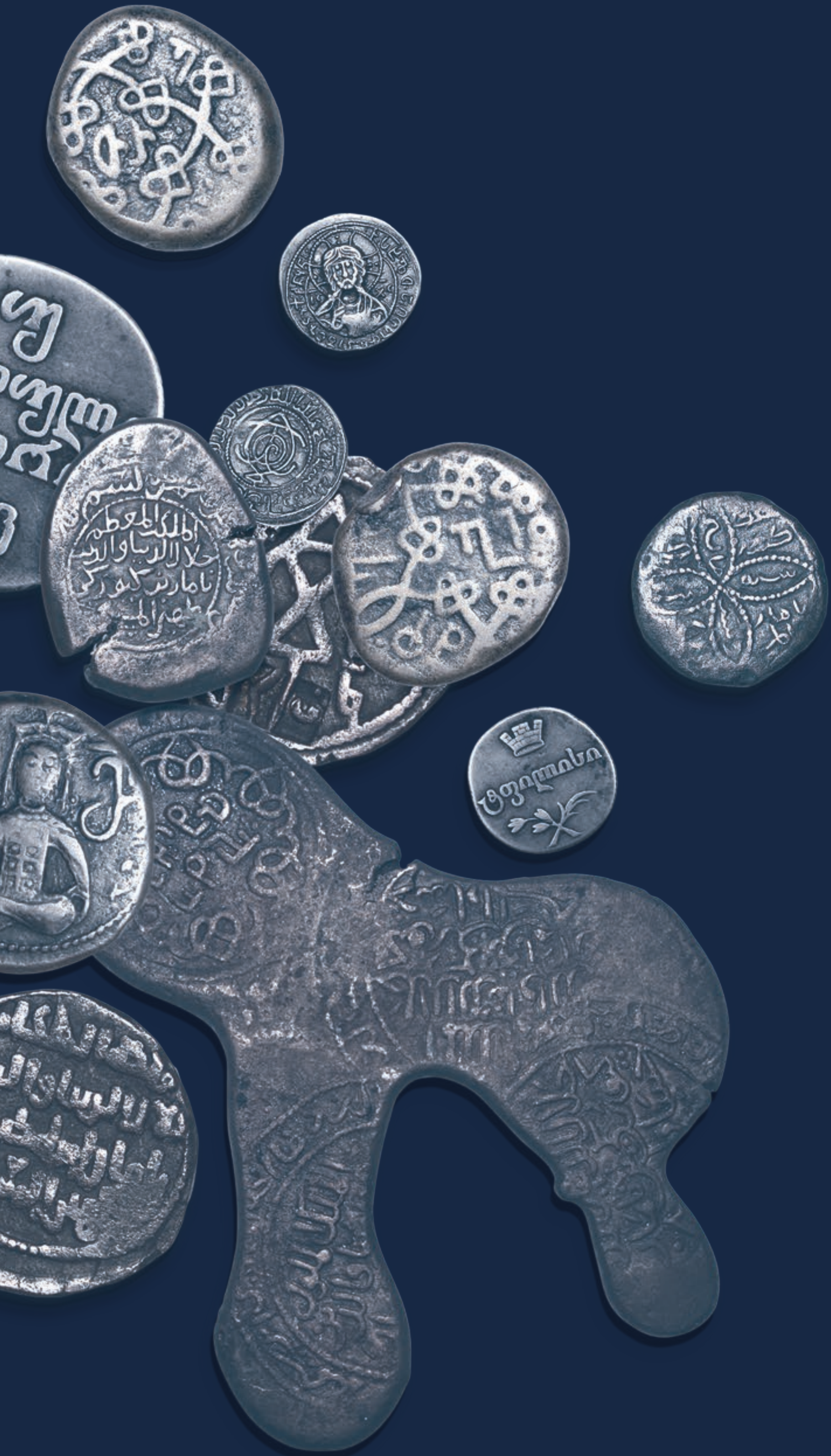
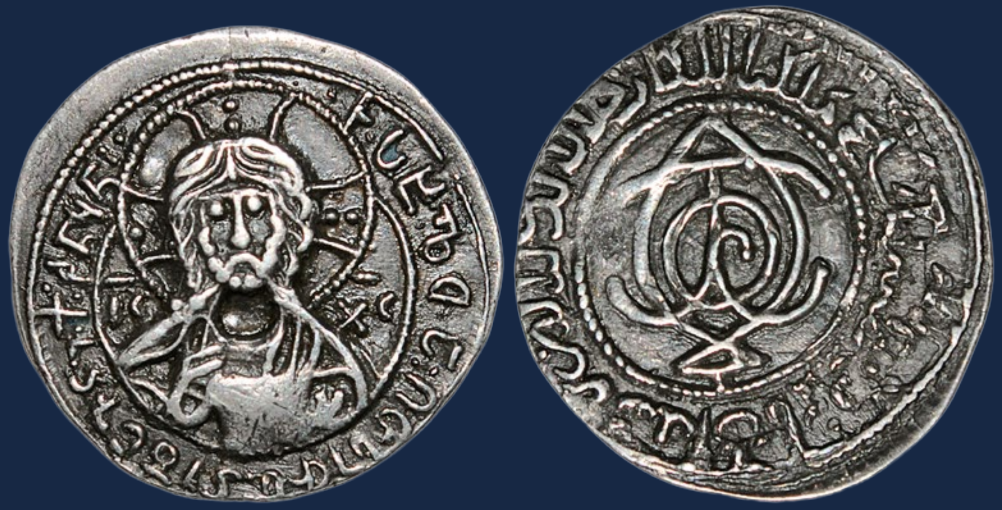
ბანკი ქართუ
CARTU BANK



2016

წლიური ანგარიში
ANNUAL REPORT



ᲠᲣᲡᲣᲓᲐᲜᲘ
RUSUDAN

საქართველოში დიდი რაოდენობით არის აღმოჩენილი თამარ მეფის ასულის, რუსუდან დედოფლის ხანაში მოჭრილი მონეტები. გამორჩეულია ვერცხლის მონეტა, რომელიც 1230 წელსაა მოჭრილი.

მონეტის ერთ მხარეს გამოსახულია იესო ქრისტე, სახარებით ხელში. მონეტას ქართული მინაწერი ამშვენებს. “რუსუდან. დედოფალი დედოფალთა, მშვენება ქვეყნისა და სარწმუნოებისა, რუსუდან, ასული თამარისა, მესიის თაყვანისმცემელი”.

A number of coins have been discovered, which were forged during the reign of Queen Rusudan, the daughter of the most revered Georgian Queen Tamar. A silver coin issued in 1230 stands out clearly. On one side, there is an image of Jesus Christ with the New Testament in his hands. The legend in Georgian says: “Rusudan”. “Queen of queens, the beauty of the land and the faith, Rusudan, daughter of Tamar and the adorer of the Messiah”.

ბანკი ქართუ
CARTU BANK

ᲬᲚᲘᲣᲠᲘ ᲐᲜᲒᲐᲠᲘᲨᲘ
ANNUAL REPORT
2016

შინაარსი
CONTENT

07 სამეთვალყურეო საბჭოს თავმჯდომარის მიმართვა
ADDRESS OF THE CHAIRPERSON OF THE SUPERVISORY BOARD

08 გენერალური დირექტორის მიმართვა
ADDRESS OF THE CHIEF EXECUTIVE OFFICER

10 ბანკის მისია, ხედვა და ძირითადი ფასეულობები
MISSION, VISION AND CORE VALUES OF THE BANK

11 ბანკის სტრუქტურა
STRUCTURE OF THE BANK

12 უახლესი მოვლენები ბანკის ისტორიაში
RECENT HIGHLIGHTS

13 მოკლე ფინანსური ანგარიშები
BRIEF FINANCIAL REPORT

16 საკრედიტო მაჩვენებლები
CREDIT INDICATORS

18 რისკების მართვა
RISK MANAGEMENT

21 საბარათე ბიზნესი
CARD BUSINESS

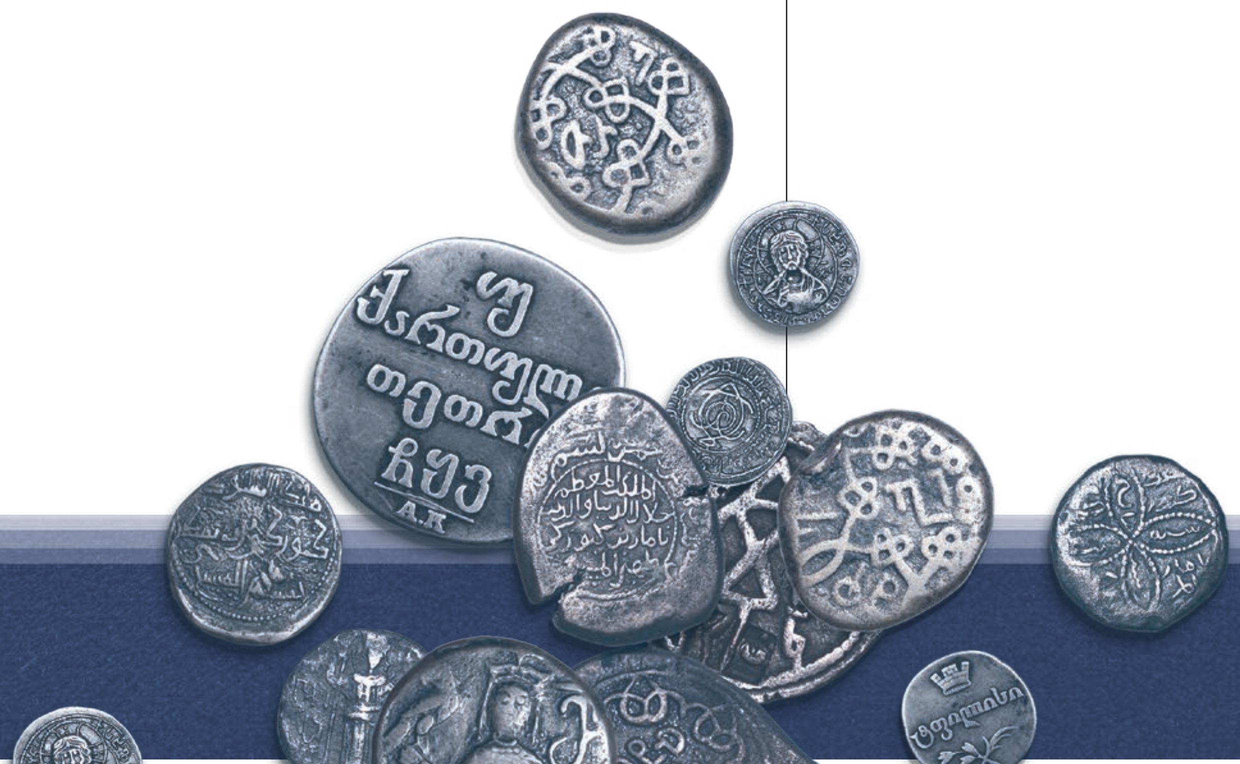
22 საერთაშორისო ურთიერთობები
INTERNATIONAL RELATIONS

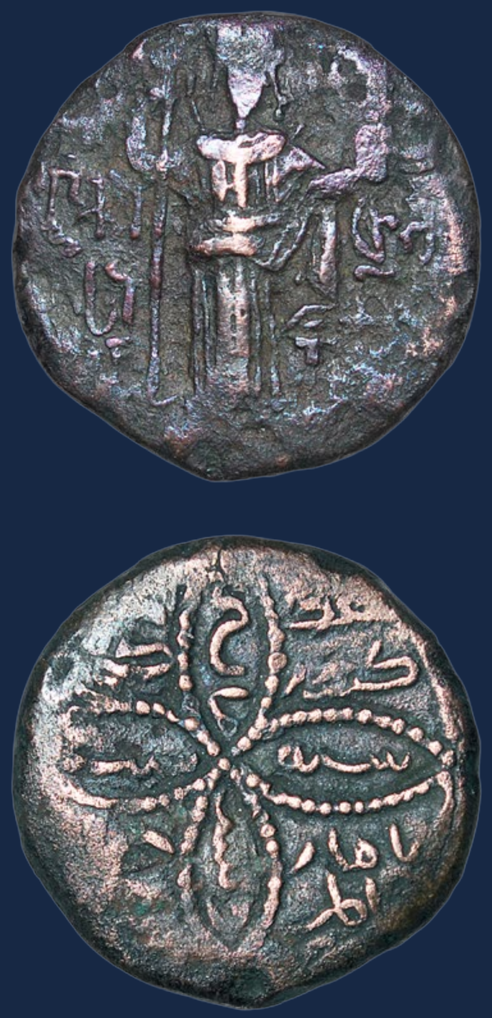
23 საინფორმაციო ტექნოლოგიები
IT

24 მოკორესპონდენტო ბანკები
CORRESPONDENT BANKS

26 ბანკის ოფისები
BANK OFFICES

28 აუდიტორული დასკვნა
AUDIT OPINION

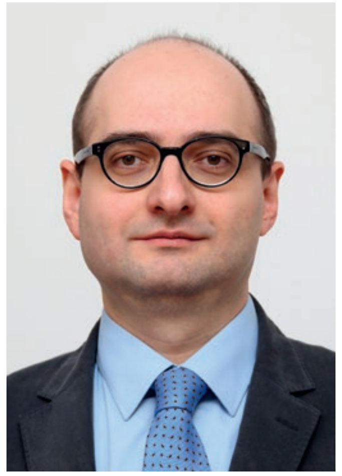




ᲒᲘᲝᲠᲒᲘ ᲛᲔᲝᲗᲮᲔ ᲚᲐᲨᲐ (ᲚᲐᲨᲐ-ᲒᲘᲝᲠᲒᲘ)
GIORGI IV LASHA (LASHA-GIORGI)

სპილენძის მონეტა 1210 წელსაა მოჭრილი. მას ქართული და სპარსული წარწერები ამშვენებს.

A copper coin of 1210 decorated with the Georgian and Persian legends.



ADDRESS OF THE CHAIRPERSON OF THE SUPERVISORY BOARD

Ladies and Gentlemen!
On behalf of the Supervisory Board of „Cartu Bank“ JSC, I’d like to thank to the management, staff and partners for successful completion of 2016 and their contribution to the Bank’s uninterrupted and stable work.

During its two decades of operation, the Bank has gone through some important stages as a financial institution contributing to progress of the country. The main mission of „Cartu Bank“ is funding the fields that support the business sector and the Georgian economy as such.

I’m glad to say that 2016 proved to be successful for the Bank. In this regard, I’d like to single out the survey conducted by the international “Fitch” rating company as a result of which „Cartu Bank“ preserved „B+ stable prospects“ IDR (Issuer Default Rating), which testifies to its robust potential.

I congratulate the Bank on reopening the service center in the Tbilisi Vake district and wish them all the best.

Over the past 20 years, the Bank has made significant contribution to the economic strength of the country.
I wish success to the management and staff of „Cartu Bank“.

MR. NIKOLOZ CHKHETIANI
chairperson of the supervisory board

ᲡᲐᲛᲔᲗᲕᲐᲚᲧᲣᲠᲔᲝ ᲡᲐᲑᲭᲝᲡ ᲗᲐᲕᲛᲯᲓᲝᲛᲐᲠᲘᲡ ᲛᲘᲛᲐᲠᲗᲕᲐ

მოგესალმებით!
სს „ბანკი ქართუს“ სამეთვალყურეო საბჭოს თავმჯდომარის სახელით, მადლობას ვუხდი ბანკის მენეჯმენტს, თანამშრომლებსა და პარტნიორებს 2016 წლის წარმატებით დასრულებისა და ბანკის შეუფერხებელი და სტაბილური მუშაობის უზრუნველყოფაში წვლილის შეტანისთვის.
მინდა აღვნიშნო, რომ ფუნქციონირების ოცწლიანი ისტორიის მანძილზე ბანკმა მნიშვნელოვანი ეტაპები გაიარა, როგორც საფინანსო ინსტიტუტის, ასევე, ქვეყნის განვითარების ჭრილში. ბანკი ქართუს მთავარი მისია იმ სფეროების დაფინანსებაა, რომელიც ხელს შეუწყობს ბიზნესსექტორის ზრდას, საქართველოს ეკონომიკის განვითარებასა და გაძლიერებას.

მოხარული ვარ, რომ 2016 წელი ბანკისთვის წარმატებული აღმოჩნდა. განსაკუთრებით აღსანიშნია საერთაშორისო სარეიტინგო კომპანია „Fitch“-ის მიერ ჩატარებული მორიგი კვლევა, რომლის შედეგად ბანკ ქართუს შეუნარჩუნდა IDR-ის (Issuer Default Rating) რეიტინგი „B+ სტაბილური პერსპექტივა“, რაც მისი სიძლიერისა და სტაბილურად განვითარების შესაძლებლობების თვალსაჩინო მაგალითია.

ვულოცავ ბანკს ვაკის განახლებული სერვისცენტრის გახსნას და უამრავ სიახლეს ვუსურვებ მომავალში.

20 წლის მანძილზე განხორციელებული საქმიანობით ბანკი ქართუმ ღირსეული წვლილი შეიტანა და შეაქვს კიდეც საქართველოს ეკონომიკის გასაძლიერებლად და განსავითარებლად.

ბანკი ქართუს მენეჯმენტსა და კოლექტივს ვუსურვებ შემდგომ განვითარებასა და წინსვლას.

ᲜᲘᲙᲝᲚᲝᲖ ᲩᲮᲔᲢᲘᲐᲜᲘ
სამეთვალყურეო საბჭოს თავმჯდომარე

ADDRESS OF THE CEO

Ladies and Gentlemen!
I’m glad to report the success “Cartu Bank” JSC made in 2016. From the very beginning, the Bank has been funding the projects targeted at development of the Georgian economy, support to the local, import-substituting and export-oriented production.

We are proud to say that as a result of the survey conducted by the international “Fitch” rating company in 2016, Cartu Bank” preserved “B+ stable prospects” IDR (Issuer Default Rating), which testifies to its stability and reliability.

