 | 22,742,017 | - | - | 43,694,780 |
| Mandatory reserve with the NBG | 16,067,093 | - | - | - | 16,067,093 |
| Due from other banks | 19,365,034 | - | - | - | 19,365,034 |
| Loans and advances to customers | 71,728,877 | 334,459 | 342 | 19,082,306 | 91,145,984 |
| Investment securities held to maturity | - | 13,862,656 | - | - | 13,862,656 |
| Other financial assets | 1,259,638 | - | - | - | 1,259,638 |
| Factoring receivables | - | - | - | 3,728,387 | 3,728,387 |
| **TOTAL FINANCIAL ASSETS** | **129,373,405** | **36,939,132** | **342** | **22,810,693** | **189,123,572** |
| | | | | | |
| **FINANCIAL LIABILITIES** | | | | | |
| Due to banks | 35,454,993 | 29,002,419 | - | - | 64,457,412 |
| Customer accounts | 97,636,459 | 3,610,993 | 260,739 | 15,260,077 | 116,768,268 |
| Other financial liabilities | 78,120 | - | - | - | 78,120 |
| **TOTAL FINANCIAL LIABILITIES** | **133,169,572** | **32,613,412** | **260,739** | **15,260,077** | **181,303,800** |
| | | | | | |
| **NET POSITION** | **(3,796,167)** | **4,325,720** | **(260,397)** | **7,550,616** | **7,819,772** |

## 26 Financial Risk Management (Continued)

***Geographical risk concentrations.*** The geographical concentration of the Bank's financial assets and liabilities at 31 December 2014 is set out below:

| *In Georgian Laris* | **Georgia** | **CIS countries** | **OECD countries** | **Other countries** | **Total** |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash and cash equivalents | 8,733,475 | - | 652,384 | 69,406 | 9,455,266 |
| Mandatory reserve with the NBG | 9,187,335 | - | - | - | 9,187,335 |
| Due from other banks | - | - | - | - | - |
| Loans and advances to customers | 49,637,401 | - | - | 278,998 | 49,916,399 |
| Investment securities held to maturity | 1,118,160 | - | - | - | 1,118,160 |
| Other financial assets | 50,763 | - | - | - | 50,763 |
| Factoring receivables | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **68,727,134** | **-** | **652,384** | **348,404** | **69,727,922** |
| **FINANCIAL LIABILITIES** | | | | | |
| Due to banks | 2,863,859 | - | - | - | 2,863,859 |
| Customer accounts | 46,791,281 | - | 4,592,147 | 5,234,930 | 56,618,358 |
| Other financial liabilities | 119,388 | - | - | - | 119,388 |
| **TOTAL FINANCIAL LIABILITIES** | **49,774,528** | **-** | **4,592,147** | **5,234,930** | **59,601,605** |
| **NET POSITION** | **18,952,606** | **-** | **(3,939,763)** | **(4,886,526)** | **10,126,317** |

## 26 Financial Risk Management (Continued)

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

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

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, maintaining funding contingency plans, and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG. The ratio requirement of the NBG is 30% (2014: 30%). The average liquidity ratio was 32% at 31 December 2015 (2014: 32%); the Bank was compliant with the requirement of the NBG as at 31 December 2015 and 2014.

