JSC PASHA Bank Georgia
Interim Condensed Financial Statements

Together with Report on Review of
Interim Condensed Financial Statements
30 June 2016

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Selected explanatory notes to Interim Condensed Financial Statements

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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 2016 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 2016

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

(Figures in tables are in thousands of Georgian lari)

	Notes	*30 June 2016 (unaudited)*	*31 December 2015*
Assets			
Cash and cash equivalents	4	50,288	22,282
Amounts due from credit institutions	5	40,637	21,152
Loans to customers	6	101,923	108,602
Investment securities	7	94,416	123,320
Property and equipment	8	1,963	2,689
Intangible assets	9	1,943	2,024
Deferred income tax assets	13	1,204	1,522
Other assets	10	943	719
Total assets		**293,317**	**282,310**
Liabilities			
Amounts due to credit institutions	11	146,464	161,929
Amounts due to customers	12	45,338	21,288
Other liabilities	10	906	912
Total liabilities		**192,708**	**184,129**
Equity			
Share capital	14	103,000	103,000
Accumulated deficit		(2,289)	(4,527)
Other reserves		(102)	(292)
Total equity		**100,609**	**98,181**
Total equity and liabilities		**293,317**	**282,310**

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 — Chief Financial Officer, Member of the Board of Directors

31 August 2016

The accompanying selected explanatory notes on pages 6 to 26 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2016 (unaudited)*	*For the six months ended 30 June 2015 (unaudited)*
Interest income			
Loans to customers		6,353	3,922
Investment securities		4,639	2,692
Amounts due from credit institutions		632	891
		11,624	**7,505**
Interest expense			
Amounts due to credit institutions		(3,646)	(1,508)
Amounts due to customers		(351)	(99)
		(3,997)	**(1,607)**
Net interest income		**7,627**	**5,898**
Reversal of provision/(provision) for impairment losses on interest bearing assets	6	24	(2,211)
Net interest income after impairment losses		**7,651**	**3,687**
Net gains from foreign currencies:			
- dealing		288	23
- translation differences		8	(955)
Net fee and commission income	16	71	110
Other operating income		67	38
Non-interest income/(losses)		**434**	**(784)**
Personnel expenses	17	(2,656)	(1,765)
General and administrative expenses	17	(1,923)	(1,640)
Depreciation and amortisation	8,9	(957)	(883)
Provisions for impairment losses on guarantees and letters of credit		–	43
Non-interest expenses		**(5,536)**	**(4,245)**
Income/(loss) before income tax expense		**2,549**	**(1,342)**
Income tax (expense)/benefit	13	(311)	42
Net income/(loss) for the period		**2,238**	**(1,300)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net unrealized gain/(loss) on investment securities		197	(857)
Income tax effect on net loss on investment securities available-for-sale	13	(7)	(3)
Total comprehensive income/(loss) for the year		**2,428**	**(2,160)**

The accompanying selected explanatory notes on pages 6 to 26 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(Figures in tables are in thousands of Georgian lari)

	Share Capital	*Accumulated deficit*	*Other Reserves*	*Total equity*
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**
As at 1 January 2016	**103,000**	**(4,527)**	**(292)**	**98,181**
Profit for the six months ended 30 June 2016 (unaudited)	–	2,238	–	2,238
Other comprehensive income for the six months ended 30 June 2016 (unaudited)	–	–	190	190
Total comprehensive income for the six months ended 30 June 2016 (unaudited)	–	**2,238**	**190**	**2,428**
At 30 June 2016 (unaudited)	**103,000**	**(2,289)**	**(102)**	**100,609**

The accompanying selected explanatory notes on pages 6 to 26 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

(Figures in tables are in thousands of Georgian lari)

