ANNUAL REPORT 2015

Rusudan Petviashvili, “The Choice”, 2015 Mixed Media Painting, Silk, 50x50cm

PASHA Bank
New heights. Together.

CONTENT

OVERVIEW

FINANCIAL HIGHLIGHTS
(GEL '000)

Net Profit

GEL 2,262

Total Comprehensive Profit

GEL 1,696

Gross Loans:

GEL 109,913

Cost to Income:

71%

Total Assets:

GEL 282,310

ROAE:

1.7%
(Calculated from total comprehensive income)

NPL to Gross Loans:

0%

All figures are presented as of 31 December 2015, if not indicated otherwise, and are based on the audited financial statements for the year ending 31 December 2015. The official GEL/USD exchange rate on 31 December 2015 was 2.3949.

FOREWORD BY THE CHAIRMAN OF SUPERVISORY BOARD AT PASHA BANK GEORGIA

2015 was a seminal year as we made a profit for the first time since starting our operations in Georgia. It took us less than three years to et to this point and this is a testament to the hard work and dedication that our personnel has demonstrated throughout these early formative years. Last year our assets grew by 82% while the gross loan portfolio reached 110 Million GEL growing by 100% year on year. This enabled us to reach the critical mass required to cover the fixed and operating costs needed to break even and turn a profit.

As a corporate bank growing from a rather small base, we had to pay extra attention to the quality of portfolio, balancing an aggressive growth strategy with stringent underwriting standards. I am happy to note that we met both of these objectives closing the year with no non-performing loans on our balance sheet. The job is by no means done. Further improvements and sophistication of our risk management frameworks is a continuous task that will require constant attention in the years to come. In the current turbulent economic environment we stand ready to assist our customers to weather the trying economic times safely. To that end we have refinanced US Dollar-denominated loans of a number of customers into GEL, helping them to manage the currency risk at the peak of the devaluation cycle. We ended the year with the GE Lari-denominated portion of our portfolio making up 71% of the total.

Apart from extending loans in GEL, we have underwritten two GE Lari-denominated bond issues for clients from sectors as far ranging as utilities on the one hand and financial services on the other. Debt capital market activities are greatly helped by the expertise of our parent Company in Azerbaijan, which has dozens of successful public and private placements under its belt in its home market.

Speaking of our parent company, I am glad to note that 2015 was also a special year for the entire PASHA Holding, as banking subsidiary in Turkey opened its door for business in March. Now we are presented in all three of the largest economies in the region, offering the full range of corporate banking services to businesses active on a regional scale. With our presence in Georgia, Azerbaijan and Turkey, we are uniquely positioned to finance trade operations in this geographical triangle and beyond.

Having reached our immediate expansion targets in terms of geography, we will now turn our attention to optimizing our business model, which is currently centered on serving large and medium-sized corporates only. We are assessing our options with a particular focus on a possible entry into the SME sector. Unlike some other post-Soviet economies, the Georgian SME

sector has fairly good access to debt financing. Competition between the banks serving this segment is fierce. For our next three-year strategic period beginning in 2018, we need to identify an optimal business model, which may take on a number of shapes and forms. Apart from possible entry into SME, the launch of a limited or possibly even fully-fleshed retail operation also is not out of the question. The next two years will decide the road that we will have to take.

Mir Jamal Pashayev
Chairman of the Supervisory Board of
PASHA Bank Georgia
21 April, 2016

FOREWORD BY THE CHAIRMAN OF PASHA BANK GEORGIA BOARD OF DIRECTORS, CEO

2015 was a remarkable year across a range of dimensions, first and foremost of which is the fact that we have turned profit for the first time since opening for business in Georgia. This became possible through a rapid growth of our loan portfolio coupled with extra attention on underwriting standards and asset quality.

We started the year with a large non-performing loan that was sold in August, 2015, bringing down our NPL ratio to 0%. At the same time, our gross loan portfolio increased from GEL 55 mln to GEL 110 mln, reaching the critical mass necessary to cover our fixed cost base and become profitable.

Our large corporate-centric business model has proven its viability and we intend to stay the course till the end of the current strategic period, ending in 2017. The main task for the rest of the strategic period is to raise our brand awareness among our target large corporate clientele and become a top-of-mind bank for those corporates operating in the economical triangle of Georgia, Azerbaijan and Turkey. With Turkey being the largest trading partner for both Georgia and Azerbaijan, cross-bordered banking and provision of trade finance services will form a cornerstone of our strategy. We already have in place well defined frameworks of funding Azerbaijani Companies doing business in Georgia, leveraging PASHA Bank Azerbaijan's market expertise and ability to handle structuring issues related to loan collateral being physically located in a jurisdiction other than Georgia. We hope to replicate identical approach with our sister bank in Turkey.

Differences in interest rates between our markets of operation allow for attracting relatively cheap financing from PASHA Bank in Turkey and Azerbaijan, which could then be profitably invested in Georgia. On the other hand their participation in deals sourced by PASHA Bank Georgia gives us an ability to partake in far larger syndicates than our capital base would have allowed on a stand-alone basis. We have demonstrated to the market our credibility as a dependable syndication partner, which is something we intend to capitalize on in the years to come.

Having turned the corner on 2015, we are looking to maintain the momentum and keep growing at the above-market rates. None of this will be possible without the personnel of JSC PASHA Bank Georgia (hereafter referred to as "PASHA Bank" or "the Bank") believing in our mission, putting in long hours day in and day out to make all of this a reality. Since our early days in Georgia our headcount has almost doubled. We feel that our staff is the greatest of all our assets and we go to great lengths to attract, train and retain top talent. We treat our employees, as well as our clients, with double attention and strive to become one of the most desirable companies to work for in Georgia.

Our further development also critically hinges on our ability to keep the unwavering focus on asset quality and building on the groundwork we have lain to date. This includes employees, as already mentioned, information systems and technology, and corporate governance practices and procedures. Last year we completed transitioning on a new core banking system, which is a qualitative improvement over our legacy IT Solution. With a versatile internet banking platform already up and running, we are now fully equipped to provide our customers with the top level service they have grown accustomed to in Georgia's highly developed and dynamic banking environment.

Last but not least, our Supervisory Board composition was extended to include the CEOs of PASHA Holding's banking subsidiaries operating in Turkey and Azerbaijan. New Board members possess hands-on up-to-date experience of running banking operations in various jurisdictions, including those from the more developed markets. The ability to leverage decades of collective knowledge that our Board now possesses represents a distinct competitive advantage that we hope will underpin our further growth and enable us to reach new heights together.

Shahin Mammadov
Chairman of PASHA Bank Georgia
Board of Directors, CEO
30 March, 2016

PASHA BANK GEORGIA AT A GLANCE

PASHA Bank is a Baku-based financial institution operating in Azerbaijan, Georgia and Turkey, providing a full range of corporate and investment banking services to large and medium-sized enterprises.

We have been operating in Georgia since 2013. As of December 31st, 2015, the Bank's total assets exceeded GEL 282 million.

Being a regional bank, we leverage our experience in various markets to offer our clients tailor-made products and services incorporating the best regional practices. We make the interests of our partners the cornerstone of our corporate strategy, and aim to achieve new heights together, by contributing to mutual sustainable growth.

We have developed certain competitive advantages in particular product lines, such as debt capital market operations, where we draw on our significant experience in this area gained over the years in the capital markets in Azerbaijan. We place special emphasize on the development of trade finance business as our presence in the region's three major economies puts us in a position to create a unique value proposition for our client-base.

Our philosophy calls for building trust-based relationships with our clients in which we strive to grow together with our partners in a mutually beneficial way.

Shareholder Structure

JSC PASHA Bank Georgia is the subsidiary bank with its 100% shares solely owned by OJSC PASHA Bank.

Mission

We treat our clients and partners with hospitality and double attention, focusing on mutual prosperity. We put our clients' interests as the cornerstone of our corporate strategy, and look to achieve new heights together and to contribute to the sustainable growth of each and every client.

Vision

We strive to contribute to the growth and development of the Georgian and regional economy through the funding of value accretive projects while at the same time providing top-quality service both locally and regionally. We are committed to our long standing philosophy of doing business in an ethical, reliable and sustainable manner.

For more information please visit: pashabank.ge

PASHA HOLDING

PASHA Bank is ultimately owned by PASHA Holding - a diversified investment group with interests in banking, insurance, property development, construction, tourism and other sectors. As of December 31st, 2015, the total assets of PASHA Holding are approximately USD 5 billion, while its capital is approximately USD 1.3 billion. The group operates in three countries, Georgia being its first geographic expansion, which was followed by Turkey. The total number of employees within the group exceeds 5,000.

PASHA Holding Companies

PASHA Insurance is the very first member of PASHA Holding, incorporated in early 2006. The Company is the largest insurance services provider in Azerbaijan with a revenue of USD 42 million, as of December 31st, 2015.

The life insurance business line was added to PASHA Insurance's existing offerings in 2010, incorporated as a separate legal entity - PASHA Life.

PASHA Construction is one of the largest businesses of its kind in Azerbaijan. As of the end of 2015, its completed project portfolio exceeds 1,000,000 m2 worth of projects, with a further 756,000 m2 currently under construction. These developments include retail, residential, office space, hotels and large mixed-use properties. The list of the successfully completed projects includes, but is not limited to - Absheron JW Marriott Hotel and Residences, Four Seasons Hotel, Port Baku Towers, Shuvelan Shopping Center, Nizami Residence, Baku Business Center and Chinar restaurant.

PASHA Travel provides a wide range of travel and hospitality services to corporate and retail customers.

Kapital Bank, being a universal bank, provides a wide range of banking services both to corporate and individual clients with a distinct focus on the retail business. Kapital Bank boasts the most extensive branch network in Azerbaijan. The Bank is rated 'BB-' by Fitch Ratings (as of 04.12.2015), 'BB-' by Standard & Poor's Ratings (as of 17.02.2016) and Ba3 by Moody's (as of 21.01.2016).

PASHA Bank was incorporated in 2007. The Bank focuses on delivering the best in-class banking services to the rapidly growing corporate sector of Azerbaijan. Standard & Poor's assigned PASHA Bank a long-term rating of 'BB-' (as of 17.02.2016). Likewise, Fitch Ratings assigned PASHA Bank a long-term rating of 'BB-' (as of 09.03.2016).

PASHA Bank is operating in three main economic markets of the region: Azerbaijan, Georgia and Turkey.

For more information please visit: pashaholding.az

PASHA BANK AZERBAIJAN

PASHA Bank is one of Azerbaijan's leading corporate banks. Established in 2007, it offers all major financial services, including investment banking, trade financing and asset management to a range of clients, from large corporates to small and medium enterprises. The Bank works particularly closely with companies operating in the non-oil sectors of the economy, including agriculture, transportation, construction and retail, which are vital for helping Azerbaijan to diversify its economy.

PASHA Bank became the largest private bank in Azerbaijan by total equity in 2013 and has been maintaining this position since then. It has been one of the top five private banks by assets from 2010 to the time of this writing.

PASHA Bank is headquartered in Baku and has a total of nine business centers across Azerbaijan. PASHA Bank opened for business in Georgia in 2013, followed by Turkey in 2015. The long-term regional vision envisages creating interconnected banking operations that will facilitate rapidly growing trade and deal flow between Baku, Tbilisi and Istanbul, the three most vibrant markets of the region.

In addition to international industry recognition, PASHA Bank has received strong ratings from international ratings agencies (see p.11).

Financial Highlights as of 31/12/2015

Net Profit: USD 1,919
Gross Loans: USD 480,735
Total Assets: USD 1,363,785
ROAE: 0.86%
Cost to Income: 31%
NPL to Gross Loans: 11%

The exchange rates as per December 31, 2015.
Source: Central Bank of Azerbaijan, all figures in thousands.

For more information please visit: pashabank.az

PASHA BANK TURKEY

PASHA Yatırım Bankası A.Ş. is the first foreign Bank of Turkey, which was founded in Istanbul on 25 December 1987 and which started its banking operations on 1 March 1988. In December 2014, the acquisition of 79.92% of the bank's shares by PASHA Bank OJSC was approved, thus PASHA Group started to control the bank. During 2015 PASHA Bank OJSC increased its shareholding in PASHA Yatırım Bankası A.Ş. taking its stake to 99,9%.

PASHA Bank Turkey serves entrepreneurs in the corporate and commercial segment with investment banking products in an effort to contribute to the development of trade between Turkey, Azerbaijan, and Georgia, and to provide resources and guidance to businesses investing in the region.
Along with corporate banking products, PASHA Bank Turkey provides its customers with services to create alternative financing to conventional credits within the framework of investment banking activities.

To that end, it has activities in various fields of investment banking such as IPO consultancy, financial/strategic partnership, divestiture, restructuring, preparing structured product packages and organizing the sale of these products to investors.

PASHA Bank Turkey is a member of Borsa İstanbul A.Ş. and is authorized to operate in bond and repo markets. It is authorized by the Capital Markets Board for the following activities: The Activity of Execution of Orders; The Activity of Dealing on Own Account; The Activity of Intermediation for Public Offering; Limited Custody Service; and Ancillary Services.

Financial Highlights as of 31/12/2015

Net Profit: USD 3,334
Total comprehensive income: USD 3,305
Gross loans USD 84,213
Total Assets: USD 109,901
ROAE: 4.3%
Cost to Income: 48.6%
NPL to Gross Loans: 0%

The exchange rates as per December 31, 2015.
Source: IFRS Report, all figures in thousands.

For more information please visit: pashabank.com.tr

GEORGIAN BANKING SECTOR

YEAR IN RETROSPECT

The overall performance of the Georgian economy has been relatively weak due to slowdown in the region, limited growth in domestic demand and a sharp drop in remittances. Based on preliminary data, the real economic growth in 2015 was 2.8%, which is nearly 2 times less than the average growth rate in the last 5 years. Exports and imports declined 23% and 10% respectively and consumer prices in the first 6 months grew by about 4.9%, which remains within the 5% National Bank of Georgia (NBG) target. By the end of 2015, business confidence had rebounded slightly following the continuous slide throughout the year.

As of 31 December 2015, the total amount of loans issued by Georgian commercial banks totaled GEL 15.72 billion (USD 6.56 billion). The annual growth rate of total loan portfolio in the Georgian banking sector was a nominal 23.6%, but just 5.9% when adjusted for the GEL devaluation. At the end of 2015, the volume of past due loans totaled GEL 292 million (USD 122 million), which made up 1.8% of the total loan portfolio. The dollarization rate of the total loan portfolio stood at 65%. Interest rates averaged 15.03% with 10.3% on foreign currency loans and 20.4% (24.6% on loans to individuals and 13.7% on loans to legal entities) on GEL loans. The deposit base of the Georgian banking sector increased and reached GEL 14.3 billion (USD 5.97 billion) with a dollarization rate of approximately 67%. The average interest rate paid on deposits by the banking sector was 5.2% (an average of 11.6% on GEL deposits and an average of 4% on foreign currency deposits). The Georgian banking sector continues to be characterized by strong capital adequacy, which was high at around 16.7% at the end of 2015, while liquidity ratios exceeded 30%.

Asset quality is reasonably good with an overall 8% NPL rate, although the corporate loans segment underperformed in this respect with an average NPL rate of over 13%. The market average ROA was at 2.3% with ROAE at 15.4%.

The sources are NBG, GEOSTAT and PASHA Bank estimates.

PERFORMANCE REVIEW

FINANCIAL SUMMARY

On 31 December 2015, (IFRS) PASHA Bank closed the year with GEL 282,310 thousand (USD 117,880 thousand) total assets (over 80% growth compared to the end of the previous year), GEL 184,129 thousand (USD 76,884 thousand) total liabilities, which is 3 times larger than the end of the previous year, and GEL 98,181 thousand (USD 40,996 thousand) total equity. Net profit over the year marked an important turn in our 3 year history towards a reversal of the prior years' accumulated losses.

