JOINT STOCK COMPANY
HALYK BANK GEORGIA

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

JOINT STOCK COMPANY HALYK BANK GEORGIA

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JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of Joint Stock Company Halyk Bank Georgia (the "Bank") as at December 31, 2017, the 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 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 Bank's financial position and financial performance; and
- Making an assessment of the Bank'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 Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended December 31, 2017 were authorized for issue on March 2, 2018 by the Management Board of the Bank.

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 2, 2018
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2018
Tbilisi, Georgia

Deloitte & Touche LLC
36A Lado Asatiani Street
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Georgia

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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 Financial Statements* section of our report. We are independent of the Bank 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 financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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

Deloitte & Touche

Tbilisi, Georgia
2 March 2018

JOINT STOCK COMPANY HALYK BANK GEORGIA

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	20,335	30,629
Mandatory cash balance with the National Bank of Georgia		44,955	37,751
Due from banks	6	1,645	871
Loans to customers	7	326,416	273,501
Available-for-sale financial assets	8	54	54
Investments held to maturity	9	16,823	16,757
Property and equipment	10	12,041	12,119
Intangible assets	11	3,745	3,210
Other assets	12	1,647	1,465
TOTAL ASSETS		**427,661**	**376,357**
LIABILITIES:			
Deposits by banks	13	263,034	205,746
Deposits by customers	14	61,683	80,132
Income tax liabilities		1,313	412
Deferred income tax liabilities	23	1,750	1,720
Other liabilities	15	2,598	2,373
Subordinated debt	16	26,013	26,561
TOTAL LIABILITIES		**356,391**	**316,944**
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	17	48,000	48,000
Property revaluation reserve		406	410
Retained earnings		22,864	11,003
TOTAL EQUITY		**71,270**	**59,413**
TOTAL LIABILITIES AND EQUITY		**427,661**	**376,357**

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 2, 2018
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2018
Tbilisi, Georgia

The notes on pages 8-56 form an integral part of these financial statements.

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017
(in thousands of Georgian Lari)

	Notes	2017	2016
Interest income	18	32,227	28,678
Interest expense	18	(8,344)	(8,738)
Net interest income before impairment losses on interest bearing assets		23,883	19,940
Impairment losses on interest bearing assets	19	(1,300)	(2,664)
Net interest income		**22,583**	**17,276**
Net gain on foreign exchange operations	20	1,105	978
Fee and commission income	21	4,356	3,902
Fee and commission expense	21	(2,510)	(2,443)
Provision on other operations	15	(33)	(9)
Other income		26	95
Net non-interest income		**2,944**	**2,523**
Operating income		**25,527**	**19,799**
Operating expenses	22	(11,914)	(9,888)
Profit before income tax		**13,613**	**9,911**
Income tax expense	23	(1,756)	(1,219)
Net profit for the year		**11,857**	**8,692**
Other comprehensive income			
Net gain resulting on revaluation of property		-	241
Income tax	23	-	(36)
Other comprehensive income after income tax		**-**	**205**
Total comprehensive income		**11,857**	**8,897**

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 2, 2018
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2018
Tbilisi, Georgia

The notes on pages 8-56 form an integral part of these financial statements.

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(in thousands of Georgian Lari)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity attributable to owners of the Bank
January 1, 2016		**48,000**	**207**	**2,309**	**50,516**
Profit for the period		-	-	8,692	**8,692**
Other comprehensive income after income tax		-	205	-	**205**
Release of revaluation reserve due to depreciation of previously revalued assets		-	(2)	2	-
December 31, 2016	**17**	**48,000**	**410**	**11,003**	**59,413**
Profit for the period		-	-	11,857	**11,857**
Release of revaluation reserve due to depreciation of previously revalued assets		-	(4)	4	-
December 31, 2017	**17**	**48,000**	**406**	**22,864**	**71,270**

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 2, 2018
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2018
Tbilisi, Georgia

The notes on pages 8-56 form an integral part of these financial statements.

JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(in thousands of Georgian Lari)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		13,613	9,911
Adjustments for non-cash items:			
Provision for impairment losses on interest bearing assets	19	1,300	2,664
Provision on other operations	15	33	9
Depreciation and amortization	22	976	701
Foreign exchange gain	20	87	163
Net change in accrued interest		2,893	(2,483)
Cash flows from operating activities before changes in operating assets and liabilities		**18,902**	**10,965**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		(7,138)	(27,043)
Due from banks		(772)	(767)
Loans to customers		(54,197)	(102,726)
Other assets		(109)	(161)
(Decrease)/increase in operating liabilities:			
Deposits by banks		53,808	99,157
Deposits by customers		(18,470)	39,781
Other liabilities		192	429
Cash (used in) / generated from operations		**(7,784)**	**19,635**
Income taxes paid		(825)	-
Net cash (used in) / generated by operating activities		**(8,609)**	**19,635**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(671)	(1,940)
Proceeds from disposal of property and equipment		-	47
Purchase of intangible assets		(838)	(1,498)
Purchase of investments held to maturity		(190)	2,502
Net cash used in investing activities		**(1,699)**	**(889)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		14	(2,575)
Net (decrease) / increase in cash and cash equivalents		**(10,294)**	**16,171**
CASH AND CASH EQUIVALENTS, beginning of the year		**30,629**	**14,458**
CASH AND CASH EQUIVALENTS, end of the year		**20,335**	**30,629**

Interest paid and received by the Bank during the year ended December 31, 2017 amounted to GEL 5,447 thousand and 31,965 thousand, respectively. Interest paid and received by the Bank during the year ended December 31, 2016 amounted to GEL 10,470 thousand and GEL 27,972 thousand, respectively.

On behalf of the Management Board:

Nikoloz Geguchadze
General Director

March 2, 2018
Tbilisi, Georgia

Gulnara Marshanishvili
Chief Accountant

March 2, 2018
Tbilisi, Georgia

The notes on pages 8-56 form an integral part of these financial statements.

(in thousands of Georgian Lari)

1. Organization

Halyk Bank Georgia (the "Bank") is a joint stock bank, which was incorporated in Georgia on January 29, 2008. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 0110246. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees and deposit taking.

The registered office of the Bank is located on 74 Kostava Street, Tbilisi, Georgia.

As at December 31, 2017 and 2016 the Bank had seven branches, respectively, operating in Georgia.

As at December 31, 2017 and 2016 the following shareholder owned the issued shares of the Bank.

	December 31, 2017	December 31, 2016
First level shareholder:		
JSC Halyk Bank Kazakhstan	100%	100%
Total	**100%**	**100%**

Main shareholders of JSC Halyk Bank Kazakhstan are JSC Holding ALMEX and JSC Accumulated Pension Fund. JSC Halyk Bank Kazakhstan is ultimately controlled by Timur Kulibayev and Dinara Kulibayeva.

These financial statements were authorised for issue on March 2, 2018 by the Management Board.

2. Significant accounting policies

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

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

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

These financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amounts at the end of each reporting period, 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 Bank 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 financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised 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 is registered in Georgia and maintains its accounting records in accordance with Georgian law. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 27.

Functional currency. Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The functional currency of the Bank is the Georgian Lari ("GEL"). The presentation currency of the financial statements of the Bank is the GEL. All values are rounded to the nearest thousand Lari, except when otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the 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 statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

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

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

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

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

Financial instruments. The Bank recognizes financial assets and liabilities in its 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.

The principal financial assets of the Bank are cash and cash equivalents, mandatory cash balance with the NBG, investments available-for-sale, investments held to maturity and loans and receivables.

<u>Cash and cash equivalents</u>. Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent and term deposits with the National Bank of Georgia (the "NBG") with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

<u>Mandatory cash balance with the National Bank of Georgia</u>. Mandatory cash balance with the National Bank of Georgia (the "NBG") is carried at amortised cost and represent interest bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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.

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.

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

If the Bank 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 Bank would be prohibited from classifying any financial asset as held to maturity during current financial year and following two financial years.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from banks balances, loans to customers and other financial assets) 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, other than those at FVTPL, 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 listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is 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;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

In order to calculate impairment allowance for collectively assessed pools, the Bank estimates probability of default based on historical experience and loss given default based on collateral fair values. 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.

For financial assets carried at amortised cost, the amount of the impairment loss recognised 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 recognised 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 Bank 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 advances. 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 Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets. The Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised 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.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by a Bank 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 Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities. 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 recognised on an effective yield basis.

The effective interest method is a method of calculating the amortized 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 Bank are initially measured at their fair values and, if not designated as at FVTPL, 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 Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

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

The Bank as lessee. Operating lease payments are recognised 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 recognised 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 recognised as a liability. The aggregate benefit of incentives is recognised 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.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment. Buildings held for use in supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such premises is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such premises is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for premises relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of premises and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(in thousands of Georgian Lari)

Depreciation on revalued premises is recognised in profit or loss. On the subsequent sale or retirement of revalued premises, the attributable revaluation surplus remaining in the revaluation reserve for premises is transferred directly to retained earnings.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) 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	1%-2%
Furniture and fixtures	10%-15%
Computer and communication equipment	10%-33.33%
Vehicles	10%-33.33%
Leasehold improvement	20%-50%
Other	15%

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.

