CARTU BANK GROUP

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2017

CARTU BANK GROUP

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CARTU BANK GROUP

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended December 31, 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2017, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2017 were authorized for issue on May 14, 2018 by the Management Board of the Group.

On behalf of the Management Board:

Nato Khaindrava
General Director

May 14, 2018
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

May 14, 2018
Tbilisi, Georgia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report but does not include the consolidated financial statements and our auditor's report thereon. Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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Deloitte.

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

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

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

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

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

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

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

Tamar Natsvlishvili
on behalf of Deloitte and Touche LLC

May 14, 2018
Tbilisi, Georgia

CARTU BANK GROUP

Consolidated Statement of Financial Position
for the Year Ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	December 31, 2017	December 31, 2016
ASSETS:			
Cash and cash equivalents	5	224,644	298,616
Mandatory cash balance with the NBG	6	120,479	143,009
Financial assets at fair value through profit or loss	7	18,253	30,355
Due from financial institutions	8	18,800	6,026
Loans to customers	9	794,886	854,338
Available-for-sale investments	10	57	57
Held to maturity Investments	11	27,978	19,045
Property and equipment	12	14,062	14,555
Current income tax asset		1,537	-
Deferred income tax asset	27	-	249
Other assets	13	81,445	54,113
TOTAL ASSETS		**1,302,141**	**1,420,363**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits by banks	14	18,398	19,605
Deposits by customers	15	690,657	747,610
Other borrowed funds	16	26,289	124,400
Other provisions	21	2,408	2,266
Current income tax liability		-	492
Deferred income tax liability	27	6,362	6,548
Other liabilities	17	7,953	14,070
Subordinated debt	18	208,368	227,179
Total liabilities		**960,435**	**1,142,170**
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	19	114,430	114,430
Additional paid in capital	18	13,795	9,424
Retained earnings		213,496	154,422
Total equity attributable to owners of the parent		341,721	278,276
Non-controlling interest		(15)	(83)
Total equity		**341,706**	**278,193**
TOTAL LIABILITIES AND EQUITY		**1,302,141**	**1,420,363**

On behalf of the Management Board:

Nato Khaindrava
General Director

May 14, 2018
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

May 14, 2018
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

Consolidated Statement of Profit or Loss
for the Year Ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	2017	2016
Interest income	20	99,520	108,902
Interest expense	20	(31,529)	(38,080)
NET INTEREST INCOME BEFORE PROVISIONS FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		67,991	70,822
Recovery of provisions/(provisions) for impairment losses on interest bearing assets	21	6,522	(230)
Net interest income		**74,513**	**70,592**
Net gain on financial assets at fair value through profit or loss	22	2,717	19,023
Net gain on foreign exchange operations	23	3,148	8,810
Fee and commission income	24	6,552	7,409
Fee and commission expense	24	(5,088)	(4,638)
Provision for other operations	21	(142)	(274)
Other income, net	25	4,122	11,397
Net non-interest income		**11,309**	**41,727**
Operating income		85,822	112,319
Operating expenses	26	(29,156)	(29,313)
Profit before income tax		**56,666**	**83,006**
Income tax expense	27	(6,948)	(7,754)
Net profit for the year		**49,718**	**75,252**
Attributable to:			
Owners of the parent		49,676	75,482
Non-controlling interest		42	(230)
		49,718	**75,252**

On behalf of the Management Board:

Nato Khaindrava
General Director

May 14, 2018
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

May 14, 2018
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

Consolidated Statement of other Comprehensive Income
for the Year Ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	2017	2016
Net profit for the year		**49,718**	**75,252**
Items that may be reclassified subsequently to profit or loss:			
Net gain resulting on revaluation of available-for-sale investments during the year		-	542
Transferred to profit for the year	25	-	(10,500)
Income tax		-	1,494
Other comprehensive income		**-**	**(8,464)**
Total comprehensive income		**49,718**	**66,788**
Attributable to:			
Owners of the parent		49,676	67,018
Non-controlling interest		42	(230)
		49,718	**66,788**

On behalf of the Management Board:

Nato Khaindrava
General Director

May 14, 2018
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

May 14, 2018
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

Consolidated Statement of Changes in Equity
for the Year Ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	Share capital	Additional paid in capital	Available for-sale reserve	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total Equity
January 1, 2016		**114,430**	**9,424**	**8,464**	**144,094**	**276,412**	**(7)**	**276,405**
Net profit for the year		-	-	-	75,482	75,482	(230)	75,252
Decrease in non-controlling interest from acquisition of additional interest in JSC Insurance Company Cartu		-	-	-	(154)	(154)	154	-
Other comprehensive income		-	-	(8,464)	-	(8,464)	-	(8,464)
Declared and paid dividends		-	-	-	(65,000)	(65,000)	-	(65,000)
December 31, 2016		**114,430**	**9,424**	**-**	**154,422**	**278,276**	**(83)**	**278,193**
Net profit for the year		-	-	-	49,676	49,676	42	49,718
Decrease in non-controlling interest from acquisition of additional interest in LLC Insurance Company Cartu		-	-	-	(26)	(26)	26	-
Transferred to retained earning	18	-	(9,424)	-	9,424	-	-	-
Additional paid in capital	18	-	16,230	-	-	16,230	-	16,230
Income tax on additional paid in capital	18	-	(2,435)	-	-	(2,435)	-	(2,435)
December 31, 2017		**114,430**	**13,795**	**-**	**213,496**	**341,721**	**(15)**	**341,706**

On behalf of the Management Board:

Nato Khaindrava
General Director

May 14, 2018
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

May 14, 2018
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

Consolidated Statement of Cash Flows
for the Year Ended December 31, 2017
(in thousands of Georgian Lari)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax:		56,666	83,006
Adjustments for:			
(Recovery of provisions)/provision for impairment losses on interest bearing assets	21	(6,522)	230
Provision for other operations	21	142	274
Net loss/(gain) on foreign exchange operations	23	3,432	(2,812)
Depreciation and amortization expense	26	2,818	2,537
Gain on sale of available-for-sale investments	25	-	(10,500)
Change in interest accruals, net		(9,463)	(25,092)
Gain on disposal of repossessed assets and property and equipment	25	(667)	(1,006)
Net change in fair value of financial assets and liabilities at fair value through profit or loss		9,622	(19,023)
Cash inflow from operating activities before changes in operating assets and liabilities		**56,028**	**27,614**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		12,595	(62,729)
Due from financial institutions		(13,761)	(3,684)
Loans to customers		13,432	20,956
Other assets		5,851	1,346
Increase/(decrease) in operating liabilities:			
Deposits by banks		205	(36,321)
Deposits by customers		(21,297)	144,352
Other liabilities		(6,120)	518
Cash generated from operations		**46,933**	**92,052**
Income tax paid		(10,479)	(16,238)
Net cash inflow from operating activities		**36,454**	**75,814**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment, and intangible assets		(5,405)	(2,306)
Proceeds from disposal of property and equipment and intangible assets		47	598
Proceeds from disposal of available-for-sale investments		-	10,500
Proceeds from disposal of financial assets at fair value through profit or loss		2,108	21,276
Proceeds from disposal of repossessed assets		-	2,801
Purchase of repossessed assets		-	(24,426)
Purchase of held to maturity investments		(27,281)	(18,576)
Proceeds from held to maturity investments		19,008	18,276
Net cash (outflow)/inflow from investing activities		**(11,523)**	**8,143**

CARTU BANK GROUP

Consolidated Statement of Cash Flows
for the Year Ended December 31, 2017 (continued)
(in thousands of Georgian Lari)

	Notes	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from other borrowed funds		89,341	124,400
Repayment of other borrowed funds		(190,542)	(41,911)
Acquisition of subsidiary's interests from the non-controlling interest		(450)	-
Payment of dividends		-	(65,000)
Proceeds from subordinated debt		-	18,537
Net cash (outflow)/inflow from financing activities		**(101,651)**	**36,026**
Effect of exchange rate changes on the balance of cash held in foreign currencies		2,748	4,962
NET INCREASE IN CASH AND CASH EQUIVALENTS		(76,720)	119,983
CASH AND CASH EQUIVALENTS, beginning of the year		**298,616**	**173,671**
CASH AND CASH EQUIVALENTS, end of the year		**224,644**	**298,616**

Interest paid and received by the Group during the year ended December 31, 2017 amounted to GEL 33,373 thousands and GEL 95,006 thousands, respectively.