It is also noteworthy that “Cartu Bank” is regularly diversifies its portfolio by industries and regions. Owing to our efforts, quite a few sectors in Georgia have been revitalized substituting the import with the exported products.

Here I’d like to mention a new trend: just a few years ago, import was prevalent in the Georgian economy. Correspondingly, the loans issued for funding the import were dominant in the Bank portfolio. Today, the trade has gone down to the 4 position with 16% share, while the production, service, real property and construction sectors are sharing the first three positions with 24-24% shares each. We issued up to 5% loans to the agricultural sector with the remaining 7% of the loan portfolio distributed to the others.

We are committed to our sustainable development strategy targeted at active support to the national business sector and general contribution to the Georgian economy.

I wish to say “Thank you” to our customers but for them our success would not have been complete. We are determined to keep working for them in order to produce the most flexible and customer-specific products.

Two decades of operation testify to our motivation, excellent team work, professionalism and determination to make Georgia prosperous.

MS. NATO KHAINDRAVA
CEO

გენერალური დირექტორის მიმართვა

პატივცემულო ქალბატონებო და ბატონებო,
მოხარული ვარ მოგახსენოთ სს „ბანკი ქართუს“ 2016 წელს მიღწეული წარმატებების თაობაზე:
აღსანიშნავია, რომ ბანკი დაარსების დღიდან აფინანსებდა პროექტებს, რომლებიც მიმართული იყო საქართველოს ეკონომიკის განვითარებაზე, ადგილობრივი წარმოების ხელშეწყობასა და იმპორტშემცვლელი და ექსპორტზე ორიენტირებული წარმოების დაფინანსებაზე.

ჩვენთვის საამაყოა 2016 წელს საერთაშორისო სარეიტინგო კომპანია „Fitch“-ის მიერ ჩატარებული მორიგი კვლევა, რომლის შედეგადაც ბანკ ქართუს შეუნარჩუნდა IDR-ის (Issuer Default Rating) რეიტინგი „B+ სტაბილური პერსპექტივა“. აღნიშნული ნათლად მეტყველებს,რომ ბანკი სტაბილური და საიმედოა.

აღნიშვნის ღირსია ის ფაქტიც, რომ ბანკი ქართუ მუდმივად ახდენს პორტფელის დარგობრივ და რეგიონალურ დივერსიფიკაციას. ჩვენი ძალისხმევით საქართველოში არაერთმა დარგმა დაიწყო აღორძინება, ასევე, იმპორტის ჩანაცვლება და გავიდა ექსპორტზეც.

ძალზედ თვალსაჩინოა შემდეგი ტენდენცია: გასულ წლებში, ზოგადად საქართველოს ეკონომიკასა და, შესაბამისად, ბანკის პორტფელში ჭარბობდა იმპორტი და მის დასაფინანსებლად გაცემული სესხები.

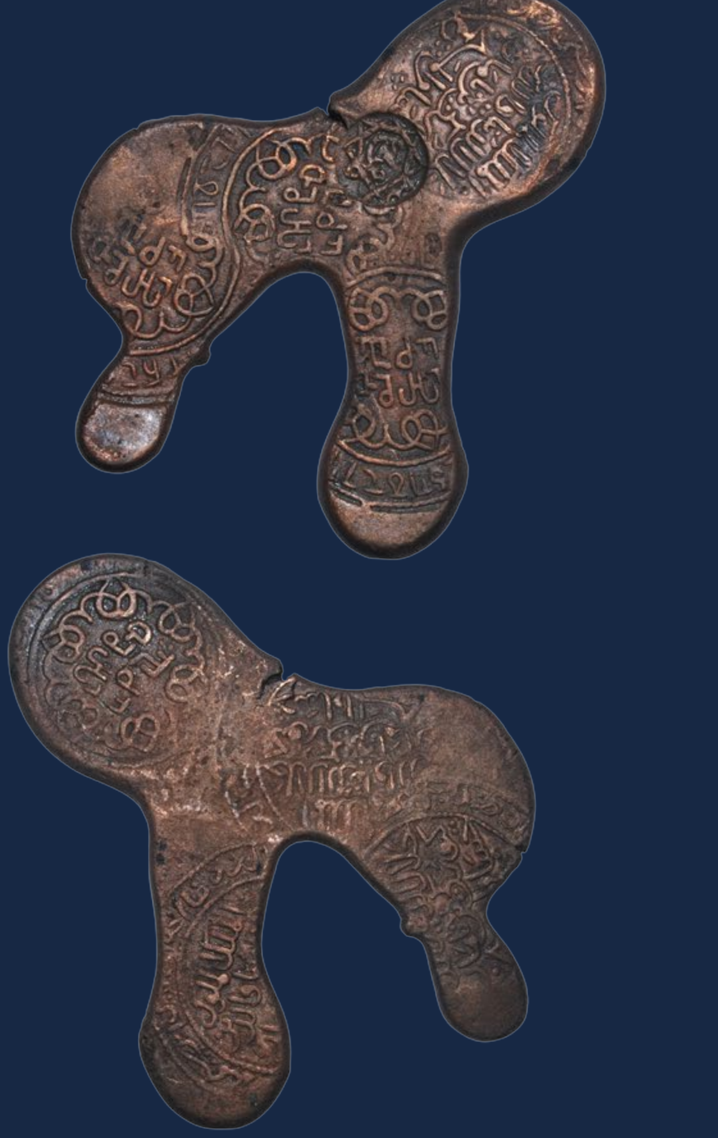
დღეისათვის ვაჭრობის სექტორმა ბანკის პორტფელში მე-4 პოზიციაზე გადაინაცვლა 16%-იანი წილით, ხოლო პირველ სამ პოზიციაზე დაწინაურდა წარმოების სექტორი, მომსახურების სფერო, უძრავი ქონებისა და მშენებლობის დარგი 24-24%-იანი თანაბარი წილებით. ამასთან, 5%-მდე გაიზარდა სოფლის მეურნეობის სექტორზე გაცემული სესხების წილი, ხოლო პორტფელის დანარჩენი 7% - სხვა დარგებზე გადანაწილდა.

ჩვენ მტკიცედ ვიცავთ მდგრადი განვითარების სტრატეგიას, რომლის მიზანია ქვეყნის მასშტაბით ბიზნესსექტორის აქტიური მხარდაჭერა და, შესაბამისად, საქართველოს ეკონომიკის განვითარებაში ღირსეული წვლილის შეტანა.

მსურს მადლობა გადავუხადო ჩვენს მომხარებლებსაც, მათ გარეშე ხომ ჩვენი წარმატება არ იქნებოდა სრულყოფილი. მომავალში ჩვენ კვლავ გავაგრძელებთ ინტენსიურ მუშაობას მათთვის, მაქსიმალურად კომფორტული და მათ მოთხოვნებზე მორგებული პროდუქტების შესაქმნელად.

ბანკი ქართუს 20-წლიანი მოღვაწეობის გზა მისი სულისკვეთების, გუნდის სიძლიერის, პროფესიონალიზმის გამოხატულება და სწრაფვაა საქართველოს ძლიერებისაკენ.

ნატო ხაინდრავა
გენერალური დირექტორი



გიორგი მეოთხე ლაშა (ლაშა-გიორგი)
GIORGI IV LASHA (LASHA-GIORGI)

მონეტა 1210 წელსაა მოჭრილი და სპილენძისგანაა დამზადებული.

A copper coin of 1210.

ბანკის მისია, ხედვა, ძირითადი ფასეულობები
MISSION, VISION AND CORE VALUES OF THE BANK

„ბანკი ქართუს“ მისია

ჩვენი მისიაა, უმაღლესი ხარისხის ექსკლუზიური საფინანსო მომსახურების გზით, განსაკუთრებული წვლილი შევიტანოთ ქვეყნის მნიშვნელოვანი დარგების განვითარებაში.

ხედვა

სს „ბანკი ქართუ“ გახდება გამორჩეული საფინანსო ინსტიტუტი, რომელიც:

- საქართველოში შექმნის კორპორატიული კლიენტების ექსკლუზიური მომსახურების სტანდარტს;
- აქტივების მოცულობით სტაბილურ ადგილს დაიკავებს საბანკო სისტემის ლიდერთა სამეულს შორის;
- დაკომპლექტებული იქნება მაღალკვალიფიციური და მოტივირებული კადრებით;
- განსაკუთრებულ წვლილს შეიტანს ჩვენი ქვეყნის ეკონომიკის ზრდასა და ბიზნესის განვითარებაში;
- სტაბილურად გაზრდის საკუთარ ღირებულებებს, როგორც აქციონერთა, ასევე, კლიენტებისათვის, რაც დადებითად იმოქმედებს, ზოგადად, ქვეყნის მოსახლეობის ცხოვრების დონის ამაღლებაზე.

ძირითადი ფასეულობები

- მაღალი ხარისხის მომსახურება და თითოეული კლიენტისადმი ლოიალური დამოკიდებულება;
- საბანკო პროდუქტების სრულყოფილი და მრავალფეროვანი პაკეტი;
- მომხმარებელზე მორგებული თანამედროვე და ინოვაციური ფინანსური გადაწყვეტილებები;
- პროფესიონალი კადრები.

Mission of “Cartu Bank” JSC

We view it as our mission to make a special contribution to the priority industries by means of top quality exclusive financial service

Vision

Cartu Bank will become an outstanding financial institution that will:

- set the exclusive corporate client service standard in Georgia;
- secure a place among the top three players of the Georgian banking sector in terms of the total assets;
- have highly-qualified and motivated staff;
- make a special contribution to the economic growth and business development in the country;
- steadily increase its shareholder and customer value in order to make a positive impact on the national living standards.

CORE VALUES

- high-quality service and loyalty to customers;
- a full package of versatile banking products;
- customer-specific and innovative financial solutions;
- highly-qualified staff.

ბანკის სტრუქტურა
STRUCTURE OF THE BANK

სამეთვალყურეო საბჭო:

- ნიკოლოზ ჩხეტიანი
  სამეთვალყურეო საბჭოს თავმჯდომარე
- ნათელა ყალიჩავა
  სამეთვალყურეო საბჭოს წევრი
- ეთერ დემინაშვილი
  სამეთვალყურეო საბჭოს წევრი

აღმასრულებელი მენეჯმენტი:

- ნატო ხაინდრავა
  გენერალური დირექტორი
- გივი ლებანიძე
  ფინანსური დირექტორი
- დავით გალუაშვილი
  ოპერაციების დირექტორი
- ზურაბ გოგუა
  კომერციული დირექტორი
- ბექა კვარაცხელია
  რისკების დირექტორი

Supervisory Board

- MR. NIKOLOZ CHKHETIANI
  Chairperson of the Supervisory Board
- MS. NATELA KALICHAVA
  Member of the Supervisory Board
- MS. ETERI DEMINASHVILI
  Member of the Supervisory Board

Executive Management

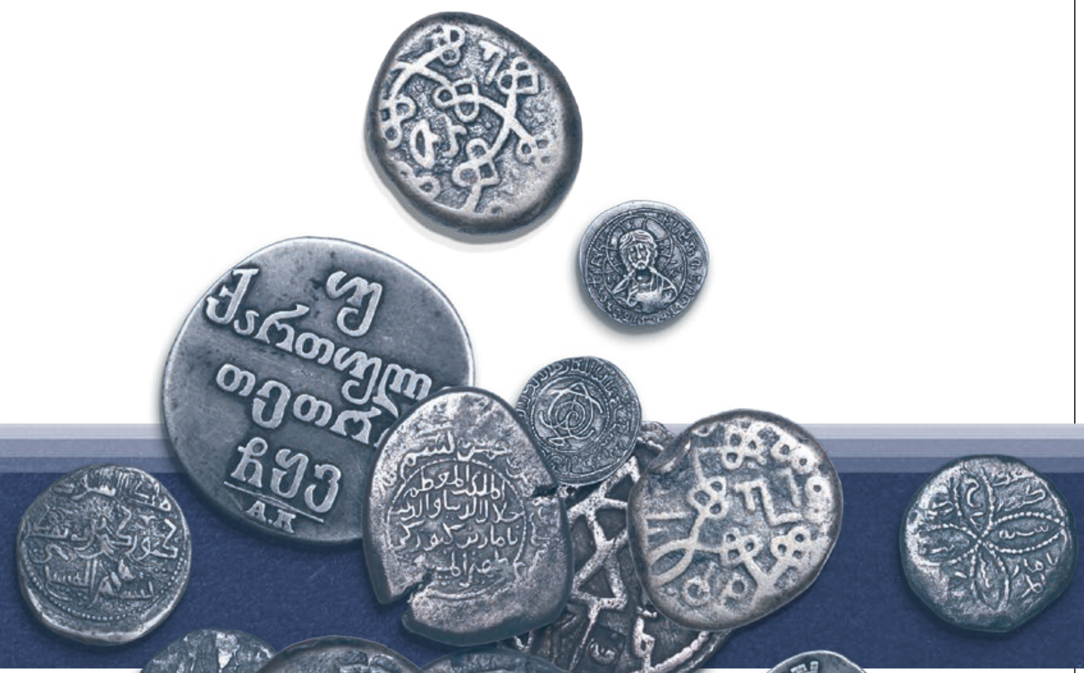
- MS. NATO KHAINDRAVA
  Chief Executive Officer
- MR. GIVI LEBANIDZE
  Chief Financial Officer
- MR. DAVID GALUASHVILI
  Chief Operations Officer
- MR. ZURAB GOGUA
  Chief Commercial Officer
- MR. BEKA KVARATSKHELIA
  Chief Risks Officer

უახლესი მოვლენები ბანკის ისტორიაში

- საერთაშორისო სარეიტინგო კომპანია „Fitch“-ის მიერ ჩატარებული მორიგი კვლევის შედეგად 2016 წლის 25 მაისს, კომპანია „Fitch“-მა ბანკი ქართუს შეუნარჩუნა IDR-ის (Issuer Default Rating) რეიტინგი „B+ სტაბილური პერსპექტივა“ რაც მნიშვნელოვნად დაეხმარება ბანკს სტაბილურად განვითარებაში;
- ბანკი ქართუს სწრაფ ფულად გზავნილებს დაემატა ახალი სისტემა - „კონტაქტი“;
- 2016 წლის 24 ოქტომბერს, გაიხსნა ბანკი ქართუს ვაკის განახლებული სერვისცენტრი;
- 2016 წელს გამოიცა ბანკი ქართუს 20 წლის იუბილისადმი მიძღვნილი კატალოგი - „20 წელი 100 პროქტი“. აღნიშნულ გამოცემაში ბანკის ოცწლიანი მოღვაწეობის მანძილზე დაფინანსებული ყველაზე მსხვილი და ქვეყნისთვის მნიშვნელოვანი პროექტებია წარმოდგენილი.

RECENT HIGHLIGHTS

- As a result of the survey conducted by the international “Fitch” rating company on 25 May 2016, Cartu Bank preserved “B+ stable prospects” IDR (Issuer Default Rating), which is going to make the Bank more stable;
- A new “Contact” system was added to the “Cartu Bank’s” money transfers;
- On 24 October 2016, the Bank’s renovated service center opened in the Tbilisi Vake district;
- Highlighting the 20 year jubilee of the Bank, ”20 Years 100 Projects” catalogue setting out the biggest and most significant projects the Bank had funded was published in 2016.



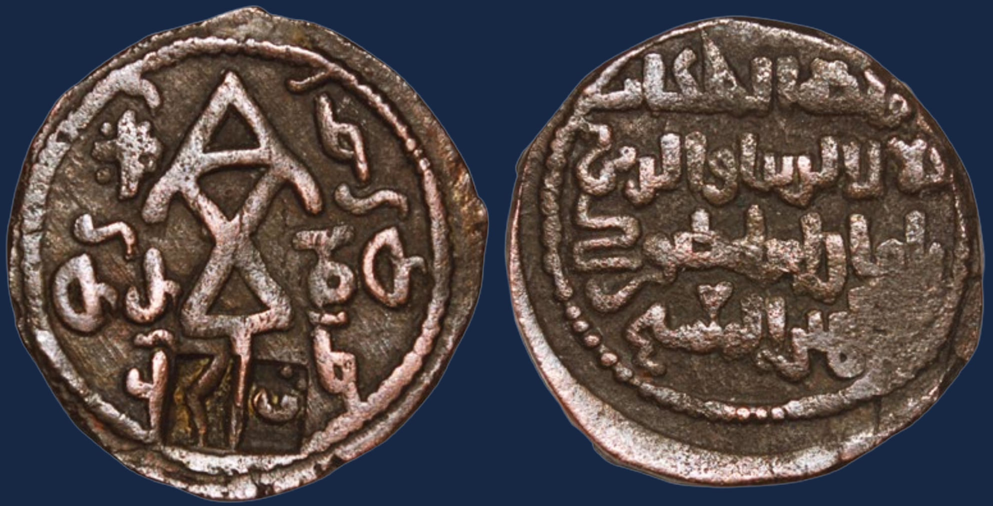
მოკლე ფინანსური ანგარიში

2016 წელი სს „ბანკი ქართუს“ ისტორიაში ერთ–ერთი ყველაზე წარმატებული წელი იყო. ამას ბანკის ფინანსური მაჩვენებლებიც მოწმობს.

BRIEF FINANCIAL REPORT

As made evident by the financial indicators below, 2016 was one of the most successful in the Bank’s history.