## 26 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2015 is as follows:

| *In Georgian Laris* | **Weighted average effective interest rate** | **Up to 1 month** | **1 month to 3 months** | **3 month to 1 year** | **1 year to 5 years** | **Over 5 years** | **Maturity undefined** | **31 December 2015 Total** |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Due from other banks | 2% | 19,365,034 | - | - | - | - | - | 19,365,034 |
| Loans and advances to customers | 13% | 14,169,133 | 10,534,298 | 37,301,213 | 20,578,627 | 5,242,731 | 3,319,982 | 91,145,984 |
| Mandatory reserve with the NBG | 2% | - | - | - | - | - | 16,067,093 | 16,067,093 |
| Investment securities held to maturity | 9.05% | - | - | - | 13,862,656 | - | - | 13,862,656 |
| **Total interest bearing assets** | | **33,534,167** | **10,534,298** | **37,301,213** | **34,441,283** | **5,242,731** | **19,387,075** | **140,440,767** |
| Cash and cash equivalents | | 43,694,780 | - | - | - | - | - | 43,694,780 |
| Factoring receivables | | - | - | 3,728,387 | - | - | - | 3,728,387 |
| Other financial assets | | - | - | 1,259,638 | - | - | - | 1,259,638 |
| **Total Assets** | | **77,228,947** | **10,534,298** | **42,289,238** | **34,441,283** | **5,242,731** | **19,387,075** | **189,123,572** |
| **LIABILITIES** | | | | | | | | |
| Due to banks | 3% | 21,698,159 | 12,756,834 | 29,001,041 | - | - | - | 63,456,034 |
| Customer accounts | 4.90% | 3,041,153 | 15,522,580 | 51,114,326 | 11,839,708 | 538,516 | 3,366,845 | 85,423,128 |
| **Total interest bearing liabilities** | | **24,739,312** | **28,279,414** | **80,115,367** | **11,839,708** | **538,516** | **3,366,845** | **148,879,162** |
| Due to banks | | 1,001,378 | - | - | - | - | - | 1,001,378 |
| Customer accounts | | 31,345,140 | - | - | - | - | - | 31,345,140 |
| Other financial liabilities | | 36,245 | - | 41,816 | - | - | 59 | 78,120 |
| **Total Liabilities** | | **57,122,075** | **28,279,414** | **80,157,183** | **11,839,708** | **538,516** | **3,366,904** | **181,303,800** |
| Liquidity gap | | 20,106,872 | (17,745,116) | (37,867,945) | 22,601,575 | 4,704,215 | 16,020,171 | 7,819,772 |
| Interest sensitivity gap | | 8,794,855 | (17,745,116) | (42,814,154) | 22,601,575 | 4,704,215 | 16,020,230 | (8,438,395) |
| Cumulative interest | | 8,794,855 | (8,950,261) | (60,559,270) | (20,212,579) | 27,305,790 | 20,724,445 | |

## 26 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2014 is as follows:

| *In Georgian Laris* | **Weighted average effective interest rate** | **Up to 1 month** | **1 month to 3 months** | **3 month to 1 year** | **1 year to 5 years** | **Over 5 years** | **Maturity undefined** | **31 December 2014 Total** |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Due from other banks | | - | - | - | - | - | - | - |
| Loans and advances to customers | 17% | 4,476,273 | 1,390,302 | 17,483,977 | 18,587,466 | 7,978,381 | - | 49,916,399 |
| Mandatory reserve with the NBG | 2% | 9,187,335 | - | - | - | - | - | 9,187,335 |
| Investment securities held to maturity | | - | 1,118,160 | - | - | - | - | 1,118,160 |
| **Total interest bearing assets** | | **13,663,608** | **2,508,462** | **17,483,977** | **18,587,466** | **7,978,381** | **-** | **60,221,894** |
| Cash and cash equivalents | | 9,455,266 | - | - | - | - | - | 9,455,266 |
| Factoring receivables | | - | - | - | - | - | - | - |
| Other financial assets | | 50,763 | - | - | - | - | - | 50,763 |
| **Total Assets** | | **23,169,637** | **2,508,462** | **17,483,977** | **18,587,466** | **7,978,381** | **-** | **69,727,923** |
| **LIABILITIES** | | | | | | | | |
| Due to banks | 2% | 2,863,859 | - | - | - | - | - | 2,863,859 |
| Customer accounts | 7% | 10,533,133 | 6,848,318 | 31,301,248 | 7,695,953 | 239,706 | - | 56,618,358 |
| **Total interest bearing liabilities** | | **13,396,992** | **6,848,318** | **31,301,248** | **7,695,953** | **239,706** | **-** | **59,482,217** |
| Other financial liabilities | | 119,388 | - | - | - | - | - | 119,388 |
| **Total Liabilities** | | **13,516,380** | **6,848,318** | **31,301,248** | **7,695,953** | **239,706** | **-** | **59,601,605** |
| Liquidity gap | | 9,653,257 | (4,339,856) | (13,817,271) | 10,891,513 | 7,738,675 | - | 10,126,318 |
| Interest sensitivity gap | | 266,616 | (4,339,856) | (13,817,271) | 10,891,513 | 7,738,675 | - | 739,677 |
| Cumulative interest | | 266,616 | (4,073,240) | (18,157,127) | (2,925,758) | 18,630,188 | 7,738,675 | |

## 27 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia and (ii) to safeguard the Bank's ability to continue as a going concern. The amount of capital that the Bank managed as of 31 December 2015 was GEL 13,009,707 (2014: GEL 13,646,041). Compliance with capital adequacy ratios set by the National Bank of Georgia is monitored monthly, with reports outlining their calculation reviewed and signed by the General Director and the Chief Accountant.

The Bank's objectives when managing capital is to comply with the capital requirements set by the NBG. Compliance with capital adequacy ratios set by the National Bank Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Chief accountant and subsequently submitted to the NBG.