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

On behalf of the Management Board:

Nato Khaindrava
General Director

May 14, 2018
Tbilisi, Georgia

Givi Lebanidze
Chief Financial Officer

May 14, 2018
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

1. Organisation

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

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

As at December 31, 2017 and 2016, the Bank had five service centers operating in Tbilisi, and service centers in Gori, Telavi, Kutaisi, and Batumi regions.

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

		Ownership interest (%)		
Name	**Country of operation**	**2017**	**2016**	**Type of operation**
Cartu Broker LLC	Georgia	100.00%	100.00%	Brokerage
Insurance Company Cartu LLC	Georgia	88.77%	88.45%	Insurance
Investment Company Cartu Invest LLC	Georgia	100.00%	100.00%	Dormant
Geoplast LLC	Georgia	100.00%	0.00%	Dormant

As at December 31, 2017 and 2016 JSC Cartu Group owned 100% of the Bank's shares.

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

These consolidated financial statements were authorized for issue on May 14, 2018 by the Management Board of the Group.

2. Significant accounting policies

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

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

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

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

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

2. Significant accounting policies (continued)

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

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

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

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 32.

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

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

The principal accounting policies are set out below.

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

2. Significant accounting policies (continued)

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

All other commissions are recognized when services are provided.

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

The Group does not apply hedge accounting.

Financial liabilities and equity instruments issued

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business.

Repossessed assets are initially recognized at fair value and subsequent measured at the lower of carrying amount and fair value less costs to sell.

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

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

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

Freehold land is not depreciated.

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

2. Significant accounting policies (continued)

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

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

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

	December 31, 2017	December 31, 2016
GEL/1 US Dollar	2.5922	2.6468
GEL/1 Euro	3.1044	2.7940

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Financial assets held to maturity. The Group management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. As at December 31, 2017 and 2016 the carrying amounts of the financial assets held to maturity are GEL 27,978 and GEL 19,045, respectively. Details of these assets are set out in Note 11.

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

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

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

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

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

As at December 31, 2017 and 2016 the gross loans to customers totaled GEL 869,722 and GEL 937,005, respectively, and allowance for impairment losses amounted to GEL 74,837 and GEL 82,667, respectively.

Valuation of embedded foreign currency derivative instrument. Embedded foreign currency derivative feature to the loans to customers contracts are not closely related to the host contract and accounted for as a separate derivative financial instrument. Embedded foreign currency derivative financial instrument is measured at fair value through profit or loss.

The Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of embedded foreign currency derivative financial instrument. The key assumption used in the determination of the fair value of embedded foreign currency derivative is projection of future cash flows in contract currency and application of forward exchange rate. The Bank used all available market sources to determine forward exchange rate including publication of National Bank of Georgia. The management of the Bank believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value embedded foreign currency derivative.

Valuation of repossessed assets. Repossessed assets are initially recognized at fair value and subsequently measured at the lower of carrying amount and fair value less costs to sell.

The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

Useful lives of property and equipment. The Group reviews the estimated useful lives of property and equipment at the end of each annual reporting period. During the year 2017 and 2016, the Group's management did not revise useful lives property and equipment.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

***Utilization of deferred tax balances*.** On May 13, 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from January 1, 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from January 1, 2017 for other entities. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group;s deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since January 1, 2017 or January 1, 2019 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. If this law comes into effect for the banking sector from January 1, 2019, it will have a more immediate impact on deferred tax calculations.

The management of the Group estimated non-utilizable deferred tax assets/liabilities balances at the reporting date before the effective date of the law. The carrying value of utilizable deferred tax liabilities amounted to GEL 6,362 thousand and GEL 6,548 thousand as at December 31, 2017 and 2016, respectively.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The information on related party balances is disclosed in Note 29.

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

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

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy.

Amendments to IAS 7 Disclosure Initiative. The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of other borrowed funds (Note 16) and subordinated debt (Note 18). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Group's consolidated financial statements.

***Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*.** The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

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

Annual Improvements to IFRSs – 2012-2014 Cycle. The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

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

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

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2]
- IFRS 17 Insurance Contracts[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

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

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

The key requirements of IFRS 9 are:

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

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

<u>Classification and measurement</u>. Based on an analysis of the Group’s financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, all financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

<u>Impairment</u>. The Bank will recognise loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Loans and advances to banks;
- loans and advances to customers;
- Loan commitments issued; and
- Financial guarantee contracts issued.
- Other financial assets.

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

With the exception of POCI financial assets, ECLs will be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3)

A loss allowance for full lifetime ECL will be required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs will be measured at an amount equal to the 12-month ECL.

To incorporate forward-looking macroeconomic information in the ECL assessment, the Bank will analyse default dependency on macroeconomic variables such as gross domestic product, inflation, unemployment rate, real estate prices and currency index. Forecasted macroeconomic variables and the scenarios along with probability of occurrence of such a scenario will be taken from the National Bank of Georgia's publication.

Management of the Bank anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items. However, until reliable estimates of the impact are available, further information on the expected impact on the financial position of the Bank cannot be provided.

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

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

The five steps in the model are as follows:

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

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

The management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

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

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

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

Management of the Group anticipates that the application of the new standard may have an impact on Group’s financial statements. However, until reliable estimates of the impact are available, further information on the expected impact on the financial position of the Group cannot be provided.

IFRS 17 Insurance Contracts. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*:

- IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.
- The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty; it takes into account market interest rates and the impact of policyholders’ options and guarantees.
- Profit from selling insurance policies is deferred in a separate liability component on day 1 and aggregated in groups of insurance contracts; it is then reported systematically through profit or loss over the period during which insurers provide cover after making adjustments from changes in assumptions relating to future coverage.
- Considering scope, some fixed fee service contracts meeting specified criteria will be able to be accounted under IFRS 15 Revenue from Contracts with Customers instead of applying the requirements in IFRS 17.

The new standard is effective for annual periods beginning on or after January 1, 2021 with earlier application permitted for entities that apply IFRS 9 and IFRS 15 at or before the date of initial application of IFRS 17. Entities should apply IFRS 17 retrospectively, unless impracticable, in which case the modified retrospective approach of the fair value approach is applied.

Management of the Group anticipates that the application of the new standard may have an impact on Group’s financial statements. However, until reliable estimates of the impact are available, further information on the expected impact on the financial position of the Group cannot be provided.

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

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   (a) the original liability is derecognised;
   (b) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   (c) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

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

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

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

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

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

***Amendments to IAS 7 Disclosure Initiative*.** The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

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

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

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

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments provide entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021 (the "sunset clause"). The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after 1 January 2018.

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

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

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

Amendments to IAS 40 Transfers of Investment Property. The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasise that a change in management's intentions alone would not be enough to support a transfer of property. The standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively.

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

Annual Improvements to IFRSs 2014-2016 Cycle. This annual improvement package amended three standards:

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

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

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

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

Annual Improvements to IFRSs 2015-2017 Cycle. Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after January 1, 2019.

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

5. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	16,478	19,644
Balances with the NBG	63,150	6,644
Balances with banks with original maturities up to 90 days	145,016	272,328
Total cash and cash equivalents	**224,644**	**298,616**

6. Mandatory cash balance with the NBG

Mandatory cash balance with the NBG is minimum reserve deposits which are restricted balances of GEL 120,479 and GEL 143,009, respectively, as at December 31, 2017 and 2016. The Group is required to maintain minimum reserve deposits at the NBG at all times.

7. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	December 31, 2017	December 31, 2016
Embedded foreign currency derivative financial instrument	18,253	28,247
Financial assets held for trading	-	2,108
Total financial assets at fair value through profit or loss	**18,253**	**30,355**

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the index of underlying a derivative contract may have a significant impact on the profit or loss of the Group.