ათას ლარებში IN THOUSAND GEL	2012	2013	2014	2015	2016
მთლიანი აქტივები TOTAL ASSETS	414,703	594,261	762,512	1,192,724	1,420,363
წმინდა სესხები NET CREDITS	262,148	396,297	543,035	824,618	854,338
მთლიანი ვალდებულებები TOTAL LIABILITIES	237,361	317,421	480,388	916,319	1,142,170
სადეპოზიტო პორტფელი DEPOSIT PORTFOLIO	66,623	173,786	319,687	597,946	747,610
სააქციო კაპიტალი SHARE CAPITAL	177,315	276,840	282,124	276,405	278,193
სულ შემოსავლები TOTAL INCOMES	41,355	86,215	67,499	166,147	155,541
სულ ხარჯები TOTAL COSTS	28,335	15,014	47,275	107,206	80,289
წმინდა მოგება/ზარალი NET PROFIT/LOSS	13,020	71,201	20,224	58,941	75,252
თანამშრომელთა რაოდენობა NUMBER OF STAFF	293	313	326	314	315

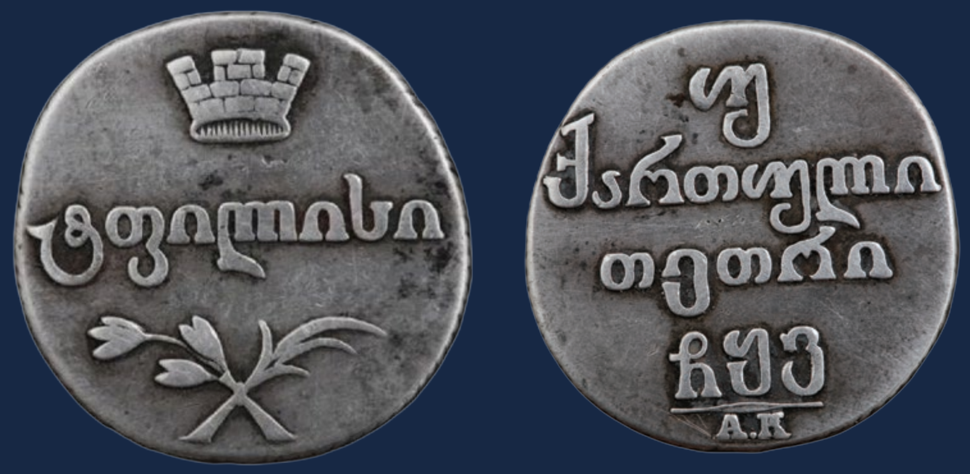


თამარ-დავით

TAMAR-DAVID

მონეტა თამარისა და დავით სოსლანის მეფობის დროს, 1200 წელსაა მოჭრილი. მის ერთ მხარეს კარგად ჩანს თამარისა და დავითის სახელების ინიციალები. მონეტაზე ქართული და ებრაული წარწერებია: “დედოფალი დედოფალთა, მშვენება ქვეყანისა და სარწმუნოებისა, თამარი, ასული გიორგისა, მესიის თაყვანისმცემელი”.

The coin forged in 1200 during the reign of Queen Tamar and David Soslan, her husband. On the one side, it bears the initials of Tamar and David. The legends in Georgian and Hebrew say: ““Queen of queens, the beauty of the land and the faith, Tamar, daughter of Giorgi and the adorer of the Messiah”.

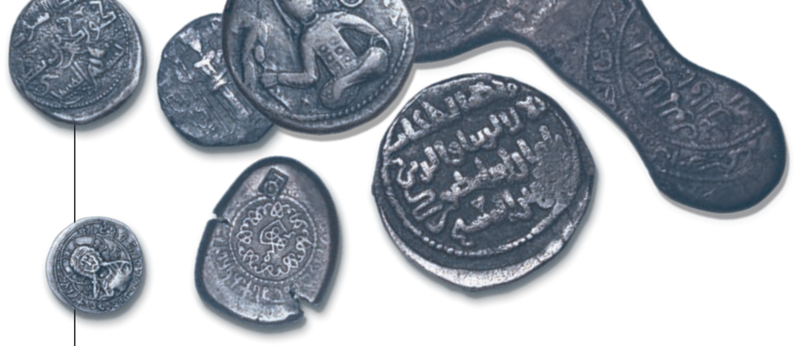


ორი აბაზი. ვერცხლი. თბილისი. 1806 წ.

TWO ABAZIS. SILVER. TBILISI. 1806

1804 წელს თბილისში აღადგინეს ზარაფხანა, სადაც იჭრებოდა ქართულწარწერიანი ვერცხლისა და სპილენძის ფული ერეკლე II-ის დროინდელი ფულადი სისტემით, რომლის უკნინესი ერთეული დინარი იყო, რაოდენობა კი მონეტაზე ქართული ასოებით აღინიშნებოდა. ზარაფხანა მოქმედებდა 1834 წლამდე და ჭრიდა ვერცხლის ორაბაზიანებს (“უ” 400), აბაზიანებს (“ს” 200), ნახევარაბაზიანებს (“რ” 100). სპილენძის ბისტს (“კ” 20), ნახევარ ბისტს (“ი” 10) და ფულს (“ე” 5).

In 1804, the Russian rulers of Georgia restored the Mint in the capital Tbilisi, where the silver and copper coins bearing the Georgian legends were forged according to the monetary system operational during the reign of King Erekle II. Dinar was the smallest denomination coin, with the figure carved in the Georgian letters. The Mint operating until 1834 issued the silver coins worth two abazis (“უ” 400), abazis (“ს” 200), half-abazis („რ“ 100), copper bists („კ“ 20) and half-bists („ი“ 10) and paper money („ე“ 5).



საკრედიტო მაჩვენებლები

ბანკი ქართუს საკრედიტო მიმართულებისთვის 2016 წელი მნიშვნელოვანი იყო. შესამჩნევია საშუალო და მსხვილი კლიენტების რაოდენობის ზრდა.

- საკრედიტო პორტფელის მოცულობა 5%-ით გაიზარდა და 927 მლნ ლარს გადააჭარბა;
- წმინდა სესხების მოცულობამ შეადგინა - 854.3 მლნ ლარი, რაც წარმოადგენს მთლიანი სესხების 91.18%, ხოლო ბანკის მთლიანი აქტივების - 60.1%-ს;
- საანგარიშო პერიოდის ბოლოს ბანკის საკრედიტო პორტფელის საშუალო შეწონილმა შემოსავლიანობის მაჩვენებელმა წლიური 11.94% შეადგინა, 2015 წლის შესაბამისი მაჩვენებლი კი 12.67% იყო.

სს „ბანკი ქართუ“ წარმოადგენს რა საშუალო და მსხვილი ბიზნესის წამყვანი კომპანიების გრძელვადიან პარტნიორს, სტაბილურად აგრძელებს თავისი მისიის შესრულებას - წვლილი შეაქვს ქვეყნისათვის სტრატეგიულად მნიშვნელოვანი დარგების განვითარებაში.

2016 წელს ბანკმა კვლავ შესთავაზა თავის მომხმარებლებს შემდეგი საკრედიტო პროგრამები:

- იმპორტშემცვლელი წარმოების დაკრედიტების პროგრამა;
- ქსელური ბიზნესის განვითრების დაკრედიტების პროგრამა;
- მცირე და საშუალო ბიზნესის დაკრედიტების პროგრამა;
- ექსპორტ-იმპორტის სავაჭრო ოპერაციების ხელშეწყობის პროგრამა.

ბანკი ქართუ, ასევე, აქტიურად არის ჩაბმული სახელმწიფოს მიერ ინიცირებულ პროექტებში:

- **„შეღავათიანი აგროკრედიტის“** პროგრამის მიზანია ფერმერების, აგრარული კომპანიებისა და სოფლის მეურნეობაში ჩართული ფიზიკური პირების ხელშეწყობა იაფი, გრძელვადიანი და ხელმისაწვდომი ფულადი სახსრებით უზრუნველყოფის გზით.

CREDIT INDICATORS

2016 stood out in terms of the credits issued by “Cartu Bank” and, also, considerable increase of the number of medium size and major customers.

- the credit portfolio increased by 5% to exceed 927 m GEL;
- the net credits made up 854.3 m GEL, i.e. 91.18% of the total credits and 60.1% of the Bank’s total assets;
- by the end of the reporting period, the average weighted profitability indicator of the Bank’s credit portfolio was 11.94% as against 12.67% in 2015.

“Cartu Bank” JSC, a long-standing partner of the medium size and major business companies remains true to its mission of support to the strategic national industries.

In 2016, the Bank offered its customers the credit programs below:

- program for crediting the import-substituting production;
- program for crediting the network business development;
- small and medium size business crediting program;
- program for support to export-import trade transactions.

Also, “Cartu Bank” JSC is closely involved in the State-initiated programs:

- **Preferential Agro Credit program** is designed for support to the farmers, agricultural companies and persons engaged in the agricultural sector by way of provision of affordable, long-term and preferential funds.

პროექტის ძირითადი მონაცემები:

- პროექტის დასაწყისი - 20 მარტი, 2013 წელი;
- ბანკი ქართუს მიერ პროექტის ფარგლებში 2016 წელს დაფინანსებულია - 28 კლიენტი, მათზე გაცემულია 20.1 მლნ ლარის ოდენობის სესხები;
- პროექტის ჯამური პორთფელი 31.12.2016 წლის მდგომარეობით - 48,651,829 ლარი.

- დაკრდიტების პროგრამაში „აწარმოე საქართველოში“ გამოიყოფა 3 მიმართულება:

1. **ინდუსტრიული ნაწილი** - ხელს უწყობს საქართველოში წარმოებაზე ორიენტირებული ინდუსტრიების განვითარებას, ახალი საწარმოების შექმნას/არსებული საწარმოების გაფართოება/გადაიარაღებას.
   აღნიშნული მიმართულების ფარგლებში ბანკმა ქართუმ დააფინანსა რამოდენიმე ახალი წარმოება ნაკლებად აქტიურ და მაღალმთიანი რეგიონებში, კერძოდ, მაღალმთიან რაჭასა და თეთრიწყაროს რაიონში.
2. **სოფლის მეურნეობის ნაწილი** - საშუალებას აძლევს მსურველებს შექმნან ახალი ან განავითარონ საშუალო და მსხვილი საწარმოები სოფლის მეურნეობის დარგში.
3. **სასტუმრო ინდუსტრიის ნაწილი** - პროგრამას დაემატა 2016 წლიდან და ცნობილია სახელწოდებით **„უმასპინძლე საქართველოში“.** ამ ნაწილის მიზანია განავითაროს რეგიონებში სასტურმოების ბიზნესი, რათა მათ შეძლონ უმასპინძლონ გაცილებით მეტ ტურისტს.

პროექტის ძირითადი მონაცემები:

- პროექტის დასაწყისი - 1 ივნისი, 2014 წელი
- ბანკის ქართუს მიერ 2016 წელს 11.6 მლნ ლარის ოდენობის სესხით დაფინანსებულია 11 კლიენტი
- პროექტის ჯამური პორტფელი 31.12.2016 წლის მდგომარეობით - 30,219,065 ლარი

2017 წლისთვის ბანკი ქართუსთვის კვლავ პრიორიტეტულად დარჩება ქვეყნის ეკონომიკისათვის მნიშვნელოვანი დარგების - სოფლის მეურნეობის, იმპორტშემცვლელი და ექსპორტზე ორიენტირებული წარმოების განვითარება.

The project details:

- launch – 20 March 2013;
- in 2016, “Cartu Bank” provided 20.1 m GEL loans to 28 customers;
- on 31.12.2016, the total project portfolio made up 48,651,829 GEL.

- ,,Produce in Georgia” crediting program has three components

1. **Industry** – support to the businesses focusing on local production, setting up/expansion/re-equipment of the new ones. Within this context, “Cartu Bank” funded several new businesses in somewhat backward and mountainous regions, namely Racha and Tetritskaro.
2. **Agriculture** – support to the entities and persons wishing to set up or develop the medium size and major agricultural enterprises;
3. **Hotel Industry** - referred to as **“Host in Georgia”** was added to the program in 2016. Its aim is development of the hotel business in the regions so that they could host a much larger number of tourists.

The Project details:

- launch – 1 June 2014;
- in 2016, “Cartu Bank” provided 11.6 m GEL loans to 11 customers;
- on 31.12.2016, the total project portfolio made up 30,219,065 GEL.

Funding the national agriculture, furthering the import-substituting and export-oriented production will remain the Bank priority in 2017.

რისკების მართვა

რისკების მართვის დეპარტამენტის მიერ 2016 წელს განხორციელებული საქმიანობიდან აღსანიშნავია შემდეგი:

- ფინანსური რისკების მართვის განყოფილების მიერ შემუშავდა საკრედიტო პორტფელის სახელობითი კონცენტრაციის ხარისხობრივი რისკისთვის საჭირო კაპიტალის ბუფერის გამოსათვლელი მეთოდოლოგია, რომელიც დაფუძნებულია, საკრედიტო პორტფელის IFRS-ის მიხედვით, გაუფასურების დანაკარგის რეზერვის გაანგარიშებისას მიღებულ შუალედურ პარამეტრებზე;

- საკრედიტო პორტფელის მონიტორინგის განყოფილებაში დაინერგა კომპანიების ანალიზის ახალი სისტემა, რომელიც კომპანიის უახლესი ფინანსური მაჩვენებლებისა და ძირითადი კოეფიციენტების გამოყენებით თითოეულ კომპანიას ავტომატურად ანიჭებს რისკის ქულას;

- აღნიშნული სისტემის მეშვეობით შესაძლებელია ადრეულ ეტაპზევე იქნეს აღმოჩენილი ბანკის მსესხებლის ფინანსური სირთულეები და მოხდეს სესხების შესაძლო დანაკარგების რეზერვის ზრდის თავიდან აცილება;

- 2016 წლის მიწურულს ბანკმა დაიწყო საოპერაციო რისკების აღრიცხვის ტექნოლოგიურად, თვისებრივად და სისტემურად ახალ მოდელზე მუშაობა, რომლის დანერგვაც 2017 წლის მანძილზე იგეგმება პროექტი, ასევე, მოიცავს ბანკის თანამშრომლების ცნობიერების ამაღლებას საოპერაციო რისკების კუთხით, რაც ბანკში საოპერაციო რისკების წარმატებული მართვის მნიშვნელოვან პირობას წარმოადგენს.

RISK MANAGEMENT

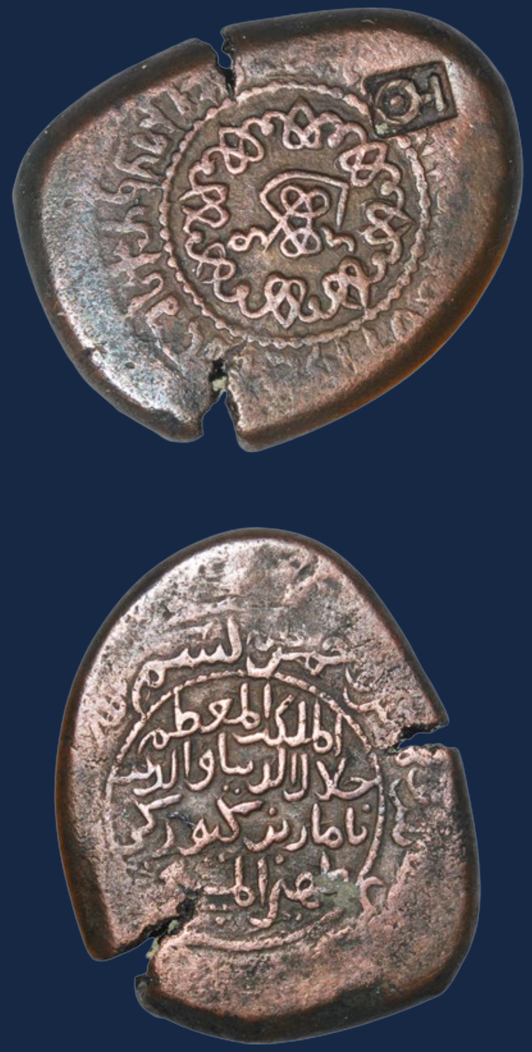
The following stands out among the activities of the Risk Management Department in 2016:

- the Financial Risk Management Division developed the methodology to measure the capital buffer required for the qualitative risk of single-name concentration in loan portfolio based on the IFRS interim parameters of computing the credit portfolio impairment allowance;

- a new system analyzing the companies was introduced by the Credit Portfolio Monitoring Division. By applying their updated financial indicators and key indexes the system automatically assigns a risk score to each of them;

- the system is designed for early detection of a Bank borrower's financial difficulties in order to prevent increase of the possible loan loss reserve;

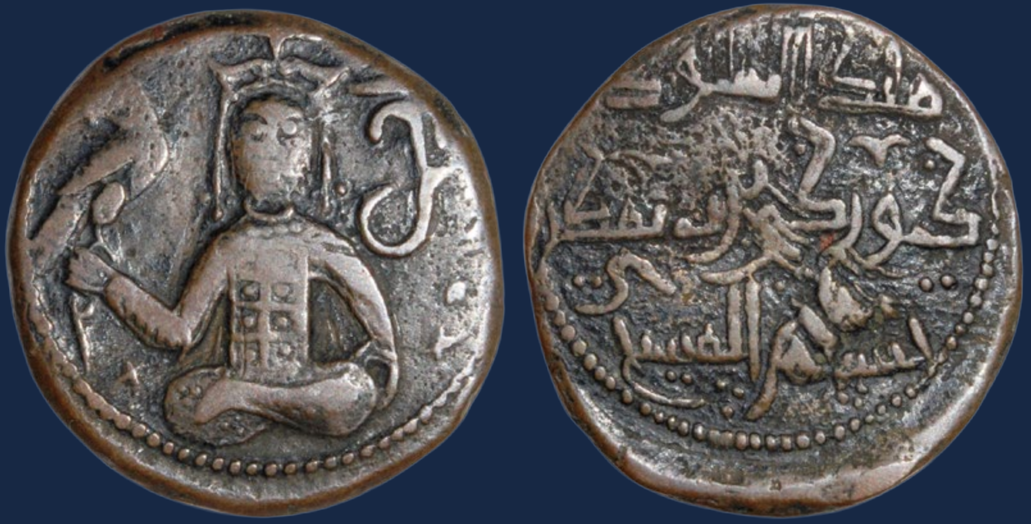
- in late 2016, the Bank started working on a brand new model for registering the operational risks to be introduced in 2017. Also, the project involves raising the staff awareness in terms of the operational risks relevant to their efficient management.