Under the current capital requirements set by the National Bank of Georgia the Bank has to:

- (a) hold the minimum level of share capital of GEL 12,000,000;
- (b) maintain a ratio of regulatory capital to risk weighted assets ("regulatory capital ratio") at or above a prescribed minimum of 11,4% (2104: 12% ); and
- (c) maintain a ratio of Tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 7,6% (2014: 8%).

Regulatory capital is based on the Bank's statutory reports prepared in accordance with the NBG rules:

**Basel 1**

| *In Georgian Laris* | **2015** | **2014** |
|---|---:|---:|
| **Tier 1 capital** | | |
| Share capital | 17,474,500 | 17,474,500 |
| **Deductions from Tier 1 capital** | | |
| (Accumulated deficit)/retained earnings | (2,601,131) | (2,185,756) |
| Intangible assets | (335,998) | (299,767) |
| **Total tier 1 capital** | **14,537,371** | **14,988,976** |
| **Tier 2 capital** | | |
| Current year profit | 506,231 | (415,377) |
| General reserves | 1,722,926 | 916,375 |
| **Total tier 2 capital** | **2,229,157** | **500,998** |
| **Total regulatory capital** | **16,766,528** | **15,489,975** |
| Risk-weighted assets | 146,244,174 | 102,572,270 |
| **Total risk-weighted assets** | **146,244,174** | **102,572,270** |
| **Tier 1 capital ratio (%)** | **9.94%** | **14.61%** |
| **Supervisory Capital (%)** | **11.46%** | **15.10%** |

The Bank has complied with all externally imposed capital requirements according to Basel 1 throughout 2015 and 2014.

## 27 Management of Capital (Continued)

From June 2014, in addition to the above ratios banks are also required to calculate capital adequacy in accordance with the regulations on capital adequacy requirements for commercial banks dated October 28, 2013 according which banks have to:

- a) maintain a ratio of common equity tier 1 capital to risk weighted assets at or above 7%,
- b) maintain a ratio of tier 1 capital to risk weighted assets at or above 8,5%;
- c) maintain a ratio regulatory capital to risk weighted assets at or above 10,5%.

The Bank is calculating and presenting new ratios from 2015. Capital ratios in accordance with the NBG requirements under the new regulations on capital adequacy are as following at the end of the reporting date:

| *In Georgian Laris* | **2015** |
|---|---|
| **Tier 1 capital** | |
| Share capital | 17,474,500 |
| **Deductions from Tier 1 capital** | |
| (Accumulated deficit)/retained earnings | (2,094,900) |
| Intangible assets | (335,998) |
| Deferred tax assets | (217,604) |
| **Common tier 1 capital** | **14,825,998** |
| **Additional tier 1 capital** | - |
| **Total tier 1 capital** | **14,825,998** |
| **Tier 2 capital** | |
| General reserves | 1,722,926 |
| **Total tier 2 capital** | **1,722,926** |
| **Total regulatory capital** | **16,548,924** |
| Risk-weighted assets | 147,817,065 |
| **Total risk-weighted assets** | **147,817,065** |
| **Common equity Tier 1 capital ratio (%)** | **10.03%** |
| **Tier I capital (%)** | **10.03%** |
| **Supervisory Capital (%)** | **11.20%** |

The NBG has additional new ratios according to Basel 2, which the Bank has to comply. The Bank has complied with all the NBG ratios at the end of the reporting date, except for the:

**One outsider's coefficient,** which is equal to **29.40%** (NBG regulations: less or equal to **15%**).

During 2015 and up to the report issue date no penalties and fines or other adverse actions were imposed by the NBG.

## 28 Contingencies and Commitments

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

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

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

***Operating lease commitments.*** The Bank did not have any material operating lease commitments as at 31 December 2015 and 2014.

***Credit related commitments.*** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

***Performance guarantees.*** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations.

The Bank has the following outstanding credit related commitments:

| | **2015** | **2014** |
|---|---|---|
| Guarantees issued | 19,080,259 | 11,041,741 |
| Undrawn credit lines | 267,460 | 1,303,400 |
| **Total credit related commitments** | **19,347,719** | **12,345,141** |

## 28 Contingencies and Commitments (Continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

| | 2015 | 2014 |
|---|---|---|
| GEL | 13,687,891 | 7,571,438 |
| USD | 3,379,982 | 2,169,698 |
| EUR | 2,279,844 | 2,604,005 |
| **Total** | **19,347,719** | **12,345,141** |

## 29 Fair Value of Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## 29 Fair Value of Financial Instruments (Continued)

