JSC PASHA Bank Georgia
Interim Condensed Financial Statements

Together with Report on Review of
Interim Condensed Financial Statements
30 June 2015

Contents

Report on Review of Interim Condensed Financial Statements

Selected explanatory notes to Interim Condensed Financial Statements

EY
Building a better working world

EY Georgia LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს ეუაი საქართველო
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Report on Review of Interim Condensed Financial Statements

To the Shareholders and Board of Directors of JSC PASHA Bank Georgia

We have reviewed the accompanying interim condensed financial statements of JSC PASHA Bank Georgia, which comprise the interim condensed statement of financial position as at 30 June 2015 and the related interim condensed statements of comprehensive income for the six month period then ended, interim condensed statements of changes in equity and of cash flows for the six month period then ended and selected explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

EY Georgia LLC

31 August 2015

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

(Figures in tables are in thousands of Georgian lari)

	Notes	*30 June 2015 (unaudited)*	*31 December 2014*
Assets			
Cash and cash equivalents	4	29,001	7,100
Amounts due from credit institutions	5	17,919	13,700
Loans to customers	6	108,486	51,836
Investment securities available-for-sale	7	94,411	76,219
Property and equipment	8	3,454	4,047
Intangible assets	9	1,816	1,097
Other assets	10	593	1,208
Total assets		**255,680**	**155,207**
Liabilities			
Amounts due to credit institutions	11	150,022	52,982
Amounts due to customers	12	10,939	5,197
Deferred income tax liabilities	13	59	98
Other liabilities	10	320	386
Provisions for guarantees and letters of credit		15	59
Total liabilities		**161,355**	**58,722**
Equity			
Share capital	14	103,000	103,000
Accumulated deficit		(8,089)	(6,789)
Other reserves		(586)	274
Total equity		**94,325**	**96,485**
Total equity and liabilities		**255,680**	**155,207**

Signed and authorised for release on behalf of the Board of Directors of the Bank:

Shahin Mammadov — Chairman of the Board of Directors

Chingiz Abdullayev — Head of Financial Management Department

31 August 2015

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2015 (unaudited)*	*For the six months ended 30 June 2014 (unaudited)*
Interest income			
Loans to customers		3,922	604
Investment securities available-for-sale		2,692	1,263
Amounts due from credit institutions		891	801
		7,505	**2,668**
Interest expense			
Amounts due to credit institutions		(1,508)	(281)
Amounts due to customers		(99)	(4)
		(1,607)	**(285)**
Net interest income		**5,898**	**2,383**
Provision for impairment losses on interest bearing assets	6	(2,211)	(70)
Net interest income after impairment losses		**3,687**	**2,313**
Net gains from foreign currencies:			
- dealing		23	40
- translation differences		(955)	44
Other operating income		38	1
Non-interest (losses)/income		**(894)**	**85**
Net fee and commission income/(expense)	16	110	(3)
Personnel expenses	17	(1,765)	(916)
General and administrative expenses	17	(1,640)	(1,097)
Depreciation and amortisation	8,9	(883)	(835)
Provisions for impairment losses on guarantees and letters of credit		43	–
Loss on initial recognition of financial assets at fair value	6	–	(3,206)
Non-interest expenses		**(4,135)**	**(6,057)**
Loss before income tax expense		**(1,342)**	**(3,659)**
Income tax benefit/(expense)	13	42	(3)
Net loss for the period		**(1,300)**	**(3,662)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net unrealized loss on investment securities-available-for- sale		(857)	–
Income tax effect on net loss on investment securities available-for-sale	13	(3)	–
Total comprehensive loss for the year		**(2,160)**	**(3,662)**

The accompanying selected explanatory notes on pages 6 to 27 are an integral part of these interim condensed financial statements

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

(Figures 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**
Issue of share capital (unaudited)	68,000	–	–	68,000
Total comprehensive loss for the six months ended 30 June 2014 (unaudited)	–	(3,662)	–	(3,662)
At 30 June 2014 (unaudited)	**103,000**	**(6,653)**	–	**96,347**
As at 1 January 2015	**103,000**	**(6,789)**	**274**	**96,485**
Total comprehensive loss for the six months ended 30 June 2015 (unaudited)	–	(1,300)	(860)	(2,160)
At 30 June 2015 (unaudited)	**103,000**	**(8,089)**	**(586)**	**94,325**