Intangible Assets. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recognized on a straight-line basis over their estimated useful lives from 2 to 15 years. 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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 when the asset is derecognized.

<u>Derecognition of intangible assets.</u> An intangible asset is derecognised 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 recognised in profit or loss when the asset is derecognised.

<u>Impairment of tangible and intangible assets other than goodwill.</u> At the end of each reporting period, the Bank 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). When it is not possible to estimate the recoverable amount of an individual asset, the Bank 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 recognised 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.

When 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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 statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 realized, based on tax laws and rates 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 Bank 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 recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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

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

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

The amount recognised 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 (when 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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies. Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies. In preparing the financial statements of the Bank, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised 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 retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

The exchange rates used by the Bank in the preparation of the 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 Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves. The reserve recorded in equity (other comprehensive income) on the Bank's statement of financial position includes property revaluation reserve which comprises revaluation reserve of land and building.

3. 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 Bank 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 Bank's liabilities arising from financing activities consist of subordinated debt (note 16). Consistent with the transition provisions of the amendments, the Bank has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Bank's financial statements.

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

The Bank 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 Bank's financial statements as the Bank already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Bank 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 Bank (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 Bank's financial statements.

New and revised IFRSs in issue but not yet effective

The Bank 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*

From 1 January 2018, the Bank started applying "Financial Instruments" IFRS 9. This standard suggests changes in classification principles of financial instruments and replacement of "incurred losses" model applied by IAS 39 with "expected losses" model.

For financial assets accounting IFRS 9 provides for 3 classification categories:
- Instruments measured at amortised cost;
- Instruments measured at fair value, which changes are reflected in other comprehensive income;
- Instruments measured at fair value, which changes are reflected in profit or loss statement for the reporting period.

In accordance with IFRS 9 requirements, the Bank determines the following business models for managing financial assets:
- Retention of an asset to obtain the cash flows stipulated by the contract.

  This business model suggests financial asset management aims to realise cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited;
- Retention of an asset with a view to obtaining contractual cash flows and sale of financial assets.

  This business model assumes that the financial assets management aims both of obtaining contractual cash flows and sale of financial assets. Within framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model;
- Retention of an asset for other purposes.

  Within the framework of this business model, financial assets can be managed with the following purposes:
  - Management with a view to selling cash flows through the sale of financial assets;
  - Liquidity management to meet daily funding needs;
  - A portfolio, which management and performance is measured on a fair value basis;

  - A portfolio, which matches the definition of intended for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

- Loans to customers are classified as financial assets at amortised cost within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement;
- Balances on correspondent accounts, interbank loans / deposits, repo transactions are classified, as a rule, as assets, estimated at amortized cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract;
- Debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- Equity securities are generally classified as instruments at fair value through profit or loss.

Financial assets are assigned into stages in accordance with the following approach:

Stage 1: There is no significant increase in credit risk since initial recognition of an asset, impairment is recognized as expected credit losses over the next 12 months;
Stage 2: Significant increase in credit risk since initial recognition of an asset, impairment is recognised as expected credit losses over the life of a financial asset;
Stage 3: Financial asset is in default or has objective evidence of impairment. Impairment is recognised as expected credit losses over the life of a financial asset;

Estimation of impairment was made taking into account the following factors:

- In order to calculate the expected credit losses, the Bank performs loan appraisals on an individual basis and on a group basis depending on general credit risk features.
- Expected credit losses represent estimates of expected credit losses weighted at probability of a default and calculated as present value of all expected losses in amounts due. Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Bank's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.
- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- Assets classified at fair value through profit or loss are not subject to impairment under IFRS 9.
- The expected credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

The most significant impact on the Bank's financial statements on implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments within the scope of the IFRS 9 impairment model. The transitional impact of IFRS 9 will be recognised in the opening equity as at 1 January 2018.

The actual impact of adopting IFRS 9 on 1 January 2018 is not known because not all transition work has been finalised and:

- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application;
- Expected credit losses calculations and business models are being refined and finalised; and
- The Bank is finalising the testing and assessment of controls over its IT systems and its governance framework.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 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 recognise 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 or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- 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;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises 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 in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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 Bank.