	Notes	*For the six months ended 30 June 2016 (unaudited)*	*For the six months ended 30 June 2015 (unaudited)*
Cash flows from operating activities			
Interest received		13,044	8,856
Interest paid		(4,183)	(1,517)
Fees and commissions received		269	254
Fees and commissions paid		(171)	(101)
Realised gains less losses from dealing in foreign currencies		288	23
Personnel expenses paid		(2,804)	(1,740)
General and administrative expenses paid		(1,998)	(1,731)
Other income received		67	38
Cash flows from operating activities before changes in operating assets and liabilities		**4,512**	**4,082**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(18,636)	(1,433)
Loans to customers		6,022	(52,361)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(17,669)	87,367
Amounts due to customers		25,777	4,871
Other liabilities		–	(204)
Net cash from operating activities		**6**	**42,322**
Cash flows from investing activities			
Purchase of investment securities		(33,017)	(77,551)
Proceeds from redemption of investment securities		59,628	57,106
Purchase of property and equipment		(120)	(214)
Purchase of intangible assets		(97)	(146)
Net cash used in investing activities		**26,394**	**(20,805)**
Effect of exchange rates changes on cash and cash equivalents		1,606	384
Net increase in cash and cash equivalents		**28,006**	**21,901**
Cash and cash equivalents, beginning	4	**22,282**	**7,100**
Cash and cash equivalents, ending	4	**50,288**	**29,001**

The accompanying selected explanatory notes on pages 6 to 26 are an integral part of these interim condensed financial statements.

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 30 June 2016. The Bank's registered legal address is 15 Rustaveli Avenue, Tbilisi, 0108, Georgia.

As at 30 June 2016 and 31 December 2015, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), domiciled in 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 2016, 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 2015. These interim condensed financial statements are prepared under the historical cost convention.

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 2015, except for the adoption of new Standards effective as of 1 January 2016. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These new standards and amendments apply for the first time in 2016 and they did not have a material effect on the annual statements of the Bank or the interim condensed financial statements of the Bank.

3. Changes in accounting policies (Continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank's financial statements.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. These amendments do not have any impact on the Bank's financial statements.

IFRS 7 Financial Instruments: Disclosures
(i) Servicing contracts
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 the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. 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.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively. These amendments do not have any impact on the Bank's financial statements.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively. These amendments do not have any impact on the Bank's financial statements.

3. Changes in accounting policies (Continued)

IAS 34 Interim Financial Reporting
The amendment clarifies 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 interim financial report (e.g., in the management commentary or risk report). 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. This amendment must be applied retrospectively. These amendments do not have any impact on the Bank's financial statements.

These amendments do not have any impact on the Bank.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Changes in Georgian Corporate Tax Law

In June 2016, new amendments were introduced to the Georgian tax legislation in relation to the Corporate Income Tax ("CIT"). The changes in the CIT taxation rules were legally enforced effective 1 June 2016. According to the new rules, CIT rate remains at the same 15% level, however:

a) The tax base for measuring CIT was amended to the amount of dividends distributed to shareholders;
b) Reinvested profits are no longer subject to CIT; and
c) Taxable periods for CIT are determined based on a calendar month, instead of a calendar year.

New taxation legislation is applicable to the Georgian companies from 1 January 2017, with the exception of banks, insurance companies, credit unions and pawnbrokers that are required to comply with the new regime effective starting from 1 January 2019.

Bank considers the new regime as substantively enacted, effective June 2016 and thus has re-measured its deferred tax assets and liabilities. The balances of deferred tax assets and liabilities remaining as of 30 June 2016 are attributable to only those temporary differences that are expected to be realized or reversed before the new CIT code becomes effective for the respective operations. Application of new tax rules has no impact on interim review financial statements.

(Figures in Tables are in thousands of Georgian Lari)

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Cash on hand	479	406
Current accounts with the NBG	529	922
Current accounts with credit institutions	2,714	2,159
Time deposits with credit institutions up to 90 days	46,566	18,795
Cash and cash equivalents	**50,288**	**22,282**

As at 30 June 2016, current accounts and time deposit accounts with credit institutions denominated in USD and EUR represent 93.75% and 5.61% of total current and time deposit accounts respectively (31 December 2015: USD 28.44%, EUR 69.84%).

The outstanding balance of current accounts and time deposit accounts, consist of interest bearing correspondent account balances with the amount of GEL 46,772 thousand (31 December 2015: GEL 19,782 thousand) and non-interest bearing correspondent account balances with credit institution in the amounts of GEL 2,508 thousand (31 December 2015: GEL 1,172 thousand).

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Mandatory reserve with the NBG	22,997	12,610
Time deposits for more than 90 days	17,640	8,542
Amounts due from credit institutions	**40,637**	**21,152**

Time deposits comprise of deposits in USD placed with resident and non-resident commercial banks with maturities ranging from August 2016 to June 2017 and interest rates ranging from 2.75% p.a to 4.75% (31 December 2015: 5.50% p.a.).