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2015 (unaudited)*	*For the six months ended 30 June 2014 (unaudited)*
Cash flows from operating activities			
Interest received		8,856	1,436
Interest paid		(1,517)	(355)
Fees and commissions received		254	19
Fees and commissions paid		(101)	(45)
Realised gains less losses from dealing in foreign currencies		23	40
Personnel expenses paid		(1,740)	(1,043)
General and administrative expenses paid		(1,731)	(1,269)
Other income received		38	1
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**4,082**	**(1,216)**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(1,433)	(13,495)
Loans to customers		(52,361)	(27,263)
Other assets		–	6
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		87,367	23,783
Amounts due to customers		4,871	1,431
Other liabilities		(204)	407
Net cash from/(used in) operating activities		**42,322**	**(16,347)**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(77,551)	(69,017)
Proceeds from redemption of investment securities available-for-sale		57,106	16,577
Purchase of property and equipment	8	(214)	(79)
Purchase of intangible assets		(146)	(607)
Net cash used in investing activities		**(20,805)**	**(53,126)**
Cash flows from financing activities			
Share capital contribution	14	–	68,000
Net cash from financing activities		**–**	**68,000**
Effect of exchange rates changes on cash and cash equivalents		384	3
Net increase/(decrease) in cash and cash equivalents		**21,901**	**(1,470)**
Cash and cash equivalents, beginning	4	**7,100**	**4,425**
Cash and cash equivalents, ending	4	**29,001**	**2,955**

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 2014. The Bank's registered legal address is 15 Rustaveli Avenue, Tbilisi, 0108, Georgia.

As at 30 June 2015 and 31 December 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.

2. Basis of preparation

General

These interim condensed financial statements for the six months ended 30 June 2015, have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with International Financial Reporting Standards ("IFRS"). The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2014. These interim condensed financial statements are prepared under the historical cost convention except for the measurement at fair value of investment securities available-for-sale.

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

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2014, except for adoption of new Standards effective as of 1 January 2015. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material effect on the annual statements of the Bank or the interim condensed financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

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.

3. Changes in accounting policies (Continued)

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

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 interim 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.

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.

(Figures in tables are in thousands of Georgian lari)

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Cash on hand	650	487
Current accounts with the NBG	1,013	68
Current accounts with credit institutions	2,481	666
Time deposits with credit institutions up to 90 days	24,857	5,879
Cash and cash equivalents	**29,001**	**7,100**

As at 30 June 2015, current accounts with credit institutions are 11.485% GEL denominated (31 December 2014: 26.98%). The outstanding balance of current accounts and time deposit accounts with credit institutions consist of interest bearing correspondent account balances with resident banks in the amount of GEL 29 thousand and GEL 24,856 thousands respectively (31 December 2014: GEL 129 and GEL 5,879 thousands) and non-interest bearing correspondent account balances with resident and non-resident banks in the amounts of GEL 2,348 thousands and GEL 105 thousands, respectively (31 December 2014: GEL 150 thousands and GEL 387 thousands, respectively).

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Mandatory reserve with the NBG	12,827	2,595
Time deposits	5,092	11,105
Amounts due from credit institutions	**17,919**	**13,700**

Time deposits comprise of deposits in GEL, USD and EUR placed with local commercial banks with maturities ranging from August 2015 to September 2015 and interest rates ranging from 4.2% p.a to 4.4% p.a (31 December 2014: 5.5% p.a to 10% 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.

(Figures in tables are in thousands of Georgian lari)

6. Loans to customers

Loans to customers comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Private entities	70,622	32,968
State controlled entities (including foreign states)	40,397	19,267
Individuals	77	–
Loans to customers	**111,096**	**52,235**
Less – Allowance for impairment	(2,610)	(399)
Loans to customers	**108,486**	**51,836**

Included in loans to customers is a syndicated loan acquired from the Parent on 5 June 2014. GEL 15,731 thousands 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 thousands. The loss on initial recognition was recognized in relation to this loan in the amount of GEL 3,206 thousands in the statement of comprehensive income for the year ended 31 December 2014. During the six months period ended 30 June 2015, due to further deterioration of the loan the bank recognized additional impairment of GEL 1,495 thousand.