თამარი - მონეტა 1187 წელსაა მოჭრილი
TAMAR – COIN DATED WITH 1187

სპილენძის მონეტის ერთ მხარეს კარგად იკითხება თამარის ხელრთვა: „თამარ“ და ქართული წარწერა. მონეტის მეორე მხარეს, ე.წ. „ზურგზე“ არაბულად ვკითხულობთ „დედოფალი დიდებული“, მშვენება ქვეყნისა და სარწმუნოებისა თამარ, ასული გიორგისა, მესიის თაყვანისმცემელი. განადიდოს ღმერთმან ძლევანი მისნი, განადიდოს ღმერთმან დიდება მისი, განაგრძოს ჩრდილი მისი და განამტკიცოს კეთილდღეობა მისი”.

On the one side of the cooper coin, there is the ligature: “Tamar” and a legend in Georgian. The Arabic legend on the reverse side of the coin says: “Tamar, the great queen, the beauty of the land and the faith, daughter of Giorgi and the adorer of the Messiah. Let the God make her victorious, glorious and bestow her with a long life and welfare”.



გიორგი მესამის დროს მოჭრილი მონეტა
A COIN FORGED DURING THE REIGN OF GIORGI III

გიორგი მესამის (1156-1184 წწ.) დროს საქართველოში მოჭრილი მონეტა სპილენძისაა. მას ქართული და არაბული წარწერები ამშვენებს. მონეტის მეორე მხარეს არაბულად წერია: “მეფე მეფეთა გიორგი, ძე დემეტრესი, მესიის მახვილი”. სპილენძის მონეტაზე გამოსახულ გიორგი მესამეს მარჯვენა ხელზე შევარდენი აზის. მონეტა სიმონ ჯანაშიას სახელობის საქართველოს მუზეუმშია დაცული.

A copper coin forged during the reign of Giorgi III decorated with the legends in the Georgian and Arabic languages. The Arabic legend on its reverse side says: “Giorgi, king of kings, son of Demetre, the sword of the Messiah”. On the one side of the coin we see Giorgi III with a falcon on his right hand. The coin is preserved in Simon Janashia National Museum of Georgia.

საბარათე ბიზნესი

ბანკი ქართუ არის პირველი ქართული კომერციული ბანკი, რომელმაც მიიღო VISA და MasterCard-ის მომსახურების ლიცენზიები ელექტრონულ ვაჭრობაში და დღემდე ინარჩუნებს ლიდერობას ამ მიმართულებით.

აღსანიშნავია, რომ 2016 წელს გაგრძელდა არსებული პარტნიორი ობიექტების მომსახურება და ახალი კომპანიების მოზიდვა. სავაჭრო და მომსახურების ობიექტებში საერთო ბრუნვამ შეადგინა - 17,5 მილიონი აშშ დოლარი, რაც 6%-ით მეტია წინა წლის მაჩვენებელზე.

2016 წლის განმავლობაში ელ. კომერციის ბიზნესი ინტენსიურად განვითარდა. გაფორმდა ხელშეკრულება 56 კომპანიასთან, მათ საიტებზე პლასტიკური ბარათებით გადახდების უზრუნველყოფის თაობაზე. საანგარიშო წლის ბოლოს ელ. კომერციის სფეროში ჩართული ობიექტების რაოდენობამ შეადგინა - 231, საერთო ბრუნვამ - 34 მლნ აშშ დოლარი, ხოლო წარმატებული ტრანზაქციების რაოდენობამ - 2,5 მილიონი ტრანზაქცია.

2016 წელს დასრულდა საბარათე სისტემის ტექნიკური ბაზის განახლება და სათადარიგო (DR) საიტის პროექტზე მუშაობა. საბარათე მომსახურების მიმღები კლიენტებისთვის ბანკის სისტემები გახდა უფრო სწრაფი, მოსახერხებელი და საიმედო.

2016 წელს დაიწყო უკონტაქტო პლასტიკური ბარათების სერტიფიცირების პროცედურები.

CARD BUSINESS

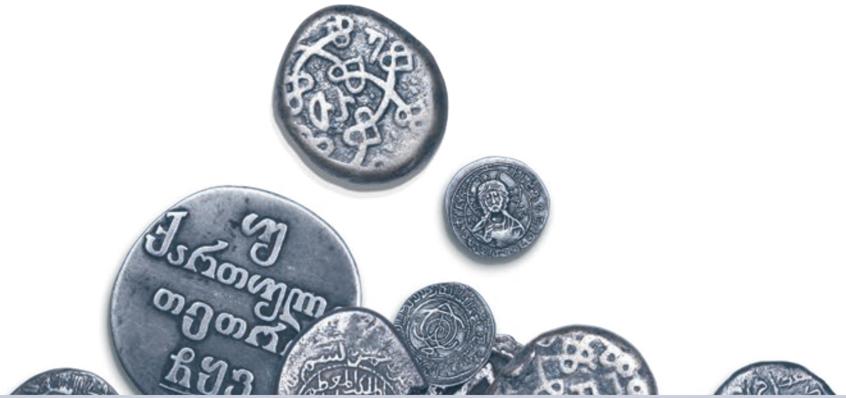
“Cartu Bank” is the first commercial bank in Georgia holding the Visa and MasterCard licenses for rendering e-commerce services and it retains its leadership to this day.

In 2016, the Bank continued rendering services to its partner enterprises and also attracted the new corporate clients. The total turnover at the commercial and service points made up 17.5 m USD, which is 6% over than in the year before.

In 2016, e-commerce was developing rapidly. Contracts on website payments by plastic cards were executed with 56 companies. By the end of the reporting year, 231 companies were engaged in e-commerce, with their total turnover reaching 34 m USD and the number of effected transactions – 2.5 m.

In 2016, the card system was upgraded and the DR site project implemented making the Bank systems more rapid, flexible and reliable for card users.

Certification of swipe cards started in 2016.



ᲡᲐᲔᲠᲗᲐᲨᲝᲠᲘᲡᲝ ᲣᲠᲗᲘᲔᲠᲗᲝᲑᲔᲑᲘ

2016 წლის მანძილზე საერთაშორისო ურთიერთობების დეპარტამენტის მონაწილეობით განხორციელდა შემდეგი ღონისძიებები:

› მოხდა მოქმედ საბანკო პარტნიორებთან არსებული ურთიერთობების შემდგომი სრულყოფა. პარალელურად, ჩამოყალიბდა თანამშრომლობა ახალ უცხოურ საბანკო ინსტიტუტებთან, კერძოდ, 2016 წლის იანვარში გაიხსნა საკორესპონდენტო ანგარიშები რუსულ ROSBANK-ში (რუსული რუბლი, აშშ დოლარი, ევრო), ხოლო ნოემბერში - ევროს ანგარიში გერმანულ LBBW-ში;

› განახლდა მოლაპარაკებები ძველ პარტნიორ, საერთაშორისო საფინანსო ინსტიტუტებთან (EBRD, BSTDB) საკრედიტო ხაზების განახლებაზე. ასევე დამყარდა აქტიური საქმიანი ურთიერთობები ახალ პარტნიორებთან;

› სს „ბანკი ქართუს“ წარმომადგენლები მონაწილეობდნენ BSTDB-ის ყოველწლიურ ბიზნეს ფორუმის მუშაობაში, რომელიც ჩატარდა 2016 წლის მაისში, ქ. ათენში;

› დაინერგა სწრაფი ფულადი გზავნილების სისტემა - CONTACT;

› SWIFT-ის მიერ ინიცირებულ საერთაშორისო საცნობარო სისტემაში (‘KYC Registry’) განხორციელდა ბანკი ქართუს შესახებ მონაცემების შეტანა და ერთიან ქსელში ინტეგრაცია;

› საერთაშორისო საბანკო კატალოგში - The Bankers’ Almanac - აიტვირთა და განთავსდა სს „ბანკი ქართუს“ შესახებ ყველა საჭირო მონაცემი.

INTERNATIONAL RELATIONS

In 2016, the International Relations Department accomplished the following:

› ties with partner banks were strengthened and the ones with the foreign banking institutions were forged. Namely, in January 2016, correspondent accounts (USD, EUR, RUB) were opened with the Russian ROSBANK, while in November the one in euro was opened in the German LBBW;

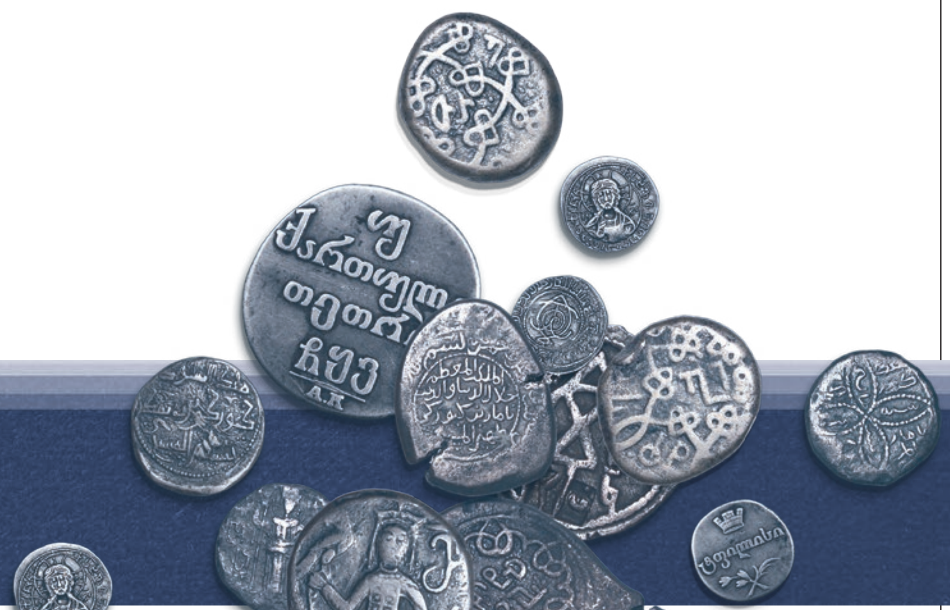
› negotiations on resumption of the credit lines were re-launched with the long-standing partner international financial institutions, such as EBRD and BSTDB and business relationships were forged with the new ones;

› in May 2016, a “Cartu Bank” JSC team participated in BSTDB annual business forum in Athens;

› new money transfer ,,Contact” was introduced;

› the data on “Cartu Bank” JSC were incorporated in the SWIFT-initiated international KYC Registry and integrated in the uniform network;

› the data on “Cartu Bank” JSC were uploaded to the international The Bankers’ Almanac catalogue.



ᲡᲐᲘᲜᲤᲝᲠᲛᲐᲪᲘᲝ ᲢᲔᲥᲜᲝᲚᲝᲒᲘᲔᲑᲘ

საინფორმაციო ტექნოლოგიების დეპარტამენტისთვის აღსანიშნავია 2016 წელს განხორციელებული შემდეგი პროექტები:

› წარმატებით დასრულდა მიგრაცია ახალ სასერვერო სისტემებზე. გაეშვა სათადარიგო სასერვერო სისტემა. სისტემები შექმნილია საერთაშორისო სტანდარტების მიხედვით და სრულად არის დაცული „ფორს-მაჟორული“ სიტუაციებისგან;

› ბანკის მიერ შეძენილ იქნა სრულიად ახალი სასერვერო და საქსელო აპარატურა და გაგრილების სისტემები. აპარატურა შეძენილია, როგორც არსებული, ასევე, შემდგომი ხუთი წლის მოთხოვნის გათვალისწინებით. მისი დუბლირება ხდება ძირითად სასერვეროში, ხოლო, სათადარიგო სასერვერო წარმოადგენს მესამე დუბლიკატს;

› შეძენილ იქნა Cisco ფირმის საქსელო აპარატურა, Hewlett-Packard Enterprise სასერვერო აპარატურა, ბლეიდების რაოდენობა - 12, ვირტუალური სერვერების რაოდენობა - 120, 2 დისკური მასივი 96 დისკით, ჯამურად გამოსაყენებელი (დუბლირებული) 75-მდე ტერაბაიტის მოცულობით. კეში - Total Cache 808 GiB, 8000 -მდე IOPS. სერვერები: 200-მდე პროცესორული ბირთვით. 3 ტერაბაიტამდე ჯამური ოპერატიული მეხსიერება;

› პლასტიკური ბარათების პროცესინგისთვის შეძენილ იქნა HP Nonstop სერვერი შემდეგი სპეციფიკაციით:

  - **Integrity NonStop NS2300 Server**
  - 2 x Intel Intel Itanium 9500 series processor (1.73 GHz/20 MB L3 Cache)
  - RAM 32GB;
  - 6 x 146GB 15K 2.5in 6G SAS HDDs;

Gravic ShadowBase პროგრამული უზრუნველყოფის საშუალებით, ძირითად სასერვეროსა და სათადარიგო სასერვეროს შორის ხორციელდება უწყვეტი რეპლიკაცია.

ყოველივე ამის შედეგად, ბანკი ქართუმ თავის კლიენტებს მიაწოდა მეტად უსაფრთხო, სწრაფი და საიმედო მომსახურება.

IT

The following projects implemented in 2016 are noteworthy for the Information Technology Department:

› successfully was completed migration to the new server systems, launch of the backup system. The systems are created in line with the international standards and fully protected from force-major events;

› the Bank acquired a brand new server and network equipment and cooling systems. The equipment meets both the present requirements and those for the next 5 years. There are duplicates in the main communications room, while the backup communications room is the third duplicate.

› The networking equipment manufactured by Cisco company and Hewlett-Packard Enterprise server appliances were acquired. Blades – 12 pcs; virtual servers – 120.2, disk array of 96 discos, with the total capacity of about 75 terabit; total Cache 808 GiB, approx. 8000 IOPS; servers of about 200 processor cores; total core memory up to 3 terabit.

› for the purpose of plastic card processing, a HP Nonstop server of the specifications below was acquired:

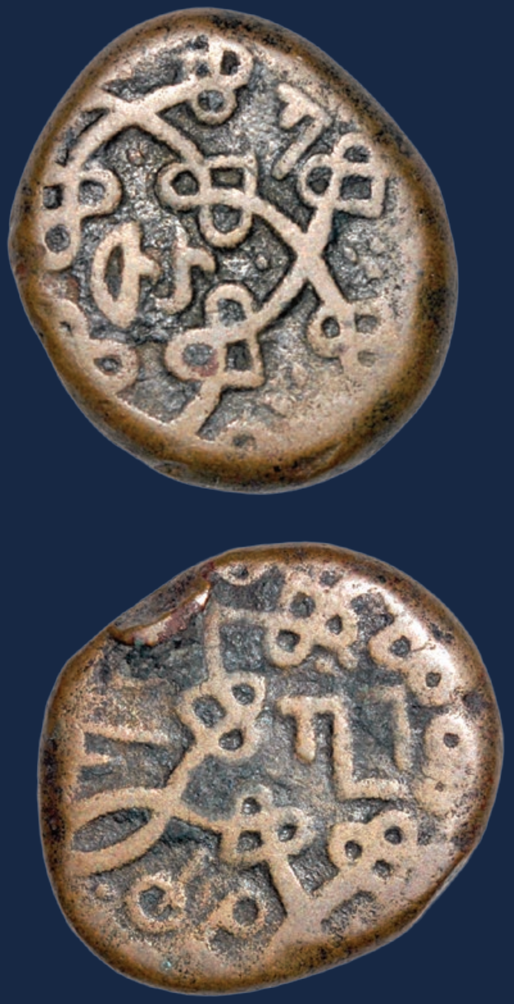
  - **Integrity NonStop NS2300 Server**
  - 2 x Intel Intel Itanium 9500 series processor (1.73 GHz/20 MB L3 Cache)
  - RAM 32GB;
  - 6 x 146GB 15K 2.5in 6G SAS HDDs;

Continuous replication between the main and backup communication rooms takes place via the Gravic ShadowBase fostware.

All those made it possible for the Bank to render its clients safe, rapid and reliable services.

მოკორესპონდენტო ბანკები
CORRESPONDENT BANKS

CURR	მოკორესპონდენტო ბანკები	SWIFT/BIC	ანგარიშის ნომერი/ACCOUNT NO
CHF	**SOCIÉTÉ GÉNÉRALE,** Paris La Défense	SOGEFRPP	002013708320
CHF	**JSC BANK OF GEORGIA** Tbilisi GE	BAGAGE22	GE92BG0000000755204100
CAD	**JSC BANK OF GEORGIA** Tbilisi GE	BAGAGE22	GE92BG0000000755204100
EUR	**AKTIF YATIRIM BANKASI A.S,** Istanbul, TR	CAYTTRIS	TR710014300000000002006884
EUR	**SOCIÉTÉ GÉNÉRALE,** Paris La Défense	SOGEFRPP	001013708320
EUR	**PAO ROSBANK,** Moscow, Russia	RSBNRUMM	30111978400000020975
EUR	**LANDESBANK BADEN-WUERTTEMBERG,** STUTTGART, GE	SOLADEST	2807940
EUR	**JSC BANK OF GEORGIA** Tbilisi GE	BAGAGE22	GE92BG0000000755204100
RUB	**ARDSHINBANK CJSC** Yerevan	ASHBAM22	2470053460740020
RUB	**ZAO RAIFFEISENBANK,** Moscow	RZBMRUMM	30111810200000000002
RUB	**PAO ROSBANK,** Moscow, Russia	RSBNRUMM	30111810500000020975
TRY	**AKTIF YATIRIM BANKASI A.S,** Istanbul, TR	CAYTTRIS	TR870014300000000002006887
USD	**AKTIF YATIRIM BANKASI A.S,** Istanbul, TR	CAYTTRIS	TR440014300000000002006885
USD	**ARDSHINBANK CJSC** Yerevan, AM	ASHBAM22	2470053460740010
USD	**JSC BANK OF GEORGIA** Tbilisi GE	BAGAGE22	GE92BG0000000755204100
USD	**PAO ROSBANK,** Moscow, Russia	RSBNRUMM	30111840800000020975
AMD	**ARDSHINBANK CJSC** Yerevan, AM	ASHBAM22	2470053460740000
NOK	**JSC BANK OF GEORGIA** Tbilisi, GE	BAGAGE22	GE92BG0000000755204100
JPY	**JSC BANK OF GEORGIA** Tbilisi, GE	BAGAGE22	GE92BG0000000755204100



გიორგი მესამე და თამარი
GIORGI III AND TAMAR

ასევე, საინტერესოა 1178 წელს მოჭრილი სპილენძის მონეტა. მასზე ვკითხულობთ: „გიორგი. ადიდენ ღმერთმა, მეფეთა მეფე“. „თამარ. ადიდენ ღმერთმან მეფე და დედოფალი“.