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

The change in fair value of the derivative financial instruments attributable amounts to a loss of GEL 10,272 thousand and gain of GEL 4,228 thousand for the years ended December 31, 2017 and 2016 respectively. The change in fair value attributable to changes in credit risk has been calculated by incorporating the Bank’s current non-observable inputs of future cash flows and forward exchange rate into the valuation techniques used to value derivative instruments.

8. Due from financial institutions

As at December 31, 2017 and 2016 the maximum credit risk exposure on due from financial institutions amounted to GEL 18,800 and GEL 6,026, respectively.

As at 31 December 2017 and 2016, amounts due from financial institutions include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired.

As at December 31, 2017 and 2016 included in balances due from financial institutions are guarantee deposits placed by the Group for its operations with plastic cards totaling GEL 4,048 and GEL 3,705, respectively.

9. Loans to customers

Loans to customers comprise:

	December 31, 2017	December 31, 2016
Originated loans to customers	819,530	891,767
Accrued interest	50,193	45,238
	869,723	937,005
Less allowance for impairment losses	(74,837)	(82,667)
Total loans to customers	**794,886**	**854,338**

Movements in the allowance for impairment losses for the years ended December 31, 2017 and 2016 are disclosed in Note 21.

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

	December 31, 2017	December 31, 2016
Loans collateralized by pledge of real estate	738,488	813,807
Loans collateralized by pledge of equipment	14,499	15,048
Loans collateralized by pledge of inventories	7,290	-
Loans collateralized by pledge of cash	13,414	8,137
Unsecured loans	5,226	7,402
Other collateral	15,969	9,944
Total loans to customers	**794,886**	**854,338**

During the years ended December 31, 2017 and 2016 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2017 and 2016 such assets in amount of GEL 66,977 and GEL 39,852 (See Note 13), respectively, are included in other assets of the Group.

The table below summarizes loans to customers analyzed by industries as at December 31, 2017:

	Gross loans to customers	Allowance for impairment losses	Net loans to customers	Allowance for impairment losses to gross loans
Analysis by sector:				
Individuals	46,862	(4,359)	42,503	9.30%
Trade and service	335,329	(25,066)	310,263	7.48%
Construction	182,885	(28,326)	154,559	15.49%
Manufacturing	235,481	(14,932)	220,549	6.34%
Agriculture	48,118	(2,065)	46,053	4.29%
Energy	3,182	-	3,182	0.00%
Transport and communication	3,956	-	3,956	0.00%
Other	13,910	(89)	13,821	0.64%
Total	**869,723**	**(74,837)**	**794,886**	**8.60%**

9. Loans to customers (continued)

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

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

Loans to individuals comprise the following products:

	December 31, 2017	December 31, 2016
Consumer loans	22,613	19,306
Mortgage loans	20,687	25,059
Other	3,562	433
Less: allowance for impairment losses	(4,359)	(3,697)
Total loans to individuals	**42,503**	**41,101**

Analysis by credit quality of loans to customers outstanding as at December 31, 2017 and 2016 was as follows:

As at December 31, 2017	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	635,882	(5,829)	630,053	0.92%
Overdue:				
up to 30 days	815	-	815	0.00%
31 to 60 days	129	-	129	0.00%
61 to 90 days	3,767	-	3,767	0.00%
91 to 180 days	1,909	(25)	1,884	1.31%
over 180 days	87,424	(23,215)	64,209	26.55%
Total collectively assessed loans	**729,926**	**(29,069)**	**700,857**	**3.98%**
Individually impaired				
Not past due	132,400	(43,604)	88,796	32.93%
Overdue:				
up to 30 days	-	-	-	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	14	(3)	11	21.43%
91 to 180 days	113	(23)	90	20.35%
over 180 days	7,270	(2,138)	5,132	29.41%
Total individually impaired loans	**139,797**	**(45,768)**	**94,029**	**32.74%**
Total loans to customers	**869,723**	**(74,837)**	**794,886**	**8.60%**

9. Loans to customers (continued)

As at December 31, 2016	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	666,277	(16,567)	649,710	2.49%
Overdue:				
up to 30 days	20,842	(1,172)	19,670	5.62%
31 to 60 days	8,365	(949)	7,416	11.34%
61 to 90 days	98	(24)	74	24.49%
91 to 180 days	12,546	(2,313)	10,233	18.44%
over 180 days	76,007	(17,733)	58,274	23.33%
Total collectively assessed loans	**784,135**	**(38,758)**	**745,377**	**4.94%**
Individually impaired				
Not past due	101,858	(30,776)	71,082	30.21%
Overdue:				
up to 30 days	13	(3)	10	23.08%
31 to 60 days	1,899	(437)	1,462	23.01%
61 to 90 days	27,861	(6,973)	20,888	25.03%
91 to 180 days	-	-	-	-
over 180 days	21,239	(5,720)	15,519	26.93%
Total individually impaired loans	**152,870**	**(43,909)**	**108,961**	**28.72%**
Total loans to customers	**937,005**	**(82,667)**	**854,338**	**8.82%**

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

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

	December 31 2017			December 31 2016		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value before allowance**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value before allowance**
Loans to customers individually determined to be impaired	139,797	(45,768)	94,029	152,870	(43,909)	108,961
Loans to customers collectively assessed (including not-impaired individually assessed loans)	729,926	(29,069)	700,857	784,135	(38,758)	754,377
Total	**869,723**	**(74,837)**	**794,886**	**937,005**	**(82,667)**	**854,338**

As at December 31, 2017 and 2016 the Group has exposure to seventeen and seven customers, totaling GEL 228,534 and GEL 366,086, respectively, which individually exceeds 5% of the Group's equity.

As at December 31, 2017 and 2016, 97% and 98% of loans are granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2017 and 2016 carrying value of loans to customers included loans totaling GEL 44,027 and GEL 17,430, respectively, whose terms were renegotiated.

10. Available-for-sale investments

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investments available for sale made for United Clearing Centre JSC and Georgian Central Securities Depositary LLC. Therefore, these investments are carried at cost of GEL 57 thousand as at December 31, 2017 and 2016. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

11. Held to maturity investments

	December 31, 2017		December 31, 2016	
	Nominal annual interest rate	Amount	Nominal annual interest rate	Amount
Deposit certificates of the Ministry of Finance of Georgia	7.05% – 7.85%	28,639	6.45%-11.75%	19,452
Less discount		(661)		(407)
Total held to maturity investments		**27,978**		**19,045**

12. Property and equipment

Property and equipment comprise:

	Buildings and other real estate	Furniture and fixtures	Computer and office equipment	Leasehold improve-ments and other	Construction in progress	Total
At cost						
January 1, 2016	**9,493**	**6,175**	**7,047**	**2,010**	**783**	**25,508**
Additions	-	436	77	-	590	1,103
Transfers	-	-	95	268	(363)	-
Disposals	-	(14)	(36)	(11)	(595)	(656)
December 31, 2016	**9,493**	**6,597**	**7,183**	**2,267**	**415**	**25,955**
Additions	611	194	240	-	309	1,354
Transfers	256	81	67	107	(511)	-
Disposals	-	(3)	(319)	(154)	(11)	(487)
December 31, 2017	**10,360**	**6,869**	**7,171**	**2,220**	**202**	**26,822**

12. Property and equipment (continued)

Accumulated depreciation						
January 1, 2016	**1,423**	**4,211**	**2,640**	**1,368**	**-**	**9,642**
Depreciation charge	233	448	965	170	-	1,816
Eliminated on disposals	-	(13)	(35)	(10)	-	(58)
December 31, 2016	**1,656**	**4,646**	**3,570**	**1,528**	**-**	**11,400**
Depreciation charge	244	459	993	104	-	1,800
Eliminated on disposals		(2)	(294)	(144)	-	(440)
December 31, 2017	**1,900**	**5,103**	**4,269**	**1,488**	**-**	**12,760**
Net book value						
As at December 31, 2017	**8,460**	**1,766**	**2,902**	**732**	**202**	**14,062**
As at December 31, 2016	**7,837**	**1,951**	**3,613**	**739**	**415**	**14,555**

As at December 31, 2017 and 2016 included in property and equipment were fully depreciated assets totaling GEL 5,771 and GEL 4,540, respectively.