The increase in our asset base has been possible thanks to:

- Growth in the Bank's net loan portfolio in line with budget, totaling GEL 108,602 thousand (USD 45,347 thousand) on 31 December 2015
- Significant placements into debt securities of state and corporate issuers

The gross corporate loan portfolio totaled GEL 109,913 thousand (USD 45,895 thousand), a twofold increase in comparison with 2014 year end results. Major sectors represented in our portfolio are trade and services, energy, transport and telecommunications, microfinance, manufacturing and others.

At the same time the Bank has maintained the good quality of its loan portfolio with a 1.2% effective provision rate (31 December 2014: 7%, considering the effect of fair value adjustments at recognition). This ratio has been achieved by disposal of large non-performing loan (NPL) exposure in August 2015 allowing the year to be closed with a remarkable 0% NPL ratio.

The portfolio of investments in securities also increased by more than 60% compared to the previous year. Of the total investments in securities of GEL 123,320 thousand (USD 51,493 thousand), on 31 December 2015 the share of corporate securities constituted around 37%, representing coupon bonds of corporations and commercial banks registered in Azerbaijan and Georgia. This includes two bond issues for which we acted as the underwriter.

During 2015 the interbank market has remained the major funding source for PASHA Bank with amounts due to credit institutions totaling GEL 161,929 thousand (USD 67,614 thousand), a threefold increase compared to the end of 2014. This included a GEL refinancing facility with NBG, which stood at GEL 69,700 thousand (USD 29,103 thousand) on 31 December, some GEL 15,706 thousand (USD 6,558 thousand) due to local commercial banks and GEL 64,086 thousand (USD 26,760 thousand) of foreign currency funds (mostly USD) attracted from the Parent (PASHA Bank Azerbaijan) as term deposits.

The last months of 2015 were marked by positive trends in terms of customer deposit attraction, which grew to GEL 21,288 thousand (USD 8,889 thousand), an impressive fourfold increase compared to end of the previous year. These deposits have lessened our reliance on the Parent for the purposes of funding foreign currency assets.

The composition of the Bank's assets as of 31 December 2015 is as follows:

Investment securities available for sale	44%
Loans to customers	38%
Amounts due from credit institutions	7%
Cash and cash equivalents	8%

The balance is made up by other non-current and current assets.

According to the Bank's audited IFRS financial statements for the year ending 31 December 2015, the total comprehensive profit for the year amounted to GEL 1,696 thousand (USD 708 thousand), translating into a rather modest ROAE of 1.7% (2014: -5%). Nevertheless, the very fact that 2015 became the first profitable year in our 3 year capacity-building history on the market is inspiring.

Overall performance in terms of P&L has been strong and within budget. The total interest income of GEL 19,045 thousand (USD 7,952 thousand) was 2.5 times higher than the previous year figure and net interest income before provisions equaled GEL 13,136 thousand (USD 5,485 thousand), over 90% growth compared to 2014.

Our operating income before impairment provisions in 2015 reached GEL 14,154 thousand (USD 5,910 thousand) against GEL 3,867 thousand (USD 1,615 thousand) in 2014, an increase of more than 3.6 times.

During the year our personnel and administrative expenses increased to GEL 4,489 thousand (USD 1,874 thousand) and GEL 3,721 thousand (USD 1,554 thousand), which represented a 97% and 29% increase from last year accordingly and was driven by an extensive recruitment and capacity-building effort by the Bank. Growth of net interest income led to a decrease in the cost to income ratio from over 100% last year to 71% in 2015.

The trade finance portfolio of the Bank increased almost sixfold, reaching GEL 23,128 thousand (USD 9,657 thousand), and is mainly comprised of issued letters of guarantee.

The Bank's capital adequacy ratios are well above the minimum NBG requirements with 44% and 41% of the risk-weighted assets for total capital and tier one capital respectively (31 December 2014: 65% and 71% respectively). The drop in the ratios indicates increased efficiency in the utilization of the share capital.

Please refer to the audited financial statements for year ending 31 December 2015 for the full set of numbers (p.51)

All figures have been presented as of 31 December 2015 if not indicated otherwise and are based on the audited financial statements for the year ended 31 December 2015. Official GEL/USD exchange rate at 31 December 2015 equaled 2.3949

CORPORATE BUSINESS MODEL

PASHA Bank is a pure play corporate bank specialized in providing the full range of corporate banking services to large and medium sized enterprises. This puts us in a somewhat unique position as far as the Georgian banking sector is concerned as we are the only independent specialist corporate bank currently operating in Georgia.

This business model by its very nature stipulates that the credit risk exposure of the Bank, at any given time, is spread over a relatively small number of counterparties. Significant risk concentrations can be observed as far as individual borrowers or a group of related borrowers are concerned, in addition to material exposures to particular sectors of the economy. High risk concentration calls for the introduction of counterparty default risk assessment and transaction structuring standards that by necessity are more stringent than could conceivably be the case with banks that operate a universal or retail banking business model.

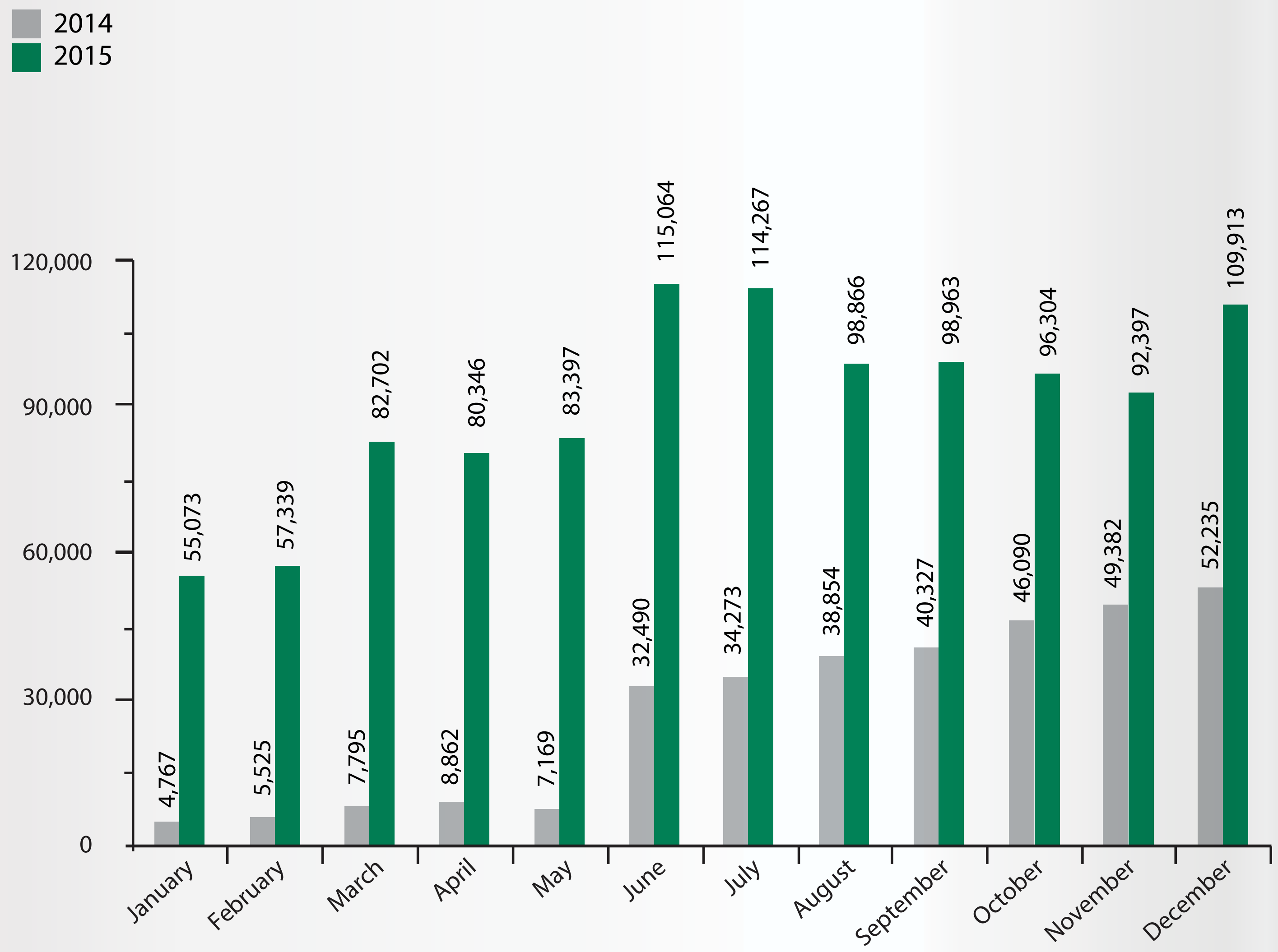
Apart from investing a significant amount of time and effort in counterparty assessment and structuring, the Bank mitigates the risks stemming from its business model by holding high levels of capital. While extremely high levels of capitalization do impact our profitability in a negative manner, we feel that holding meaningful buffers of capital to absorb possible losses represents a virtual necessity at this stage of our corporate existence. This structural issue is currently further exacerbated by the fact that we are a newly formed organization with a portfolio growing from a rather small base.

In 2014 our loan portfolio increased tenfold, followed by 110% growth in 2015. Beginning from 2017 we expect the annual loan portfolio growth rates to decline and fall in line with historical market averages for the sector-wide corporate loan portfolio growth of c.a. 15% p.a. With the loan portfolio reaching certain critical mass and growth decelerating to the market averages, risk concentrations will become less pronounced. Relative levels of capital held will decline, which will have a beneficial effect on profitability. At this time the default risk exposure is limited to a single counterparty and a group of related parties are set at National Bank of Georgia's statutory maximum limits of 15% and 25% of the Bank's total regulatory capital, respectively.

At present we have no internal limit of risk exposure to particular sectors as that would unnecessarily hamper our growth. We intend to introduce the mentioned limits as soon as the loan portfolio reaches a size that would allow us to take on the meaningful positions to individual sectors without breaching the internally defined exposure limits.

Monthly Gross Portfolio Growth in 2014 and 2015

Source: NBG. July and December figures are based on IFRS. (GEL '000)



On the liabilities side, we are heavily reliant on wholesale funding as the pricing differential between corporate and retail loans precludes us from raising significant volumes of customer deposits. Universal banks are capable of paying depositors comparatively high interest rates, investing the relatively expensive funds raised this way into high margin retail products. Our business model effectively prevents us from pursuing the same strategy. To avoid excessive reliance on interbank markets, we source the lion's share of our foreign currency funding from the Parent while utilizing our capital to fund the GE Lari-denominated portion of the loan portfolio.

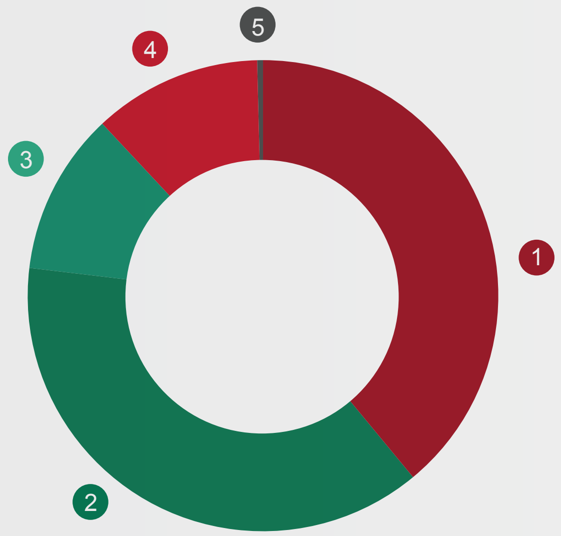
Operating environment and results

The operating environment in 2015 was a difficult one for the banking sector as a whole. Drastic devaluation of GEL against USD presented the sector with a set of formidable challenges. With c.a. 65% of the sector's loan portfolio being US Dollar-denominated and imports exceeding exports by a factor of 3,5, a lot of borrowers saw their cost of servicing their dollar debts skyrocket. Non-performing loan levels increased sector-wide and banks' P&Ls were impacted by a two-fold effect of nominal increase in loan loss provisions aggravated by increase in GEL value of US Dollar-denominated provisions.

Despite the structural challenges inherent to our business model, the Bank managed to maintain the high quality of the portfolio, ending the year with zero NPLs. In stark contrast to the sector, our loan portfolio is predominantly GE Lari-denominated, 71% at the end of 2015, which has shielded us from the worst effect of the GEL devaluation. Positive annual results were also greatly helped by disposal, in August 2015, of a sizable non-performing loan. The loan was sold with the resulting reversal of provision contributing in a major way to us closing the year in the black. Over the course of the year we have increased the number of our borrowing customers. The number of sectors represented in our portfolio also increased.

Source of Funding

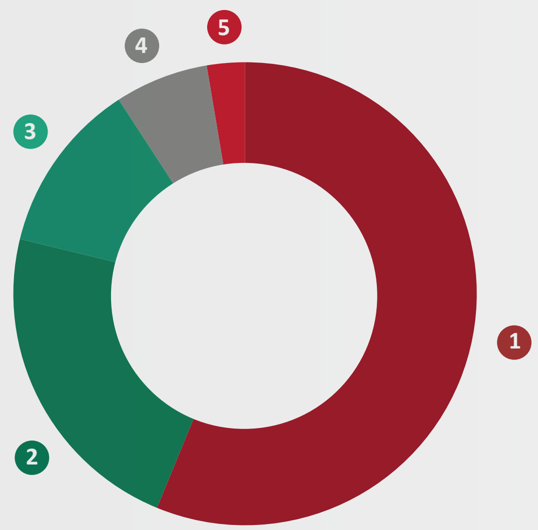
31/12/2015, Source: IFRS (GEL '000)



1	Amounts due to Parent Bank	39%
2	Short-term loan from the NBG	37.9%
3	Amounts due to other credit institutions	11.1%
4	Amounts due to customers	11.6%
5	Other liabilities	0.4%

Loan Portfolio by Industry

31/12/2015, Source: IFRS (GEL '000)

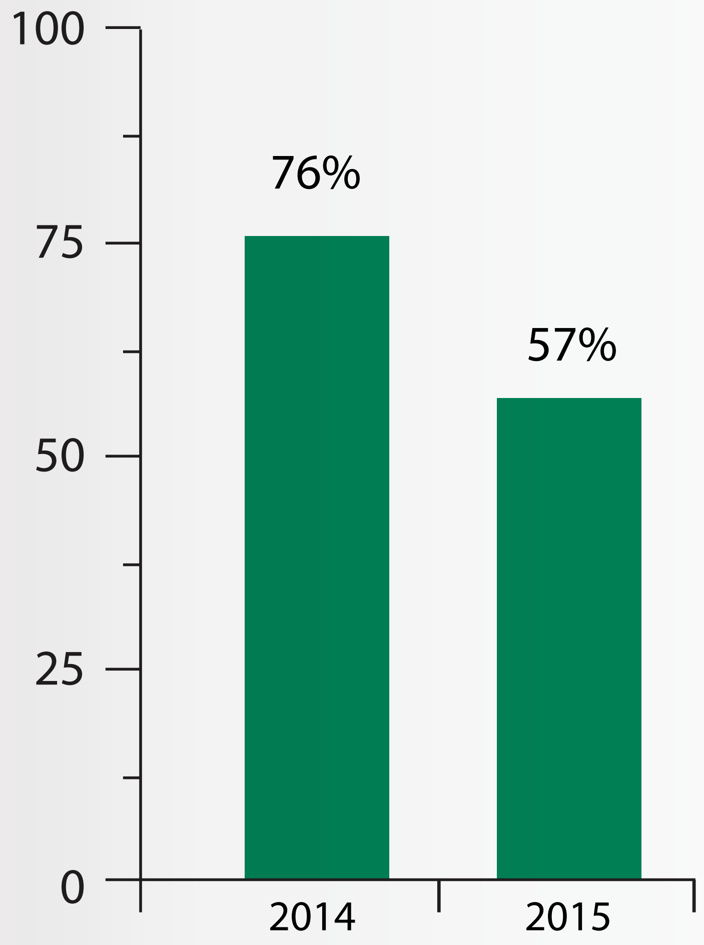


1	Trade and Service	56.2%	61,775
2	Energy	22.6%	24,833
3	Non-banking credit organizations	12%	13,214
4	Construction	6.5%	7,176
5	Individuals	2.7%	2,915

INVESTMENT BANKING

The aggregate portion of exposure to the top three borrowing groups decreased from 76% to 57%.