IFRS 16 *Leases*

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Bank does not have non-cancellable operating lease commitments, thus the management of the Bank does not anticipate that the application of IFRS 16 will have a material impact on the amounts recognised in the Bank's financial statements.

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.

The management does not anticipate that the application of this standard will have a material impact on the Bank's financial statements as the Bank does not have any insurance contracts.

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 January 1, 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Bank does not anticipate that the application of the amendments in the future will have a significant impact on the Bank's financial statements as the Bank 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 IAS 40 *Transfers of Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The management of the Bank does not anticipate that the application of these amendments may have a material impact on the Bank's financial statements as the Bank does not have any investment property.

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 does not anticipate that the application of this standard will have a material impact on the Bank's financial statements as the Bank does not have any insurance contracts.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

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

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Bank does not anticipate that the application of this IFRIC will have a material impact on the Bank’s financial statements as the Bank currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

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 does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements as the Bank does not have any insurance contracts to which IFRS 4 applies.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The narrow-scope amendments remedy an unintended consequence to the notion of ‘reasonable additional compensation’. The amendments allow financial assets with a prepayment option that could result in the option’s holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Bank's financial statements as it does not have prepayment features with negative compensation.

Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Bank's financial statements, as the Bank does not have any other long-term interests in associates and joint ventures.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Bank. The package also includes amendments to IFRS 12 which is mandatorily effective for the Bank in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018.

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the management is required to make judgements, 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 judgements in applying accounting policies. The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Banks's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Investments held to maturity. The management has reviewed the Bank's investments held to maturity in the light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity. As at December 31, 2017 and 2016 the carrying amount of the investments held to maturity is GEL 16,823 thousand and GEL 16,757 thousand, respectively. Details of these assets are set out in Note 9.

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.

Going Concern. The Management of the Bank has prepared these financial statements on a going concern basis. In making this judgement the management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources.

As at 31 December 2017 the Bank has negative liquidity gap in the amount of GEL 81,296 thousand in the time bucket from 3 months to 12 months, which mainly is derived from the short term liabilities towards the shareholders of the Bank. In practice, these liabilities typically are revolving and thus represent the liquidity buffer at the same time. The Management of the Bank believes that liquidity gap do not lead to going concern issue for the Bank as the Parent demonstrates its commitment to continue financing Georgian subsidiary operations. The commitment is evidenced in gradual increase of existing funding from year to year and re-volving the short-term deposits when they come due. Subsequent to the year end, short-term deposits in the amount of GEL 16,849 thousand have been matured. To meet the liquidity needs the Bank has re-volved GEL 11,665 thousand short-term deposits from the Parent. Before the issuance of this financial statements, Supervisory Board of JSC Halyk Bank Kazakhstan has reached agreement to make additional capital injection in the Bank in the amount of GEL 14,000 thousand.

Impairment of loans and receivables. The Bank's management regularly reviews its loans and receivables to assess for impairment. The Banks's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank's management 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 Banks's estimated losses and actual losses would require the

Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank 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 Bank 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 Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data. The Bank makes individual as well as group assessment of the loan portfolio for impairment.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank 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 333,162 thousand and GEL 278,954 thousand, respectively, and allowance for impairment losses on loans to customers amounted to GEL 6,746 thousand and GEL 5,453 thousand, respectively.

Property and equipment carried at revalued amounts. Certain properties are measured at revalued amounts. The latest appraisal was in May 2016. Details of the valuation techniques used are set out in Note 10.

Useful lives of property and equipment, and intangible assets. As described above, the Bank's management reviews the estimated useful lives of property, plant and equipment, and intangible assets at the end of each annual reporting period. The estimation of the useful life of an item of property, plant and equipment and intangible assets is a matter of management judgment based upon experience with similar assets. In determining useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustment to future depreciation and amortization rates.

Measurement of deferred tax assets/liabilities. 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 Bank's income tax and it also affects the Bank's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 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 1 January 2019, it will have a more immediate impact on deferred tax calculations.

The management of the Bank is confident deferred tax assets/liabilities balances at the reporting will be fully utlisied before the effective date of the law or the effect will be immaterial for the users of financial statements. The carrying value of deferred tax liabilities and assets amounted to GEL 1,750 thousand and GEL 1,720 thousand as at December 31, 2017 and 2016, respectively.

Initial recognition of related party transactions. In the normal course of business the Bank 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 28.