***Fair values of financial instruments carried at amortized cost.*** At 31 December 2015, fair values of financial instruments carried at amortized cost are as follows:

| | 2015 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total:** |
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | 43,694,780 | - | - | 43,694,780 |
| Mandatory reserve with the NBG | - | 16,067,093 | - | 16,067,093 |
| Due from other banks | - | - | 19,365,034 | 19,365,034 |
| Loans and advances to customers | - | - | 91,145,984 | 91,145,984 |
| Investment securities held to maturity | 13,862,656 | - | - | 13,862,656 |
| Other financial assets | - | - | 1,259,638 | 1,259,638 |
| Factoring receivables | - | - | 3,728,387 | 3,728,387 |
| **TOTAL FINANCIAL ASSETS** | **57,557,436** | **16,067,093** | **115,499,043** | **189,123,572** |
| **FINANCIAL LIABILITIES** | | | | |
| Due to banks | - | 64,457,412 | - | 64,457,412 |
| Customer accounts | - | - | 116,768,268 | 116,768,268 |
| Other financial liabilities | - | - | 78,120 | 78,120 |
| **TOTAL FINANCIAL LIABILITIES** | **-** | **64,457,412** | **116,846,388** | **181,303,800** |

| | 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total:** |
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | 9,455,266 | - | - | 9,455,266 |
| Mandatory reserve with the NBG | - | 9,187,335 | - | 9,187,335 |
| Due from other banks | - | - | - | - |
| Loans and advances to customers | - | - | 49,916,399 | 49,916,399 |
| Investment securities held to maturity | 1,118,160 | - | - | 1,118,160 |
| Other financial assets | 50,763 | - | - | 50,763 |
| Factoring receivables | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **10,624,189** | **9,187,335** | **49,916,399** | **69,727,923** |
| **FINANCIAL LIABILITIES** | | | | |
| Due to banks | - | 2,863,859 | - | 2,863,859 |
| Customer accounts | - | - | 56,618,358 | 56,618,358 |
| Other financial liabilities | - | - | 119,388 | 119,388 |
| **TOTAL FINANCIAL LIABILITIES** | **-** | **2,863,859** | **56,737,746** | **59,601,605** |

## 29 Fair Value of Financial Instruments (Continued)

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. All of the Bank's financial assets excluding loans to customers and financial liabilities are either liquid or are maturing within three months from the reporting date.

The fair value of loans to customers is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial assets. The majority of loans to customers outstanding as at 31 December were issued within 12 month period ended 31 December 2015 at market interest rates, while the contractual interest rates of those loans issued in 2014 approximate market rates as at 31 December 2015. Hence their carrying value approximates their fair value.

## 30 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The other related parties category below is comprised of (i) parties that are entities that are controlled by the shareholders or key management personnel of the Bank, and (ii) parties that are close members of the family of the shareholders or the key management of the Bank.

At 31 December 2015 and 31 December 2014, the outstanding balances with related parties were as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Related party balances** | **Total category as per financial statements caption** | **Related party balances** | **Total category as per financial statements caption** |
| **Loans to customers** | | **91,145,984** | | **49,916,399** |
| *- entities with joint control or significant influence over the entity* | - | | - | |
| *- key management personnel of the entity or its parent* | 28,899 | | 426,000 | |
| **Customer accounts** | | **116,768,268** | | **56,618,358** |
| *- entities with joint control or significant influence over the entity* | 92 | | 35,546 | |
| *- key management personnel of the entity or its parent* | 327,883 | | 116,893 | |
| **Due to banks** | | **64,457,412** | | **2,863,859** |
| *- entities with joint control or significant influence over the entity* | 16,151,734 | | 2,863,859 | |
| *- key management personnel of the entity or its parent* | - | | - | |
| **Interest income** | | **12,491,407** | | **7,339,621** |
| *- entities with joint control or significant influence over the entity* | - | | - | |
| *- key management personnel of the entity or its parent* | 29,490 | | 34,625 | |

| | | | | |
|---|---|---|---|---|
| **Interest expense** | | **(6,371,568)** | | **(3,823,538)** |
| *- entities with joint control or significant influence over the entity* | - | | 3,239 | |
| *- key management personnel of the entity or its parent* | 16,768 | | 9,701 | |

Key management compensation is presented below:

| | 2015 | 2014 |
|---|---|---|
| *Short-term benefits – salaries and bonuses* | 560,536 | 938,891 |
| **Total** | **560,536** | **938,891** |

During the year ended 31 December 2015, the remuneration of members of the key management, being the members of the Board of Directors, comprised salaries and performance related short-term bonuses amounting to GEL 560,536 (2014: 938,891).

## 31 Events after the Reporting Period

There were no significant events subsequent to the reporting date.