Aggregate exposure to the top three borrowing groups



In the same period, four additional corporate bankers were hired, with the headcount of the counterparty risk management department also getting a boost. As a result, we feel well-positioned to continue growing our loan portfolio in a careful and responsible manner, always keeping in mind the specifics of our business model while building a strong risk management culture throughout the entire organization.

The investment banking activities of PASHA Bank at the time of writing are mostly represented by debt capital market transactions and are carried out jointly by the Business Development and Treasury departments. Last year we underwrote two GEL bond issues. The placement amount of the first issue was GEL 20mln, which carried a fixed coupon, unlike the second case, where the GEL 6mln worth of bonds were placed jointly with a co-manager and carried a floating rate coupon.

A larger issue came from a financial institution looking for local currency funding for loan portfolio growth purposes. In the second case we helped a local utility refinance its FX liabilities with GEL resources, assisting the issuer to handle the FX risk in a turbulent exchange rate environment.

DCM activities represent a source of non-interest income for us, which helps to diversify our operating income streams. We intend to keep on developing this business line with several new issues planned for 2016 and 2017. Georgian capital markets are still in their infancy with virtually no equity capital market business to speak of. We intend to play our modest role in the development of the capital markets through helping the corporates to tap the funding sources other than bank financing.

PASHA Bank Azerbaijan was one of the pioneers impacting in a major way the development of capital markets in its home country. We have unparalleled access to the institutional knowledge gathered by our Parent Bank over the years of spear heading the evolution of emerging Azerbaijani capital markets. PASHA Bank Azerbaijan's efforts in this area are widely recognized as the best in the country by a number of reputable international financial magazines.

MARKETING STRATEGY AND POSITIONING

We are a pure-play corporate bank offering a full range of corporate banking services to large and medium-sized enterprises. We are also active in debt capital markets, having underwritten a number of bond issues in Georgia. At this time we have no retail banking business line.

PASHA Bank is a reliable partner for other financial institutions, having already participated in a number of syndicated deals. This is the area of activity that we intend to keep a focus on going forward. The fact that we are a specialist corporate bank with no retail offering adds an additional layer of comfort to our syndicate partners, making it relatively easy to accommodate the interests all syndicate participants. We are also nimble and fast when it comes to decision-making, which provides us with a competitive edge in the context of a syndicate.

PASHA Bank has no business interest outside of its core competence of banking, which is an important value-added feature from the perspective of a number of clients. Once our customers get to know us better, they come to realize that our brand driver is reciprocity. We are keen to provide secure growth for a reasonable price to each and every client. The Bank positions itself as a regional financial institution offering safe and fast service which caters to the needs of the companies that are looking for a reliable long-term partner with a regional footprint. We listen to our clients with double attention and try to accommodate their diverse needs, placing their interests as the cornerstone of our business. Our actions reflect our corporate slogan as we continuously try to achieve **new heights together** with our partners.

SPONSORSHIP AND CSR

Responsible corporate citizenship is an organic part of the PASHA Bank brand identity and we take our duties very seriously. In 2015 we supported Charity organization First Step Georgia twice: once by providing funds and second time by donating a painting by Georgian contemporary artist, Rusudan Petviashvili. We also financed a summer school for students from vulnerable families, made a donation for the June 13 flood victims, initiated and executed the project Spotlight Marketing Library, enabling Georgian marketers to access professional literature in a comfortable atmosphere.

One of PASHA Bank's distinguished CSR projects is Business Café, which was initiated by Insource and which, since the very first meeting, has been exclusively sponsored by PASHA Bank. The project aims at experience-sharing between top managers of various organizations.

We have also sponsored several sector-specific events such as Telecommunication Meeting in Georgia, Agro Forum, Spotlight and Golden Brand. We do believe that by supporting activities like this we are contributing to the professional growth of middle and top-managers. Helping the development of various business sectors, and the Georgian economy in general, is an indirect continuation of what we actually see as our mission - contributing to the growth of large and medium-sized enterprises by providing them with competitive corporate and investment banking services.

OPERATIONS AND INFRASTRUCTURE

RISK AND CONTROLS

Risk-taking is inherent to most types of PASHA Bank activities. Considering the fact that we have been in operation in Georgia for a relatively short time, our loan portfolio is growing from a very small base, hence any new exposure represents a much larger portion of the loan-portfolio than is the case with more established banks.

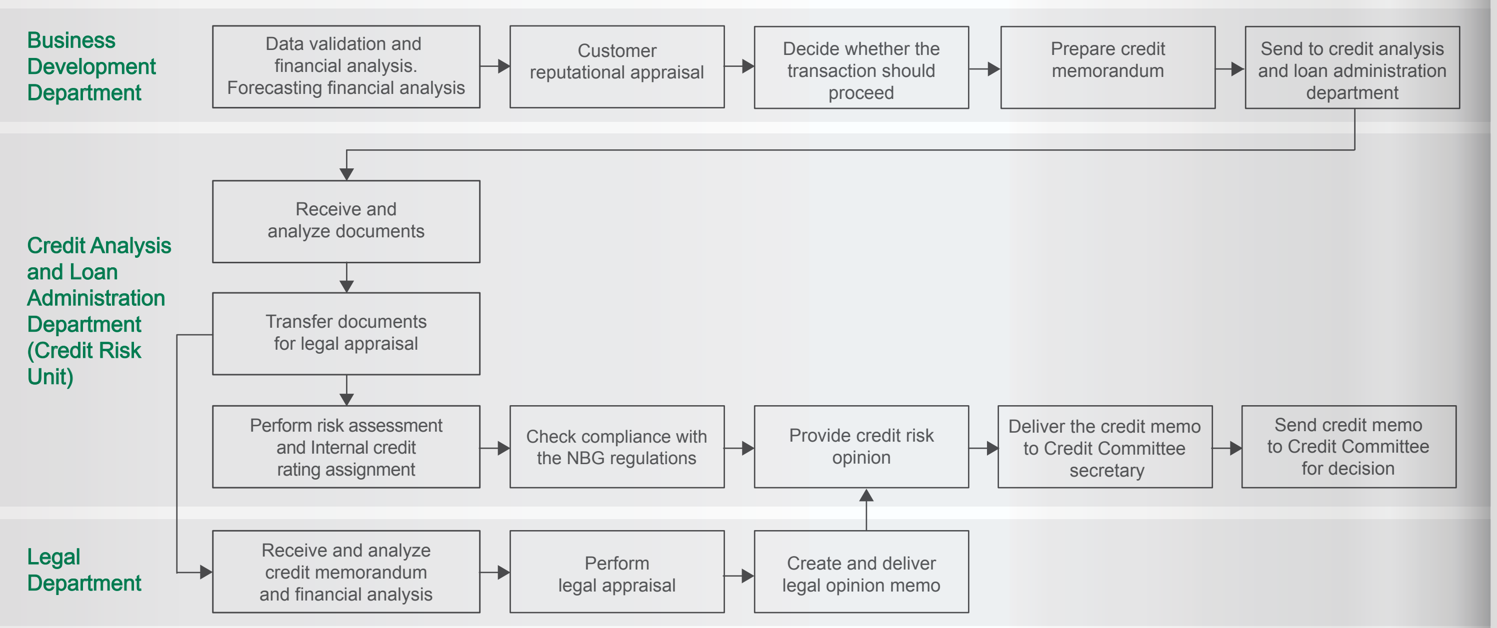
To address this relatively higher risk profile, we have in place a rigorous screening assessment and monitoring process in place to minimize the chance of portfolio quality deterioration.

Risks are subject to identification, measurement, control and monitoring. All kinds of Risks are ultimately managed by the Board of Directors in cooperation with the Audit Committee and Risk Management Committee. Management considers the Risk Appetite as basic in risk management for the Bank. Monitoring and controlling the risks is performed based on the limits established by the Bank. These limits reflect the business strategy of the Bank, together with the level of risk that is acceptable for the Bank. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities. The risk management process is critical for the Bank, which is exposed to Credit Risk, Market and Liquidity Risk, and Operational Risk.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers fail to meet their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and industry concentrations, and by monitoring exposures. The Bank has a sophisticated lending process:

Process flow chart for credit risk management



As shown in the Process flow chart for credit risk management, before the credit case is presented at a Credit Committee meeting, the borrower and its credit worthiness is assessed by four independent supporting and controlling departments besides the initiating Business Development Department.

Market and Liquidity risk

Market Risk is the possibility for the Bank to experience losses due to factors that affect the overall performance of the banking industry. The bank mainly focuses on the following components of Market Risk; Currency Risk, Interest Rate Risk and Liquidity Risk.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Interest Rate Risk arises from potential changes in market interest rates that can adversely affect the value of assets and liabilities.

Liquidity Risk is the risk that the Bank does not have sufficient financial resources available to meet all its obligations and commitments.

Market and Liquidity Risk is managed by the Assets and Liabilities Committee (ALCO) in cooperation with the Risk Management Department, Treasury and Financial Management Department.

Operational Risk

Operational Risk may derive from inadequate internal processes or systems, external events, inadequate employee performance or from the breaching of or non-compliance with statutory provisions, contracts and internal regulations. Operational Risk includes legal risk but excludes reputational and strategic risk.

The Bank identifies and assesses the operational risk inherent in all its products, activities, processes and systems. We ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures. When using outsourcing services, the Bank ensures that the operational risk inherent in the services used by the Bank are also subject to adequate assessment procedures.

The Bank mitigates operational risks by defining, documenting and updating the relevant business processes. Furthermore, the Bank mitigates operational risk by following strict rules for the assignment of duties and responsibilities among and within the functions, and a system of internal control and supervision.

Capital Adequacy and Regulator Requirements

Following the Basel II/III requirements by the NBG, the Bank calculates its capital requirements and risk-weighted assets separately under both Pillar 1 and Pillar 2. The Financial Management Department, in cooperation with the Risk Management, Credit Analysis and Loan Administration departments, are responsible for ensuring Capital Adequacy and other mandatory ratios follow NBG requirements.

Bodies implementing Risk Management

The Board of Directors is ultimately responsible for Risk Management; however, there are separate independent bodies which are responsible for identifying, managing, controlling and monitoring risks.

The Board of Directors is responsible for the overall risk management approach and for approving short term and long term risk management strategies.

There are five different committees in the Bank responsible for Risk Management: Credit Committee, Assets and Liabilities Committee, Audit Committee, IT Committee, and the Risk Management Committee.

Credit Committee

The Credit Committee manages, monitors and controls counterparty risks and approves loan transactions. It is also responsible for identifying the lending policy of the Bank, for credit administration, underwriting standards, the establishment and testing of allowances for credit losses, and controling credit concentration and asset quality.

Assets and Liabilities Committee (ALCO)

The overall objective of ALCO is to manage and report the Bank's Assets and Liabilities in terms of interest rate risk, liquidity risk and market risk.

ALCO also sets the Assets and Liabilities Management strategy, is responsible for Liquidity and Funding management and Internal treasury functions. It also advises the Board of Directors on the Bank's overall risk appetite.

IT Committee
The IT Committee resolves issues or conflicts that, if unresolved, would jeopardize the successful completion of approved IT initiatives. In addition to this, it is responsible for recommending a model for funding critical IT systems, including on-going and scheduled replacement costs; it reviews and appraises the Bank's IT disaster recovery capabilities and monitors the quality and effectiveness of the Bank's IT security.
Along with the above-mentioned responsibilities, the IT Committee also ensures that all processes are in place for the detection of security violations; monitoring compliance with the information security policy and standards is also among the accountabilities of the IT Committee.

Audit Committee
The Audit Committee (AuC) has the overall responsibility for overseeing the Bank's system of internal controls and relies heavily on an Internal Audit function to do so. It also communicates with the external auditor of the Bank, and reviews and provides comments on audited and auditor-reviewed full-year and half-year, respectively, IFRS Financial Statements and Management Letter before their release.

Although the Audit Committee has the quarterly obligation to hold a formal meeting as prescribed in the Statute, since August 2015 monthly meetings have been taking place.

Risk Management Committee
The Risk Management Committee was established by the Supervisory Board to provide assurance to the Supervisory Board that risk management and processes for control over risk are effective.

The responsibilities of the Risk Committee are to advise the Supervisory Board and assist in discharging its duties and responsibilities regarding risk management, i.e. where risk areas seem to require particular attention. It makes recommendations to the Supervisory Board, provides information to the Supervisory Board to help with strategy formulation, for example with regard to risk appetite in the Bank's strategy, instructs management to manage risks within the Supervisory Board guidelines for risk appetite, assesses risks, reviews risk registers, sets decision-making authorization limits, monitors the performance of management, reviews the findings of internal audits, ensures the functioning of the risk management system and its effectiveness, ensures that the business is being managed within the risk guidelines set by the Supervisory Board, and monitors the risk management system to ensure that it is effective and achieves its purpose.

INFORMATION TECHNOLOGIES

The IT and Banking Systems Development Department of PASHA Bank is responsible for determining our overall information technology strategy.

Upon starting operations in Georgia, we were faced with a need to upgrade our core system in a manner that would allow us to offer our clients products and services customary for the local market. The decision was taken to abandon the legacy core system and acquire a new solution from a vendor with a long track record of serving banking institutions in Georgia.

Our new core system, sourced locally, enabled us to fully synchronize the Bank's internal operations with the external systems critical for our corporate customers. For instance, Alta, our current core bank system, allows for seamless integration of payments between the Alta and SWIFT system as well as proprietary databases of such state institutions as the Georgian Revenue Service and Treasury.

Aside from being fully compatible with the local IT environment, Alta has eliminated the need to record a great number of transactions manually, thus reducing the operational risk the Bank faces in its daily activities. Apart from this, automatization of our core operations freed up a significant amount of time for our customer service operators. Transitioning to Alta gave us the opportunity to provide our customers with real time information regarding their bank balances and any other data pertaining to their business with us. Our legacy core system was not flexible enough to support the product development needs of the Bank, driven by the complex and always changing customer requirements. Now we are able to develop new products and services and offer them to our customers without paying heed to the limitations imposed upon us by the legacy system in the past.

Last but not least, our legacy system was not compatible with any of the internet banking solutions that meet minimum criteria required to be competitive in the Georgian banking environment.

After migration to the new core system was complete, we embarked on a project of identifying and implementing an effective and cost-efficient solution for our internet banking service. The internet banking solution was sourced from a Cypriot company, NETinfo Plc, which has many years of experience implementing similar solutions. Their portfolio includes clients from over 25 countries in geographies as diverse as Europe, Africa, Asia and South America. In 2015, the first phase of the internet banking project was completed with the result of a fully functional internet bank available to our customers from early spring. Phase two entails further expansion of our internet bank's capability through addition of features, the most prominent of which is mobile banking functionality.