Credit institutions are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 7.00% and 20.00% of the average of funds attracted from customers by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively, since June 2016. (31 December 2015: 10% and 15% respectively).

(Figures in Tables are in thousands of Georgian Lari)

6. Loans to customers

Loans to customers comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Private entities	71,072	70,651
State controlled entities	31,834	36,347
Individuals	304	2,915
Loans to customers	**103,210**	**109,913**
Less – Allowance for impairment	(1,287)	(1,311)
Loans to customers	**101,923**	**108,602**

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

	For the six months ended 30 June 2016 (unaudited)			
	Legal entities	*State-controlled entities*	*Individuals*	*Total*
At 1 January 2016	**1,253**	–	**58**	**1,311**
(Reversal)/charge for the period (unaudited)	(30)	–	6	(24)
At 30 June 2016 (unaudited)	**1,223**	–	**64**	**1,287**
Collective impairment (unaudited)	**1,223**	–	**64**	**1,287**
	1,223	–	**64**	**1,287**

	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**

(Figures in Tables are in thousands of Georgian Lari)

6. Loans to customers (continued)

As at 30 June 2016, the Bank had a concentration of loans due from three major group of borrowers with the total exposure of GEL 57,076 thousand that represented 55.30% of the total gross loan portfolio (31 December 2015: GEL 63,039 thousand with 57.35% of the gross loan portfolio). An allowance of GEL 504 thousand (2015: GEL 374 thousand) was recognized against these loans.

Loans are made in the following industry sectors:

	30 June 2016 (unaudited)	*31 December 2015*
Trade and services	57,010	61,775
Non-banking credit organizations	20,208	13,214
Energy	18,671	24,833
Construction	7,017	7,176
Individuals	304	2,915
	103,210	**109,913**

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.

7. Investment securities

As at 30 June 2016, investment securities mainly comprised of debt securities of the Ministry of Finance of Georgia, debt securities of the NBG, and debt securities of the companies and commercial banks registered in Georgia and Azerbaijan.

	30 June 2016 (unaudited)	*31 December 2015*
Treasury bonds of the Ministry of Finance of Georgia	34,401	38,718
Bonds of financial institutions	24,549	24,652
Certificates of deposits of financial institutions	23,487	12,204
Corporate bonds	10,251	8,892
Treasury bills of the Ministry of Finance of Georgia	1,728	23,528
Certificates of deposit of the NBG	–	15,326
Total investment securities: loans and receivables	**94,416**	**123,320**

(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 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**
31 December 2015	**1,840**	**2,390**	**247**	**459**	**1,912**	**6,848**
Additions (unaudited)	1	31	66	22	–	120
30 June 2016 (unaudited)	**1,841**	**2,421**	**313**	**481**	**1,912**	**6,968**
Accumulated depreciation:						
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)**
31 December 2015	**(1,173)**	**(1,447)**	**(108)**	**(232)**	**(1,199)**	**(4,159)**
Depreciation charge (unaudited)	(229)	(304)	(37)	(47)	(229)	(846)
30 June 2016 (unaudited)	**(1,402)**	**(1,751)**	**(145)**	**(279)**	**(1,428)**	**(5,005)**
Net book value:						
30 June 2015 (unaudited)	**881**	**1,193**	**173**	**265**	**942**	**3,454**
31 December 2015	**667**	**943**	**139**	**227**	**713**	**2,689**
30 June 2016 (unaudited)	**439**	**670**	**168**	**202**	**484**	**1,963**

(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 2014	**436**	**768**	**1,204**
Additions (unaudited)	3	792	795
30 June 2015 (unaudited)	**439**	**1,560**	**1,999**
31 December 2015	**488**	**1,829**	**2,317**
Additions (unaudited)	23	8	31
Disposals (unaudited)	(12)	(6)	(18)
30 June 2016 (unaudited)	**499**	**1,831**	**2,330**
Accumulated amortization			
31 December 2014	**(59)**	**(48)**	**(107)**
Amortization charge (unaudited)	(25)	(51)	(76)
30 June 2015 (unaudited)	**(84)**	**(99)**	**(183)**
31 December 2015	**(108)**	**(185)**	**(293)**
Amortization charge (unaudited)	(46)	(65)	(111)
Disposals (unaudited)	12	5	17
30 June 2016 (unaudited)	**(142)**	**(245)**	**(387)**
Net book value:			
30 June 2015 (unaudited)	**355**	**1,461**	**1,816**
31 December 2015	**380**	**1,644**	**2,024**
30 June 2016 (unaudited)	**357**	**1,586**	**1,943**