A silver coin forged in 1178, is no less interesting. The legend on it says: “Giorgi. Let the Almighty bless the king of kings”. “Tamar. Let the Almighty bless the king and the queen”.

ბანკის ოფისები
BANK OFFICES

თბილისი/TBILISI:

ცენტრალური სერვისცენტრი
ი. ჭავჭავაძის გამზ., N39ა
CENTRAL SERVICE CENTER
#39a I. Chavchavadze Ave.

ვაკის სერვისცენტრი
ი. აბაშიძის ქ., N24
VAKE SERVICE CENTER
#24 I. Abashidze Str.

საბურთალოს სერვისცენტრი
პეკინის ქ., N14ბ
SABURTALO SERVICE CENTER
#14b Pekini Str.

მთაწმინდის სერვისცენტრი
ვ. ვეკუას ქ., N1
MTATSMINDA SERVICE CENTER
#1 V. Vekua Str.

ისნის სერვისცენტრი
ქეთევან დედოფლის გამზ./ბოჭორმის ქ. N50/18
ISANI SERVICE CENTER
#50/18 Queen Ketevan Ave./Bochorma Str.

რეგიონები/REGIONS

ბათუმის სერვისცენტრი
ა. გრიბოედოვის ქ., N2
BATUMI SERVICE CENTER
#2 A. Griboedov Str.

ქუთაისის სერვისცენტრი
ზ. ფალიაშვილის ქ., N4
KUTAISI SERVICE CENTER
#4 Z. Paliashvili Str.

გორის სერვისცენტრი
სტალინის გამზ., N10
GORI SERVICE CENTER
#10 Stalini Ave.

თელავის სერვისცენტრი
ი. ჭავჭავაძის მოედანი
TELAVI SERVICE CENTER
I. Chavchavadze Sq.

☎ * 8080 (032) 200 80 80
✉ info@cartubank.ge
🌐 www.cartubank.ge

წლიური ანგარიში
ANNUAL REPORT

2016

ბანკი ქართუ
CARTU BANK

CARTU BANK GROUP

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2016

CARTU BANK GROUP

TABLE OF CONTENTS

Page

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended December 31, 2016 1

Independent auditor's report 2-3

Consolidated financial statements for the year ended December 31, 2016:

Consolidated statement of financial position 4
Consolidated statement of profit or loss 5
Consolidated statement of other comprehensive income 6
Consolidated statement of changes in equity 7
Consolidated statement of cash flows 8-9

Notes to the consolidated financial statements:

1. Organisation 10
2. Significant accounting policies 11
3. Critical accounting judgements and key sources of estimation uncertainty 23
4. Application of new and revised international financial reporting standards (IFRSs) 25
5. Net interest income 32
6. Provision for impairment losses on interest bearing assets and other provisions 32
7. Net gain on financial assets at fair value through profit or loss 33
8. Net gain on foreign exchange operations 33
9. Fee and commission income and expense 34
10. Other income, net 34
11. Operating expenses 35
12. Income taxes 35
13. Cash and cash equivalents 37
14. Mandatory cash balance with the nbg 37
15. Due from financial institutions 37
16. Financial assets at fair value through profit or loss 37
17. Loans to customers 38
18. Available-for-sale investments 41
19. Held to maturity investments 41
20. Property and equipment 41
21. Other assets 42
22. Deposits by banks 43
23. Deposits by customers 44
24. Other liabilities 44
25. Subordinated debt 45
26. Other borrowed funds 46
27. Share capital 46
28. Commitments and contingencies 46
29. Transactions with related parties 47
30. Fair value of financial instruments 49
31. Capital risk management 50
32. Risk management policies 51
33. Subsequent events 65

Cartu Bank Group

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended December 31, 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2016, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2016 were authorized for issue on May 5, 2017 by the Management Board of the Group.

On behalf of the Management Board:

Natalia Khaindrava
General Director

5 May, 2017
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

5 May, 2017
Tbilisi, Georgia

Deloitte & Touche LLC
36A Lado Asatiani Street
Tbilisi, 0105,
Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Cartu Bank:

Opinion

We have audited the consolidated financial statements of Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte & Touche

May 5, 2017
Tbilisi, Georgia

Cartu Bank Group

Consolidated Statement of Financial Position
for the Year Ended December 31, 2016
(in thousands of Georgian Lari)

	Notes	December 31, 2016	December 31, 2015
ASSETS:			
Cash and cash equivalents	13	298,616	173,671
Mandatory cash balance with the NBG	14	143,009	76,835
Financial assets at fair value through profit or loss	16	30,355	38,111
Due from financial institutions	15	6,026	2,192
Loans to customers	17	854,338	824,618
Available-for-sale investments	18	57	10,017
Held to maturity Investments	19	19,045	18,919
Property and equipment	20	14,555	15,866
Deferred income tax assets	12	249	249
Other assets	21	54,113	32,246
TOTAL ASSETS		**1,420,363**	**1,192,724**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits by banks	22	19,605	55,257
Deposits by customers	23	747,610	597,946
Other borrowed funds	26	124,400	41,911
Other provisions	6	2,266	1,992
Current income tax liability		492	6,255
Other liabilities	24	14,070	13,452
Deferred income tax liability	12	6,548	10,762
Subordinated debt	25	227,179	188,744
Total liabilities		**1,142,170**	**916,319**
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	27	114,430	114,430
Additional paid in capital		9,424	9,424
Available-for-sale reserve		-	8,464
Retained earnings		154,422	144,094
Total equity attributable to owners of the parent		278,276	276,412
Non-controlling interest		(83)	(7)
Total equity		**278,193**	**276,405**
TOTAL LIABILITIES AND EQUITY		**1,420,363**	**1,192,724**

On behalf of the Management Board:

Natalia Khaindrava
General Director

5 May, 2017
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

5 May, 2017
Tbilisi, Georgia

The notes on pages 10-65 form an integral part of these consolidated financial statements.

Cartu Bank Group

Consolidated Statement of Profit or Loss for the Year Ended December 31, 2016 (in thousands of Georgian Lari)

	Notes	2016	2015
Continuing operations			
Interest income	5	108,902	111,065
Interest expense	5	(38,080)	(29,329)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		70,822	81,736
Provision for impairment losses on interest bearing assets	6	(230)	(32,912)
NET INTEREST INCOME		70,592	48,824
Net gain on financial assets at fair value through profit or loss	7	19,023	32,841
Net gain on foreign exchange operations	8	8,810	5,645
Fee and commission income	9	7,409	6,805
Fee and commission expense	9	(4,638)	(3,992)
Provision for other operations	6	(274)	(1,257)
Other income, net	10	11,397	9,791
NET NON-INTEREST INCOME		41,727	49,833
OPERATING INCOME		112,319	98,657
OPERATING EXPENSES	11	(29,313)	(29,849)
PROFIT BEFORE INCOME TAX		83,006	68,808
Income tax expense	12	(7,754)	(9,867)
NET PROFIT FOR THE YEAR		**75,252**	**58,941**
Attributable to:			
Owners of the parent		75,482	58,940
Non-controlling interest		(230)	1
		75,252	**58,941**

On behalf of the Management Board:

Natalia Khamdrava
General Director

5 May, 2017
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

5 May, 2017
Tbilisi, Georgia

The notes on pages 10-65 form an integral part of these consolidated financial statements.

Consolidated Statement of other Comprehensive Income for the Year Ended December 31, 2016 (continued)
(in thousands of Georgian Lari)

	Notes	2016	2015
Net profit for the year		**75,252**	**58,941**
Items that may be reclassified subsequently to profit or loss:			
Net gain resulting on revaluation of available-for-sale investments during the year		542	3,408
Transferred to profit for the year		(10,500)	(1,832)
Income tax	12	1,494	(236)
Other comprehensive income after income tax		**(8,464)**	**1,340**
Attributable to:			
Owners of the parent		67,018	60,280
Non-controlling interest		(230)	1
		66,788	**60,281**

On behalf of the Management Board:

Natalia Khaindrava General Director	Givi Lebanidze Chief Financial Officer
5 May, 2017 Tbilisi, Georgia	5 May, 2017 Tbilisi, Georgia

The notes on pages 10-65 form an integral part of these consolidated financial statements.

Cartu Bank Group

Consolidated Statement of Financial Position for the Year Ended December 31, 2016 (in thousands of Georgian Lari)

	Notes	Share capital	Additional paid in capital	Available for-sale reserve	Retained earnings	Total equity attributable to owners of the parent	Non-con-trolling interest	Total Equity
January 1, 2015		**114,430**	**9,424**	**7,124**	**151,154**	**282,132**	**(8)**	**282,124**
Profit for the period		-	-	-	58,940	58,940	1	58,941
Other comprehensive income for the year, net of income tax		-	-	1,340	-	1,340	-	1,340
Dividends disbursed		-	-	-	(66,000)	(66,000)	-	(66,000)
December 31, 2015		**114,430**	**9,424**	**8,464**	**144,094**	**276,412**	**(7)**	**276,405**
Profit for the period		-	-	-	75,482	75,482	(230)	75,252
Decrease in non-controlling interest from acquisition of interest in Cartu Insurance JSC		-	-	-	(154)	(154)	154	-
Other comprehensive income for the year, net of income tax		-	-	(8,464)	-	(8,464)	-	(8,464)
Dividends disbursed		-	-	-	(65,000)	(65,000)	-	(65,000)
December 31, 2016		**114,430**	**9,424**	**-**	**154,422**	**278,276**	**(83)**	**278,193**

On behalf of the Management Board:

Natalia Khaindrava
General Director

5 May, 2017
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

5 May, 2017
Tbilisi, Georgia

The notes on pages 10-65 form an integral part of these consolidated financial statements.

Cartu Bank Group

Consolidated Statement of Cash Flows for the Year Ended December 31, 2016 (in thousands of Georgian Lari)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax:	83,006	68,808
Adjustments for:		
Provision for impairment losses on interest bearing assets	230	32,912
Provision for other operations	274	1,217
Net gain on foreign exchange operations	(2,812)	2,770
Depreciation and amortization expense	2,536	1,848
Gain from disposal of interest in subsidiary	-	(4,778)
Gain on sale of available-for-sale investments	(10,500)	(1,832)
Change in interest accruals, net	(25,091)	(1,991)
Gain on disposal of repossessed assets and property and equipment	(1,006)	(692)
Net gain on operations with financial assets at fair value through profit or loss	(19,023)	(21,785)
Cash inflow from operating activities before changes in operating assets and liabilities	27,614	76,477
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Mandatory cash balance with the NBG	(62,729)	(30,635)
Due from financial institutions	(3,684)	2,785
Loans to customers	20,956	(253,836)
Other assets	1,346	2,880
Increase/(decrease) in operating liabilities:		
Deposits by banks	(36,321)	52,831
Deposits by customers	144,352	251,203
Other liabilities	518	2,717
Cash inflow from operating activities before taxation	92,052	104,422
Income tax paid	(16,238)	(4,651)
Net cash inflow from operating activities	75,814	99,771
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment, and intangible assets	(2,306)	(6,990)
Proceeds from disposal of property and equipment and intangible assets	598	162
Proceeds from sale of available-for-sale investments	10,500	1,832
Proceed from sale of interest in subsidiary	-	8,428
Proceeds from disposal of financial assets at fair value through profit or loss	21,276	-
Proceeds from disposal of repossessed assets	2,801	2,424
Purchase of repossessed assets	(24,426)	(23)
Purchase of held to maturity investments	(18,576)	(18,456)
Proceeds from disposal of held to maturity investments	18,276	10,899
Net cash inflow / (outflow) from investing activities	8,143	(1,724)

Cartu Bank Group

Consolidated Statement of Cash Flows for the Year Ended December 31, 2016 (continued) (in thousands of Georgian Lari)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from other borrowed funds	124,400	41,911
Repayment of other borrowed funds	(41,911)	(5,311)
Payment of dividends	(65,000)	(66,000)
Proceeds from subordinated debt	18,537	26,956
Repayment of subordinated debt	-	(9,323)
Net cash inflow / (outflow) from financing activities	36,026	(11,767)
Effect of exchange rate changes on the balance of cash held in foreign currencies	4,962	3,755
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,983	90,035
CASH AND CASH EQUIVALENTS, beginning of the year	**173,671**	**83,636**
CASH AND CASH EQUIVALENTS, end of the year	**298,616**	**173,671**

Interest paid and received by the Group during the year ended December 31, 2016 amounted to GEL 37,897 thousands and GEL 102,894 thousands, respectively.

Interest paid and received by the Group during the year ended December 31, 2015 amounted to GEL 23,144 thousands and GEL 115,425 thousands, respectively.

On behalf of the Management Board:

Natalie Khaindrava
General Director

5 May, 2017
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

5 May, 2017
Tbilisi, Georgia

The notes on pages 10-65 form an integral part of these consolidated financial statements.

1. Organisation

Joint Stock Company Cartu Bank (the "Bank") was incorporated in Georgia in 1996. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 229. The Bank's primary business consists of commercial activities, originating loans and guarantees, trading with securities, foreign currencies and taking deposits.

The registered office of the Bank is located on 39a Chavchavadze Avenue, Tbilisi, Georgia.

As at December 31, 2016 the Bank had five service centers operating in Tbilisi, and service centers in Gori, Telavi, Sachkhere Kutaisi and Batumi regions.

The Bank is a parent company of a group (the "Group"), which consists of the following entities consolidated in the financial statements:

		Ownership interest (%)		
Name	**Country of operation**	**2016**	**2015**	**Type of operation**
Brokerage Company "Cartu Broker" LLC	Georgia	100.00%	100.00%	Brokerage
"Insurance Company Cartu" LLC	Georgia	88.45%	82.27%	Insurance

On December 30, 2016 the Bank has made an investment in the amount of GEL 2,500 thousand to acquire an additional 6.18% share in Insurance Company Cartu LLC.

As at December 31, 2016 and 2015 JSC Cartu Group owned 100% of the Bank's shares.

Ultimate individual shareholder having control over the operation of JSC Cartu Group is Uta Ivanishvili.

These consolidated financial statements were authorized for issue on May 5, 2017 by the Management Board of the Group.

2. Significant accounting policies

Statement of compliance

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

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

These consolidated financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

The Bank and its consolidated companies are registered in Georgia and maintain their accounting records in accordance with the Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 33.

Functional currency

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

Offsetting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and other comprehensive income and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue recognition

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

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

Recognition of fee and commission income

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

All other commissions are recognized when services are provided.

Recognition of rental income

The Group's policy for recognition of income as a lessor is set out in the "Leases" section of this footnote.

Financial instruments

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

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

Financial assets

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

- A financial asset is classified as held for trading if:
- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the consolidated statement of profit or loss.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Investments held to maturity are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of investments held to maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Available-for-sale financial assets

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

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans

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

Write off of loans and receivables

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

Derecognition of financial assets

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Embedded derivatives

An embedded derivative is part of a financial instrument that also includes a non-derivative host contract. The embedded derivative requires that some portion of the contract's cash flows be modified in relation to changes in a variable, such as:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

The Group does not apply hedge accounting.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

Compound instruments

The components parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Derivative financial instruments

The Group enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains/(losses) on derivative financial instruments or as gain/(losses) from foreign currencies operations, depending on the nature of the instrument.

Other financial liabilities

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

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

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.
Financial guarantee contracts issued by the Group are initially measured at their fair values and , are subsequently measured at the higher of:

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

Derecognition of financial liabilities

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

Leases

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

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

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

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

Cash and cash equivalents

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

Minimum reserve deposits with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business.
Repossessed assets are initially recognized at fair value and subsequent measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

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

Buildings and other real estate	2%-3%
Furniture and office fixtures	10%-20%
Computer and office equipment	10%-33%
Other	5%-20%
Intangible assets	10%

Freehold land is not depreciated.

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

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

Intangible assets

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

Derecognition of intangible assets

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

Impairment of non-financial assets other than goodwill

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

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

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, property and equipment, loans to customers and provisions, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with other assets and liabilities are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In May 2016, the parliament of Georgia approved a change in the current corporate taxation model, with changes applicable on 1 January 2019 for all entities apart from certain financial institutions. The changed model implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on disbursed earnings, compared to previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods.

Operating taxes

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

Provisions

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

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

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

Contingencies

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

Foreign currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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

	December 31, 2016	**December 31, 2015**
GEL/1 US Dollar	2.6468	2.3949
GEL/1 Euro	2.7940	2.6169

Collateral

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

Equity reserves

The reserves recorded in equity on the Group's consolidated statement of financial position include Available-for-sale reserve which comprises changes in fair value of available-for-sale financial assets.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Group management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Financial assets held to maturity

The Group management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. As at December 31, 2016 and 2015 the carrying amounts of the financial assets held to maturity are GEL 19,045 and GEL 18,919, respectively. Details of these assets are set out in Note 19.

Key sources of estimation uncertainty

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

Impairment of loans and receivables

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

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

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

As at December 31, 2016 and 2015 the gross loans to customers totaled GEL 937,005 and GEL 891,784, respectively, and allowance for impairment losses amounted to GEL 82,667 and GEL 67,166, respectively.

Valuation of financial instruments

As described in Note 30, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property and equipment and intangible assets

As described above, the Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period. In determining the useful life of an asset, the management considers expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation/amortisation rates. During the financial year, the Group management has not changed useful lives of its property and equipment and intangible assets.