Currently there are a number of ongoing IT projects covering the functional areas and processes such as: Human Resources, Procurement and Budgeting - comprehensive management information system implementation being the largest and most important of them all. The end goal of these projects is to achieve the reduction of manual work and corresponding reduction of operational risks to the greatest extent possible. In some instances, such as the MIS project, the end result will be a 100% automation of data aggregation, formatting and retrieval.

HUMAN RESOURCES

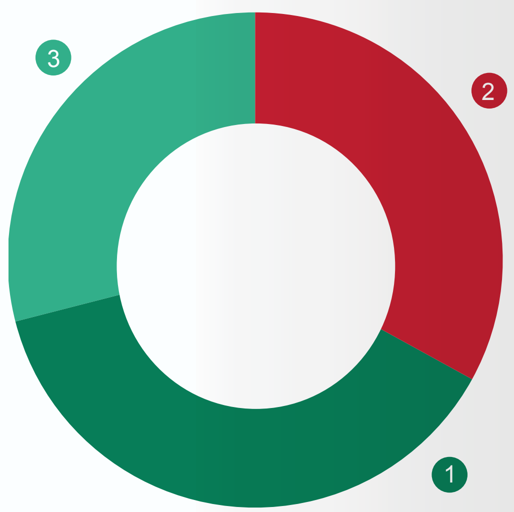
Team

At PASHA Bank we believe that the team is one of our most valuable assets. We have developed a culture of common respect, transparent relations and cooperation. We strive to be absolutely sure that each employee enjoys a healthy working environment, freedom of choice and opportunity for professional development. A big emphasis is put on the culture within our Bank. We make a great effort to remain a transparent, fair and professional team. We appreciate our employees and aim to help them grow and reach "New Heights. Together."

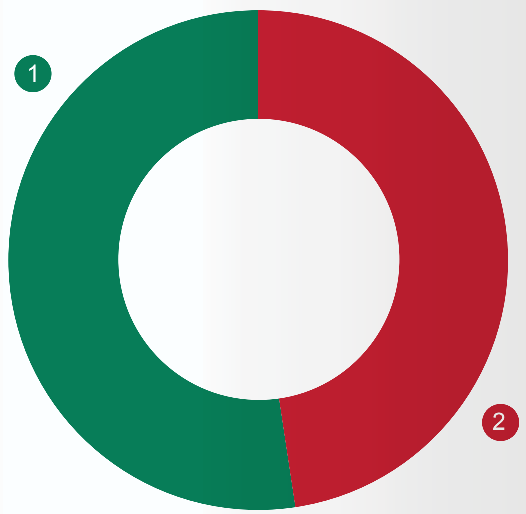
PASHA Bank is committed to hiring the best talent for our expanding business, as we recognize that our employees drive our success.

Our HR projects for the strategic period 2015-2017 cover the scope of all major employee oriented issues, such as Grading, Appraisal, Bonus and Compensation Systems, non-financial motivations and development of the internal culture of engagement and loyalty.

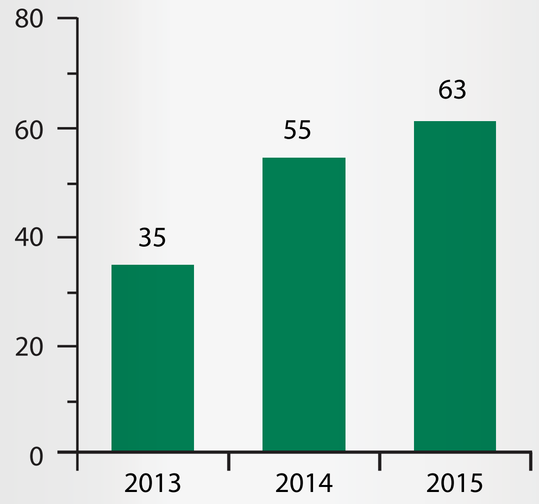
Length of Service



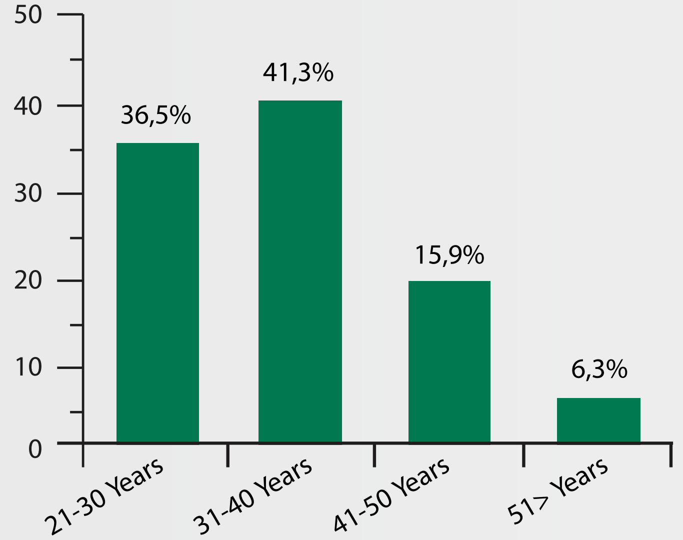
Gender Balance - December 2015



Number of Employees

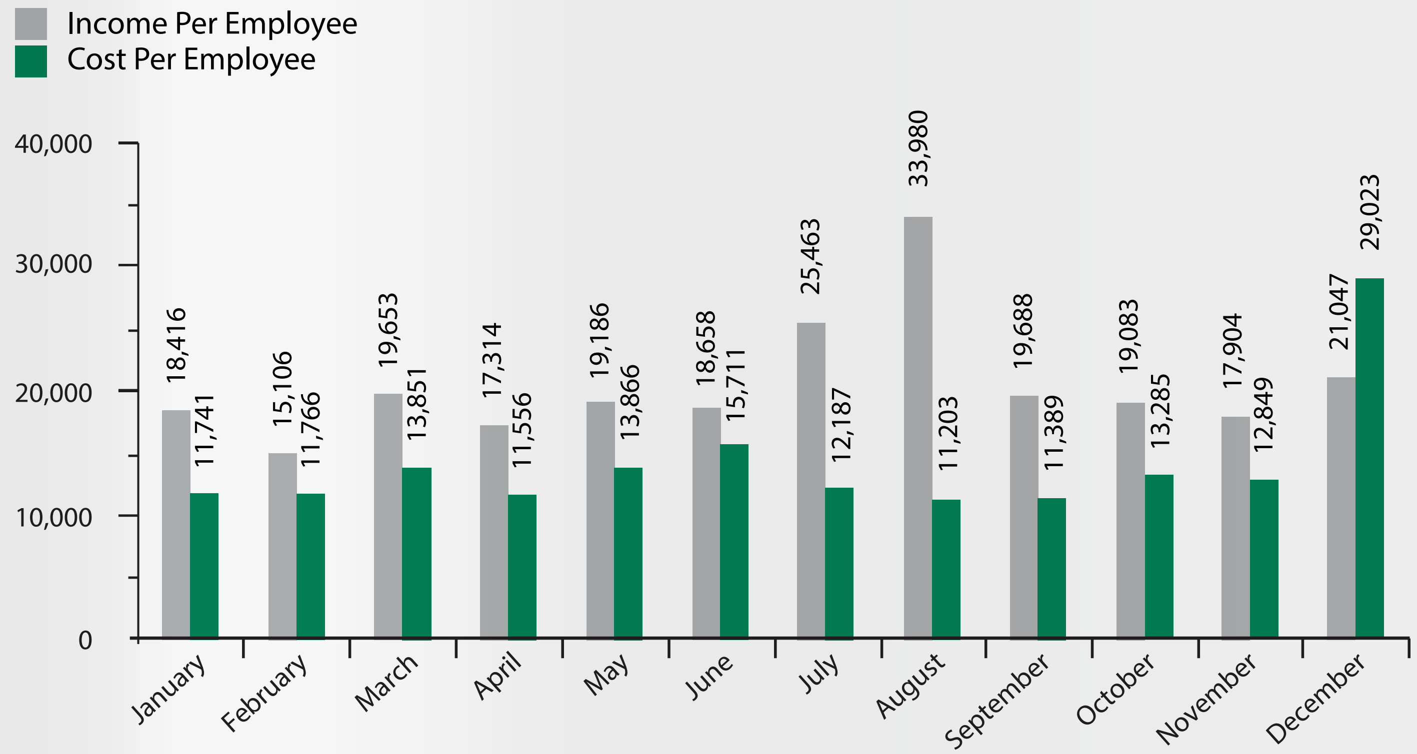


Age of Employees - December 2015



Cost vs. Revenue per Employee

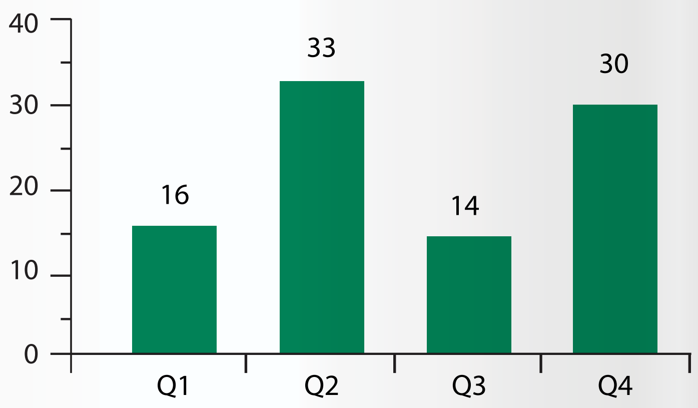
Despite the fact that the Bank's headcount had increased by c.a. 80% over the course of 2014 and 2015 by the beginning of the latter year we managed to breakeven and reach profitability on a per employee basis. This became possible as our loan and securities portfolio reached the critical mass required to generate the revenue levels necessary to cover the fixed costs. Dip in income per employee below the cost per employee observed in the last month of 2015 is due to the fact that a sizable portion of various operational expenses, the annual bonuses included, were allocated to the month of December, a temporary effect usually observed at this time of the year.



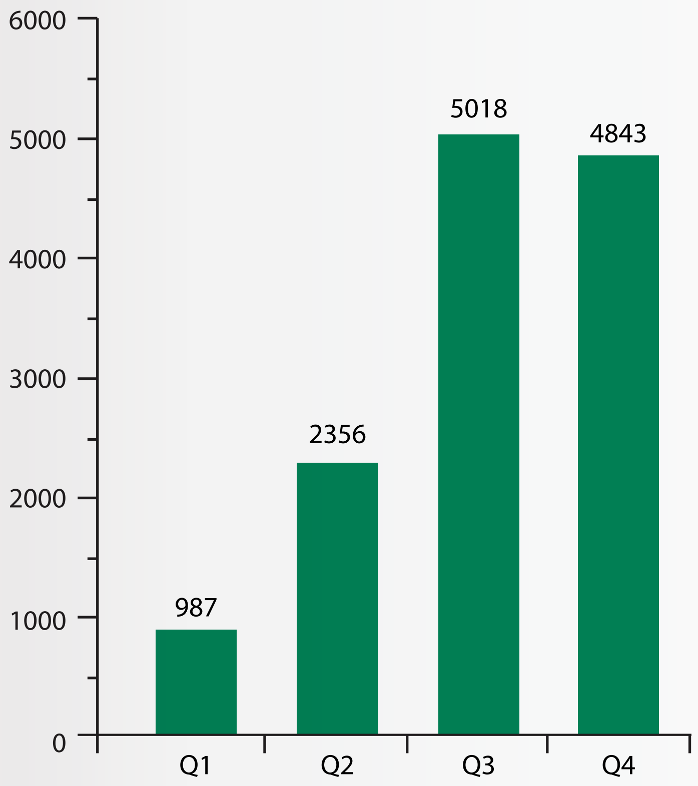
Development

Working at PASHA Bank is a great opportunity to grow professionally and develop a variety of skills. We support our team members in gaining knowledge; provide them with trainings locally and internationally; organize English lessons in the office for those interested in upgrading their language skills; and actively encourage international certification and qualification.

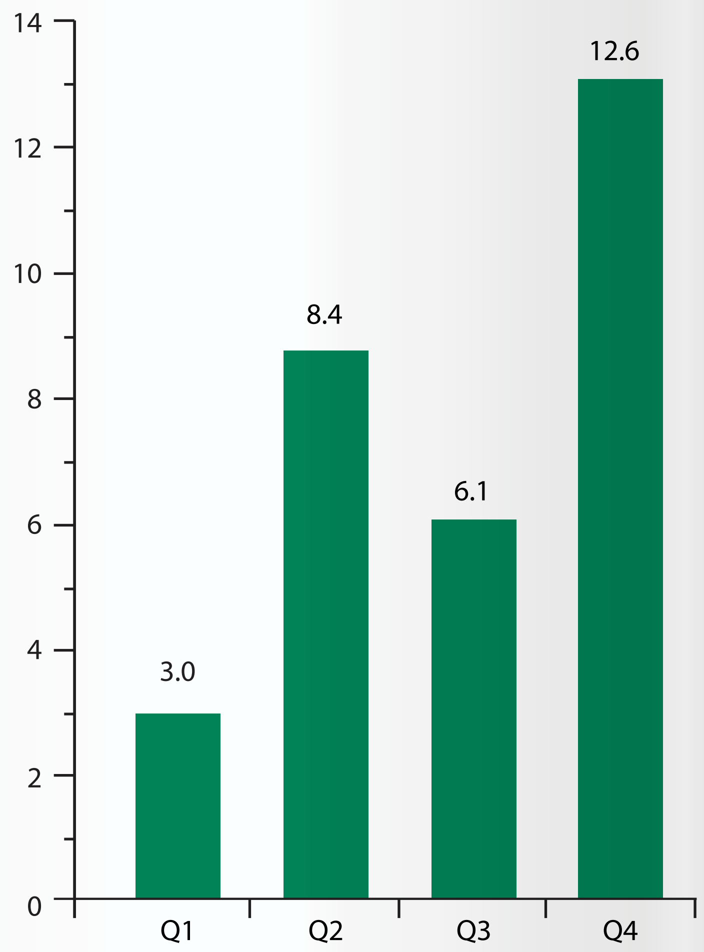
Number of people trained



Average actual training budget per employee (GEL)



Average number of training hours per employee



Internship program

For young talent, we have developed a paid Internship Program which enables participants to gain knowledge and practice their skills. The main idea of this program is rotation in four major banking departments (Financial Management, Operations, Treasury and Business Development). Our experienced team members support interns and guide them in their future careers.

Culture

Our team members are ambassadors of our corporate culture which encourages each employee to be responsible for their own and organizational performance. We promote a culture of transparency, ensuring fairness and social responsibility; we value people-engagement, loyalty and team spirit.

Employee recognition & motivation

We make a great effort to keep our employees happy with their jobs, remuneration package and the environment. Our remuneration system consists of competitive salaries (with a salary scale which is reviewed according to yearly market research) and variable pay that is linked to individual performance (quarterly, annual). Performance is assessed bi-annually and is linked to individual objectives and competencies.