(Figures in tables are in thousands of Georgian lari)

10. Other assets and liabilities

Other assets comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Other non-financial assets		
Prepaid expenses	555	432
Prepayments for acquisition of property and equipment and intangible assets	187	106
Prepayments for operating lease	171	150
Prepaid taxes other than on income tax	20	20
Other	10	11
Other assets	**943**	**719**

Other liabilities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Other financial liabilities		
Other financial liabilities	210	95
	210	**95**
Other non-financial liabilities		
Payable to employees	633	780
Deferred income	62	35
Taxes other than income tax	1	2
	696	**817**
Other liabilities	**906**	**912**

(Figures in tables are in thousands of Georgian lari)

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Time deposits of the Parent	94,235	64,086
Time deposits of resident commercial banks	22,412	15,706
Short-term loans of the NBG	21,500	69,700
Overdraft from the Parent	5,997	6,397
Current accounts of the Parent	1,383	1,247
Time deposits of non-resident commercial banks	937	4,793
Amounts due to credit institutions	**146,464**	**161,929**
Held as security against loans (Note 6)	**22,963**	**19,758**

The deposits placed by resident commercial banks denominated in GEL and a single non-resident commercial bank, denominated in USD, outstanding as at 30 June 2016, matured in July 2016.

The loan from the NBG was obtained on 30 June 2016 and matured in July 2016.

As at 30 June, 2016, time deposits placed by the Parent are denominated in USD (31 December 2015: EUR, AZN and USD). Time deposits of GEL 71,256 thousand mature during 2016 and GEL 22,979 thousand mature in 2017.

12. Amounts due to customers

The amounts due to customers include the following:

	30 June 2016 (unaudited)	*31 December 2015*
Time deposits of corporate customers	26,322	11,149
Current accounts of customers	16,066	10,139
Time deposits of individual customers	2,950	–
Amounts due to customers	**45,338**	**21,288**
Held as security against guarantees (Note 15)	**5,822**	**10,497**

As at 30 June 2016, amounts due to customers included balances with three major customers of GEL 30,642 thousand that constituted 67.59% of the total customer accounts (31 December 2015: GEL 13,984 thousand that constituted 65.69% the total of customer accounts).

(Figures in tables are in thousands of Georgian lari)

13. Taxation

The corporate income tax expense for the six months ended 30 June 2016 comprises of deferred tax expense of GEL 311 thousand (six months ended 30 June 2015: deferred tax benefit of GEL 42 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:

	Six months ended 30 June 2016 (unaudited)	*Six months ended 30 June 2015 (unaudited)*
Profit/(loss) before income tax	**2,549**	**(1,342)**
Statutory tax rate	15%	15%
Theoretical income tax (charge)/benefit at the statutory rate	**(382)**	**201**
Tax effect of items which are not deductible for taxation purposes:		
Non-deductible expenses	(3)	(27)
Tax exempt income	74	270
Change in unrecognized deferred tax asset	–	(402)
Income tax (expense)/benefit	**(311)**	**42**

Deferred tax assets and liabilities as at 31 December 2015 and 30 June 2016 and their movements for the respective period of six months comprise:

	31 December 2015	*Through statement of profit and loss (unaudited)*	*Through statement of OCI (unaudited)*	*30 June 2016 (unaudited)*
Tax effect of deductible temporary differences				
Tax losses carried forward	1,818	(624)	–	1,194
Property and equipment	73	76	–	149
Other liabilities	68	19	–	87
Investment securities	6	10	(7)	9
Deferred tax asset	**1,965**	**(519)**	**(7)**	**1,439**
Tax effect of taxable temporary differences				
Intangible assets	(49)	(7)	–	(56)
Loans to customers	(394)	215	–	(179)
Deferred tax liability	**(443)**	**208**	–	**(235)**
Deferred tax asset	**1,522**	**(311)**	**(7)**	**1,204**

(Figures in Tables are in thousands of Georgian Lari)

13. Taxation (continued)

	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	(6)	–	(3)	(9)
Deferred tax liability	**(826)**	**33**	**(3)**	**(796)**
Deferred tax liability	**(98)**	**42**	**(3)**	**(59)**

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 2016 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

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 2016 and 31 December 2015, 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 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 disbursement of the dividends needs pre-approval of the NBG.