13. Other assets

Other assets comprise:

	December 31, 2017	December 31, 2016
Other financial assets:		
Accounts receivable	905	283
Claims for guarantees paid	159	240
Total other financial assets	**1,064**	**523**
Other non-financial assets:		
Repossessed assets	66,977	39,852
Intangible assets	6,164	3,750
Insurance premium receivable	3,825	6,442
Reinsurance receivable	1,735	2,305
Tax settlements, other than income tax	728	309
Advances paid	688	525
Other inventory	106	103
Other	158	304
Total other non-financial assets	**80,381**	**53,590**
Total other assets	**81,445**	**54,113**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2017 and 2016 are disclosed in Note 21.

Repossessed assets as at December 31, 2017 and 2016 include land and buildings in the amount of GEL 60,906 and GEL 38,548, respectively, which are measured at the lower of its carrying amount and fair value less cost to sell.

13. Other assets (continued)

Intangible assets comprise:

	Intangible assets
At cost	
January 1, 2016	**5,479**
Additions	1,204
December 31, 2016	**6,683**
Additions	4,051
Disposals	(1,134)
December 31, 2017	**9,600**
Accumulated amortization	
January 1, 2016	**2,212**
Charge for the year	721
December 31, 2016	**2,933**
Charge for the year	1,018
Eliminated on disposals	(515)
December 31, 2017	**3,436**
Net book value	
December 31, 2017	**6,164**
December 31, 2016	**3,750**

Intangible assets include computer software and licenses.

14. Deposits by banks

Deposits by banks comprise:

	December 31, 2017	December 31, 2016
Correspondent accounts of other banks	3,796	60
Short-term deposits from banks	14,602	19,545
Total deposits by banks	**18,398**	**19,605**

As at December 31, 2017 and 2016 accrued interest included in deposits by banks amounted to GEL 345 and 356, respectively.

15. Deposits by customers

Deposits by customers comprise:

	December 31, 2017	December 31, 2016
Time deposits	259,892	335,270
Repayable on demand	430,765	412,340
Total deposits by customers	**690,657**	**747,610**

As at December 31, 2017 and 2016 accrued interest included in deposits by customers amounted to GEL 4,117 and GEL 8,103, respectively.

As at December 31, 2017 and 2016 deposits by customers totaling GEL 5,648 and GEL 47,470, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2017 and 2016 deposits by customers totaling GEL 304,351 and GEL 423,682 (44% and 57% of total deposits by customers), respectively, were for fourteen and twenty customers, respectively, which represents a significant concentration.

	December 31, 2017	December 31, 2016
Analysis by economic sector/customer type:		
Individuals	197,929	168,177
Trade and Services	273,578	280,054
Transport and Communication	55,608	84,679
Energy	31,644	68,091
Construction	24,545	12,750
Manufacturing	20,116	10,585
Agriculture	2,460	5,501
Other	84,777	117,773
Total deposits by customers	**690,657**	**747,610**

As at December 31, 2017 and 2016 deposits by customers included balances amounting to GEL 170,275 thousand and GEL 173,200 thousand, respectively, that were sequestrated by Prosecutor’s Office of Georgia.

16. Other borrowed funds

	Currency	Maturity date	Nominal interest rate %	December 31, 2017	December 31, 2016
GCF LP	USD	28/09/2022	5.5%	26,289	-
Ekaterina Khvedelidze	USD	31/12/2021	4.5%	-	124,400
Total other borrowed funds				**26,289**	**124,400**

The table below details changes in the Bank's other borrowed funds arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities.

	January 1, 2017	Financing cash flows	Interest accrual during the year 2017	Interest paid during the year 2017	Foreign exchange gain during the year 2017	December 31, 2017
Other borrowed funds	124,400	(101,201)	682	(315)	2,723	26,289

17. Other liabilities

Other liabilities comprise:

	December 31, 2017	December 31, 2016
Other financial liabilities:		
Accounts payable	931	24
Total other financial liabilities	**931**	**24**
Other non-financial liabilities:		
Unearned premium	3,119	4,830
Payables for reinsurance liabilities	2,396	4,149
Provision for insurance reserves	796	2,555
Taxes payable, other than income tax	-	32
Other	711	2,480
Total other non-financial liabilities:	**7,022**	**14,046**
Total other liabilities	**7,953**	**14,070**

18. Subordinated debt

Subordinated debt comprises:

	Currency	Maturity date	Nominal interest rate %	December 31, 2017
Fin Service XXI	USD	31-Mar-26	4.5%	73,180
Fin Service XXI	USD	15-Feb-23	4.5%	24,945
Fin Service XXI	USD	31-Mar-26	4.5%	24,403
Cartu Group	USD	01-Jun-25	4.5%	27,594
Cartu Group	USD	31-Oct-26	4.5%	17,151
Inter Consulting Plus	USD	17-Oct-29	4.5%	17,129
Georgian Holding	USD	21-Jun-29	4.5%	23,966
Total convertible subordinated debt				**208,368**

18. Subordinated debt (continued)

	Currency	Maturity date	Nominal interest rate %	December 31, 2016
Fin Service XXI	USD	31-Mar-26	6%	80,299
Fin Service XXI	USD	31-Mar-26	6%	26,787
Fin Service XXI	USD	15-Feb-23	6%	26,747
Total convertible portion				**133,833**
Inter Consulting Plus	USD	17-Oct-29	6%	18,537
Georgian Holding	USD	21-Jun-29	6%	26,481
Cartu Group	USD	31-Oct-26	6%	18,537
Cartu Group	USD	01-Jun-25	6%	29,791
Total non-convertible portion				**93,346**
Total subordinated debt				**227,179**

As at December 31, 2017 and 2016 subordinated debt included accrued interest in amounted of GEL 794 and GEL 129, respectively.

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

On January 11, 2017, the Group agreed with all lenders to make changes in the contractual interest rates of lending arrangements. According to the amended agreements, the interest rates were decreased to 4.5% from 6% for all lending agreements listed in the above table.

On June 21, 2017, the Group agreed with Inter Consulting Plus, Georgian Holiding and Cartu Group to make further changes in the terms of lending arrangements. According to the amended agreements, the conversion right of the Group has been introduced to non-convertible subordinated debts. Respectively, agreements contain an option that allows the Group to settle ("settlement option") the principal plus any outstanding accrued interest during the contractual lifetime of the debts by delivering Bank's own equity shares. The Group believes that settlement option is out of the money and is only introduced for Regulatory Capital management purposes.

The Group considered that modifications of an existing subordinated debts are substantial and accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The Group considered modifications of the terms as substantially different as the discounted present value of the cash flows under the new terms and discounted using the original effective interest rate, is more than 10 per cent different from the discounted present value of the remaining cash flows of the original subordinated debts.

The Group transferred additional paid in capital portion of existed subordinated debts in the amount of GEL 9,424 thousand to retained earnings at the date of extinguishment and determined fair value of extinguished subordinated debts at the date of initial recognition.

The Group considered that the subordinated debts were obtained from related parties and made an assessment of market interest rates of comparable instruments in the market. Following the analysis of borrowing rates in Georgia for the similar terms of the borrowed funds the Group concluded that at the date of changes in terms a market interest rate represents 5.5%. The Group estimated fair value of subordinated debt at the date of initial recognition following the extinguishment and recorded gain on extinguishment in the amount of GEL 16,230 thousand, the difference between original amortised cost and the fair value, directly in equity as additional paid in capital.

18. Subordinated debt (continued)

Following table summarises the equity and liability components before and after the modifications of the terms of the lending arrangements:

	Liability component	Equity component
As at January 1, 2017	**227,179**	**9,424**
Interest expense recognized	432	-
Repayment of subordinated debts	-	-
Foreign exchange loss	9,228	-
As at January 10, 2017 before the extinguishment	**236,839**	**9,424**
Transfer of equity component of extinguished loans to the retained earnings	-	(9,424)
Derecognition of extinguished subordinated debt	(236,839)	-
Recognition of subordinated debts	220,609	-
Recognition of additional paid in capital at the date of initial recognition of subordinated debts	-	16,230
Income tax on additional paid in capital directly recorded in equity	-	(2,435)
Interest expense recognized	11,434	-
Repayments of subordinated debts	(9,897)	-
Foreign exchange gain	(13,778)	-
As at December 31, 2017	**208,368**	**13,795**

The table below details changes in the Group's subordinated debts arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities.