Employee satisfaction percentage

We believe that it is very important to see our employees happy. Therefore, a satisfaction survey is conducted twice a year to see if they are happy with their jobs and to identify the points that need improvement. 2015 showed quite a high level of satisfaction - 84%. Our target is to at least maintain this figure and to keep such positive dynamics for the coming years.
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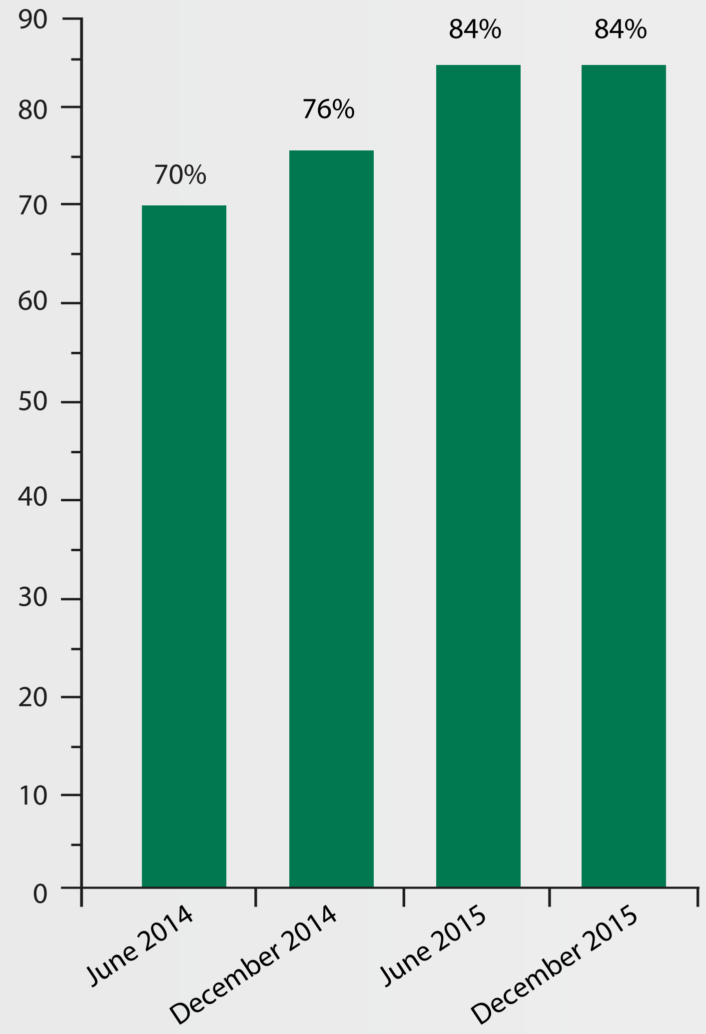
Satisfaction Survey



CORPORATE GOVERNANCE

GENERAL GOVERNANCE STRUCTURE

PASHA Bank has a two-tier corporate governance structure, meaning that there is a Supervisory Board, composed solely of non-executive directors, and a Board of Directors composed solely of executive directors of the Bank.

The Supervisory Board is responsible for general oversight of the Bank and of the Board of Directors. Its members are elected by the shareholders. The Supervisory Board is led by the Chairman, advises the Board of Directors and must be involved in decision-making on all fundamental matters affecting the Bank.

The Board of Directors is responsible for managing the Bank. It is led by the Chairman of the Board of Directors, who at the same time serves as the CEO of PASHA Bank Georgia. Its members are appointed by the Supervisory Board.

The Supervisory Board consists entirely of non-executive directors (the "NEDs") and includes:

- Representatives of shareholders
- Executive directors from other banking strategic assets of the holding company
- An independent non-executive director

The Board of Directors consists at all times of at least three executive directors. At the time of writing it is composed as follows:

- Chief Executive Officer
- Chief Commercial Officer
- Chief Financial Officer

PASHA Bank has the following governance structure:

- General Meeting of Shareholders
- Supervisory Board
- Supervisory Board Committees:
    - Audit Committee
    - HR and Remuneration Committee
    - Risk Management Committee
    - Strategy and Budget Committee
- Board of Directors
- Internal Audit Department
- Corporate Secretary

The Supervisory Board

The Supervisory Board is the key decision-making body of PASHA Bank, responsible to shareholders for creating and delivering sustainable shareholder value through providing entrepreneurial leadership and direction to the Bank. It determines our strategic objectives and policies, provides overall strategic direction within a framework of rewards, incentives and controls, demonstrates ethical leadership and promotes collective vision of the Bank's purpose, values, culture and behaviors.

Members of the Supervisory Board act in a way that they consider, in good faith, will promote the success of the Bank for the benefit of the shareholders as a whole and, in doing so, regard of other stakeholders as well.

The primary responsibilities of the Supervisory Board are reviewing and approving corporate strategy, approving the annual budget and business plan; setting objectives and monitoring performance; oversight of major capital expenditures, acquisition and divestments; ensuring a formal and transparent system for the nomination, election, and replacement of directors; responsibility for succession planning; reviewing its own performance; overseeing the integrity of PASHA Bank's accounting and financial reporting systems; overseeing the integrity of the external audit process; overseeing the process of disclosure and communications, and being available for dialogue with shareholders; ensuring that an appropriate system of internal control is in place; responsibility for risk policy; overseeing a formal risk management process; monitoring and managing conflicts of interest, including misuse of corporate assets and related party transactions; determining the rights and obligations of members of the Board of Directors, monitoring and supervising their activities; and responsibility for the alignment of remuneration of executive directors and other senior executives with the long-term interests of PASHA Bank and its shareholders.

GOVERNANCE STRUCTURE

The Bank's supreme governing body is the General Meeting of Shareholders. Control over the Bank's management and activity is carried out by the Supervisory Board. The Audit Committee oversees the Bank's audit activities. The Bank's executive body is the Board of Directors.

MEMBERS OF THE SUPERVISORY BOARD

Mir Jamal Pashayev
Chairman of the Supervisory Board

Mir Jamal Pashayev graduated from the Physics Department at the Moscow State University in 1993, and went on to obtain his Master of Science in Engineering from the University of California in 1996, followed by a Master of Business Administration from the American University in Washington D.C. in 1998.

He joined the Mobil Corporation as a business project consultant to the company's Dallas and Washington offices in 1998 before arriving in Baku in 1999, where he took on the position of consultant to the Central Bank of Azerbaijan. He joined the European Bank of Reconstruction and Development (EBRD) as financial analyst in 2000, and was soon promoted to the position of banker on infrastructure projects. From 2005 to 2008, Mr. Pashayev was engaged in consulting activities for large-scale investment projects in the fields of infrastructure, telecommunications and financial services.

Mir Jamal Pashayev has been the Managing Director at PASHA Holding since 2006. He is also Chairman of the Supervisory Board of PASHA Insurance and PASHA Bank Azerbaijan.

Jalal Gasimov
Member of the Supervisory Board

Jalal Gasımov completed his undergraduate degree in economics at the Azerbaijan Economy University, receiving his graduate degree in Economic Relations, at the Higher Diplomatic College of Azerbaijan, and an MBA at Warwick Business School, UK.

Mr. Gasimov started his banking career at İlkbank OSJC, Azerbaijan in 1999. In 2002-2003 he held various positions with finance and private sector companies. He worked in Azpetrol Oil Company as a Finance Director in 2003-2004 and was the Deputy Chairman of the Board of Directors of Azpetrol Holding from 2004 to 2006. He joined the Moscow Office of McKinsey & Company and served as a Consultant in 2006-2007. He held top management duties; CEO in Bank of Baku, Finance Director in CRA Group Companies, and CEO and Chairman of the Executive Board in Unibank between 2007-2015, respectively. Jalal Gasımov joined PASHA Holding as the Head of the Banking Group and Deputy CEO in 2015 and also serves as the Chairman of the Supervisory Board of Kapital BANK OSJC.

Nikoloz Shurgaia
Member of the Supervisory Board (Independent Member)

Nikoloz Shurgaia began his career in banking at Eximbank of Georgia in 1994 and continued at United Georgian Bank (Tbilisi). In 2004-2005 Mr Shurgaia worked as Assistant Vice President at ABN AMRO BANK (Moscow). In 2005-2008, he was a Principal Banker at the Financial Institutions Group of EBRD (London). From 2008 to 2009 he served as CEO of VTB Bank (Georgia) in Tbilisi. He continued his career at Belarusky Narodny Bank (Minsk) as Chairman of the Supervisory Board while he simultaneously served at Bank of Georgia (Tbilisi) as Deputy CEO. In 2012-2014, Mr Shurgaia chaired the Management Board of Rabitabank (Baku).

Along with executive positions in banks, since 2012, Mr. Shurgaia has served as an independent advisor and supervisory board member at a number of banks in Azerbaijan, Georgia, Kazakhstan and Belarus. he holds a Bachelor's Degree in Finance and Credit from Tbilisi State University and an MBA from the London Business School.

Nikoloz Shurgaia was appointed a Member of the Supervisory Board of PASHA Bank on January 31, 2015.

Taleh Kazimov
Member of the Supervisory Board

Taleh Kazimov recieved his higher education from the Azerbaijan Technical University in 2000-2004 with a Major in Automation and Computer Engineering. He also holds an MBA from the Azerbaijan State Oil Academy and a Commerce Degree with a Major in Finance from Georgia State University. He is an alumnus of London and Harvard Business Schools.

He started his career in the financial sector in 2004 at CJSC Bank Standard as a leading specialist in the Treasury Department and was later promoted to the post of Head of Management Accounting and Budget Planning Division and further to the Deputy Director of Corporate Credits Department. In 2006, Mr. Kazomov joined EY as an Auditor and from 2007 worked as the General Director of FinEco Informational Analytical Agency.

Taleh Kazimov joined PASHA Bank (Azerbaijan) in 2007 as the Manager of the Risk Management Department and was promoted to the position of Bank Treasury Director in 2009. In December 2011, Mr. Kazimov was appointed as the Chief Investment Officer of the Bank and the Member of the Executive Board, responsible for the functions of business development, SME, institutional and investment banking and risk management.

Taleh Kazimov was appointed as CEO of PASHA Bank (Azerbaijan) on July 1, 2015. He was appointed a Member of the Supervisory Board of PASHA Bank on October 26, 2015.

H. Cenk Eynehan
Member of the Supervisory Board

Hikmet Cenk Eynehan received his degree in economics from Erasmus University in the Netherlands, and his bachelor's degree in management from Monroe College in the United States of America, and his Executive MBA degree from Koç University, Istanbul.

He commenced his banking career in 1994 and occupied various positions in DHB Bank (Netherlands) N.V. until 2001. He continued his professional career as a managing director in the non-financial sector in 2002-2004 and he joined Şekerbank T.A.Ş. and held executive positions in various departments between 2005-2010. He was Deputy General Manager in charge of Corporate Marketing & Sales with Ekspo Factoring A.Ş. in 2011-2013. He was appointed as General Manager and Board Member of PASHA Yatırım Bankası A.Ş. on August 2, 2013.

He has 21 years of experience in banking and business administration.

Mr. Eynehan was appointed a Member of the Supervisory Board of PASHA Bank on October 26, 2015.

MEMBERS OF THE BOARD OF DIRECTORS

Shahin Mammadov
Chairman of the Board of Directors, CEO

Shahin Mammadov majored in accounting at the Azerbaijan State Economic University and obtained a diploma in 2002. In 2004 he was awarded a Master's Degree from the same university and a Ph.D. in Economy in 2010.

Mr. Mammadov held the roles of accountant and deputy chief accountant at Kochbank Azerbaijan Ltd. from 2003. He joined Deloitte & Touche in 2005 as Associate Auditor and was subsequently promoted to Audit Manager. He has been ACCA since 2014.

In 2009, Mr. Mammadov was assigned to the position of Director of the Financial Management Department at PASHA Bank head office and in 2011 he became a member of the Executive Board. In 2013 he moved to PASHA Bank Georgia to take the position of Business Development Director. Since July 2014, Mr. Mammadov has been the CEO and Chairman of the Board of Directors at PASHA Bank.

George Japaridze
Member of the Board of Directors, CCO

Goga Japaridze graduated from Tbilisi State University in 1996 with a Bachelor of Science degree in Biology. He went on to receive an MBA from Hofstra University's Zarb Business School in 2002.

Mr. Japaridze began his banking career in 2003 as an associate at BG Capital, the investment banking subsidiary of Bank of Georgia, before taking on the role of senior equity banker at Bank of Georgia in 2005. He held the position of principal banker at the EBRD's private equity facility in Tbilisi and London from 2006 to 2011. He then moved to the role of Head of Corporate Banking at Bank Republic Société Générale Group.

Mr. Japaridze joined PASHA Bank as Commercial Director in January 2014. Since April 2015, Mr. Japaridze is CCO and a member of Board of the Directors at PASHA Bank.

Chingiz Abdullayev
Member of the Board of Directors, CFO

Chingiz Abdullayev obtained his Bachelor's degree in Business Administration from the Western University of Baku, Azerbaijan, in 1999, and a Master's degree in Finance from the State Economic University of Azerbaijan in 2005.

He started his career at Baku Stock Exchange as the Head of the Listing Division in 2000. In 2003 he joined the Assurance & Advisory Service of Deloitte and for the following 10 years worked at senior positions with KPMG Russia, Moore Stephens CIS and RSM Georgia with a major focus on financial institutions, energy, trade and other industry sectors.

Chingiz Abdullayev joined PASHA Bank in 2014 as Head of the Financial Management Department. Since January 13th, 2016 Mr. Abdullayev is CFO and a Member of the Board of Directors.

THERE ARE FOUR COMMITTEES SUPPORTING THE SUPERVISORY BOARD

- **Audit Committee**
  Azer Sadigov - chairman
  Parvin Ahadzade - member
  Jamil Mammadov - member
- **Strategy and Budget Committee**
  Jalal Gasimov - chairman
  Sarkhan Aliyev - member
  Murad Ahmadov - member
  Hayala Naghiyeva - member
  Turkhan Mahmudov - member
- **Members of HR & Remuneration Committee**
  Mir Jamal Pashayev - chairman
  Jalal Gasimov - member
  Ayten Abbasli - member
- **Members of the Risk Management Committee**
  Nikoloz Shurgaia - chairman
  Jalal Gasimov - member
  Kamala Nuriyeva - member
  Elman Eminov - member
  Hayala Naghiyeva - member

THERE ARE CURRENTLY THREE COMMITTEES SUPPORTING THE BOARD OF DIRECTORS:

- **Credit Committee**
- **IT Committee**
- **Assets and Liabilities Committee**

INTERNAL AUDIT DEPARTMENT

The Internal Audit Department (IAD) of PASHA Bank is responsible for providing an objective appraisal service to the Bank's management and Audit Committee through an independent, objective assurance on effectiveness of internal control systems in mitigating risks related with significant processes, and ensuring compliance of the Bank's financial, economic, administrative and other activities with current legislative acts and internal regulations.

The IAD is independent of the Board of Directors and reports to the Audit Committee. IAD receives feedback on the Internal Audit (IA) Annual Plan and authorization on any changes to its scope from the Audit Committee.

Day-to-day activities of the IAD are guided by the Internal Audit Policies and Procedures Manual approved by the Audit Committee in September, 2014.

Among others, during 2015 the Internal Audit Department reviewed a number of business processes, including establishment of correspondent relations with local and international financial institutions, foreign exchange operations, placement of interbank loans and deposits, and other treasury activities, as well as external reporting (i.e. reporting to the National Bank of Georgia, PASHA Holding and PASHA Bank Azerbaijan), Anti-Money-Laundering (AML) frameworks in place, and Operations Department activities.

From August 2015, under the scope of the Group Audit Strategy introduced by PASHA Holding Group Audit Department to the IADs of strategic assets, the Internal Audit Department of PASHA Bank Georgia commenced monthly reporting to the Audit Committee on the status of Critical / High Risk audit findings. The same reports are also presented to the Board of Directors and Supervisory Board with monthly and quarterly frequency, respectively.