No dividends were declared or paid during the six months ended 30 June 2016 (2015: nil).

(Figures in Tables are in thousands of Georgian Lari)

15. Commitments and contingencies

As at 30 June 2016 and 31 December 2015, the Bank's commitments and contingencies comprised the following:

	30 June 2016 (unaudited)	*31 December 2015*
Credit related commitments		
Guarantees issued	8,114	22,326
Unused credit lines	604	443
Letters of credit	632	359
	9,350	**23,128**
Operating lease commitments		
Not later than 1 year	1,333	1,525
More than 1 year but less than 5 years	–	625
	1,333	**2,150**
Less: deposits held as security against guarantees issued (Note 12)	(5,822)	(10,497)
Commitments and contingencies	**4,861**	**14,781**

16. Net fee and commission income

Net fee and commission income comprise:

	Six months ended 30 June 2016 (unaudited)	*Six months ended 30 June 2015 (unaudited)*
Guarantees issued	156	67
Settlements operations	57	30
Brokerage operations	24	79
Cash operations	3	4
Fee and commission income	**240**	**180**
Settlements operations	(78)	(54)
Guarantees	(53)	–
Plastic cards	(29)	–
Cash operations	(9)	(15)
Brokerage operations	–	(1)
Fee and commission expense	**(169)**	**(70)**
Net fee and commission income	**71**	**110**

(Figures in Tables are in thousands of Georgian Lari)

17. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	Six months ended 30 June 2016 (unaudited)	*Six months ended 30 June 2015 (unaudited)*
Salaries	1,879	1,444
Bonuses and other employee benefits	777	321
Personnel expenses	**2,656**	**1,765**
Operating leases	733	610
Professional services	534	351
Advertising costs	221	203
Trainings	84	55
Utilities	54	59
Maintenance and exploitation	41	23
Insurance	40	16
Transportation and business trip expenses	34	56
Security expenses	29	29
Corporate hospitality and entertainment	26	39
Membership fees	17	13
Taxes other than income tax	17	24
Charity costs	11	24
Other	82	138
General and administrative expenses	**1,923**	**1,640**

(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 2016	***Level 1 (unaudited)***	***Level 2 (unaudited)***	***Level 3 (unaudited)***	***Total (unaudited)***
Assets for which fair values are disclosed				
Cash and cash equivalents	50,288	–	–	**50,288**
Amounts due from credit institutions	–	–	40,637	**40,637**
Loans to customers	–	–	101,923	**101,923**
Investment securities	–	6,046	88,370	**94,416**

	Fair value measurement using			
At 30 June 2016	***Level 1 (unaudited)***	***Level 2 (unaudited)***	***Level 3 (unaudited)***	***Total (unaudited)***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	146,464	**146,464**
Amounts due to customers	–	–	45,338	**45,338**

	Fair value measurement using			
At 31 December 2015	***Level 1***	***Level 2***	***Level 3***	***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**

(Figures in Tables are in thousands of Georgian Lari)

18. Fair values of financial instruments (continued)

	Fair value measurement using			
At 31 December 2015	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	161,929	**161,929**
Amounts due to customers	–	–	21,288	**21,288**

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 majority of loans to customers outstanding as at 30 June 2016 were issued in 2015 year at market interest rates, while the market interest rates as at 30 June 2016 approximate market interest rates as at prevailing during 2015. Hence their carrying value approximates their fair value.

Investment securities

As at 30 June 2016 investment securities represent fixed and floating rated financial assets carried at amortized cost. The fair value for investment securities loans and receivables is derived by discounting the future cash flows using current market rates for newly issued similar financial assets.

Amounts due to customers

As at 30 June 2016 amounts due to customers represent fixed rate financial liabilities carried at amortized cost. The fair value for the amounts due to customers is derived by disclosing future cash flows using broad industry average rates for similar financial liabilities.