Recoverability of deferred tax assets.

According to changes in Georgian Tax Code from January 1 2019 banks are obliged to pay income tax based on dividend disbursed. Consequently, there is an expectation that temporary differences will disappear beginning from that effective date. The management of the Group is confident that the valuation allowance against deferred tax liability at the reporting date is necessary, because it is more likely that the deferred tax liability will be not fully realized till January 1, 2019. Consequently, the valuation allowance in the amount of GEL 4,743 thousands is recorded as at December 31, 2016. The carrying value of deferred tax liabilities amounted to GEL 6,548 thousand and GEL 10,762 thousand as at December 31, 2016 and 2015, respectively.

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

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

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants;
- IFRS 14 Regulatory Deferral Accounts;
- Amendments to IAS 27 – Equity Method in Separate Financial Statements;
- Annual Improvements to IFRSs 2012-2014 Cycle

Amendments to IAS 1 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that a group should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of consolidated financial statements to understand the impact of particular transactions, events and conditions on the Group's financial position and financial performance.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied these amendments for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a. when the intangible asset is expressed as a measure of revenue; or

b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs - 2012-2014 Cycle

The Group has applied these amendments for the first time in the current year. The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective.

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

- IFRS 9 *Financial Instruments*[2];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[2];
- IFRS 16 Leases[3]
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[2];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 7 – *Disclosure Initiative*[1];
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[2];
- Amendments to IAS 40 – *Transfers of Investment Property*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial liabilities.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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

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

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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

The five steps in the model are as follows:

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

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. Furthermore, extensive disclosures are required by IFRS 15

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

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.
The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-

settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

a. the original liability is derecognised;
b. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
c. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Group does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;

2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments provide entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021 (the "sunset clause"). The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after 1 January 2018.

Separately, the amendments provide all entities with contracts within the scope of IFRS 4 with an option to apply IFRS 9 in full but to make adjustments to profit or loss to remove the impact of IFRS 9, compared with IAS 39, for designated qualifying financial assets. This is referred to as the 'overlay approach' and is available on an asset-by asset basis with specific requirements around designations and de-designations. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies IFRS 9.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements as the insurance company comprises immaterial part of the whole Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Amendments to IAS 40 Transfers of Investment Property

The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasise that a change in management's intentions alone would not be enough to support a transfer of property. The standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

5. Net interest income

	2016	2015
Interest income comprises:		
Financial assets recorded at amortized cost:		
Impaired financial assets	102,039	104,518
Unimpaired financial assets	6,863	6,547
Total interest income	**108,902**	**111,065**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	102,039	104,518
Due from financial institutions	5,328	5,495
Held to maturity investments	1,535	1,052
Total interest income on financial assets recorded at amortized cost	**108,902**	**111,065**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(38,080)	(29,329)
Total interest expense	**(38,080)**	**(29,329)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Deposits by customers	(24,480)	(17,147)
Subordinated debt	(11,568)	(10,688)
Deposits by banks	(1,451)	(1,217)
Other borrowed funds	(581)	(277)
Total interest expense on financial liabilities recorded at amortized cost	**(38,080)**	**(29,329)**
Net interest income before provision for impairment losses on interest bearing financial assets	**70,822**	**81,736**

6. Provision for impairment losses on interest bearing assets and other provisions

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
January 1, 2015	**31,359**
Additional provisions recognized	32,912
Write-off of assets	(1,130)
Recovery of assets previously written off	4,025
December 31, 2015	**67,166**
Additional provisions recognized	230
Write-off of assets	(776)
Recovery of assets previously written off	16,047
December 31, 2016	**82,667**

The movements in allowance for impairment on other assets and other provisions were as follows:

	Repossessed assets	Other financial assets	Other provisions	Provision for other operations
January 1, 2015	-	**33**	**702**	**735**
(Recovery of provisions)/additional provisions recognized	-	(33)	1,290	1,257
December 31, 2015	-	-	**1,992**	**1,992**
Additional provisions/(recovery of provisions) recognized	736	-	(462)	274
December 31, 2016	**736**	-	**1,530**	**2,266**

7. Net gain on financial assets at fair value through profit or loss

Net gain on financial assets at fair value through profit or loss comprises:

	2016	2015
Net gain on operations with financial assets initially recognized at fair value through profit and loss comprise:		
Unrealized gain on trading operations	41,630	79,829
Realized gain on embedded derivative instrument	5,503	16,594
Unrealized gain on embedded derivative instrument	4,228	24,019
Unrealized loss on trading operations	(32,338)	(87,601)
Total net gain on operations with financial assets at fair value through profit or loss	**19,023**	**32,841**

8. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	2016	2015
Dealing, net	5,998	8,415
Translation differences, net	2,812	(2,770)
Total net gain on foreign exchange operations	**8,810**	**5,645**

9. Fee and commission income and expense

Fee and commission income and expense comprise:

	2016	2015
Fee and commission income:		
Plastic cards operations	3,383	3,096
Documentary operations	2,328	1,944
Settlements	1,194	1,214
Cash operations	434	366
Letter of credit	26	120
Other	44	65
Total fee and commission income	**7,409**	**6,805**
Fee and commission expense:		
Plastic cards services	(3,752)	(3,253)
Settlements	(576)	(400)
Documentary operations	(205)	(120)
Letter of credit	(23)	(168)
Other	(82)	(51)
Total fee and commission expense	**(4,638)**	**(3,992)**

10. Other income, net

Other income / (expense) comprises:

	2016	2015
Net written premiums	10,925	9,848
Gain from disposal of available-for-sale Investment	10,500	1,832
Gain on disposal of property and repossessed assets	1,013	692
Change in provisions for reported but not settled claims	374	236
Fines and penalties received	31	736
Gain from disposal of interest in subsidiary	-	4,778
Claims settled, net of reinsurance	(5,713)	(5,229)
Reinsurers' share of claims settled	(4,199)	(3,737)
Change in provisions for incurred but not reported claims	(1,991)	(486)
Other	457	1,121
Total other income, net	**11,397**	**9,791**

11. Operating expenses

Operating expenses comprise:

	2016	2015
Staff costs	10,365	10,025
Charity and sponsorship	7,760	9,750
Depreciation and amortization	2,537	1,848
Operating leases	2,155	2,075
Communication expenses	2,101	1,616
Security expenses	533	553
Professional services	370	436
Representative expenses	250	159
Utilities	242	231
Taxes, other than income tax	214	232
Postal expenses	187	256
Property and equipment maintenance	144	127
Advertising expenses	126	253
Business trip expenses	65	34
Training	64	53
Other expenses	2,200	2,201
Total operating expenses	**29,313**	**29,849**

12. Income taxes

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Georgia, which differs from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences mostly relate to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.
The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under tax law in that jurisdiction.

Deferred income tax assets/(liabilities) on temporary differences as at December 31, 2016 and 2015 comprise:

	December 31, 2016	December 31, 2015
Loans to customers	(5,323)	(5,508)
Embedded derivative financial instrument	(1,721)	(3,603)
Property and equipment	(368)	(2,044)
Available-for-sale investments	-	(1,494)
Financial assets at fair value through profit or loss	-	1,037
Provisions for other assets	331	157
Other liabilities	264	270
Subordinated debt	192	166
Other assets	176	176
Intangible assets	137	189
Other provisions	13	141

Deferred income tax asset on temporary differences	1,113	2,136
Deferred income tax liability on temporary differences	(7,412)	(12,649)
Loss carry forward	-	-
Net deferred income tax asset	**249**	**249**
Net deferred income tax liability	**(6,548)**	**(10,762)**

Relationships between tax expenses and accounting profit for the years ended December 31, 2016 and 2015 are explained as follows:

	2016	**2015**
Profit before income tax	83,006	68,808
Tax at the statutory tax rate (15%)	12,451	10,321
Deferred tax liability derecognised	(4,743)	-
Permanent differences	46	(454)
Income tax expense	**7,754**	**9,867**
Current income tax expense	10,474	9,976
Deferred income tax benefit	(2,720)	(109)
Income tax expense	**7,754**	**9,867**

	2016	**2015**
As at January 1 – deferred income tax asset	**249**	**249**
As at January 1 - deferred income tax liability	**(10,762)**	**(10,635)**
Deferred income tax reclassified from other comprehensive income	1,494	(236)
Deferred income tax benefit recognized in profit or loss	2,720	109
As at December 31- deferred income tax assets	**249**	**249**
As at December 31- deferred income tax liabilities	**(6,548)**	**(10,762)**

In May 2016 the Georgian parliament adopted and the president signed into changes to the corporate tax code, with changes applicable on 1 January 2019. The code is applicable for Georgian companies and permanent establishments ("Pes") of resident companies, apart from certain financial institutions and insurance companies.

The previous profit tax regime, under which companies were subject to tax on their annual taxable profits, is now changed to a system where tax will have to be paid only if corporate profits are distributed.

The change has had an immediate impact on deferred tax of the Companies as it abolishes temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Due to the changes of the tax legislation balance of deferred tax liability attributable to previously recognised temporary differences arising from prior periods should be fully written off till 1 January 2019. As a result of the mentioned amendment, the Management of the Group has assessed the recoverability of deferred tax liability amount and recognized valuation allowance for its deferred tax liability in the amount of GEL 4,743 thousands.

13. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash	19,644	21,120
Balances with the NBG	6,644	12,732
Balances with banks with original maturities up to 90 days	272,328	139,819
Total cash and cash equivalents	**298,616**	**173,671**

14. Mandatory cash balance with the NBG

Mandatory cash balance with the NBG is minimum reserve deposits which are restricted balances of GEL 143,009 and GEL 76,835, respectively, as at December 31, 2016 and 2015. The Group is required to maintain minimum reserve deposits at the NBG at all times.

15. Due from financial institutions

As at December 31, 2016 and 2015 the maximum credit risk exposure on due from financial institutions amounted to GEL 6,026 and GEL 2,192, respectively.

As at December 31, 2016 and 2015 included in balances due from financial institutions are guarantee deposits placed by the Group for its operations with plastic cards totaling GEL 3,705 and GEL 1,916, respectively.

16. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	December 31, 2016	December 31, 2015
Embedded derivative instrument	28,247	24,018
Financial assets held for trading	2,108	14,093
Total financial assets at fair value through profit or loss	**30,355**	**38,111**

The Group estimates changes in fair value due to credit risk, by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risks.

With the purpose of hedging against exchange rate movements for loans disbursed to customers in GEL the Bank has included a currency risk premium condition in its loan agreements. Based on the currency risk premium term the Bank specifies the upper and lower limits of GEL/USD exchange rate. According to this condition if the currency exchange rate for any certain date of repayment is above the cap rate the Bank should receive currency risk premium payment from the customer while if the exchange rate is below the floor rate the Bank is obliged to pay currency risk premium amount to the client.

On October 31,2016 the Group has disposed the investment in Raptor Pharmaceuticals for the total consideration of GEL 21,276 thousand.

17. Loans to customers

Loans to customers comprise:

	December 31, 2016	**December 31, 2015**
Originated loans to customers	891,767	871,577
Accrued interest	45,238	20,207
	937,005	891,784
Less allowance for impairment losses	(82,667)	(67,166)
Total loans to customers	**854,338**	**824,618**

Movements in the allowance for impairment losses for the years ended December 31, 2016 and 2015 are disclosed in Note 6.

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

	December 31, 2016	**December 31, 2015**
Loans collateralized by pledge of real estate, equipment and inventories	814,936	753,311
Loans collateralized by pledge of cash	28,731	35,184
Unsecured loans	5,071	34,535
Other collateral	5,600	1,588
Total loans to customers	**854,338**	**824,618**

During the years ended December 31, 2016 and 2015 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at December 31, 2016 and 2015 such assets in amount of GEL 39,852 and GEL 17,222 (See Note 21), respectively, are included in other assets of the Group.

The table below summarizes loans to customers analyzed by industries as at December 31, 2016:

	Gross loans to customers	**Allowance for impairment losses**	**Net loans to customers**	**Allowance for impairment losses to gross loans**
Analysis by sector:				
Individuals	44,798	(3,697)	41,101	8.25%
Trade and service	337,770	(24,924)	312,846	7.38%
Construction	226,320	(35,423)	190,897	15.65%
Manufacturing	270,054	(13,491)	256,563	5.00%
Agriculture	52,633	(4,893)	47,740	9.30%
Energy	3,697	(76)	3,621	2.06%
Transport and communication	1,319	(79)	1,240	5.99%
Other	414	(84)	330	20.29%
Total	**937,005**	**(82,667)**	**854,338**	**8.82%**

The table below summarizes loans to customers analyzed by industries as at December 31, 2015:

	Gross loans to customers	Allowance for impairment losses	Net loans to customers	Allowance for impairment losses to gross loans
Analysis by sector:				
Individuals	75,901	(5,355)	70,546	7.06%
Trade and service	335,788	(13,895)	321,893	4.14%
Construction	182,269	(38,345)	143,924	21.04%
Manufacturing	171,586	(5,787)	165,799	3.37%
Agriculture	65,534	(1,381)	64,153	2.11%
Energy	3,385	(14)	3,371	0.41%
Transport and communication	3,134	(70)	3,064	2.23%
Other	54,187	(2,319)	51,868	4.28%
Total	**891,784**	**(67,166)**	**824,618**	**7.53%**

Loans to individuals comprise the following products:

	December 31, 2016	December 31, 2015
Consumer loans	19,306	25,741
Mortgage loans	25,059	49,813
Other	433	347
Less: allowance for impairment losses	(3,697)	(5,355)
Total loans to individuals	**41,101**	**70,546**

Analysis by credit quality of loans to customers outstanding as at December 31, 2016 and 2015 was as follows:

As at December 31, 2016	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively Impaired				
Not past due	666,277	(16,567)	649,710	2.49%
Overdue:				
up to 30 days	20,842	(1,172)	19,670	5.62%
31 to 60 days	8,365	(949)	7,416	11.34%
61 to 90 days	98	(24)	74	24.49%
91 to 180 days	12,546	(2,313)	10,233	18.44%
over 180 days	76,008	(17,734)	58,274	23.33%
Total collectively impaired loans	**784,136**	**(38,759)**	**745,377**	**4.94%**
Individually impaired				
Not past due	101,858	(30,776)	71,082	30.21%
Overdue:				
up to 30 days	13	(3)	10	23.08%
31 to 60 days	1,899	(437)	1,462	23.01%
61 to 90 days	27,861	(6,973)	20,889	25.03%
91 to 180 days	-	-	-	-
over 180 days	21,238	(5,719)	15,518	26.93%
Total individually impaired loans	**152,869**	**(43,908)**	**108,961**	**28.72%**
Total loans to customers	**937,005**	**(82,667)**	**854,338**	**8.82%**

As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively impaired				
Not past due	678,008	(10,751)	667,257	1.59%
Overdue:				
up to 30 days	634	(49)	585	7.73%
31 to 60 days	18,355	(2,802)	15,553	15.27%
61 to 90 days	415	(88)	327	21.20%
91 to 180 days	3,241	(640)	2,601	19.75%
over 180 days	55,839	(12,277)	43,562	21.99%
Total collectively impaired loans	**756,492**	**(26,607)**	**729,885**	**3.52%**
Individually impaired				
Not past due	113,826	(33,523)	80,303	29.45%
Overdue:				
up to 30 days	487	(62)	425	12.73%
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	13,546	(3,224)	10,322	23.80%
over 180 days	7,433	(3,750)	3,683	50.45%
Total individually impaired loans	**135,292**	**(40,559)**	**94,733**	**29.98%**
Total loans to customers	**891,784**	**(67,166)**	**824,618**	**7.53%**

The tables above show analysis of the loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. Details of credit risk assessment methodology are described in Note 32.

The table below summarizes an analysis of loans to customers by type of assessment:

	December 31 2016			**December 31 2015**		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value before allowance**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value before allowance**
Loans to customers individually assessed	768,555	(72,627)	695,928	739,929	(57,738)	682,191
Loans to customers collectively assessed	168,450	(10,040)	158,410	151,855	(9,428)	142,427
Unimpaired loans	-	-	-	-	-	-
Total	**937,005**	**(82,667)**	**854,338**	**891,784**	**(67,166)**	**824,618**

As at December 31, 2016 and 2015 the Group has exposure to seventeen and seven customers, totaling GEL 366,086 and GEL 131,404, respectively, which individually exceeds 5% of the Group's equity.

As at December 31, 2016 and 2015, 98% and 97% of loans are granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2016 and 2015 carrying value of loans to customers included loans totaling GEL 17,430 and GEL 7,606, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

18. Available-for–sale investments

On November 4, 2016 the Group has disposed its investment in Visa Inc. shares for the consideration of GEL 10,500 thousand.

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investments available for sale made for United Clearing Centre JSC and Georgian Central Securities Depositary LLC. Therefore, these investments are carried at cost of GEL 57 thousand as at December 31, 2016 and 2015. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

19. Held to maturity investments

	December 31, 2016		**December 31, 2015**	
	Nominal annual interest rate	**Amount**	**Nominal annual interest rate**	**Amount**
Deposit certificates of the Ministry of Finance of Georgia	5.95%-12%	19,452	5.95%-12%	19,500
Less discount		(407)		(581)
Total held to maturity investments		**19,045**		**18,919**

20. Property and equipment

Property and equipment comprise:

	Buildings and other real estate	**Furniture and fixtures**	**Computer and office equipment**	**Leasehold improvements and other**	**Construction progress**	**Total**
At cost						
January 1, 2015	**10,027**	**5,571**	**3,321**	**1,668**	**718**	**21,305**
Additions	55	255	740	28	4,282	5,360
Transfers	238	469	3,079	365	(4,151)	-
Disposals	(827)	(120)	(93)	(51)	(66)	(1,157)
December 31, 2015	**9,493**	**6,175**	**7,047**	**2,010**	**783**	**25,508**
Additions	-	436	77	-	590	1,103
Transfers	-	-	95	268	(363)	-
Disposals	-	(14)	(36)	(11)	(595)	(656)
December 31, 2016	**9,493**	**6,597**	**7,183**	**2,267**	**415**	**25,955**

Accumulated depreciation						
January 1, 2015	**1,191**	**3,897**	**2,221**	**1,194**	**-**	**8,503**
Depreciation charge	232	423	509	214	-	1,378
Eliminated on disposals	-	(109)	(90)	(40)	-	(239)
December 31, 2015	**1,423**	**4,211**	**2,640**	**1,368**	**-**	**9,642**
Depreciation charge	233	448	965	170	-	1,816
Eliminated on disposals	-	(13)	(35)	(10)	-	(58)
December 31, 2016	**1,656**	**4,646**	**3,570**	**1,528**	**-**	**11,400**
Net book value						
As at December 31, 2016	**7,837**	**1,951**	**3,613**	**739**	**415**	**14,555**
As at December 31, 2015	**8,070**	**1,964**	**4,407**	**642**	**783**	**15,866**

As at December 31, 2016 and 2015 included in property and equipment were fully depreciated assets totaling GEL 4,540 and GEL 3,494, respectively.