COMPLIANCE DEPARTMENT

The Compliance Department is responsible for compliance with laws, regulations, rules and self-regulatory organizational standards, including those related to Anti-Money Laundering (AML) and Foreign Account Tax Compliance Act (FATCA). A revised compliance policy and relevant AML procedures were approved in 2014.

The aim of the AML procedures is to create a mechanism to protect the Bank from being involved in Money Laundering and Financing Terrorism. These mechanisms include Know Your Customer, Risk-Based Approach and Enhanced Due Diligence procedures. During 2015, new procedures related to FATCA compliance were established in the Bank.

Despite the Banks best efforts to maintain effective compliance procedures and to comply fully with applicable laws and regulations, a number of risks remain in areas where applicable regulations may be unclear or subject to multiple interpretations; or in cases where existing regulations might be contradictory, or where regulators revise their previous guidance, which could result in our temporary failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against the Bank in such instances.

To further strengthen the compliance function of the Bank, a Compliance Report, through which the Bank's management is kept up-to-date on the compliance issues and/or risks identified, is prepared and presented to the Board of Directors on a quarterly basis and to the Supervisory Board on an annual basis.

FINANCIAL STATEMENTS

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Independent Auditors Report

To the shareholders and Boards of the Directors of JSC Pasha Bank Georgia

We have audited the accompanying financial statements of JSC Pasha Bank Georgia, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2015, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's Responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessment of the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC PASHA Bank Georgia as at 31 December 2015, and its financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.

EY Georgia LLC

15 March 2016

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015
(Amounts in tables are in thousands of Georgian Lari)

	Notes	2015	2014
Assets			
Cash and cash equivalents	5	**22,282**	7,100
Amounts due from credit institutions	6	**21,152**	13,700
Loans to customers	7	**108,602**	51,836
Investment securities	8	**123,320**	76,219
Property and equipment	9	**2,689**	4,047
Intangible assets	10	**2,024**	1,097
Deferred income tax assets	14	**1,522**	–
Other assets	11	**719**	1,208
Total assets		**282,310**	**155,207**
Liabilities			
Amounts due to credit institutions	12	**161,929**	52,982
Amounts due to customers	13	**21,288**	5,197
Deferred income tax liabilities	14	**–**	98
Provisions for guarantees and letters of credit		**–**	59
Other liabilities	11	**912**	386
Total liabilities		**184,129**	**58,722**
Equity			
Share capital	15	**103,000**	103,000
Accumulated deficit		**(4,527)**	(6,789)
Other reserves		**(292)**	274
Total equity		**98,181**	**96,485**
Total equity and liabilitie		**282,310**	**155,207**

Signed on behalf of the Board of Directors of the Bank:

Shahin Mammadov — Chairman of the Board of Directors

Chingiz Abdullayev — Chief Financial Officer, Member of the Board of Directors

15 March 2016

The accompanying selected explanatory notes on pages 54 to 93 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015
(Amounts in tables are in thousands of Georgian Lari)

	Notes	2015	2014
Interest income			
Loans to customers		**9,864**	2,837
Investment securities		**7,859**	3,539
Amounts due from credit institutions		**1,322**	1,376
		19,045	**7,752**
Interest expense			
Amounts due to credit institutions		**(5,741)**	(808)
Amounts due to customers		**(168)**	(92)
		(5,909)	**(900)**
Net interest income		**13,136**	6,852
Provision for impairment losses on interest bearing assets	7	**(3,541)**	(295)
Net interest income after impairment losses		**9,595**	**6,557**
Net gains/(losses) from foreign currencies:			
- dealing		**294**	104
- translation differences		**300**	(116)
Net fee and commission income/(expense)	17	**307**	(11)
Other operating income		**117**	303
Non-interest income		**1,018**	**280**
Personnel expenses	18	**(4,489)**	(2,273)
General and administrative expenses	18	**(3,721)**	(2,891)
Depreciation and amortisation	9,10	**(1,824)**	(1,707)
Other operating expenses		**–**	(505)
Reversal/(provision) for impairment losses on guarantees and letters of credit		**59**	(59)
Loss on initial recognition of financial assets at fair value		**–**	(3,206)
Non-interest expenses		**(9,975)**	**(10,641)**
Profit/(loss) before income tax benefit		**638**	(3,804)
Income tax benefit	14	**1,624**	6
Net profit/(loss) for the period		**2,262**	**(3,798)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net unrealized (loss)/gain on investments securities available for sale		**(562)**	280
Income tax effect on net (loss)/gain on investments available for sale	14	**(4)**	(6)
Total comprehensive profit/(loss) for the year		**1,696**	**(3,524)**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015
(Amounts in tables are in thousands of Georgian Lari)

	Share capital	Accumulated deficit	Other Reserves	Total Equity
1 January 2014	**35,000**	**(2,991)**	**–**	**32,009**
Loss for the year	–	(3,798)	–	(3,798)
Other comprehensive income for the year	–	–	274	274
Total comprehensive loss for the year	**–**	**(3,798)**	**274**	**(3,524)**
Issue of share capital (Note 15)	68,000	–	–	68,000
31 December 2014	**103,000**	**(6,789)**	**274**	**96,485**
Profit for the year	–	2,262	–	2,262
Other comprehensive loss for the year	–	–	(566)	(566)
Total comprehensive income for the year	**–**	**2,262**	**(566)**	**1,696**
31 December 2015	**103,000**	**(4,527)**	**(292)**	**98,181**

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015
(Amounts in tables are in thousands of Georgian Lari)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		**18,975**	4,830
Interest paid		**(5,680)**	(716)
Fees and commissions received		**561**	83
Fees and commissions paid		**(134)**	(109)
Realised gains less losses from dealing in foreign currencies		**294**	104
Personnel expenses paid		**(3,782)**	(2,432)
General and administrative expenses paid		**(4,037)**	(2,987)
Other income received		**117**	303
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**6,314**	**(924)**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**(2,470)**	300
Loans to customers		**(48,635)**	(47,999)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		**94,544**	40,570
Amounts due to customers		**14,837**	4,684
Other liabilities		**(204)**	204
Net cash from/(used in) operating activities		**64,386**	**(3,165)**
Cash flows from investing activities			
Purchase of investment securities		**(139,946)**	(83,272)
Proceeds from redemption of investment securities		**90,432**	22,585
Purchase of property and equipment		**(280)**	(137)
Purchase of intangible assets		**(466)**	(1,300)
Net cash used in investing activities		**(50,260)**	**(62,124)**
Cash flows from financing activities			
Share capital contribution	15	**–**	68,000
Net cash from financing activities		**–**	**68,000**
Effect of exchange rates changes on cash and cash equivalents		**1,056**	(36)
Net increase in cash and cash equivalents		**15,182**	**2,675**
Cash and cash equivalents, beginning	5	**7,100**	**4,425**
Cash and cash equivalents, ending	5	**22,282**	**7,100**

1. Principal activities

JSC PASHA Bank Georgia (the "Bank") was formed on 17 December 2012 as a joint stock company under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 17 January 2013.

The Bank accepts deposits and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial customers.
The Bank has one service office in Georgia as of 31 December 2015. The Bank's registered legal address is 15 Rustaveli Avenue, Tbilisi, 0108, Georgia.

As at 31 December 2015 and 2014, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), the Republic of Azerbaijan. The Bank is ultimately owned by Mrs. Leyla Aliyeva and
Mrs. Arzu Aliyeva, who exercise joint control over the Bank.

These financial statements have not yet been approved by the Parent at the General Meeting of Shareholders. The shareholders have the power and authority to amend the financial statements after the issuance.

2. Basis of preparation
General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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

3. Summary of accounting policies
Changes in accounting policies

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. They include:

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13
This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Bank's current accounting policy, and thus this amendment does not impact the Bank's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Bank did not record any revaluation adjustments during the current period.

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Bank as it does not receive any management services from other entities.

Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these i [consolidated] financial statements. They include:

IFRS 13 Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Bank does not apply the portfolio exception in IFRS 13.

Meaning of effective IFRSs – Amendments to IFRS 1
The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Bank, since the Bank is an existing IFRS preparer.

Fair value measurement

The Bank measures financial instruments, such as available-for-sale securities at fair value at each reporting date. Fair values of financial instruments measured at amortised cost are disclosed in Note 20.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly ob servable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Measurement of loans and receivables originated through acquisition

In the case of loans and receivables originated through acquisition the fair value at initial recognition is measured using discounting of future cash flows expected from the financial asset. The difference between the acquisition price and the fair value is recognized in the statement of comprehensive income as gain/(loss) on initial recognition. This policy is applied equally to transactions with third parties, related parties, entities under common control and shareholders.

These loans and receivables are also measured at amortized cost using the effective interest method. Any gain resulting from revision of estimates of the future cash flows is accounted in the statement of comprehensive income within interest income from loans to customers. Any loss resulting from impairment is accounted within the loan loss provision in the statement of comprehensive income.

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the statement of profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial reconition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

3. Summary of accounting policies (continued)

Offsetting of financial instruments (continued)

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

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

Amounts due from credit institutions, investment securities: loans and receivables and loans to customers

For amounts due from credit institutions, investment securities: loans and receivables and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of industrial average of historical loss experience for assets with credit risk characteristics similar to those in the group, due to the reason that the Bank does not have sufficient statistical data.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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, and the difference in the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Georgia, excluding mandatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments such as currency swaps. These financial instruments are recorded at fair value and the fair values of currency swaps are estimated based on sport market prices, due to short term maturities of the financial instruments.
Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from foreign currencies dealing.

Mandatory reserve deposit with the NBG

Mandatory reserve deposits with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory reserve is included in amounts due from credit institutions.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.
Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Georgia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Furniture and fixtures	4
Computers and equipment	4
Motor vehicles	4
Other equipment	5
Leasehold improvements	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

3. Summary of accounting policies (continued)

Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Contingencies

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

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts.
The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Georgian Lari ("GEL"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official GEL exchange rates at 31 December 2015 and 2014 were 2.3949 GEL and 1.8636 GEL to 1 USD, respectively, 2.6169 GEL and 2.265 GEL to 1 EUR, respectively and 1.5374 GEL and 2.3758 GEL to 1 AZN, respectively.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements which may have impact on the Bank's financial statements are disclosed below. The Bank intends to adopt this standard, when it becomes effective. Management does not expect application of other new standards and interpretations to have significant impact on financial statements.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Bank does not expect a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2012-2014 Cycle
These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 7 Financial Instruments: Disclosures – servicing contracts
IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively.

(Amounts in tables are in thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements
In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report.
The amendment must be applied retrospectively for annual periods beginning on or after
1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Significant accounting judgments and estimates

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investment securities

The Bank changed the classification of its investment securities on 1 July 2015. It was the Bank's judgment that all of its securities classified as available-for-sale will be held until maturity and thus they qualify for reclassification into investment securities: loans and receivables or investment securities: held-to-maturity in line with the Bank's accounting policy (Note 8). The classification of investment securities significantly impacts the amounts reported in the financial statements.
Note 20 discloses the difference between the carrying value and the fair value of investment securities.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

4. Significant accounting judgments and estimates

Estimation uncertainty (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 20.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. As at 31 December 2015 total loan portfolio was assessed on collective basis (Note 7). Due to inexistence of own historical loss experience for loans to customers, the Bank uses industry average loss ratios for collectively assessed loans.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	2014
Cash on hand	**406**	487
Current accounts with the NBG	**922**	68
Current accounts with other credit institutions	**2,159**	666
Time deposits with credit institutions up to 90 days	**18,795**	5,879
Cash and cash equivalents	**22,282**	**7,100**

As at 31 December 2015, current accounts and time deposit accounts with credit institutions denominated in EUR represent 69.84% of total current and time deposit accounts (31 December 2014: 65.05%). The outstanding balance of current accounts and time deposits accounts, consist of interest bearing correspondent account balances with resident banks in the amount of GEL 987 thousand and GEL 18,795 thousand, respectively, (31 December 2014:
GEL 129 and GEL 5,879 thousand respectively) and non-interest bearing correspondent account balances with resident and non-resident banks in the amounts of GEL 1,140 thousand and GEL 32 thousand, respectively (31 December 2014: GEL 150 thousand and GEL 387 thousand, respectively).

(Amounts in tables are in thousands of Georgian Lari)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2015	2014
Mandatory reserve with the NBG	**12,610**	2,595
Time deposits for more than 90 days	**8,542**	11,105
Amounts due from credit institutions	**21,152**	**13,700**

Time deposits comprise of deposits in USD placed with one local commercial bank with maturities in first quarter of 2016 and interest rates of 5.50% p.a. (31 December 2014: 5.50% p.a. to 10.00% p.a.).

Credit institutions are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 10.00% and 15.00% of the average of funds attracted from customers by the credit institution for the appropriate two-week period in GEL and foreign currencies, respectively. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

7. Loans to customers

Loans to customers comprise:

	2015	2014
Private entities	**70,651**	32,968
State controlled entities	**36,347**	19,267
Individuals	**2,915**	–
Loans to customers	**109,913**	**52,235**
Less – Allowance for impairment	**(1,311)**	(399)
Loans to customers	**108,602**	**51,836**

7. Loans to customers (continued)

As at 31 December 2014 included in loans to customers was a syndicated loan acquired from the Parent on 5 June 2014. GEL 15,731 thousand was the consideration paid to the Parent at the time of acquisition. The loan was initially recognized at fair value estimated to equal GEL 12,525 thousand. The loss on initial recognition of financial assets of GEL 3,206 thousand was recognized in the statement of comprehensive income for the year ended 31 December 2014. In August 2015 the management of the Bank negotiated and executed a deal to sell the loan at a discount.

The movement in allowance for impairment losses for loans to customers was as follows:

		2015	
	Private legal entities	**Individuals**	Total
At 1 January 2015	**399**	**–**	**399**
Charge for the year	3,483	**58**	3,541
Write-off	(2,629)	**–**	(2,629)
At 31 December 2015	**1,253**	**58**	**1,311**
Collective impairment	1,253	**58**	1,311

		2014	
	Private legal entities	**Individuals**	Total
At 1 January 2014	**104**	**–**	**104**
Charge for the year	295	**–**	295
At 31 December 2014	**399**	**–**	**399**
Collective impairment	399	**–**	399

Collateral and other credit enhancements

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 charges over real estate properties and guarantees from the Parent. The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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 loan impairment.

Concentration of loans to customers

As at 31 December 2015, the Bank had a concentration of loans due from three major group of borrowers in the total exposure of GEL 63,039 thousand that represented 57.35% of the total gross loan portfolio (31 December 2014: three loans of GEL 39,116 thousand with 74.88% of the gross loan portfolio). As at 31 December 2015 an allowance of GEL 374 thousand (31 December 2014: nil) was recognised against these loans.

(Amounts in tables are in thousands of Georgian Lari)

7. Loans to customers (continued)

Loans are made in the following industry sectors:

	2015	2014
Trade and services	**61,775**	17,431
Energy	**24,833**	16,510
Non-banking credit organizations	**13,214**	3,093
Construction	**7,176**	–
Individuals	**2,915**	–
Transport and telecommunications	**–**	13,000
Manufacturing	**–**	333
Other	**–**	1,868
	109,913	**52,235**

8. Investment securities

As at 31 December 2015, investment securities mainly comprised of debt securities of the Ministry of Finance of Georgia, debt securities of the National Bank of Georgia and debt securities of companies and commercial banks registered in Georgia and Azerbaijan.