(in thousands of Georgian Lari)

5. Cash and cash equivalents

	December 31, 2017	**December 31, 2016**
Cash	6,635	6,509
Balances with the NBG	8,360	3,186
Correspondent accounts and time deposits with original maturities up to 90 days	5,340	20,934
Total cash and cash equivalents	**20,335**	**30,629**

6. Due from banks

As at 31 December 2017 and 2016, amounts due from other banks 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 due from banks balanaces in the amount of GEL 1,645 thousand and GEL 871 thousand were kept on deposits as restricted cash under an arrangement with a credit card company for its VISA banking operations.

7. Loans to customers

Loans to customers comprise:

	December 31, 2017	**December 31, 2016**
Loans to customers	333,162	278,954
Less: allowance for impairment losses	(6,746)	(5,453)
Total loans to customers	**326,416**	**273,501**

Movements in the allowance for impairment losses for the years ended December 31, 2017 and 2016 are disclosed in Note 19.

As at December 31, 2017 and 2016 loans to customers included accrued interest in the amount of GEL 3,144 thousand and GEL 2,870 thousand, respectively.

(in thousands of Georgian Lari)

The table below summarizes carrying value of loans to customers analysed by sector:

	December 31, 2017	December 31, 2016
Loans to legal entities		
Trade and service	171,812	151,380
Construction	38,440	28,152
Agriculture	14,147	7,711
Mining and production	9,389	8,189
Energy	4,817	5,239
Other sector	10,559	10,746
Total loans to legal entities	**249,164**	**211,417**
Loans to individuals		
Consumer loans	42,699	37,139
Mortgage loans	41,299	30,398
Total loans to Individuals	**83,998**	**67,537**
Gross loans to customers	**333,162**	**278,954**
Less: allowance for impairment losses	(6,746)	(5,453)
Total loans to customers	**326,416**	**273,501**

As at December 31, 2017 and 2016 the Bank granted loans to 10 and 9 customers totaling GEL 56,197 thousand and GEL 53,047 thousand, respectively, which individually exceeded 5% of the Bank's equity.

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

	December 31, 2017	December 31, 2016
Loans collateralized by combined collateral	232,328	190,833
Loans collateralized by pledge of real estate	86,120	72,019
Loans collateralized by cash	7,074	9,761
Loans collateralized by guarantees	1,548	1,118
Unsecured loans	6,092	5,223
Gross loans to customers	333,162	278,954
Less: allowance for impairment losses	(6,746)	(5,453)
Total loans to customers	**326,416**	**273,501**

As at December 31, 2017 and 2016 significant amount of customers (99% of total loans to customers) is granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2017 and 2016 loans to customers included loans totaling GEL 12,774 thousand and GEL 11,731 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

(in thousands of Georgian Lari)

Analysis by credit quality of loans to customers outstanding as at 31 December 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	257,612	(2,201)	255,411	0.85%
Overdue:				
up to 30 days	13,360	(449)	12,912	3.36%
31 to 60 days	1,084	(106)	978	9.78%
61 to 90 days	1,088	(81)	1,007	7.44%
91 to 180 days	595	(99)	496	16.64%
over 180 days	4,921	(707)	4,213	14.37%
Total collectively assessed loans	**278,660**	**(3,643)**	**275,017**	**1.31%**
Individually assessed				
Not past due	40,812	(492)	40,320	1.21%
Overdue:	-	-	-	-
up to 30 days	6,605	(171)	6,434	2.59%
31 to 60 days	-	-	-	-
61 to 90 days	1,785	(709)	1,076	39.72%
91 to 180 days	2,220	(603)	1,617	27.16%
over 180 days	3,080	(1,128)	1,952	36.62%
Total individually assessed loans	**54,502**	**(3,103)**	**51,399**	**5.69%**
Total loans to customers	**333,162**	**(6,746)**	**326,416**	**2.02%**

As at December 31, 2016	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	211,585	(1,607)	209,978	0.76%
Overdue:				
up to 30 days	5,569	(159)	5,410	2.86%
31 to 60 days	3,581	(149)	3,432	4.16%
61 to 90 days	5,320	(420)	4,900	7.89%
91 to 180 days	1,815	(158)	1,657	8.71%
over 180 days	1,772	(205)	1,567	11.57%
Total collectively assessed loans	**229,642**	**(2,698)**	**226,944**	**1.17%**
Individually assessed				
Not past due	20,755	(369)	20,386	1.78%
Overdue:				
up to 30 days	24,450	(1,065)	23,385	4.36%
31 to 60 days	1,456	(161)	1,295	11.06%
61 to 90 days	2,651	(1,160)	1,491	43.76%
91 to 180 days	-	-	-	-
over 180 days	-	-	-	-
Total individually assessed loans	**49,312**	**(2,755)**	**46,557**	**5.59%**
Total loans to customers	**278,954**	**(5,453)**	**273,501**	**1.95%**