21. Other assets

Other assets comprise:

	December 31, 2016	December 31, 2015
Other financial assets:		
Accounts receivable	283	1,947
Insurance premium receivable	6,442	5,744
Claims for guarantees paid	240	-
Total other financial assets	**6,965**	**7,691**
Other non-financial assets:		
Repossessed assets	39,852	17,222
Reinsurance receivable	2,305	3,014
Intangible Assets	3,750	3,267
Tax settlements, other than income tax	309	116
Inventory	103	65
Advances paid	525	588
Other	304	283
Total other non-financial assets	**47,148**	**24,555**
Total other assets	**54,113**	**32,246**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2016 and 2015 are disclosed in Note 6.

Repossessed assets as at December 31, 2016 and 2015 include land and buildings in the amount of GEL 38,548 and GEL 17,222, respectively, which are measured at the lower of its carrying amount and fair value less cost to sell.

Intangible assets comprise:

	Intangible assets
At cost	
January 1, 2015	**3,856**
Additions	1,630
Disposals	(7)
December 31, 2015	**5,479**
Additions	1,203
December 31, 2016	**6,682**
Accumulated amortization	
January 1, 2015	**1,748**
Charge for the year	470
Eliminated on disposals	(6)
December 31, 2015	**2,212**
Charge for the year	720
December 31, 2016	**2,932**
Net book value	
December 31, 2016	**3,750**
December 31, 2015	**3,267**

22. Deposits by banks

Deposits by banks comprise:

	December 31, 2016	December 31, 2015
Correspondent accounts of other banks	60	46,690
Short-term deposits from banks	19,545	8,567
Total deposits by banks	**19,605**	**55,257**

As at December 31, 2016 and 2015 accrued interest included in deposits by banks amounted to GEL 356 and 159, respectively.

23. Deposits by customers

Deposits by customers comprise:

	December 31, 2016	December 31, 2015
Time deposits	335,270	314,365
Repayable on demand	412,340	283,581
Total deposits by customers	**747,610**	**597,946**

As at December 31, 2016 and 2015 accrued interest included in deposits by customers amounted to GEL 8,103 and GEL 8,529, respectively.

As at December 31, 2016 and 2015 deposits by customers totaling GEL 47,470 and GEL 15,420, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2016 and 2015 deposits by customers totaling GEL 423,682 and GEL 451,489 (57% and 75% of total deposits by customers), respectively, were for fourteen and twenty customers, respectively, which represents a significant concentration.

	December 31, 2016	December 31, 2015
Analysis by economic sector/customer type:		
Individuals	168,177	128,459
Trade and Services	280,054	267,929
Transport and Communication	84,679	66,154
Energy	68,091	50,083
Construction	12,750	12,048
Manufacturing	10,585	5,996
Agriculture	5,501	5,546
Other	117,773	61,731
Total deposits by customers	**747,610**	**597,946**

As at December 31, 2016 and 2015 deposits by customers included balances amounting to GEL 173,200 thousand and GEL 178,200 thousand, respectively, that were sequestrated by Prosecutor's Office of Georgia.

24. Other liabilities

Other liabilities comprise:

	December 31, 2016	December 31, 2015
Other financial liabilities:		
Payables for reinsurance liabilities	4,149	4,011
Derivatives	-	1,295
Accounts payable	24	30
Total other financial liabilities	**4,173**	**5,336**
Other non-financial liabilities:		
Unearned premium	4,830	5,067
Provision for insurance reserves	2,555	706
Taxes payable, other than income tax	32	26
Other	2,480	2,317
Total other non-financial liabilities:	**9,897**	**8,116**
Total other liabilities	**14,070**	**13,452**

25. Subordinated debt

Subordinated debt comprises:

	Currency	Maturity date	Interest rate %	December 31, 2016	December 31, 2015
Fin Service XXI	USD	31-Mar-26	6%	80,299	72,710
Fin Service XXI	USD	31-Mar-26	6%	26,787	24,182
Fin Service XXI	USD	15-Feb-23	6%	26,747	24,162
Total convertible portion				**133,833**	**121,054**
Inter Consulting Plus Ltd	USD	17-Oct-29	6%	18,537	16,773
Georgian Holding Ltd	USD	21-Jun-29	6%	26,481	23,961
Cartu Group	USD	31-Oct-16	6%	18,537	-
Cartu Group	USD	01-Jun-25	6%	29,791	26,956
Total non-convertible portion				**93,346**	**67,690**
Total subordinated debt				**227,179**	**188,744**

As at December 31, 2016 and 2015 subordinated debt included accrued interest in amounted of GEL 129 and GEL 108, respectively.

On June 1, 2016 the Group signed a subordinated loan agreement in the amount of GEL 18,537 thousand with Cartu Group to support the growth in its loan portfolio.

On March 31, 2011, December 13, 2011 and February 15, 2013 the Group signed subordinated loan agreements with Fin Service-XXI LTD maturing on March 31, 2026 (disbursed in 2011) and February 15, 2023 (disbursed in 2013). According to the agreements the loan is convertible to equity at maturity. The interest is payable monthly/quarterly in arrears at a nominal annual interest rate. The rate was initially set to be 2 per cent. When the loans were taken, the prevailing market interest rate for similar loan without conversion options was 5 per cent for loans disbursed in 2011 and 6.4 per cent for one disbursed in 2013. On July 1, 2014 the coupon interest rates on all of these loans have been changed to 6%.

The convertible debts contained two components: liability and equity elements. The equity elements are presented under the heading of "additional paid in capital". The effective interest rate of the liability components on initial recognition were 5.05%; 5.26% and 6.34%, respectively.

	GEL
Equity component as at December 31, 2015	**9,424**
Equity component as at December 31, 2016	**9,424**
Liability component as at December 31, 2015	**121,054**
Interest charge calculated at an effective interest rate of 6% after extinguishment	11,392
Less: interest paid	(11,372)
Foreign exchange differences	12,759
Liability component as at December 31, 2016	**133,833**

In the event of bankruptcy or liquidation of the Group, repayment of these debts is subordinate to the repayments of the Group's liabilities to all other creditors.

26. Other borrowed funds

	Currency	Maturity date	Interest rate %	December 31, 2016	December 31, 2015
Bidzina Ivanishvili	USD	19/02/2016	6%	-	15,567
Bidzina Ivanishvili	USD	18/12/2020	6%	-	14,369
Bidzina Ivanishvili	USD	18/12/2020	6%	-	11,975
Ekaterina Khvedelidze	USD	31/12/2021	4.5%	124,400	-
Total other borrowed funds				**124,400**	**41,911**

27. Share capital

Both December 31, 2016 and 2015 share capital consisted of 114,430 ordinary shares with par value of GEL 1 each.

28. Commitments and contingencies

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

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

Provision for losses on contingent liabilities totaled GEL 1,530 and GEL 1,992 as at December 31, 2016 and 2015, respectively.

As at December 31, 2016 and 2015 contingent liabilities comprise:

	December 31, 2016	December 31, 2015
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	62,435	57,135
Letters of credit and other transaction related contingent obligations	-	639
Commitments on loans and unused credit lines	27,355	26,509
Total contingent liabilities and credit commitments	**89,790**	**84,283**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2016 and 2015 such unused credit lines come to GEL 27,355 and GEL 26,509, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2016 and 2015.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2016 and 2015.

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

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

Georgian transfer pricing legislation was amended starting from January 1, 2015 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Throughout 2016 Georgia's neighboring countries, which are large trading partners of Georgia, have experienced significant political and economic turmoil which has had a knock-on effect on the Georgian economy. This has resulted in a significant devaluation of the Georgian Lari against the US dollar and other major currencies.

29. Transactions with related parties

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

	December 31, 2016		**December 31, 2015**	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	24,482	937,005	36,703	891,784
- other related parties	23,147		36,264	
- Key management personnel	1,335		439	
Allowance for impairment losses on loans to customers	(433)	(82,667)	(609)	(67,166)
- other related parties	(403)		(599)	
- Key management personnel	(30)		(10)	
Deposits by customers	(25,865)	(747,610)	(16,719)	(597,946)
- parent	(179)		(9,294)	
- other related parties	(25,602)		(7,398)	
- key management personnel	(84)		(27)	

	December 31, 2016		December 31, 2015	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Subordinated debt	(227,179)	(227,179)	(188,744)	(188,744)
- *other related parties*	(178,851)		(161,788)	
- *shareholders*	(48,328)		(26,956)	
Other borrowed funds	(124,400)	(124,400)	(41,911)	(41,911)
- *other related parties*	(124,400)		(41,911)	
Guarantees issued and similar commitments	(8,704)	(62,435)	(7,331)	(57,135)
- *other related parties*	(8,704)		(7,331)	

The remuneration of directors and other members of key management were as follows:

	2016		2015	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- *short-term employee benefits*	565	10,365	580	10,025

Included in the consolidated statement of profit or loss for the years ended December 31, 2016 and 2015 are the following amounts which were recognized in transactions with related parties:

	2016		2015	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Interest income	3,726	108,902	2,530	111,065
- *other related parties*	3,669		2,505	
- *Key management personnel*	57		25	
Interest expense	(11,602)	(38,080)	(1,379)	(29,329)
- *Key management personnel*	(34)		(927)	
- *parent*	(1,793)		(810)	
- *other related parties*	(9,775)		(9,426)	
Fee and commission income	231	7,409	251	6,805
- *Key management personnel*	1		1	
- *other related parties*	230		250	
Charity and sponsorhsip	(7,760)	(7,760)	(9,750)	(9,750)
- *other related parties*	(7,760)		(9,750)	

30. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets and liabilities for which fair value approximates carrying value

Cash and cash equivalents – Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Mandatory reserve with the National Bank of Georgia – Mandatory reserve with the National Bank of Georgia is carried at amortized cost which approximates their fair value.

Due from financial institutions – Management of the Bank has concluded that carrying amount of due from financial institutions balances which are carried at amortized cost approximates their fair value.

Held to maturity investments - The fair values of held to maturity investments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments. Significant portion of held to maturity investments were purchased in the year 2014, therefore the management concluded that fair value approximates to carrying amount.

Deposits by banks – Deposit by banks include deposits placed by banks at the end of the year with original maturity less than 1 year and loro accounts. Therefore, management of the Bank has concluded that carrying amount of deposits by banks which are carried at amortized cost approximates their fair value.

Subordinated debt – Subordinated debts are initially recognized at market rates and subsequently measured at amortized costs. In the year 2014, subordinated debts loan agreements were renegotiated and interest rate re priced. Management of the Bank reviewed effective interest rates applied to subordinated debts and concluded that it approximates to market rate, therefore carrying value approximates fair value.

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

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

Loans to customers – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

Deposits by customers - For the short term maturity deposits it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity. Long term deposits by customers fair value was estimated based on expected future cash flows discounted at current interest rates for new instruments with similar risk and remaining maturity. Discounted rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument.

	Fair Value	December 31, 2016		December 31, 2015	
	Hierarchy	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	3	854,338	849,521	824,618	871,367
Deposits by customers	3	747,610	733,937	597,946	558,527

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	December 31, 2016	December 31, 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets held for trading assets (See Note 16)	2,108	14,093	Level 1	Quoted bid prices in an active market.	N/A	N/A
Embedded derivatives (See Note 16)	28,247	24,018	Level 3	Discounted cash flows	N/A	N/A

31. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The management and shareholder have the intention to further develop the Group and the Group's management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBG in supervising the Group.

Under the current capital requirements set by the NBG banks have to: (a) hold the minimum level of share capital of GEL 12,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets ("regulatory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes based on reports prepared in accordance with the NBG requirements. Ratios are calculated based on Basel I requirements:

	2016	2015
Share capital	114,430	114,430
Reserve funds	6,838	6,538
Retained earnings	30,798	76,937
Less: intangible assets	(3,713)	(3,242)
Tier 1 capital	148,353	194,663

Profit for the period	39,595	19,361
Special funds	600	400
General provisions (maximum 1.25% credit and market risk weighted assets)	10,667	12,612
Convertible subordinated loan	132,340	119,745
Subordinated debt (up to 50% of tier 1 capital)	74,177	67,656
Tier 2 capital (up to 100% tier 1 capital)	148,353	194,663
Less: investments in subsidiaries	(6,922)	(4,422)
Total regulatory capital	**289,784**	**384,904**
Risk weighted assets	**1,541,037**	**1,375,756**
Tier 1 capital adequacy ratio	9.63%	14.15%
Total regulatory capital adequacy ratio	18.80%	27.98%

As at December 31, 2016 and 2015, the Bank included in the computation of total regulatory capital for capital adequacy purposes the convertible debt and subordinated debt received limited to 50% of Tier 1 capital, respectivelly. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

As at December 31, 2016 and 2015, the Bank included in the computation of total regulatory capital for capital adequacy purposes the general provisions, limited to 1.25% of risk weighted assets.

From June 2014, in addition to the capital ratios, banks are also required to calculate capital adequacy in accordance with the regulation on capital adequacy requirements for commercial banks dated 28 October 2013 according which banks have to (a) maintain a ratio of common equity tier 1 capital to risk weighted assets at or above 7%, (b) maintain a ratio of tier 1 capital to risk weighted assets at or above 8.5%, (c) maintain a ratio of regulatory capital to risk weighted assets at or above 10.5%.

Capital ratios in accordance with the National Bank of Georgia requirements under the updated regulation on capital adequacy are as following:

Common equity tier 1 capital	9.96%
Tier 1 capital	9.96%
Regulatory capital	23.06%

32. Risk management policies

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to the following:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;

To enable and apply high-performance risk policies, the Group has established a risk management framework, whose main purpose is to protect the Group from unacceptable level of risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

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

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group'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 Risk Management Department of Head Office. Daily risk management is performed by the Heads of Credit Departments and Service Centre's Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower, industry sector are approved by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored on a regular basis.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, some portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Credit risk assessment

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

The Bank divides loan portfolio into individually significant and non-significant group of borrowers. Individually significant are group of borrowers which exposure exceeds 1% of Bank's regulatory capital.

Individually significant group of borrowers are assessed individually using the specific methodology to determine future cash flows discounted at original effective interest rate. Individual impairment amount is then compared to collective assessment taking into account the industry applicable PD and LGD rates and higher off are taken. In case of absence of impairment signs, an individually assessed loan is provided for using the rate that is based on the collective assessment applied to the same borrower category.

Individual assessment methodology

Factors that the Bank considers in determining future cash flows include information about the borrowers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets and the fair value of collaterals (real estate and deposit).

The Bank assesses fair value of the collaterals and for provision estimation purposes determines liquidation value using different haircuts for different type of collaterals. To understand the liquid value of collateral, their market values are decreased by applying 20%; 40% and 50% haircuts to the real estate, movable property and inventory, respectively. Liquid value of collaterals are further discounted using original effective interest rate of the borrower and applying 12 to 18 months as a collateral realisation period.

Risk of defaulted exposure is reduced by discounted collateral liquidation value.

Methodology for collective assessment of portfolio

Collective assessment of portfolio was implemented using roll rates model. Portfolio was divided by industry segments. Observation period for each segment was taken as two years from December 2014. During the observation period by the state of end of months and with account of exposure of each loan, the one month migration matrixes were generated. In order to exclude portfolio growth effect, the loans disbursed from December 2015 and 2016 were excluded from the statistics.

Based on migration matrix probability of default was calculated for each segment. Default was determined as 180 days overdue for corporate segments and 120 days for retail.

Loss given default is calculated per each segment. To incorporate expected recoveries, cash recoveries and collateral recoveries (adjusted by expenditures related to collateral realization) is calculated.

Maximum exposure of credit risk

The Group exposure to credit risk has increased significantly over the past year, following the general market development. Nonetheless this growth of the exposure was not accompanied by deterioration of the performance indicators of the banks portfolio.