Investment securities comprise:

	2015	2014
Investment securities: loans and receivables		
Treasury bonds of the Ministry of Finance of Georgia	**38,718**	–
Treasury bills of the Ministry of Finance of Georgia	**23,528**	–
Bonds of financial institutions	**24,652**	–
Certificates of deposit of the NBG	**15,326**	–
Certificates of deposit of financial institutions	**12,204**	–
Corporate bonds	**8,892**	–
Total investment securities: loans and receivables	**123,320**	**–**

	2015	2014
Investment securities: available-for-sale		
Treasury bills of the Ministry of Finance of Georgia	**–**	53,392
Treasury bonds of the Ministry of Finance of Georgia	**–**	8,163
Bonds of financial institutions	**–**	6,197
Corporate bonds	**–**	4,652
Certificates of deposit of financial institutions	**–**	3,815
Total investment securities: available-for-sale	**–**	**76,219**
Total investment securities	**123,320**	**76,219**

8. Investment securities (continued)

On 1 July 2015 the Bank's Asset and Liability Committee (ALCO) decided to reclassify all of the Bank's investment securities from the available-for-sale category into category of loans and receivables. The Bank has no history of sale of any of its securities before maturity. The Bank assessed that based on the changing market conditions it is not intending to sell the securities in future and will hold them till their contractual maturities. The fair value of available-for-sale securities at the date of reclassification was GEL 94,516 thousand.

9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	Computers and equipment	Motor vehicles	Other equipment	Leashold im-provements	Total
Cost						
31 December 2013	**1,767**	**2,209**	**116**	**431**	**1,908**	**6,431**
Additions	51	70	–	16	–	137
31 December 2014	**1,818**	**2,279**	**116**	**447**	**1,908**	**6,568**
Additions	22	111	131	12	4	280
31 December 2015	**1,840**	**2,390**	**247**	**459**	**1,912**	**6,848**
Accumulated depreciation:						
31 December 2013	**(269)**	**(324)**	**(20)**	**(54)**	**(283)**	**(950)**
Depreciation charge	(449)	(548)	(29)	(87)	(458)	(1,571)
31 December 2014	**(718)**	**(872)**	**(49)**	**(141)**	**(741)**	**(2,521)**
Depreciation charge	(455)	(575)	(59)	(91)	(458)	(1,638)
31 December 2015	**(1,173)**	**(1,447)**	**(108)**	**(232)**	**(1,199)**	**(4,159)**
Net book value:						
31 December 2013	**1,498**	**1,885**	**96**	**377**	**1,625**	**5,481**
31 December 2014	**1,100**	**1,407**	**67**	**306**	**1,167**	**4,047**
31 December 2015	**667**	**943**	**139**	**227**	**713**	**2,689**

(Amounts in tables are in thousands of Georgian Lari)

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses	Computer software	Total
Cost			
31 December 2013	**876**	232	1,108
Additions	152	551	703
Disposals and write offs	(592)	(15)	(607)
31 December 2014	**436**	**768**	**1,204**
Additions	54	1,061	1,115
Disposals and write offs	(2)	–	(2)
31 December 2015	**488**	**1,829**	**2,317**
Accumulated amortization			
31 December 2013	**(58)**	(15)	(73)
Amortization charge	(101)	(35)	(136)
Disposal and write offs	100	2	102
31 December 2014	**(59)**	**(48)**	**(107)**
Amortisation charge	(49)	(137)	(186)
31 December 2015	**(108)**	**(185)**	**(293)**
Net book value:			
31 December 2013	**818**	**217**	**1,035**
31 December 2014	**377**	**720**	**1,097**
31 December 2015	**380**	**1,644**	**2,024**

11. Other assets and liabilities

Other assets comprise:

	2015	2014
Other non-financial assets		
Prepaid expenses	**432**	284
Prepayments for operating lease	**150**	150
Prepayments for acquisition of intangible assets	**106**	752
Prepaid taxes other than income tax	**20**	15
Other	**11**	7
Other assets	**719**	**1,208**

Other liabilities comprise:

	2015	2014
Other financial liabilities		
Other financial liabilities	**95**	65
Derivative liabilities	**–**	204
	95	**269**
Other non-financial liabilities		
Payable to employees	**780**	73
Deferred income	**35**	24
Taxes other than income tax	**2**	20
	817	**117**
Other liabilities	**912**	**386**

The table below shows the fair values of derivative financial instruments, recorded as liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk. There are no derivatives as of 31 December 2015.

	2014	
	Notional amount	**Fair Value liability**
Foreign exchange contracts		
SWAPS – domestic	22,927	204
Total derivative liabilities	**22,927**	**204**

(Amounts in tables are in thousands of Georgian Lari)

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2015	2014
Short-term loan from the NBG	**69,700**	–
Time deposits of the Parent	**64,086**	43,222
Time deposits of resident commercial banks	**15,706**	9,318
Overdraft from the Parent	**6,397**	–
Time deposits of non-resident commercial banks	**4,793**	–
Current accounts of the Parent	**1,247**	442
Amounts due to credit institutions	**161,929**	**52,982**

The time deposits placed by four resident commercial banks denominated in GEL and a single non-resident bank denominated in USD, outstanding at 31 December 2015, matured in January 2016.

The loan from the NBG was obtained on 31 December 2015 and matured in January 2016.

Time deposits placed by the Parent are denominated in EUR, AZN and USD. Time deposits of GEL 44,304 thousand mature during 2016 and GEL 19,782 thousand matures in June 2017.

13. Amounts due to customers

The amounts due to customers include the following:

	2015	2014
Time deposits of customers	**11,149**	3,980
Current accounts of customers	**10,139**	1,217
Amounts due to customers	**21,288**	**5,197**
Held as security against guarantees (Note 16)	**10,497**	–

As at 31 December 2015, amounts due to customers included balances with three major customers of GEL 13,984 thousand that constituted 65.69% of the total of customer accounts
(31 December 2014: GEL 4,819 thousand constituting 92.72% of the total amounts due to customers).

An analysis of customer accounts by economic sector follows:

	2015	2014
Construction	**10,893**	3,813
Non-banking credit organizations	**5,511**	–
Trade and services	**4,569**	1,218
Energy	**235**	–
Individuals	**23**	–
Other	**57**	166
Amounts due to customers	**21,288**	**5,197**

14. Taxation

The corporate income tax benefit for the year ended 31 December 2015 comprises of deferred tax benefit of GEL 1,624 thousand (31 December 2014: GEL 6 thousand).

The income tax rate applicable to the Bank's income is 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit expense on statutory rates with actual is as follows:

	2015	2014
Profit/(loss) before income tax	**638**	**(3,804)**
Statutory tax rate	**15%**	**15%**
Theoretical income tax benefit at the statutory rate	**(96)**	**571**
Tax exempt income	**334**	**453**
Non-deductible expenses	**(53)**	**(108)**
Utilised tax losses carried forward, not recognized previously	**335**	**–**
Change in unrecognized deferred tax asset	**1,104**	**(910)**
Income tax benefit	**1,624**	**6**

Deferred tax assets and liabilities as at 31 December 2015 and 31 December 2014 and their movements for the respective period:

	2013	Through statement of profit and loss	Through statement of OCI	2014	Through statement of profit and loss	Through statement of OCI	2015
Tax effect of deductible temporary differences							
Tax losses carried forward	561	1,624	–	2,185	(367)	–	**1,818**
Other liabilities	19	(5)	–	14	54	–	**68**
Gross deferred tax asset	580	1,619	–	2,199	(313)	–	**1,886**
Unrecognised deferred tax asset	(561)	(910)	–	(1,471)	1,471	–	**–**
Deferred tax asset	**19**	**709**	**–**	**728**	**1,158**	**–**	**1,886**
Tax effect of taxable temporary differences							
Property and equipment	(100)	64	–	(36)	109	–	**73**
Intangible assets	(17)	(5)	–	(22)	(27)	–	**(49)**
Loans to customers	–	(762)	–	(762)	368	–	**(394)**
Investment securities	–	–	(6)	(6)	16	(4)	**6**
Deferred tax liability	**(117)**	**(703)**	**(6)**	**(826)**	**466**	**(4)**	**(364)**
Deferred tax asset/(liability)	**(98)**	**6**	**(6)**	**(98)**	**1,624**	**(4)**	**1,522**

The Bank incurred tax losses of GEL 10,915 thousand and GEL 3,440 thousand for 2014 and 2013 which, can be carried for 5 years and will expire in 2018 and 2019 respectively if not utilized. During 2015 the Bank utilized GEL 2,233 thousand from the tax losses of 2013. Management evaluated and concluded that it is probable that deferred tax assets on past tax losses will be recovered, since the Bank started to generate taxable profits in 2015, thus the deferred tax asset on tax losses carried forward has been recognized in full as at 31 December 2015.

(Amounts in tables are in thousands of Georgian Lari)

15. Equity

The share capital of the Bank was contributed by the Parent in GEL and they entitle to dividends and any capital distribution in GEL.

On 14 February 2014, the Parent of the Bank decided to increase the Bank's share capital by GEL 68,000 thousand. Increase of capital was paid on 17 March 2014.

As at 31 December 2015 and 2014, the Bank's authorized, issued and fully paid capital amounted to GEL 103,000 thousand comprising of 103,000,000 common shares with nominal value of GEL 1.00. Each share entitles one vote to the shareholder.

In accordance with Georgian legislation, dividends may only be declared by the Bank's Parent from the net income as shown in the Bank's financial statements prepared in compliance with the NBG requirements. The Bank is obliged to officially inform the NBG of any dividends declared and the NBG reserves the right to suspend or restrict the disbursement of dividends should the Bank be in breach of the NBG regulations.

No dividends were declared or paid during the year ended 31 December 2015 (2014: nil).

Nature and purpose of other reserves

Unrealised fair value changes on available-for-sale investments are recorded as other reserves in the equity.

16. Commitments and contingencies

Taxation

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant tax authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation as at 31 December 2015 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

16. Commitments and contingencies (continued)

Commitments and contingencies

As at 31 December 2015 and 2014, the Bank's commitments and contingencies comprised the following:

	2015	2014
Credit related commitments		
Guarantees issued	**22,326**	2,902
Unused credit lines	**443**	463
Letters of credit	**359**	559
	23,128	**3,924**
Operating lease commitments		
Not later than 1 year	**1,525**	1,112
More than 1 year but less than 5 years	**625**	1,633
	2,150	**2,745**
Capital commitments	**–**	108
Less: deposits held as security against guarantees issued (Note 13)	**(10,497)**	–
Commitments and contingencies	**14,781**	**6,777**

17. Net fee and commission income/(expense)

Net fee and commission income/(expense) comprise:

	2015	2014
Guarantees	**299**	11
Brokerage operations	**163**	–
Settlements operations	**72**	51
Cash operations	**13**	3
Currency conversion operations	**–**	29
Fee and commission income	**547**	**94**
Settlements operations	**(119)**	(98)
Plastic cards	**(56)**	–
Guarantees	**(45)**	–
Cash operations	**(19)**	(7)
Brokerage operations	**(1)**	–
Fee and commission expense	**(240)**	**(105)**
Net fee and commission income/(expense)	**307**	**(11)**

(Amounts in tables are in thousands of Georgian Lari)

18. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	2015	2014
Salaries	**3,160**	2,038
Bonuses and other employee benefits	**1,329**	235
Personnel expenses	**4,489**	**2,273**
Operating leases	**1,341**	1,005
Professional services	**912**	696
Advertising costs	**412**	337
Personnel training	**190**	84
Corporate hospitality and entertainment	**155**	105
Transportation and business trip expenses	**122**	120
Utilities	**117**	99
Security expenses	**69**	58
Communication	**62**	124
Maintenance and exploitation	**38**	7
Insurance	**35**	32
Taxes other than income tax	**34**	48
Membership fees	**26**	25
Other	**208**	151
General and administrative expenses	**3,721**	**2,891**

19. Risk management

Introduction

The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. Regardless of the sophistication of the measures, bank distinguishes between expected and unexpected losses. Expected losses are typically reserved for as described in credit risk policy. For unexpected losses Bank relies on its capital as a buffer to absorb such losses. The Bank is exposed to financial risk, being subdivided into credit and liquidity risk, operational risk and market risk, being subdivided into trading and non-trading risks.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. The Board of Directors is ultimately responsible for identifying and controlling risks and different departments and committees which are responsible for managing and monitoring risks.

19. Risk management (continued)

Introduction (continued)

Risk management

The Risk Management Department is responsible for determining, implementing and maintaining risk management framework.

Asset and Liability Committee

Asset and Liability Committee (ALCO) is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding, liquidity, interest rate, and capital adequacy risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited by the internal audit function on a constant basis, which examines the adequacy of the procedures, their design and operational effectiveness, and the Bank's compliance both with the regulatory requirements and internal procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Audit Committee

Audit committee functions are undertaken by the relevant audit committee members of the Parent.
The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions and performance of control functions by other departments in the Bank pertaining to general control environment, manual, IT dependent or application controls, intentional or unintentional misstatement risks, risk of fraud or misappropriation of assets, information security, anti-money laundering, etc.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. The main body to which the risks are reported is ALCO. The respective meetings are held once a month.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

(Amounts in tables are in thousands of Georgian Lari)

19. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Actual exposure per borrower against limits is monitored on loans granted. The Credit Committee may initiate a change in the limits. Where appropriate, the Bank obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of guarantee. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit review process.

Loans to customers of High grade are those for which the principal and interest are paid in a timely manner and are supported by the sound capital and paying capability of the borrower. This classification is proper when the borrower is financially strong and has sufficient capital to cushion unforeseen adverse impacts, is within its profit targets and produces cash flows sufficient to satisfy a liability on time, including the subject asset.

Standard grade is assigned to loans when they are adequately protected but potentially weak because while there was to be stable financial condition and paying capability of the borrower at the time of the loan's origination, some deficiencies or trends are now apparent which, if not corrected, might cause concern about the borrower's ability to continue to serve the loan in a timely manner.

Loans are classified as Sub-standard if they are inadequately protected by the capital and paying capability of the borrower or by the value of any supporting collateral. Sub-standard loan has such weaknesses or problems which jeopardize payments of the indebtedness or makes full repayment questionable.

19. Risk management (continued)

Credit risk (continued)

		Neither past due nor impaired		
	Notes	**High grade 2015**	**Standard grade 2015**	**Total 2015**
Amounts due from credit institutions	6	**21,152**	**–**	**21,152**
Loans to customers, gross	7	**109,913**	**–**	**109,913**
Investment securities	8	**117,105**	**6,215**	**123,320**
Total		**248,170**	**6,215**	**254,385**

		Neither past due nor impaired		
	Notes	**High grade 2014**	**Standard grade 2014**	**Total 2014**
Amounts due from credit institutions	6	13,700	–	**13,700**
Loans to customers, gross	7	39,235	13,000	**52,235**
Investment securities	8	76,219	–	**76,219**
Total		**129,154**	**13,000**	**142,154**

Impairment assessment

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. Zero collective assessment rates is applied for the loan exposures towards legal entities owned by high credit rated foreign government.

(Amounts in tables are in thousands of Georgian Lari)

19. Risk management (continued)

Credit risk (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Due to the reason that the Bank does not possess own statistical data impairment losses are calculated based on industrial average.

Financial guarantees are assessed and provision made in a similar manner as for loans to customers.