(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

	30 June 2016 (unaudited)			*31 December 2015*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	50,288	50,288	–	22,282	22,282	–
Amounts due from credit institutions	40,637	40,637	–	21,152	21,152	–
Loans to customers	101,923	101,923		108,602	108,602	–
Investments in securities	94,416	96,429	2,013	123,320	121,500	(1,820)
Financial liabilities						
Amounts due to credit institutions	146,464	146,464	–	161,929	161,929	–
Amounts due to customers	45,338	45,166	172	21,288	21,288	–
Total unrecognized change in fair value			**2,185**			**(1,820)**

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:

(Figures in Tables are in thousands of Georgian Lari)

19. Related party disclosures (continued)

	30 June 2016 (unaudited)			*31 December 2015*		
	The Parent	*Key management personnel*	*Entities under common control*	*The Parent*	*Key management personnel*	*Enitities uder common control*
Cash and cash equivalents	2,041	–	–	29	–	–
Amounts due from credit institutions	–	–	3,547	–	–	–
Loans to customers	–	222	–	–	205	–
Purchase of property plant and equipment	21	–	–	–	–	–
Amounts due to credit institutions	(78,652)	–	(937)	(51,972)	–	–
Guarantee deposit	(22,963)	–	–	(19,758)	–	–
Amounts due to customers	–	(3,527)	(26,499)	–	(1)	(42)
Other liabilities	–	–	–	–	–	–

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

	For the six months ended	
	30 June 2016 (unaudited)	*30 June 2015 (unaudited)*
Fee and commission income	47	5
Interest income	47	–
Fee and commission expense	44	20
Interest expense	1,065	989
Professional fees expense	21	5

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2016 (unaudited)	*30 June 2015 (unaudited)*
Salaries and other short-term benefits	592	399

Key management personnel as at 30 June 2016 comprised of 5 members of the Supervisory Board (31 December 2015: 3 members) and 3 members of the Board of Directors of the Bank (31 December 2015: 3 members).

(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 10.80% (2015: 11.4%). 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 10.8% of risk-weighted assets and Tier 1 Capital adequacy ratio of 7.2%. As at 30 June 2016 (2015: 7.6%), the Bank's capital adequacy ratios on this basis were as follows:

	Notes	*30 June 2016 (unaudited)*	*Adjustments (unaudited)*	*30 June 2016 per the NBG (unaudited)*
Share capital	14	103,000	–	103,000
Accumulated deficit		(4,527)	(4,632)	(9,159)
Less: Intangible assets, net	9	(1,943)	–	(1,943)
Main capital		**96,530**	**(4,632)**	**91,898**
Current period income		2,238	2,113	4,351
General reserves		1,287	817	2,104
Additional capital		**3,525**	**2,930**	**6,455**
Total capital		**100,055**	**(1,702)**	**98,353**
Risk weighted assets				**219,224**
Capital adequacy ratio				44.87%
Tier 1 Capital adequacy ratio				41.92%

(Figures in Tables are in thousands of Georgian Lari)

20. Capital adequacy (continued)

	Notes	*31 December 2015*	*Adjustments*	*31 December 2015 per the NBG*
Share capital	14	103,000	–	103,000
Accumulated deficit		(6,789)	(5,063)	(11,852)
Less: Intangible assets, net	9	(2,024)	–	(2,024)
Main capital		**94,187**	**(5,063)**	**89,124**
Prior year income		2,262	431	2,693
General reserves		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%

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 2016 and 31 December 2015, the Bank's capital adequacy ratios on the Basel II basis were as follows:

	Notes	**30 June 2016 (unaudited)**	**Adjustments (unaudited)**	**30 June 2016 per the NBG (unaudited)**
Share Capital	14	103,000	–	103,000
Accumulated deficit		(4,527)	(4,632)	(9,159)
Less: Intangible assets, net	9	(1,943)	–	(1,943)
Current period income		2,238	2,113	4,351
Core tier 1 capital		**98,768**	**(2,519)**	**96,249**
Tier 1 capital		**98,768**	**(2,519)**	**96,249**
Supplementary capital		1,287	817	2,104
Total regulatory capital		**100,055**	**(1,702)**	**98,353**
Risk weighted assets				**268,388**
Capital adequacy ratio				36.65%
Core Tier 1 capital/Tier 1 capital adequacy ratio				35.87%

(Figures in Tables are in thousands of Georgian Lari)

20. Capital adequacy (continued)

	Notes	*31 December 2015*	*Adjustments*	*31 December 2015 per the NBG*
Additional tier 1 capital	14	103,000	–	103,000
Accumulated deficit		(6,789)	(5,063)	(11,852)
Less: Intangible assets, net	9	(2,024)	–	(2,024)
Prior 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%