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

	For the six months ended 30 June 2015 (unaudited)			
	Legal entities	*State-controlled entities*	*Individuals*	*Total*
At 1 January 2015	**399**	–	–	**399**
Charge for the period (unaudited)	2,209	–	2	2,211
At 30 June 2015 (unaudited)	**2,608**	–	**2**	**2,610**
Collective impairment (unaudited)	**1,113**	–	**2**	**1,115**
Individual impairment (unaudited)	**1,495**	–	–	**1,495**
	2,608	–	**2**	**2,610**

	For the six months ended 30 June 2014 (unaudited)			
	Legal entities	*State controlled entities*	*Individuals*	*Total*
At 1 January 2014	**104**	–	–	**104**
Charge for the period (unaudited)	70	–	–	70
At 30 June 2014 (unaudited)	**174**	–	–	**174**
Collective impairment (unaudited)	**174**	–	–	**174**

(Figures in tables are in thousands of Georgian lari)

6. Loans to customers (continued)

At 30 June 2015, the Bank had a concentration of loans due from four major groups of borrowers in the total amount of GEL 85,313 thousands that represents 76.79% of the total gross loan portfolio (31 December 2014: three groups with 74.88% of gross loan portfolio). An allowance of GEL 2,094 thousands was recognized against these loans (31 December 2014: GEL 136 thousands).

Loans are made in the following industry sectors:

	30 June 2015 (unaudited)	*31 December 2014*
Trade and services	50,707	17,431
Energy	32,811	16,510
Transport and telecommunications	14,940	13,000
Construction	7,164	–
Non-banking credit organizations	5,397	3,093
Individuals	77	–
Manufacturing	–	333
Other	–	1,868
	111,096	**52,235**

7. Investment securities available-for-sale

As at 30 June 2015, investment securities available-for-sale mainly comprised of debt securities of Ministry of Finance of Georgia, debt securities of the NBG, debt securities of Georgian and Azerbaijanian commercial banks, debt securities of certain unrated Georgian and Azerbaijanian corporations.

	30 June 2015 (unaudited)	*31 December 2014*
Treasury bonds of the Ministry of Finance of Georgia	31,346	8,163
Bonds of financial institutions	20,742	6,197
Treasury bills of the Ministry of Finance of Georgia	16,824	53,392
Certificates of deposits of financial institutions	11,452	3,815
Corporate bonds	7,627	4,652
Certificates of deposit of the NBG	6,420	–
Investment securities available-for-sale	**94,411**	**76,219**

(Figures in tables are in thousands of Georgian lari)

8. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computers and equipment*	*Motor vehicles*	*Other equipment*	*Leasehold improve-ments*	*Total*
Cost						
31 December 2013	1,767	2,209	116	431	1,908	6,431
Additions (unaudited)	39	34	–	6	–	79
30 June 2014 (unaudited)	**1,806**	**2,243**	**116**	**437**	**1,908**	**6,510**
31 December 2014	**1,818**	**2,279**	**116**	**447**	**1,908**	**6,568**
Additions (unaudited)	7	68	133	4	2	**214**
30 June 2015 (unaudited)	**1,825**	**2,347**	**249**	**451**	**1,910**	**6,782**
Accumulated depreciation:						
31 December 2013	(269)	(324)	(20)	(54)	(283)	(950)
Depreciation charge (unaudited)	(221)	(269)	(14)	(43)	(227)	(774)
30 June 2014 (unaudited)	**(490)**	**(593)**	**(34)**	**(97)**	**(510)**	**(1,724)**
31 December 2014	**(718)**	**(872)**	**(49)**	**(141)**	**(741)**	**(2,521)**
Depreciation charge (unaudited)	(226)	(282)	(27)	(45)	(227)	(807)
30 June 2015 (unaudited)	**(944)**	**(1,154)**	**(76)**	**(186)**	**(968)**	**(3,328)**
Net book value:						
30 June 2014 (unaudited)	**1,316**	**1,650**	**82**	**340**	**1,398**	**4,786**
31 December 2014	**1,100**	**1,407**	**67**	**306**	**1,167**	**4,047**
30 June 2015 (unaudited)	**881**	**1,193**	**173**	**265**	**942**	**3,454**

(Figures in tables are in thousands of Georgian lari)

9. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2013	**876**	**232**	**1,108**
Additions (unaudited)	66	–	66
30 June 2014 (unaudited)	**942**	**232**	**1,174**
31 December 2014	**436**	**768**	**1,204**
Additions (unaudited)	3	792	795
30 June 2015 (unaudited)	**439**	**1,560**	**1,999**
Accumulated amortization			
31 December 2013	**(58)**	**(15)**	**(73)**
Amortization charge (unaudited)	(48)	(13)	(61)
30 June 2014 (unaudited)	**(106)**	**(28)**	**(134)**
31 December 2014	**(59)**	**(48)**	**(107)**
Amortization charge (unaudited)	(25)	(51)	(76)
30 June 2015 (unaudited)	**(84)**	**(99)**	**(183)**
Net book value:			
30 June 2014 (unaudited)	**836**	**204**	**1,040**
31 December 2014	**377**	**720**	**1,097**
30 June 2015 (unaudited)	**355**	**1,461**	**1,816**

(Figures in tables are in thousands of Georgian lari)

10. Other assets and liabilities

Other assets comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Other non-financial assets		
Prepaid expenses	283	284
Prepayments for operating lease	171	150
Prepayments for acquisition of property, equipment and intangible assets	103	752
Prepaid taxes other than on income tax	27	15
Other	9	7
Other Assets	**593**	**1,208**

Other liabilities comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Other financial liabilities		
Derivative liabilities	–	204
Other financial liabilities	130	65
	130	**269**
Other non-financial liabilities		
Payable to employees	96	73
Deferred income	94	24
Taxes other than income tax	–	20
	190	**117**
Other liabilities	**320**	**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 at 30 June 2015.

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

(Figures in tables are in thousands of Georgian lari)

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2015 (unaudited)	*31 December 2014*
Time deposits of the Parent	81,939	43,222
Short -term loans of the NBG	43,036	–
Time deposits of resident commercial banks	19,892	9,318
Time deposits of the non-resident banks	4,497	–
Current account of the Parent	551	442
Overdraft with the resident banks	56	–
Overdraft with the Parent's current account	51	–
Amounts due to credit institutions	**150,022**	**52,982**

Time deposits placed by the Parent are denominated in EUR, USD and AZN with maturities from July 2015 to June 2017 (31 December 2014: Time deposits placed by the Parent are denominated in EUR and USD and mature in first half of 2015.) Two time deposits in amount of GEL 18,568 received from the Parent are pledged for the loan in amount of GEL 30,072.

As at 30 June 2015, time deposits placed by four resident commercial banks are denominated in USD and GEL and mature in July 2015 (31 December 2014: As at 31 December 2014, time deposits placed by four resident commercial banks are denominated in USD and mature in January 2015).

12. Amounts due to customers

The amounts due to customers include the following:

	30 June 2015 (unaudited)	*31 December 2014*
Current accounts of customers	5,731	1,217
Time deposits of customers	5,208	3,980
Amounts due to customers	**10,939**	**5,197**
Held as security against guarantees issued	1,363	–

As at 30 June 2015, amounts due to customers included balances with three major customers of GEL 7,656 thousands that constituted 69.99% of the total of customer accounts (31 December 2014: 4,819 thousands that constituted 92.72% of the total of customer accounts).

(Figures in tables are in thousands of Georgian lari)

13. Taxation

The corporate income tax benefit for the six months ended 30 June 2015 comprises of deferred tax benefit of GEL 42 thousands (six months ended 30 June 2014 deferred tax expense was: GEL 3 thousands).

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:

	Six months ended 30 June 2015 (unaudited)	*Six months ended 30 June 2014 (unaudited)*
Loss before income tax	(1,342)	(3,659)
Statutory tax rate	15%	15%
Theoretical income tax benefit at the statutory rate	**201**	**549**
Tax effect of items which are not deductible for taxation purposes:		
Non-deductible expenses	(27)	(7)
Tax exempt income	270	158
Change in unrecognized deferred tax asset	(402)	(703)
Income tax benefit/(expense)	**42**	**(3)**

Deferred tax assets and liabilities as at 31 December 2014 and 30 June 2015 and their movements for the respective period of six months comprise:

	31 December 2014	*Through statement of profit and loss (unaudited)*	*Through statement of OCI (unaudited)*	*30 June 2015 (unaudited)*
Tax effect of deductible temporary differences				
Tax losses carried forward	2,185	402	–	2,587
Property and equipment	–	19	–	19
Other liabilities	14	(10)	–	4
Gross deferred tax asset	**2,199**	**411**	–	**2,610**
Unrecognized deferred tax asset	(1,471)	(402)	–	(1,873)
Deferred tax asset	**728**	**9**	–	**737**
Tax effect of taxable temporary differences				
Property and equipment	(36)	36	–	–
Intangible assets	(22)	(8)	–	(30)
Loans to customers	(762)	5	–	(757)
Investment securities available-for-sale	(6)	–	(3)	(9)
Deferred tax liability	**(826)**	**33**	**(3)**	**(796)**
Deferred tax liability	**(98)**	**42**	**(3)**	**(59)**

(Figures in tables are in thousands of Georgian lari)

13. Taxation (continued)

	31 December 2013	*Through statement of profit and loss (unaudited)*	*30 June 2014 (unaudited)*
Tax effect of deductible temporary differences			
Tax losses carried forward	561	1,402	1,963
Other liabilities	19	(12)	7
Gross deferred tax asset	**580**	**1,390**	**1,970**
Unrecognised deferred tax asset	(561)	(703)	(1,264)
Deferred tax asset	**19**	**687**	**706**
Tax effect of taxable temporary differences			
Property and equipment	(100)	32	(68)
Intangible assets	(17)	(4)	(21)
Loans to customers	–	(718)	(718)
Deferred tax liability	**(117)**	**(690)**	**(807)**
Deferred tax liability	**(98)**	**(3)**	**(101)**

The Bank incurred tax losses of GEL 2,680 thousands, GEL 10,830 thousands and GEL 3,737 thousands for June 2015, 2014 and 2013 which can be carried for 5 years and will expire in years 2020, 2019 and 2018 respectively if not utilized. Deferred tax assets have not been recognized in respect of part of those losses in amount of GEL 12,487 thousands (2014: GEL 9,807 thousands) as there is uncertainty whether the Bank will be able to generate sufficient taxable profit in the future.

14. Equity

The share capital of the Bank was contributed by the shareholders in GEL and they are entitled to dividends and any capital distribution in GEL.

As at 30 June 2015, the Bank's authorized, issued and fully paid capital amounted to GEL 103,000 thousands comprising of 103,000,000 common shares with nominal value of GEL 1.00 (31 December 2014: GEL 103,000 thousands). Each common share entitles one vote to the shareholder.

In accordance with the 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 six months ended 30 June 2015 (31 December 2014: nil).

(Figures in tables are in thousands of Georgian lari)

15. Commitments and contingencies

Taxation

Georgian tax, currency and customs legislation are 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 regional and central 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 five 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 30 June 2015 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

NBG obligatory ratios

For the six month ended 30 June 2015 and during 2014, the Bank was in breach of single borrower exposure ratio set by the NBG. In April 2014, the Bank obtained a breach waiver from the NBG until 31 December 2015.

From March 2015 the Bank was in breach of group of borrower exposure ratio set by the NBG. In April 2015 the Bank obtained waiver from the NBG for this covenant until 30 September 2015.

As at the date of signing this condensed interim financial statements the Bank is no more in breach of the single borrower exposure ratio and the group of borrower exposure ratio due to sale of the single exposure influencing the single borrower exposure ratio and partial redemption of the group exposure affecting the group of borrower exposure ratio.

Commitments and contingencies

As at 30 June 2015 the Bank's commitments and contingencies comprised the following:

	30 June 2015 (unaudited)	*31 December 2014*
Credit related commitments		
Guarantees issued	5,045	2,902
Unused credit lines	1,174	463
Letters of credit	674	559
	6,893	**3,924**
Deposits held as security guarantees issued (Note 12)	**(1,363)**	–
Operating lease commitments		
Not later than 1 year	1,418	1,112
Later than 1 year but not later than 5 years	1,285	1,633
	2,703	**2,745**
Capital commitments	**51**	**108**

(Figures in tables are in thousands of Georgian lari)

16. Net fee and commission income

Net fee and commission expense comprise:

	Six months ended 30 June 2015 (unaudited)	*Six months ended 30 June 2014 (unaudited)*
Brokerage operations	79	–
Guarantees issued	67	3
Settlements operations	30	12
Cash operations	4	1
Currency conversion operations	–	26
Fee and commission income	**180**	**42**
Settlements operations	(54)	(42)
Cash operations	(15)	(3)
Brokerage operations	(1)	–
Fee and commission expense	**(70)**	**(45)**
Net fee and commission expense	**110**	**(3)**

17. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	Six months ended 30 June 2015 (unaudited)	*Six months ended 30 June 2014 (unaudited)*
Salaries	1,444	880
Bonuses and other employee benefits	321	36
Personnel expenses	**1,765**	**916**
Operating leases	610	501
Professional services	351	187
Advertising costs	203	63
Membership fees	94	4
Utilities	59	33
Transportation and business trip expenses	56	40
Trainings	55	21
Corporate hospitality and entertainment	39	32
Communication	30	115
Security expenses	29	29
Taxes other than income tax	24	14
Stationary	23	16
Insurance	16	17
Other	51	25
General and administrative expenses	**1,640**	**1,097**

(Figures in tables are in thousands of Georgian lari)

18. Fair values of financial instruments

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.

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

	Fair value measurement using			
At 30 June 2015	***Level 1 (unaudited)***	***Level 2 (unaudited)***	***Level 3 (unaudited)***	***Total (unaudited)***
Financial assets				
Investment securities available-for-sale	9,839	–	84,572	**94,411**
Assets for which fair values are disclosed				
Cash and cash equivalents	29,001	–	–	**29,001**
Amounts due from credit institutions	–	–	17,919	**17,919**
Loans to customers	–	–	108,486	**108,486**

	Fair value measurement using			
At 30 June 2015	***Level 1 (unaudited)***	***Level 2 (unaudited)***	***Level 3 (unaudited)***	***Total (unaudited)***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	150,022	**150,022**
Amounts due to customers	–	–	10,939	**10,939**

	Fair value measurement using			
At 31 December 2014	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Investment securities available-for-sale	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**

18. Fair values of financial instruments (continued)

	Fair value measurement using			
At 31 December 2014	***Level 1***	***Level 2***	***Level 3***	***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**

Following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are currency swaps. The fair values of derivative financial instruments are estimated based on sport market prices, due to short term maturities of the financial instruments

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique consist of unquoted debt securities. The fair value of these securities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Figures in tables are in thousands of Georgian lari)

18. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not carried at fair value (continued)

	30 June 2015 (unaudited)			*31 December 2014*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	29,001	29,001	–	7,100	7,100	–
Amounts due from credit institutions	17,919	17,919	–	13,700	13,700	–
Loans to customers	108,486	108,486	–	51,836	51,836	–
Financial liabilities						
Amounts due to credit institutions	150,022	150,022	–	52,982	52,982	–
Amounts due to customers	10,939	10,939	–	5,197	5,197	–
Total unrecognized change in fair value			–			–

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 Banks 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 fixed rate financial assets carried at amortised cost (i.e. loans to customers) is estimated by discounting future cash flows using rates currently available for similar financial instruments on similar terms, credit risk and remaining maturities.

(Figures in tables are in thousands of Georgian lari)

18. Fair values of financial instruments (continued)

Movements in level 3 assets and liabilities 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 (unaudited)*	*Interest income (unaudited)*	*Gain/(loss) recorded in OCI (unaudited)*	*Settlements (unaudited)*	*30 June 2015 (unaudited)*
Assets						
Investment securities available-for-sale	65,370	77,525	3,104	(884)	(60,543)	84,572
	65,370	**77,525**	**3,104**	**(884)**	**(60,543)**	**84,572**

Assets	*1 January 2014*	*Purchases (unaudited)*	*Interest income (unaudited)*	*Gain/(loss) recorded in OCI (unaudited)*	*Settlements (unaudited)*	*30 June 2014 (unaudited)*
Investment securities available-for-sale	12,220	65,610	1,131	–	(16,780)	62,181
	12,220	**65,610**	**1,131**	**–**	**(16,780)**	**62,181**

(Figures in tables are in thousands of Georgian lari)

18. Fair values of financial instruments (continued)

Movements in level 3 assets and liabilities at fair value (continued)

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:

30 June 2015 (unaudited)	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range of discount rate*
Investment securities available-for-sale				
Government T-bills of the Ministry of Finance of Georgia	16,824	Discounted cash flow	Discount rate	6.18% - 8.66%
Certificates of deposit of the NBG	6,420	Discounted cash flow	Discount rate	5.23% - 7.67%
Government treasury bonds of the Ministry of Finance of Georgia	31,346	Discounted cash flow	Discount rate	8.17% - 8.66%
Financial institutions deposit certificates	11,452	Discounted cash flow	Discount rate	5.25%

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%
Government coupon bonds of the Ministry of Finance of Georgia	8,163	Discounted cash flow	Discount rate	6.47%
Corporate deposit certificates	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.