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

	2015				2014			
	Georgia	OECD	Other Non-OECD	Total	Georgia	OECD	Other Non-OECD	Total
Assets								
Cash and cash equivalents	**22,250**	**3**	**29**	**22,282**	6,713	185	202	7,100
Amounts due from credit institutions	**21,152**	**–**	**–**	**21,152**	4,636	–	9,064	13,700
Loans to customers	**108,602**	**–**	**–**	**108,602**	51,836	–	–	51,836
Investment securities	**117,105**	**–**	**6,215**	**123,320**	65,369	–	10,850	76,219
	269,109	**3**	**6,244**	**275,356**	**128,554**	**185**	**20,116**	**148,855**
Liabilities								
Amounts due to credit institutions	**85,407**	**2**	**76,520**	**161,929**	9,318	–	43,664	52,982
Amounts due to customers	**21,288**	**–**	**–**	**21,288**	5,197	–	–	5,197
Other liabilities	**91**	**4**	**–**	**95**	266	3	–	269
	106,786	**6**	**76,520**	**183,312**	**14,781**	**3**	**43,664**	**58,448**
Net assets/(liabilities)	**162,323**	**(3)**	**(70,276)**	**92,044**	**113,773**	**182**	**(23,548)**	**90,407**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Funds attracted from the Parent provide sufficient sources for the Bank's operations in the foreseeable future. The Bank manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of state securities that can be pledged to the NBG in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

19. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBG. As at 31 December, these ratios were as follows:

	2015 %	2014 %
LK "Average Liquidity Ratio" (Average volume of liquid assets / Average volume of liabilities)	**34.12**	102.66

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treat-ed as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to credit institutions	141,430	987	21,214	–	163,631
Amounts due to customers	20,636	2,919	–	–	23,555
Other financial liabilities	95	–	–	–	95
Total undiscounted financial liabilities	**162,161**	**3,906**	**21,214**	**–**	**187,281**

As at 31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to credit institutions	38,215	15,092	–	–	53,307
Amounts due to customers	4,864	347	–	–	5,211
Other financial liabilities	269	–	–	–	269
Total undiscounted financial liabilities	**43,348**	**15,439**	**–**	**–**	**58,787**

(Amounts in tables are in thousands of Georgian Lari)

19. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2015	**22,769**	**359**	**–**	**–**	**23,128**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2014	3,091	833	–	–	3,924

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

Currency	change in currency rate 2015	Effect on profit before tax 2015	change in currency rate 2014	Effect on profit before tax 2014
USD	15%/(15%)	105/(105)	1%/(1%)	(107)/107
AZN	15%/(15%)	15/(15)	1%/(1%)	108/(108)

19. Risk management (continued)

Market risk (continued)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The effect on profit before tax for one year assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:
allocated to the earliest period in which the guarantee could be called.

	Decrease of net interest income
2015	**1,303**
2014	589

Operational risk

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

20. Fair value measurements

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Amounts in tables are in thousands of Georgian Lari)

20. Fair value measurements (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			
As at 31 December 2015	**Level 1**	**Level 1**	**Level 1**	**Total**
Assets for which fair values are disclosed				
Cash and cash equivalents	22,282	–	–	**22,282**
Amounts due from credit institutions	–	–	21,152	**21,152**
Loans to customers	–	–	108,602	**108,602**
Investment securities	–	6,215	117,105	**123,320**

	Fair value measurement using			
As at 31 December 2015	**Level 1**	**Level 1**	**Level 1**	**Total**
Assets for which fair values are disclosed				
Amounts due to credit institutions	–	–	161,929	**161,929**
Amounts due to customers	–	–	21,288	**21,288**

	Fair value measurement using			
As at 31 December 2014	**Level 1**	**Level 1**	**Level 1**	**Total**
Assets measured at fair value				
Investment securities	10,849	–	65,370	**76,219**
Assets for which fair values are disclosed				
Cash and cash equivalents	7,100	–	–	**7,100**
Amounts due from credit institutions	–	–	13,700	**13,700**
Loans to customers	–	–	51,836	**51,836**

	Fair value measurement using			
As at 31 December 2014	**Level 1**	**Level 1**	**Level 1**	**Total**
Liabilities measured at fair value				
Other liabilities - derivative financial liabilities	–	204	–	**204**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	52,982	**52,982**
Amounts due to customers	–	–	5,197	**5,197**

20. Fair value measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 December 2015	**Carrying value 2015**	**Fair value 2015**	**Unrec-ognised gain/(loss) 2015**	**Carrying value 2014**	**Fair value 2014**	**Unrec-ognised gain/(loss) 2014**
Financial assets						
Cash and cash equivalents	22,282	22,282	–	7,100	7,100	–
Amounts due from credit institutions	21,152	21,152	–	13,700	13,700	–
Loans to customers	`108,602	108,602	–	51,836	51,836	–
Investment securities	123,320	121,500	(1,820)	–	–	–
Financial liabilities						
Amounts due to credit institutions	161,929	161,929	–	52,982	52,982	–
Amounts due to customers	21,288	21,288	–	5,197	5,197	–
Total unrecognised change in fair value			**(1,820)**			**–**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. All of the Bank's financial assets excluding loans to customers (i.e. cash and cash equivalents and amounts due from credit institutions) and financial liabilities (amounts due to customers) are either liquid or are maturing within 3 months from the reporting date.

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

Investment securities

As at 31 December 2015 investment securities represent fixed and floating rated financial assets carried at amortized cost (31 December 2014: investment securities available for sale, measured at fair value). The fair value for investment securities loans and receivables is derived by discounting the future cash flows using current market rates for similar financial assets.

(Amounts in tables are in thousands of Georgian Lari)

20. Fair value measurements (continued)

Movements in level 3 assets at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which are recorded at fair value:

	1 January 2015	Purchases	Interest income	Loss recorded in OCI	Settlements	Reclassifi-cations (Note 8)	At 31 December 2015
Assets							
Investment securities available-for-sale	65,370	77,525	3,104	(779)	(60,543)	(84,677)	–
	65,370	**77,525**	**3,104**	**(779)**	**(60,543)**	**(84,677)**	**–**

	1 January 2014	Purchases	Interest income	Gain recorded in OCI	Settlements	At 31 December 2014
Assets						
Investment securities available-for-sale	12,220	72,670	3,366	245	(23,131)	65,370
	12,220	**72,670**	**3,366**	**245**	**(23,131)**	**65,370**

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

31 December 2014	Carrying amount	Valuation techniques	Unobservable input	Range of discount rate
Investment securities available-for-sale				
Treasury bills of the Ministry of Finance of Georgia	53,392	Discounted cash flow	Discount rate	4.59% - 5.34%
Treasury bonds of the Ministry of Finance of Georgia	8,163	Discounted cash flow	Discount rate	6.47%
Certificates of deposit of financial institutions	3,815	Discounted cash flow	Discount rate	5.25%

In order to determine reasonably possible alternative assumptions the Bank adjusted the above key unobservable model inputs by increasing and decreasing the discount rate by 10%.

The effect on carrying amount of investment securities available for sale was immaterial.

21. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 19 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2015			2014		
	Within one year	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Cash and cash equivalents	22,282	–	22,282	7,100	–	7,100
Amounts due from credit institutions	21,152	–	21,152	13,700	–	13,700
Loans to customers	26,130	82,472	108,602	24,883	26,953	51,836
Investment securities	62,282	61,038	123,320	58,394	17,825	76,219
Property and equipment	–	2,689	2,689	–	4,047	4,047
Intangible assets	–	2,024	2,024	–	1,097	1,097
Deferred income tax assets	–	1,522	1,522	–	–	–
Other assets	604	115	719	1,189	19	1,208
Total	**132,450**	**149,860**	**282,310**	**105,266**	**49,941**	**155,207**
Amounts due to credit institutions	142,147	19,782	161,929	52,982	–	52,982
Amounts due to customers	21,288	–	21,288	5,197	–	5,197
Deferred income tax liabilities	–	–	–	–	98	98
Other liabilities	912	–	912	364	22	386
Provisions for guarantees and letters of credit	–	–	–	18	41	59
Total	**164,347**	**19,782**	**184,129**	**58,561**	**161**	**58,722**
Net	**(31,897)**	**130,078**	**98,181**	**46,705**	**49,780**	**96,485**

Negative net current position is mainly caused by the short-term nature of the funding obtained from the Parent and other credit institutions.

Included in amounts due to credit institutions are term deposits in amount of GEL 44,304 thousand obtained from the Parent that are maturing during 2016, including GEL 43,337 thousand that already matured as of the date of issuance of these financial statements.
All matured deposits were replaced by new term deposits of the Parent. The Bank has intention to continue using the short-term financing facilities from the Parent.

The Bank has obtained a letter from the Parent dated 25 February 2016, stating that the Parent intends and has the ability to continue financing of the Bank and prolong the maturities of the term deposits and not to demand repayment if it harms the financial stability of the Bank. The Bank’s net current position is positive GEL 11,440 thousand if term deposits from the Parent that have been replaced by the date of these financial statements are not considered.

(Amounts in tables are in thousands of Georgian Lari)

21. Maturity analysis of assets and liabilities (continued)

According to the NBG regulation monthly average liquidity ratio should not be less than 30%. The Bank was compliant with the NBG prudential ratio requirements in respect of liquidity during 2015 and 2014. Average liquidity ratio of the Bank for 2015 was 34.12%. For more details please refer to Note 19, Liquidity risk and funding management caption.

The Bank is also regulated by the NBG to maintain appropriate level of mandatory reserves in GEL and foreign currencies against its liabilities to other credit institutions and customers. The Bank has been in full compliance with the NBG's mandatory reserve requirements during the reporting period ending 31 December 2015 and 2014.

22. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	2015			2014	
	The Parent	Key management personnel	Entities under common control	The Parent	Key management personnel
Cash and cash equivalents	29	–	–	202	–
Amounts due to credit institutions	(71,730)	–	–	(43,664)	–
Amounts due to customers	–	(1)	(42)	–	–
Other liabilities	–	–	–	(7)	(3)

The income and expense arising from related party transactions are as follows:

	2015	2014
	The Parent	The Parent
Fee and commission income	**44**	8
Fee and commission expense	**53**	23
Interest expense on amounts due to credit institutions	**2,178**	526
Professional fees	**5**	–

22. Related party disclosures (Continued)

Compensation of key management personnel was comprised of the following:

	2015	2014
Salaries and other short-term benefits	**1,029**	407

Key management personnel as at 31 December 2015 and 2014, comprised of 3 members of the Supervisory Board and 3 members of the Board of Directors of the Bank.

23. Capital adequacy

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

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements set by the NBG to safeguard the Bank's ability to continue as a going concern and to maintain sufficient capital base to achieve a capital adequacy ratio of at least 11.4% during 2015 (2014: 12%). Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Chief Accountant and submitted to the NBG.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

(Amounts in tables are in thousands of Georgian Lari)

23. Capital adequacy (continued)

NBG capital adequacy ratio

The NBG requires banks to maintain a capital adequacy ratio of 11.4% of risk-weighted assets (2014: 12%) and Tier 1 Capital adequacy ratio of 7.6% (2014: 8%). As at 31 December 2015 and as at 31 December 2014, the Bank's capital adequacy ratios on this basis were as follows:

	Notes	31 December 2015	Adjustments	31 December 2015 Per the NBG
Share capital	15	103,000	–	103,000
Prior years accumulated deficit		(6,789)	(5,063)	(11,852)
Less: Intangible assets, net	10	(2,024)	–	(2,024)
Main capital		**94,187**	**(5,063)**	**89,124**
Current year income		2,262	431	2,693
General reserves	7	1,311	1,131	2,442
Additional capital		**3,573**	**1,562**	**5,135**
Less: deductions from capital		–		–
Total capital		**97,760**	**(3,501)**	**94,259**
Risk weighted assets				**215,933**
Capital adequacy ratio				43.65%
Tier 1 Capital adequacy ratio				41.27%

	Notes	31 December 2014	Adjustments	31 December 2014 Per the NBG
Share capital	15	103,000	–	103,000
Prior years accumulated deficit		(2,991)	94	(2,897)
Less: Intangible assets, net	10	(1,097)	–	(1,097)
Main capital		**98,912**	**94**	**99,006**
Current year loss		(3,798)	(5,157)	(8,955)
General reserves		458	394	852
Additional capital		**(3,340)**	**(4,763)**	**(8,103)**
Less: deductions from capital		–	–	–
Total capital		**95,572**	**(4,669)**	**90,903**
Risk weighted assets				**139,366**
Capital adequacy ratio				65.23%
Tier 1 Capital adequacy ratio				71.04%

Regulatory capital consists of main capital, which comprises share capital and retained earnings including current year profit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG. The other component of regulatory capital is Additional capital, which includes subordinated debt and revaluation reserve.

23. Capital adequacy (continued)

NBG capital adequacy ratio (continued)

Starting from 30 June 2014 the NBG requires that all banks comply with Basel II regulations in their capital adequacy assessment. This implies the minimum ratio of 10.50% for total regulatory capital coefficient, minimum 7.00% of the core Tier 1 capital coefficient and minimum 8.50 % for Tier 1 capital coefficient. As at 31 December 2015, the Bank's capital adequacy ratios on the Basel II basis were as follows:

	Notes	31 December 2015	Adjustments	31 December 2015 Per the NBG
Additional tier 1 capital	15	103,000	–	103,000
Prior years accumulated deficit		(6,789)	(5,063)	(11,852)
Less: Intangible assets, net	10	(2,024)	–	(2,024)
Current year income		2,262	431	2,693
Core Tier 1 capital		**96,449**	**(4,632)**	**91,817**
Tier 1 capital		**96,449**	**(4,632)**	**91,817**
Supplementary capital		1,311	1,131	2,442
Total regulatory capital		**97,760**	**(3,501)**	**94,259**
Risk weighted assets				**239,946**
Capital adequacy ratio				39.28%
Core Tier 1 capital/Tier 1 capital adequacy ratio				38.27%

	Notes	31 December 2014	Adjustments	31 December 2014 Per the NBG
Additional tier 1 capital	15	103,000	–	103,000
Prior years accumulated deficit		(2,991)	94	(2,897)
Less: Intangible assets, net	10	(1,097)	–	(1,097)
Current year loss		(3,798)	(5,157)	(8,955)
Core Tier 1 capital		**95,114**	**(5,063)**	**90,051**
Tier 1 capital		**95,114**	**(5,063)**	**90,051**
Supplementary capital		458	394	852
Total regulatory capital		**95,572**	**(4,669)**	**90,903**
Risk weighted assets				**127,699**
Capital adequacy ratio				71.19%
Core Tier 1 capital/Tier 1 capital adequacy ratio				70.52%

ABBREVIATIONS

ACCA - Association of Chartered Certified Accountants
ALCO - Assets and Liabilities Committee
AML - Anti-Money-Laundering
AuC - Audit Committee
AZN - Azerbaijani Manat, the national currency of Azerbaijan
c.a. - circa, meaning approximately
CCO - Chief Commercial Officer
CEO - Chief Executive Officer
CFO - Chief Financial Officer
CIS - The Commonwealth of Independent States
CSR - Corporate Social Responsibility
DCM - Debt Capital Markets
EBRD - European Bank of Reconstruction and Development
EUR - Euro, the official currency of the Eurozone
EY - Ernst & Young
FATCA - Foreign Account Tax Compliance Act
FX - Forex, the market in which currencies are traded
GEL - Georgian Lari or Lari, national currency of Georgia
GEOSTAT - National Statistics Office of Georgia
HR - Human Resources
IA - Internal Audit
IAD - Internal Audit Department
IFRS - International Financial Reporting Standards
IPO - Initial Public Offering
IT - Information Technology
JSC - joint stock company
MBA - Master of Business Administration
MIS - Management Information Systems
NBG - National Bank of Georgia
NED - non-executive directors
NPL - non-performing loan
OJSC - Open Joint Stock Company
P&L - profit & loss
p.a - per annum
Ph.D. - Doctor of Philosophy
ROA - Return on Assets
ROAE - Return on Average Equity
SME - Small and Medium Enterprise
SWIFT - Society for Worldwide Interbank Financial Telecommunications
UK - United Kingdom
USD - The US Dollar, national currency of the United States of America

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PASHA Bank
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