	January 1, 2017	Financing cash flows	Interest accrual during the year 2017	Interest paid during the year 2017	Gain on extinguishment during the year 2017	Foreign exchange gain during the year 2017	December 31, 2017
Subordinated debt	**227,179**	-	11,866	(9,897)	(16,229)	(4,550)	**208,368**

19. Share capital

Both December 31, 2017 and 2016 share capital consisted of 114,430 ordinary shares with par value of GEL 1 each.

20. Net interest income

	2017	2016
Interest income comprises:		
Financial assets recorded at amortized cost:		
Impaired financial assets	70,708	102,039
Unimpaired financial assets	28,812	6,863
Total interest income	**99,520**	**108,902**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	91,969	102,039
Due from financial institutions	6,171	5,328
Held to maturity investments	1,380	1,535
Total interest income on financial assets recorded at amortized cost	**99,520**	**108,902**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(31,529)	(38,080)
Total interest expense	**(31,529)**	**(38,080)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Deposits by customers	(17,897)	(24,480)
Subordinated debt	(11,866)	(11,568)
Deposits by banks	(1,084)	(1,451)
Other borrowed funds	(682)	(581)
Total interest expense on financial liabilities recorded at amortized cost	**(31,529)**	**(38,080)**
Net interest income before provision for impairment losses on interest bearing financial assets	**67,991**	**70,822**

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

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

	Loans to customers
January 1, 2016	**67,166**
Additional provisions	230
Write-off of assets	(776)
Recovery of assets previously written off	16,047
December 31, 2016	**82,667**
Recovery of provisions	(6,522)
Write-off of assets	(3,962)
Recovery of assets previously written off	2,654
December 31, 2017	**74,837**

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

	Repossessed assets	**Other provisions**	**Provision for other operations**
January 1, 2016	**-**	**1,992**	**1,992**
Provisions/(recovery of provisions)	736	(462)	274
December 31, 2016	**736**	**1,530**	**2,266**
Provisions/(recovery of provisions)	(736)	878	142
December 31, 2017	**-**	**2,408**	**2,408**

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

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

	2017	**2016**
Net gain on operations with financial assets initially recognized at fair value through profit and loss comprise:		
Gain on trading operations, net	650	9,292
Gain on embedded derivative instrument, net	2,067	9,731
Total net gain on operations with financial assets at fair value through profit or loss	**2,717**	**19,023**

23. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	2017	2016
Dealing, net	6,580	5,998
Translation differences, net	(3,432)	2,812
Total net gain on foreign exchange operations	**3,148**	**8,810**

24. Fee and commission income and expense

Fee and commission income and expense comprise:

	2017	2016
Fee and commission income:		
Plastic cards operations	3,020	3,383
Documentary operations	1,964	2,328
Settlements	1,130	1,194
Cash operations	381	434
Letter of credit	15	26
Other	42	44
Total fee and commission income	**6,552**	**7,409**
Fee and commission expense:		
Plastic cards services	(4,161)	(3,752)
Settlements	(706)	(576)
Documentary operations	(76)	(205)
Letter of credit	(44)	(23)
Other	(101)	(82)
Total fee and commission expense	**(5,088)**	**(4,638)**

25. Other income, net

Other income / (expense) comprises:

	2017	2016
Net written premiums	7,850	10,925
Change in provisions for reported but not settled claims	1,643	374
Gain from disposal of available-for-sale Investment	-	10,500
Income from operating lease	999	55
Gain on disposal of repossessed assets	667	1,006
Gain on disposal of property	13	7
Fines and penalties received	21	31
Claims settled, net of reinsurance	(3,997)	(5,713)
Reinsurers' share of claims settled	(2,946)	(4,199)
Change in provisions for incurred but not reported claims	(695)	(1,991)
Other	567	402
Total other income, net	**4,122**	**11,397**

26. Operating expenses

Operating expenses comprise:

	2017	2016
Staff costs	10,622	10,365
Charity and sponsorship	6,052	7,760
Depreciation and amortization	2,818	2,537
Operating leases	2,279	2,155
Communication expenses	2,248	2,101
Security expenses	618	533
Professional services	359	370
Representative expenses	246	250
Utilities	431	242
Taxes, other than income tax	198	214
Postal expenses	199	187
Property and equipment maintenance	95	144
Advertising expenses	132	126
Business trip expenses	85	65
Training	56	64
Other expenses	2,718	2,200
Total operating expenses	**29,156**	**29,313**

27. Income taxes

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

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

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

Temporary differences mostly relate to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under tax law in that jurisdiction.

Deferred income tax assets/(liabilities) on temporary differences as at December 31, 2017 and 2016 comprise:

	December 31, 2017	December 31, 2016
Loans to customers	(6,165)	(5,323)
Embedded derivative financial instrument	464	(1,721)
Property and equipment	(490)	(368)
Provisions for other assets	6	331
Other liabilities	14	264
Subordinated debt	(87)	192
Other assets	-	176
Intangible assets	29	137
Other provisions	(133)	13
Net deferred income tax asset	**-**	**249**
Net deferred income tax liability	**(6,362)**	**(6,548)**

27. Income taxes (continued)

Relationships between tax expenses and accounting profit for the years ended December 31, 2017 and 2016 are explained as follows:

	2017	**2016**
Profit before income tax	56,666	83,006
Tax at the statutory tax rate (15%)	8,500	12,451
Effect of changes in tax legislation	(1,193)	(4,743)
Permanent differences	(359)	46
Income tax expense	**6,948**	**7,754**
Current income tax expense	9,320	10,474
Deferred income tax benefit	(2,372)	(2,720)
Income tax expense	**6,948**	**7,754**

	2017	**2017**
As at January 1 – deferred income tax asset	**249**	**249**
As at January 1 – deferred income tax liability	**(6,548)**	**(10,762)**
Deferred income tax reclassified from other comprehensive income	-	1,494
Deferred income tax recognised directly in equity	(2,435)	-
Deferred income tax benefit recognized in profit or loss	2,372	2,720
As at December 31- deferred income tax assets	**-**	**249**
As at December 31- deferred income tax liabilities	**(6,362)**	**(6,548)**

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

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

The change has had an immediate impact on deferred tax of the Companies as it abolishes temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Due to the changes of the tax legislation balance of deferred tax liability attributable to previously recognised temporary differences arising from prior periods should be fully written off till 1 January 2019. As a result of the mentioned amendment, as at December 31, 2017 and 2016, deferred tax assets/liabilities are remeasured to the amounts that are estimated to be utilised in the period from January 1, 2018 to December 31, 2018. Untilisable portion of deferred tax assets/liabilities are recorded under the effect of changes in tax legislation in the table above.

28. Commitments and contingencies

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

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

Provision for losses on contingent liabilities totaled GEL 2,420 and GEL 1,530 as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016 contingent liabilities comprise:

	December 31, 2017	**December 31, 2016**
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	64,691	62,435
Letters of credit and other transaction related contingent obligations	8,252	-
Commitments on loans and unused credit lines	22,310	27,355
Total contingent liabilities and credit commitments	**95,253**	**89,790**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2017 and 2016 such unused credit lines come to GEL 22,310 and GEL 27,355, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2017 and 2016.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2017 and 2016.