(Figures in tables are in thousands of Georgian lari)

19. 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:

	30 June 2015 (unaudited)		*31 December 2014*	
	The Parent	*Key management personnel*	*The Parent*	*Key management personnel*
Cash and cash equivalents	831	–	202	–
Amounts due to credit institutions	(82,541)	–	(43,664)	–
Other liabilities	–	(2)	(7)	(3)

Income and expense arising from related party transactions are as follows:

	For the six months ended	
	30 June 2015 (unaudited)	*30 June 2014 (unaudited)*
	The Parent	*The Parent*
Fee and commission income	5	3
Fee and commission expense	20	7
Interest expense on amounts due to credit institutions	989	222
Professional fees expense	5	20

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2015 (unaudited)	*30 June 2014 (unaudited)*
Salaries and other short-term benefits	399	149

Key management personnel as at 30 June 2015 and 30 June 2014 comprised of 3 members of the Supervisory Board and 3 members of the Board of Directors of the Bank.

(Figures in tables are in thousands of Georgian lari)

20. 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.

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain sufficient capital base to achieve a capital adequacy ratio of at least 12.00%. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of Board of Directors and Chief Accountant subsequently submitted to the NBG.

NBG capital adequacy ratio

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets and Tier 1 Capital adequacy ratio of 8%. As at 30 June 2015 and 31 December 2014, the Bank's capital adequacy ratios on this basis were as follows:

	Notes	*30 June 2015 (unaudited)*	*Adjustments (unaudited)*	*30 June 2015 Per the NBG (unaudited)*
Share capital	14	103,000	–	103,000
Accumulated deficit		(6,789)	(5,063)	(11,852)
Less: Intangible assets, net	9	(1,816)	–	(1,816)
Main capital		**94,395**	**(5,063)**	**89,332**
Current year loss		(1,300)	(311)	(1,611)
General reserves		–	–	1,885
Additional capital				**274**
Less: deductions from capital		–	–	–
Total capital		**93,095**	**(5,374)**	**89,606**
Risk weighted assets				**224,230**
Capital adequacy ratio				39.96%
Tier 1 Capital adequacy ratio				39.83%

(Figures in tables are in thousands of Georgian lari)

20. Capital adequacy (continued)

	Notes	*31 December 2014*	*Adjustments*	*31 December 2014 per the NBG*
Share capital	14	103,000	–	103,000
Accumulated deficit		(2,991)	94	(2,897)
Less: Intangible assets, net	9	(1,097)	–	(1,097)
Main capital		**98,912**	94	**99,006**
Current year loss		(3,798)	(5,157)	(8,955)
General reserves		–	–	852
Additional capital		–	–	**(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.

Basel II capital adequacy ratio

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 30 June 2015 and 31 December 2014, the Bank's capital adequacy ratios on the Basel II basis were as follows:

	Notes	**30 June 2015 (unaudited)**	**Adjustments (unaudited)**	**30 June 2015 per the NBG (unaudited)**
Share Capital	14	103,000	–	103,000
Prior years accumulated deficit		(6,789)	(5,063)	(11,852)
Less: Intangible assets, net	9	(1,816)	–	(1,816)
Current year loss		(1,300)	(150)	(1,450)
Core tier 1 capital		**93,095**	**(5,213)**	**87,882**
Tier 1 capital		**93,095**	**(5,213)**	**87,882**
Supplementary capital		–	–	1,131
Total regulatory capital		–	–	**89,013**
Risk weighted assets				**228,786**
Capital adequacy ratio				38.91%
Core Tier 1 capital/Tier 1 capital adequacy ratio				38.41%

(Figures in tables are in thousands of Georgian lari)

20. Capital adequacy (continued)

	Notes	*31 December 2014*	*Adjustments*	*31 December 2014 per the NBG*
Additional tier 1 capital	14	103,000	–	103,000
Prior years accumulated deficit		(2,991)	94	(2,897)
Less: Intangible assets, net	9	(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		–	–	852
Total regulatory capital		–	–	**90,903**
Risk weighted assets				**127,699**
Capital adequacy ratio				71.19%
Core Tier 1 capital/Tier 1 capital adequacy ratio				70.52%