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

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss	30,355	38,111
Due from financial institutions	6,026	2,192
Loans to customers	854,338	824,618
Held to maturity investments	19,045	18,919
Investment available-for-sale	57	10,017
Other financial assets	6,965	7,691
Guarantees issued and similar commitments	62,435	57,135
Commitments on loans and unused credit lines	27,355	26,509

Off-balance sheet risk

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

Geographical concentration

The Assets and Liabilities Committee ("ALCO") exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

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

	Georgia	Other non-OECD countries	OECD countries	December 31, 2016 Total
FINANCIAL ASSETS				
Cash and cash equivalent	289,717	6,647	2,252	298,616
Mandatory cash balance with the NBG	143,009	-	-	143,009
Financial assets at fair value through profit or loss	28,247	-	2,108	30,355
Due from financial institutions	926	-	5,100	6,026
Loans to customers	835,018	18,963	357	854,338
Available-for-sale investments	57	-	-	57
Held to maturity investments	19,045	-	-	19,045
Other financial assets	5,577	1,387	1	6,965
TOTAL FINANCIAL ASSETS	**1,321,596**	**26,997**	**9,818**	**1,358,411**
FINANCIAL LIABILITIES				
Deposits by banks	19,576	-	29	19,605
Deposits by customers	511,036	224,948	11,626	747,610
Other borrowed funds	124,400	-	-	124,400
Other financial liabilities	38	33	4,102	4,173
Subordinated debt	227,179	-	-	227,179
TOTAL FINANCIAL LIABILITIES	**882,229**	**224,981**	**15,757**	**1,122,967**
NET POSITION	**439,367**	**(197,984)**	**(5,939)**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2015 Total
FINANCIAL ASSETS				
Cash and cash equivalents	89,140	84,507	24	173,671
Mandatory cash balance with the NBG	76,835	-	-	76,835
Financial assets at fair value through profit or loss	-	-	38,111	38,111
Due from financial institutions	277	-	1,915	2,192
Loans to customers	796,337	14	28,267	824,618
Available-for-sale investments	59	-	9,958	10,017
Held to maturity investments	18,919	-	-	18,919
Other financial assets	6,816	875	-	7,691
TOTAL FINANCIAL ASSETS	**988,383**	**85,396**	**78,275**	**1,152,054**
FINANCIAL LIABILITIES				
Deposits by banks	55,251	6	-	55,257
Deposits by customers	568,240	24,035	5,671	597,946
Other borrowed funds	41,911	-	-	41,911
Other financial liabilities	1,140	2,933	1,263	5,336
Subordinated debt	188,744	-	-	188,744
TOTAL FINANCIAL LIABILITIES	**855,286**	**26,974**	**6,934**	**889,194**
NET POSITION	**133,097**	**58,422**	**71,341**	

Collateral

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

The main types of collateral obtained are as follows:

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

During the year, the Group took possession of assets with a carrying value of GEL 24,820 at the statement of financial position date, which the Group is in the process of selling.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

At December 31, 2016 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to GEL 117,543. The collateral consists of real estate, vehicles, equipment inventory, deposit and others.

Credit quality by classes of financial assets

As at December 31, 2016:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total December 31, 2016
Cash and cash equivalents	298,616	-	-	-	298,616
Mandatory cash balance with the NBG	143,009	-	-	-	143,009
Financial assets at fair value through profit or loss	30,355	-	-	-	30,355
Due from financial institutions	6,026	-	-	-	6,026
Loans to customers	664,353	117,858	154,794	(82,667)	854,338
Available-for-sale investments	57	-	-	-	57
Held to maturity investments	19,045	-	-	-	19,045
Other financial assets	6,965	-	-	-	6,965

As at December 31, 2015:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total December 31, 2015
Cash and cash equivalents	173,671	-	-	-	173,671
Mandatory cash balance with the NBG	76,835	-	-	-	76,835
Financial assets at fair value through profit or loss	38,111	-	-	-	38,111
Due from financial institutions	2,192	-	-	-	2,192
Loans to customers	678,015	78,484	135,285	(67,166)	824,618
Available-for-sale investments	10,017	-	-	-	10,017
Held to maturity investments	18,919	-	-	-	18,919
Other financial assets	7,691	-	-	-	7,691

Credit quality by class of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December, 31 2016 and 2015 the balances with the NBG (including mandatory cash balance) amounted to GEL 149,653 and GEL 89,566, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level BB-.

The following table details credit ratings of financial assets held by the Group as at December 31, 2016:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2016
Cash and cash equivalents	-	-	5,542	256,632	7,623	28,819	298,616
Mandatory cash balance with the NBG	-	-	-	-	143,009	-	143,009
Financial assets at fair value through profit or loss	-	-	-	375	310	29,670	30,355
Due from financial institutions	-	-	5,103	-	-	923	6,026
Loans to customers	-	-	-	-	-	854,338	854,338
Available-for-sale investments	-	-	-	-	-	57	57
Held to maturity investments	-	-	-	-	19,045	-	19,045
Other financial assets	-	-	-	-	-	6,965	6,965

As at December 31, 2015:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2015
Cash and cash equivalents	-	-	48,887	12,027	20,254	92,503	173,671
Mandatory cash balance with the NBG	-	-	-	-	76,835	-	76,835
Financial assets at fair value through profit or loss	55	-	277	201	183	37,395	38,111
Due from financial institutions	-	-	1,916	250	-	26	2,192
Loans to customers	-	-	-	-	-	824,618	824,618
Available-for-sale investments	-	-	9,958	-	-	59	10,017
Held to maturity investments	-	-	-	-	18,919	-	18,919
Other financial assets	-	-	-	-	-	7,691	7,691

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties. A methodology to determine credit ratings of borrowers has been developed in the Group to assess borrowers based on financial strength, purposeful use of funds and collateralization which in turn are weighted against different risk measures. Based on these three indicators the Bank calculates overall loan stability and customer ratings.

Renegotiated loans to customers

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

Carrying amount by class of financial assets whose terms have been renegotiated:

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

Financial asset class	**December 31, 2016**	**December 31, 2015**
Loans to customers	32,760	22,895

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

Liquidity risk

Liquidity risk management

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

The Assets and Liabilities Committee ("ALCO") controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

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

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;

(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Group will be liable to redeem the liability; and

(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL ASSETS						
Cash and cash equivalents	49,055	-	-	-	-	49,055
Mandatory cash balance with the NBG	143,009	-	-	-	-	143,009
Due from financial institutions	131	132	660	-	-	923
Loans to customers	130,687	45,647	156,194	365,849	155,961	854,338
Held to maturity investments	3,947	6,426	4,875	3,797	-	19,045
Total interest bearing financial assets	**326,829**	**52,205**	**161,729**	**369,646**	**155,961**	**1,066,370**
Cash and cash equivalents	249,561	-	-	-	-	249,561
Financial assets at fair value through profit or loss	30,355	-	-	-	-	30,355
Due from financial institutions	-	-	1,397	-	3,706	5,103
Available-for-sale investments	57	-	-	-	-	57
Other financial assets	1,486	3,311	2,085	75	8	6,965
Total non-interest bearing financial assets	**281,459**	**3,311**	**3,482**	**75**	**3,714**	**292,041**
Total financial assets	**608,288**	**55,516**	**165,211**	**369,721**	**159,675**	**1,358,411**
FINANCIAL LIABILITIES						
Deposits by customers	158,575	37,701	215,228	5,754	495	417,753
Due to banks	4,776	-	14,769	-	-	19,545
Subordinated debt	129	-	-	-	227,050	227,179
Other borrowed funds	-	-	-	124,400	-	124,400
Total interest bearing financial liabilities	**163,480**	**37,701**	**229,997**	**130,154**	**227,545**	**788,877**
Due to banks	60	-	-	-	-	60
Deposits by customers	329,857	-	-	-	-	329,857
Other financial liabilities	913	161	3,099	-	-	4,173
Total non-interest bearing financial liabilities	**330,830**	**161**	**3,099**	**-**	**-**	**334,090**
Total financial liabilities	**494,310**	**37,862**	**233,096**	**130,154**	**227,545**	**1,122,968**
Interest sensitivity gap	163,349	14,504	(68,268)	239,492	(71,584)	
Cumulative interest sensitivity gap	**163,349**	**177,853**	**109,585**	**349,077**	**277,493**	
Liquidity gap	113,977	17,654	(67,885)	239,567	(67,870)	
Cumulative liquidity gap	**113,977**	**131,631**	**63,746**	**303,313**	**235,443**	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
FINANCIAL ASSETS						
Cash and cash equivalents	55,086	12,768	-	-	-	67,854
Mandatory cash balance with the NBG	76,835	-	-	-	-	76,835
Due from financial institutions	-	-	276	-	-	276
Loans to customers	93,908	26,782	213,546	380,921	109,461	824,618
Held to maturity investments	1,995	5,428	7,740	3,756	-	18,919
Total interest bearing financial assets	**227,824**	**44,978**	**221,562**	**384,677**	**109,461**	**988,502**
Cash and cash equivalents	105,817	-	-	-	-	105,817
Financial assets at fair value through profit or loss	38,111	-	-	-	-	38,111
Due from financial institutions	-	-	-	-	1,916	1,916
Available-for-sale investments	-	-	-	10,017	-	10,017
Other financial assets	4,180	774	2,663	53	21	7,691
Total non-interest bearing financial assets	**148,108**	**774**	**2,663**	**10,070**	**1,937**	**163,552**
Total financial assets	**375,932**	**45,752**	**224,225**	**394,747**	**111,398**	**1,152,054**
FINANCIAL LIABILITIES						
Deposits by customers	177,067	82,925	170,696	5,846	386	436,920
Due to banks	-	8,541	26	-	-	8,567
Subordinated debt	108	-	-	-	188,636	188,744
Other borrowed funds	-	15,567	-	26,344	-	41,911
Total interest bearing financial liabilities	**177,175**	**107,033**	**170,722**	**32,190**	**189,022**	**676,142**
Deposits by banks	46,690	-	-	-	-	46,690
Deposits by customers	161,026	-	-	-	-	161,026
Other financial liabilities	2,060	838	2,438	-	-	5,336
Total non-interest bearing financial liabilities	**209,776**	**838**	**2,438**	**-**	**-**	**213,052**
Total financial liabilities	**386,951**	**107,871**	**173,160**	**32,190**	**189,022**	**889,194**
Interest sensitivity gap	50,649	(62,055)	50,840	352,487	(79,561)	
Cumulative interest sensitivity gap	**50,649**	**(11,406)**	**39,434**	**391,921**	**312,360**	
Liquidity gap	(11,019)	(62,119)	51,065	362,557	(77,624)	
Cumulative liquidity gap	**(11,019)**	**(73,138)**	**(22,073)**	**340,484**	**262,860**	

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the consolidated statement of financial position under the effective interest rate method.

	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	December 31, 2016 Total
FINANCIAL ASSETS							
Cash and cash equivalents		49,055	-	-	-	-	49,055
Mandatory cash balance with the NBG		143,009	-	-	-	-	143,009
Due from financial institutions	7.00%	131	134	700	-	-	965
Loans to customers	10.30%	135,918	56,206	203,873	508,112	188,278	1,092,387
Held to maturity investments	7.26%	3,952	6,500	5,000	4,000	-	19,452
Total interest bearing financial assets		**332,065**	**62,840**	**209,573**	**512,112**	**188,278**	**1,304,868**
Cash and cash equivalents		249,561	-	-	-	-	249,561
Financial assets at fair value through profit or loss		30,355	-	-	-	-	30,355
Due from financial institutions		-	-	1,397	-	3,706	5,103
Available-for-sale investments		57	-	-	-	-	57
Other financial assets		1,486	3,311	2,085	75	8	6,965
Total non-interest bearing financial assets		**281,459**	**3,311**	**3,482**	**75**	**3,714**	**292,041**
TOTAL FINANCIAL ASSETS		**613,524**	**66,151**	**213,055**	**512,187**	**191,992**	**1,596,909**
FINANCIAL LIABILITIES							
Deposits by customers	3.54%	117,325	37,956	221,438	9,760	38,505	424,984
Deposits by banks	4.88%	4,788	1,387	15,211	-	-	21,386
Subordinated debt	6.00%	1,323	2,577	10,041	67,707	273,026	354,674
Other borrowed funds	4.50%	475	905	3,742	147,282	-	152,404
Total interest bearing financial liabilities		**123,911**	**42,825**	**250,432**	**224,749**	**311,531**	**953,448**
Deposits by banks		60	-	-	-	-	60
Deposits by customers		329,857	-	-	-	-	329,857
Other financial liabilities		913	161	3,099	-	-	4,173
Total non-interest bearing financial liabilities		**330,830**	**161**	**3,099**	**-**	**-**	**334,090**
TOTAL FINANCIAL LIABILITIES		**454,741**	**42,986**	**253,531**	**224,749**	**311,531**	**1,287,538**
Guarantees issued		2,857	5,123	22,320	30,736	1,398	62,435
Unused credit line		16,143	196	3,686	7,330	-	27,355
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS		**473,741**	**48,305**	**279,537**	**262,816**	**312,929**	**1,377,328**

	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	December 31, 2015 Total
FINANCIAL ASSETS							
Cash and cash equivalents		55,086	12,768	-	-	-	67,854
Mandatory cash balance with the NBG		76,835	-	-	-	-	76,835
Due from financial institutions	9.50%	-	-	276	-	-	276
Loans to customers	10.53%	107,801	38,025	265,276	535,831	130,955	1,077,888
Held to maturity investments	9.21%	2,000	5,500	8,000	4,000	-	19,500
Total interest bearing financial assets		**241,722**	**56,293**	**273,552**	**539,831**	**130,955**	**1,242,353**
Cash and cash equivalents		105,817	-	-	-	-	105,817
Financial assets at fair value through profit or loss		38,111	-	-	-	-	38,111
Due from financial institutions		-	-	-	-	1,916	1,916
Available-for-sale investments		-	-	-	10,017	-	10,017
Other financial assets		4,180	774	2,663	53	21	7,691
Total non-interest bearing financial assets		**148,108**	**774**	**2,663**	**10,070**	**1,937**	**163,552**
TOTAL FINANCIAL ASSETS		**389,830**	**57,067**	**276,215**	**549,901**	**132,892**	**1,405,905**
FINANCIAL LIABILITIES							
Deposits by customers	5.75%	140,638	83,964	176,309	6,289	629	407,829
Deposits by banks	3.13%	-	8,615	38	-	-	8,653
Subordinated debt	6.00%	704	1,903	8,469	56,251	237,866	305,193
Other borrowed funds	6.00%	157	15,875	1,191	32,671	-	49,894
Total interest bearing financial liabilities		**141,499**	**110,357**	**186,007**	**95,211**	**238,495**	**771,569**
Deposits by banks		46,690	-	-	-	-	46,690
Deposits by customers		181,301	-	-	-	-	181,301
Other financial liabilities		2,060	838	2,438	-	-	5,336
Total non-interest bearing financial liabilities		**230,051**	**838**	**2,438**	**-**	**-**	**233,327**
TOTAL FINANCIAL LIABILITIES		**371,550**	**111,195**	**188,445**	**95,211**	**238,495**	**1,004,896**
Guarantees issued		731	9,319	24,347	22,738	-	57,135
Letters of credit		-	640	-	-	-	640
Unused credit line		4,916	65	5,977	3,556	11,995	26,509
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS		**377,197**	**121,219**	**218,769**	**121,505**	**250,490**	**1,089,180**

Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices.

Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as the Group borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALCO also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

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

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact of interest rate 2 basis points changes on profit before tax and equity based on financial assets and liabilities values as at December 31, 2016; and 2015 were as following:

	December 31, 2016		**December 31, 2015**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Net impact on profit before tax	13,875	(13,875)	28,399	(28,399)
Net impact on equity	11,793	(11,793)	24,139	(24,139)

Currency risk

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

The ALCO controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the National Bank of Georgia.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	USD USD 1 = GEL 2.6468	EUR EUR 1 = GEL 2.7940	Other currency	December 31, 2016 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and cash equivalents	61,991	228,151	7,629	845	298,616
Mandatory cash balance with the NBG	-	136,084	6,925	-	143,009
Financial assets at fair value through profit or loss	28,246	1,992	-	117	30,355
Due from financial institutions	926	3,703	1,397	-	6,026
Loans to customers	195,371	641,034	17,933	-	854,338
Available-for-sale investments	57				57
Held to maturity investments	19,045	-	-	-	19,045
Other financial assets	2,837	2,909	1,219	-	6,965
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**308,473**	**1,013,873**	**35,103**	**962**	**1,358,411**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Deposits by banks	4	19,570	3	28	19,605
Deposits by customers	65,309	644,685	37,157	459	747,610
Other borrowed funds	-	124,400	-	-	124,400
Other financial liabilities	25	2,218	1,930	-	4,173
Subordinated debt	-	227,179	-	-	227,179
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**65,338**	**1,018,052**	**39,090**	**487**	**1,122,967**
OPEN BALANCE SHEET POSITION	**243,135**	**(4,179)**	**(3,987)**	**475**	

	GEL	USD USD 1 = GEL 2.3949	EUR EUR 1 = GEL 2.6169	Other currency	December 31, 2015 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and cash equivalents	36,469	84,934	51,761	507	173,671
Mandatory cash balance with the NBG	-	72,609	4,226	-	76,835
Financial assets at fair value through profit or loss	24,019	14,004	-	88	38,111
Due from financial institutions	250	1,916	26	-	2,192
Loans to customers	209,011	603,269	12,338	-	824,618
Available-for-sale investments	60	9,957	-	-	10,017
Held to maturity investments	18,919	-	-	-	18,919
Other financial assets	1,759	5,013	919	-	7,691
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**290,487**	**791,702**	**69,270**	**595**	**1,152,054**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Deposits by banks	57	10,038	45,162	-	55,257
Deposits by customers	58,106	510,868	28,541	431	597,946
Other borrowed funds	41,911	-	-	-	41,911
Other financial liabilities	794	3,509	1,033	-	5,336
Subordinated debt	-	188,744	-	-	188,744
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**100,868**	**713,159**	**74,736**	**431**	**889,194**
OPEN BALANCE SHEET POSITION	**189,619**	**78,543**	**(5,466)**	**164**	

Derivative financial instruments:				
Gross settled:				
- currency swaps	59,382	(60,678)	-	-
OPEN POSITION	**249,001**	**17,865**	**(5,466)**	**164**

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the USD against the GEL. 30% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 30% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2016 and 2015:

	December 31, 2016		**December 31, 2015**	
	GEL/USD +30%	**GEL/USD -30%**	**GEL/USD +30%**	**GEL/USD -30%**
Impact on profit or loss before tax	1,254	(1,254)	23,563	(23,563)
Impact on equity	1,066	(1,066)	20,029	(20,029)

Limitations of sensitivity analysis

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

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

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

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

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

33. Subsequent events

On January 1, 2017 the Group renegotiated terms on all subordinated loans by reducing interest rate to 4.5%. The Management of the Group deems that decreased interest rate properly reflects market condition for USD attracted funds.

ბანკი ქართუ
CARTU BANK