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

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

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

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

28. Commitments and contingencies (continued)

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

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

29. Transactions with related parties

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

	December 31, 2017		**December 31, 2016**	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	41,568	869,723	24,482	937,005
– other related parties	41,146		23,147	
- Key management personnel	422		1,335	
Allowance for impairment losses on loans to customers	(1,835)	(74,837)	(433)	(82,667)
– other related parties	(1,833)		(403)	
- Key management personnel	(2)		(30)	
Deposits by customers	(34,400)	(690,657)	(25,865)	(747,610)
– parent	(1,812)		(179)	
– other related parties	(32,527)		(25,602)	
– key management personnel	(61)		(84)	
Subordinated debt	(208,368)	(208,368)	(227,179)	(227,179)
- other related parties	(163,623)		(178,851)	
- shareholders	(44,745)		(48,328)	
Other borrowed funds	(26,289)	(26,289)	(124,400)	(124,400)
- other related parties	(26,289)		(124,400)	
Guarantees issued and similar commitments	(11,452)	(95,253)	(8,704)	(62,435)
– key management personnel	(38)		-	
- other related parties	(11,414)		(8,704)	

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

	2017		**2016**	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	645	9,726	565	10,365

29. Transactions with related parties (continued)

Included in the consolidated statement of profit or loss for the years ended December 31, 2017 and 2016 are the following amounts which were recognized in transactions with related parties:

	2017		2016	
	Related party transactions	Total category as per the consolidated financial statements caption	Related party transactions	Total category as per the consolidated financial statements caption
Interest income	1,967	99,520	3,726	108,902
- other related parties	1,954		3,669	
- Key management personnel	13		57	
Interest expense	(12,548)	(31,529)	(11,602)	(38,080)
– Key management personnel	-		(34)	
- parent	(2,331)		(1,793)	
- other related parties	(10,217)		(9,775)	
Fee and commission income	-	6,552	231	7,409
– Key management personnel	-		1	
- other related parties	-		230	
Charity and sponsorship	(6,052)	(6,052)	(7,760)	(7,760)
- other related parties	(6,052)		(7,760)	

30. Fair value of financial instruments

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

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

Financial assets and liabilities for which fair value approximates carrying value

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

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

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

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

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

30. Fair value of financial instruments (continued)

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

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

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

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

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

	Fair Value	December 31, 2017		December 31, 2016	
	Hierarchy	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	3	794,886	812,530	854,338	849,521
Deposits by customers	3	690,657	711,915	747,610	733,937

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

	December 31, 2017	December 31, 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets held for trading assets (See Note 7)	-	2,108	Level 1	Quoted bid prices in an active market.	N/A	N/A
Embedded derivatives (See Note 7)	18,253	28,247	Level 3	Discounted cash flows	Forward exchange rate	10% increase /(decrease) in forward exchange rate leads fair value increase/(decrease) by GEL 12,780 /(12,780)

31. Capital risk management

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

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Group's capital is monitored using the ratios established by the NBG in supervising the Group. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the Bank's standalone reports prepared in accordance with the NBG accounting rules.

According to the NBG regulations commercial banks have to:

a) hold the minimum level of Regulatory Capital according to the following schedule:

- 30,000 thousand GEL as at December 31, 2017
- 40,000 thousand GEL as at June 30, 2018
- 50,000 thousand GEL as at December 31, 2018

b) maintain ratios of Common Equity Tier 1 Capital, Tier 1 Capital and Regulatory Capital to the risk-weighted assets at or above the prescribed minimum of levels throughout the reporting period.

As at December 31, 2016 and throughout the period from until December 31, 2017, the Bank had to maintain minimum Common Equity Tier 1 Capital, Tier 1 Capital and Regulatory Capital adequacy ratios of 7%, 8.5%, and 10.5%, respectively.

On December 18, 2017 the NBG has introduced amendments to the "Regulation on Capital Adequacy Requirements for Commercial Banks" (Decree N100/04). Under the updated capital adequacy framework capital requirements are divided into Pillar 1 Requirements for Common Equity Tier 1, Tier 1 and Regulatory Capital and additional buffers for Common Equity Tier 1, Tier 1 and Regulatory Capital under Pillar 1 and Pillar 2.

As at December 31, 2017, the details of the all Pillar 1 and Pillar 2 buffers introduced by the NBG are as follows:

1. Pillar 1 buffers include:

   - The Capital Conservation ("CC") buffer that is effective as at December 31, 2017;
   - The Systemic Risk ("SR") buffer will be introduced for systematically important banks over the 4 years period.
   - The Countercyclical Capital ("CCC") buffer is set at 0%.

Adjustments to the Pillar 1 buffers are at NBG's discretion.

2. Pillar 2 buffers include:

   - The Currency Induced Credit Risk ("CICR") buffer that is effective as at December 31, 2017 for un-hedged FX loans denominated in foreign currencies;
   - The Concentration Risk ("CR") buffer that will be introduced for sectoral and single borrower exposure;
   - The Net Stress ("NS") buffer that will be introduced based on stress testing results provided by the Group;
   - Net General Risk-assessment Programme ("GRAPE") buffer that will be defined by the NBG and will be applied based on the bank's specific risks.

31. Capital Risk Management (continued)

The summary of the Capital Adequacy ratio requirements set under the Capital Adequacy Framework effective as at December 31, 2017 are as follows:

Capital to the Risk-Weighted Assets	Pillar 1				Pillar 2				December 31, 2017
	Require-ments	Pillar 1 buffers			Pillar 2 buffers				Total minimum requirements
		CC	SR	CCC	CICR	CR	NS	GRAPE	
Common Equity Tier 1 Capital ratio	4.5%	2.5%	0%	0%	1.49%	0.00%	0.00%	0.00%	8.49%
Tier 1 Capital ratio	6.0%	2.5%	n/a	n/a	2.00%	0.00%	0.00%	0.00%	10.5%
Total Regulatory Capital ratio	8.0%	2.5%	n/a	n/a	2.66%	0.00%	0.00%	0.00%	13.16%

Additionally, based on the updated methodology, specific PTI (payment to income) and LTV (loan to value) thresholds were introduced. For the exposures which do not fall into pre-defined limits for PTI and LTV ratios, higher risk weights were applied.

The summary of Capital Adequacy Ratio requirements set under the Capital Adequacy Framework effective as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Common Equity Tier 1 Capital Adequacy Ratio	8.49%	7%
Tier 1 Capital Adequacy Ratio	10.5%	8.5%
Total regulatory capital adequacy Ratio	13.16%	10.5%

As at December 31, 2017 and 2016, Capital Adequacy Ratios based on the Bank's standalone reports prepared in accordance with the NBG accounting rules and Capital Adequacy Framework effective as at December 31, 2016 are as follows:

	2017	2016
Share capital	114,430	114,430
Reserve funds	6,838	6,838
Retained earnings	107,210	70,393
Deductions from Common Equity Tier 1 Capital	(6,132)	(10,635)
Common Equity Tier 1 Capital	**222,346**	**181,026**
Additional Tier 1 Capital	-	-
Tier 1 Capital	**222,346**	**181,026**
Convertible subordinated debts	221,585	132,940
Non-convertible subordinated debts	-	93,299
General loan loss provisions (up to 1.25 % of risk–weighted assets)	9,735	11,902
Total regulatory capital	**453,666**	**419,167**
Risk weighted assets	**1,804,238**	**1,817,524**
Common Equity Tier 1 Capital Adequacy Ratio	12.32%	9.96%
Tier 1 Capital Adequacy Ratio	12.32%	9.96%
Total regulatory capital adequacy Ratio	25.14%	23.06%

31. Capital Risk Management (continued)

As at December 31, 2017 Capital Adequacy Ratios based on the Bank's standalone reports prepared in accordance with the NBG accounting rules and Capital Adequacy Framework effective as at December 31, 2017 are as follows:

	2017
Share capital	114,430
Reserve funds	6,838
Retained earnings	107,210
Deductions from Common Equity Tier 1 Capital	(6,132)
Common Equity Tier 1 Capital	**222,346**
Additional Tier 1 Capital	-
Tier 1 Capital	**222,346**
Convertible subordinated debts	221,585
General loan loss provisions (up to 1.25 % of risk–weighted assets)	9,735
Total regulatory capital	**453,666**
Risk weighted assets	**1,384,981**
Common Equity Tier 1 Capital Adequacy Ratio	16.05%
Tier 1 Capital Adequacy Ratio	16.05%
Total regulatory capital adequacy Ratio	32.76%

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

As at December 31, 2017 and 2016, the Bank included in the computation of total regulatory capital for capital adequacy purposes the general provisions, limited to 1.25% of risk weighted assets.

During the years ended December 31, 2017 and 2016, the Bank had complied in full with all its externally imposed capital requirements.

32. Risk management policies

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

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

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

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

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

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

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, some portion of retail loans are not collateralized. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

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

Credit risk assessment. To assess credit risk of exposures to the borrowers the Bank has developed provisioning methodologies and the models.

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

Individual assessment of impairment for individually significant exposures

Impairment for individually significant exposures to the group of borrowers are assessed individually using the individual assessment methodology by determining future cash flows discounted at original effective interest rate.

32. Risk management policies (continued)

For the purpose of estimation of expected cash flows from the group of borrowers business, the management considers available information about the borrowers' liquidity, solvency, business and financial risks, delinquency levels and available cash flows from operations.

Estimated future cash flows of collateralised loans also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Cash flows that may result from foreclosure of the collateral is dependent on the fair value of the collateral and applied valuation and liquidity haircuts per each type of collateral. There are three key types of collateral used in the cash flows estimation:

- Real estate;
- Movable property including fixed assets and inventory;
- Financial assets including deposits.

Estimated future cash flows that may result from foreclosure of collateral less costs for obtaining and selling the collateral is discounted using the original effective interest rate of the loan over the expected time to sell period.

Time to sell period is dependent on the type of collaterals and represents management's best estimate of expected period to sell the collateral since the default date.

Where the individually significant exposures are determined not to be impaired individually, collective assessment methodology applied to reflect impairment losses that were incurred but have not been specifically identified.

Collective assessment of impairment

For the purpose of collective assessment of impairment, the loan portfolio is divided into groups of loans with impairment trigger events and without impairment trigger events.

Methodology for loans with impairment trigger events assumes that default occurred and Loss Given Default ("LGD") is estimated that reflects discounted cash flows that may result from foreclosure less costs for obtaining and selling the collateral. Estimation approach for cash flows that may result from foreclosure of the collaterals is described above.

Loans without impairment trigger events are grouped on the basis of similar credit risk characteristics.

In order to calculate impairment allowance for collectively assessed loans without impairment triggers, the Bank estimates the following risk parameters: Probability of Default ("PD") and Loss Given Default ("LGD).

In case of a change in either the internal or external environment and historical data no longer reflect the current situation, the Bank adjusts risk parameters on the basis of current observable data to reflect the effects of present conditions that did not affect past periods, and to remove the effects of past conditions that do no longer exist.

Default definition includes criteria as:

- 180 past due
- Other criteria indicating the borrower's unlikeness to repay the liabilities including bad restructuring.

To reflect incurred but not specifically identified impaired losses the Bank developed Probability of Default ("PD") model using the transitional matrices approach.

The observation period for each segment was considered as last 3 years. During the observation period by the state of end of months in the overdue buckets and with account of exposure of each loan, the average one month matrix is constructed and then 12 months migration period allowed to estimate PD parameter.

32. Risk management policies (continued)

In 2017, the Bank updated its LGD assessment methodology and instead of estimation of average LGD per segment, individual LGD levels were estimated that reflects discounted cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

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

	December 31, 2017	**December 31, 2016**
Financial assets at fair value through profit or loss	18,253	30,355
Due from financial institutions	18,800	6,026
Loans to customers	794,886	854,338
Held to maturity investments	27,978	19,045
Available-for-sale investments	57	57
Other financial assets	1,064	523
Guarantees issued and similar commitments	64,691	62,435
Letters of credit and other transaction related contingent obligations	8,252	-
Commitments on loans and unused credit lines	22,310	27,355

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

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

32. Risk management policies (continued)

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

	Georgia	Other non-OECD countries	OECD countries	December 31, 2017 Total
FINANCIAL ASSETS				
Cash and cash equivalent	212,482	3,914	8,248	224,644
Mandatory cash balance with the NBG	120,479	-	-	120,479
Financial assets at fair value through profit or loss	18,253	-	-	18,253
Due from financial institutions	6,507	-	12,293	18,800
Loans to customers	776,046	17,714	1,126	794,886
Available-for-sale investments	57	-	-	57
Held to maturity investments	27,978	-	-	27,978
Other financial assets	1,064	-	-	1,064
TOTAL FINANCIAL ASSETS	**1,162,866**	**21,628**	**21,667**	**1,206,161**
FINANCIAL LIABILITIES				
Deposits by banks	18,398	-	-	18,398
Deposits by customers	655,741	21,026	13,890	690,657
Other borrowed funds	-	-	26,289	26,289
Other financial liabilities	931	-	-	931
Subordinated debt	208,368	-	-	208,368
TOTAL FINANCIAL LIABILITIES	**883,438**	**21,026**	**40,179**	**944,643**
NET POSITION	**279,428**	**602**	**(18,512)**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2016 Total
FINANCIAL ASSETS				
Cash and cash equivalent	289,717	6,647	2,252	298,616
Mandatory cash balance with the NBG	143,009	-	-	143,009
Financial assets at fair value through profit or loss	28,247	-	2,108	30,355
Due from financial institutions	926	-	5,100	6,026
Loans to customers	835,018	18,963	357	854,338
Available-for-sale investments	57	-	-	57
Held to maturity investments	19,045	-	-	19,045
Other financial assets	523	-	-	523
TOTAL FINANCIAL ASSETS	**1,316,542**	**25,610**	**9,817**	**1,351,969**
FINANCIAL LIABILITIES				
Deposits by banks	19,576	-	29	19,605
Deposits by customers	511,036	224,948	11,626	747,610
Other borrowed funds	124,400	-	-	124,400
Other financial liabilities	24	-	-	24
Subordinated debt	227,179	-	-	227,179
TOTAL FINANCIAL LIABILITIES	**882,215**	**224,948**	**11,655**	**1,118,818**
NET POSITION	**434,327**	**(199,338)**	**(1,838)**	

32. Risk management policies (continued)

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

The main types of collateral obtained are as follows:

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

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

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

At December 31, 2017 and 2016 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to GEL 227,110 and GEL 117,543. The collateral consists of real estate, vehicles, equipment inventory, deposit and others.

Credit quality by classes of financial assets.

As at December 31, 2017:

	Neither past due nor impaired	Past due but not impaired	individually impaired	Collectively impaired	(Impair-ment allowance)	Total December 31, 2017
Cash and cash equivalents	224,644	-	-	-	-	224,644
Mandatory cash balance with the NBG	120,479	-	-	-	-	120,479
Financial assets at fair value through profit or loss	18,253	-	-	-	-	18,253
Due from financial institutions	18,800	-	-	-	-	18,800
Loans to customers	464,400	30,174	139,797	235,352	(74,837)	794,886
Available-for-sale investments	57	-	-	-	-	57
Held to maturity investments	27,978	-	-	-	-	27,978
Other financial assets	1,064	-	-	-	-	1,064

As at December 31, 2016:

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Collectively Impaired	(Impair-ment allowance)	Total December 31, 2016
Cash and cash equivalents	298,616	-	-	-	-	298,616
Mandatory cash balance with the NBG	143,009	-	-	-	-	143,009
Financial assets at fair value through profit or loss	30,355	-	-	-	-	30,355
Due from financial institutions	6,026	-	-	-	-	6,026
Loans to customers	37	-	152,870	784,098	(82,667)	854,338
Available-for-sale investments	57	-	-	-	-	57
Held to maturity investments	19,045	-	-	-	-	19,045
Other financial assets	523	-	-	-	-	523

32. Risk management policies (continued)

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

As at December, 31 2017 and 2016 the balances with the NBG (including mandatory cash balance) amounted to GEL 183,629 and GEL 149,653, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level BB.

The following table details credit ratings of financial assets held by the Group as at December 31, 2017:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2017
Cash and cash equivalents	-	-	7,658	124,623	79,359	13,004	224,644
Mandatory cash balance with the NBG	-	-	-	-	120,479	-	120,479
Financial assets at fair value through profit or loss	-	-	-	-	-	18,253	18,253
Due from financial institutions	-	-	11,904	389	-	6,507	18,800
Loans to customers	-	-	-	-	-	794,886	794,886
Available-for-sale investments	-	-	-	-	-	57	57
Held to maturity investments	-	-	-	-	27,978	-	27,978
Other financial assets	-	-	-	-	-	1,064	1,064

As at December 31, 2016:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2016
Cash and cash equivalents	-	-	5,542	256,632	7,623	28,819	298,616
Mandatory cash balance with the NBG	-	-	-	-	143,009	-	143,009
Financial assets at fair value through profit or loss	-	-	-	375	310	29,670	30,355
Due from financial institutions	-	-	5,103	-	-	923	6,026
Loans to customers	-	-	-	-	-	854,338	854,338
Available-for-sale investments	-	-	-	-	-	57	57
Held to maturity investments	-	-	-	-	19,045	-	19,045
Other financial assets	-	-	-	-	-	523	523

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

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

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

32. Risk management policies (continued)

Carrying amount by class of financial assets whose terms have been renegotiated. The table below shows the carrying amount of renegotiated financial assets, by class:

Financial asset class	December 31, 2017	December 31, 2016
Loans to customers	44,027	17,430

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

Liquidity risk

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

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

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

Further is analysis of liquidity and interest rate risks:

(a) Term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;
(b) Term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Group will be liable to redeem the liability; and
(c) Estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

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

32. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2017 Total
FINANCIAL ASSETS						
Cash and cash equivalents	45,000	-	-	-	-	45,000
Mandatory cash balance with the NBG	120,479	-	-	-	-	120,479
Due from financial institutions	-	6,000	507	-	-	6,507
Loans to customers	119,685	43,273	149,435	286,992	195,501	794,886
Held to maturity investments	4,491	9,283	14,204	-	-	27,978
Total interest bearing financial assets	**289,655**	**58,556**	**164,146**	**286,992**	**195,501**	**994,850**
Cash and cash equivalents	179,644	-	-	-	-	179,644
Financial assets at fair value through profit or loss	6,109	264	1,379	6,945	3,556	18,253
Due from financial institutions	-	-	8,245	-	4,048	12,293
Available-for-sale investments	57	-	-	-	-	57
Other financial assets	1,064	-	-	-	-	1,064
Total non-interest bearing financial assets	**186,874**	**264**	**9,624**	**6,945**	**7,604**	**211,311**
Total financial assets	**476,529**	**58,820**	**173,770**	**293,937**	**203,105**	**1,206,161**
FINANCIAL LIABILITIES						
Deposits by customers	147,125	9,087	167,635	67,864	4,687	396,398
Deposits by banks	-	-	14,602	-	-	14,602
Subordinated debt	-	95	-	-	208,273	208,368
Other borrowed funds	-	-	-	26,289	-	26,289
Total interest bearing financial liabilities	**147,125**	**9,182**	**182,237**	**94,153**	**212,960**	**645,657**
Deposits by customers	294,259	-	-	-	-	294,259
Deposits by banks	3,796	-	-	-	-	3,796
Other financial liabilities	931	-	-	-	-	931
Total non-interest bearing financial liabilities	**298,986**	**-**	**-**	**-**	**-**	**298,986**
Total financial liabilities	**446,111**	**9,182**	**182,237**	**94,153**	**212,960**	**944,643**
Interest sensitivity gap	142,530	49,374	(18,091)	192,839	(17,459)	
Cumulative interest sensitivity gap	**142,530**	**191,904**	**173,813**	**366,652**	**349,193**	
Liquidity gap	30,418	49,638	(8,467)	199,784	(9,855)	
Cumulative liquidity gap	**30,418**	**80,056**	**71,589**	**271,373**	**271,373**	

32. Risk management policies (continued)

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

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

32. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2017 Total
FINANCIAL ASSETS							
Cash and cash equivalents	7.25%	45,068	-	-	-	-	45,068
Mandatory cash balance with the NBG	1.25%	120,479	-	-	-	-	120,479
Due from financial institutions	8.00%	-	6,068	-	-	-	6,068
Loans to customers	10.00%	125,653	53,755	194,227	391,094	234,328	999,057
Held to maturity investments	7.28%	4,500	9,380	14,759	-	-	28,639
Total interest bearing financial assets		**295,700**	**69,203**	**208,986**	**391,094**	**234,328**	**1,199,311**
Cash and cash equivalents		179,643	-	-	-	-	179,643
Financial assets at fair value through profit or loss		6,109	264	1,379	6,945	3,556	18,253
Due from financial institutions		-	-	8,245	-	4,048	12,293
Available-for-sale investments		57	-	-	-	-	57
Other financial assets		1,295	777	2,133	380	304	4,889
Total non-interest bearing financial assets		**187,104**	**1,041**	**11,757**	**7,325**	**7,908**	**215,135**
TOTAL FINANCIAL ASSETS		**482,804**	**70,244**	**220,743**	**398,419**	**242,236**	**1,414,446**
FINANCIAL LIABILITIES							
Deposits by customers	3.25%	147,896	9,497	175,880	99,845	5,044	438,162
Deposits by banks	4.5%	-	-	14,901	-	-	14,901
Subordinated debt	5.5%	-	2,452	9,132	39,805	250,057	301,446
Other borrowed funds	5.5%	-	-	-	33,054	-	33,054
Total interest bearing financial liabilities		**147,896**	**11,949**	**199,913**	**172,704**	**255,101**	**787,563**
Deposits by banks		3,796	-	-	-	-	3,796
Deposits by customers		294,259	-	-	-	-	294,259
Other financial liabilities		931	2,397	-	-	-	3,328
Total non-interest bearing financial liabilities		**298,986**	**2,397**	**-**	**-**	**-**	**301,383**
TOTAL FINANCIAL LIABILITIES		**446,882**	**14,346**	**199,913**	**172,704**	**255,101**	**1,088,946**
Guarantees issued		2,284	10,004	25,057	27,246	100	64,691
Letters of credit		7	-	8,245	-	-	8,252
Unused credit line		9,271	628	4,938	6,264	1,209	22,310
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS		**458,444**	**24,978**	**238,153**	**206,214**	**256,410**	**1,184,199**

32. Risk management policies (continued)

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

32. Risk management policies (continued)

Market risk. Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

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

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

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

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

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

Impact of interest rate 2 basis points changes on profit before tax and equity based on financial assets and liabilities values as at December 31, 2017; and 2016 were as following:

	December 31, 2017		December 31, 2016	
	Interest rate +5%	Interest rate -5%	Interest rate +5%	Interest rate -5%
Net impact on profit before tax	17,571	(17,571)	13,875	(13,875)
Net impact on equity	14,826	(14,826)	11,793	(11,793)

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

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

32. Risk management policies (continued)

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

	GEL	**USD** USD 1 = GEL 2.5922	**EUR** EUR 1 = GEL 3.1044	**Other currency**	**December 31, 2017 Total**
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and cash equivalents	69,593	143,398	10,751	902	224,644
Mandatory cash balance with the NBG	-	109,873	10,606	-	120,479
Financial assets at fair value through profit or loss	18,253	-	-	-	18,253
Due from financial institutions	6,507	4,048	8,245	-	18,800
Loans to customers	230,496	543,869	20,521	-	794,886
Available-for-sale investments	57	-	-	-	57
Held to maturity investments	27,978	-	-	-	27,978
Other financial assets	470	437	157	-	1,064
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**353,354**	**801,625**	**50,280**	**902**	**1,206,161**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Deposits by banks	1,413	16,982	3	-	18,398
Deposits by customers	131,942	504,034	54,328	353	690,657
Other borrowed funds	-	26,289	-	-	26,289
Other financial liabilities	-	931	-	-	931
Subordinated debt	-	208,368	-	-	208,368
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**133,355**	**756,604**	**54,331**	**353**	**944,643**
OPEN BALANCE SHEET POSITION	**219,999**	**45,021**	**(4,051)**	**549**	

32. Risk management policies (continued)

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

32. Risk management policies (continued)

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

Impact on net profit and equity based on asset values as at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	GEL/USD +30%	GEL/USD -30%	GEL/USD +30%	GEL/USD -30%
Impact on profit or loss before tax	13,506	(13,506)	1,254	(1,254)
Impact on equity	11,480	(11,480)	1,066	(1,066)

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

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

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

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

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

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

33. Subsequent events

No significant events were identified subsequent to the year ended December 31, 2017.