(in thousands of Georgian Lari)

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

	December 31, 2017			December 31, 2016		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	8,231	(2,623)	5,607	8,000	(1,324)	6,676
Loans to customers collectively determined to be impaired	324,931	(4,123)	320,809	270,954	(4,129)	266,825
Total	**333,162**	**(6,746)**	**326,416**	**278,954**	**(5,453)**	**273,501**

For the year ended 31 December 2017 and 2016, the Bank received non-financial asset by taking possession of collateral it held as security for loans. As at December 31, 2017 and 2016 the carrying value of the assets included in other assets as repossessed assets amounted to GEL 555 thousand and GEL 391 thousand.

8. Available-for-sale financial assets

Available -for-sale financial assets comprise:

	% of ownership	**December 31, 2017**	**December 31, 2016**
OJSC United Clearing Center	6.25%	54	54
Total available-for-sale financial assets		**54**	**54**

Management could not reliably estimate the fair value of the Bank's investment in the shares of OJSC United Clearing Center. This investment is carried at cost. This investee company has not published its recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible as at December 31, 2017.

9. Investments held to maturity

	December 31, 2017		December 31, 2016	
	Nominal annual interest rate	**Amount**	**Nominal annual interest rate**	**Amount**
Treasury bills	9.05%-11.6%	17,080	6.8%-15.2%	16,900
Less: discount		(257)		(143)
Total investments held to maturity		**16,823**		**16,757**

As at December 31, 2017 and 2016 interest accrued on investments held to maturity represents GEL 657 thousand and GEL 668 thousand, respectively.

(in thousands of Georgian Lari)

10. Property and equipment

Property and equipment comprise:

	Buildings and other real estate	Computers and communi-cation equipment	Vehicles	Furnitur e and fixture	Other	Construc -tion in progress	Leasehold improve-ments	Total
At cost / revalued amount								
January 1, 2016	**7,872**	**1,473**	**392**	**637**	**619**	**1,349**	**122**	**12,464**
Additions	327	716	286	208	203	89	168	1,997
Disposals	-	(117)	(121)	(17)	(133)	-	(32)	(420)
Transfers	1,131	113	-	-	46	(1,290)	-	-
Revaluation decrease	(14)	-	-	-	-	-	-	(14)
December 31, 2016	**9,316**	**2,185**	**557**	**828**	**735**	**148**	**258**	**14,027**
Additions	-	51	-	80	165	181	119	596
Transfers	-	113	-	-	38	(151)	-	-
December 31, 2017	**9,316**	**2,349**	**557**	**908**	**938**	**178**	**377**	**14,623**
Accumulated depreciation								
January 1, 2016	**137**	**832**	**256**	**422**	**356**	**-**	**34**	**2,037**
Charge for the year	120	167	40	61	71	-	40	499
Eliminated on disposal	-	(115)	(121)	(17)	(135)	-	(13)	(401)
Eliminated on revaluation	(227)	-	-	-	-	-	-	(227)
December 31, 2016	**30**	**884**	**175**	**466**	**292**	**-**	**61**	**1,908**
Charge for the year	123	263	45	80	106	-	57	674
December 31, 2017	**153**	**1,147**	**220**	**546**	**398**	**-**	**118**	**2,582**
Net book value								
As at December 31, 2017	**9,163**	**1,202**	**337**	**362**	**540**	**178**	**259**	**12,041**
As at December 31, 2016	**9,286**	**1,301**	**382**	**362**	**443**	**148**	**197**	**12,119**

As at December 31, 2017 and 2016 the Bank did not have any pledged property and equipment.

As at December 31, 2017 and 2016 included in property and equipment were fully depreciated assets totaling GEL 1,062 thousand and GEL 981 thousand, respectively.

(in thousands of Georgian Lari)

The Bank’s buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The buildings were revalued to market value on May 31, 2016. 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.

Details of the Bank’s buildings and information about the fair value hierarchy as at December 31, 2016 were as follows:

	Valuation technique	Unobservable inputs	Fair value hierarchy	Fair value as at December 31, 2016
Buildings in following region:				
- Tbilisi - Kostava street	Sales comparison approach	Price per square meter	Level 3	2,660
- Tbilisi - Shartava street				4,315
- Batumi - Gorgasali street				883
Total				**7,858**

The Bank has performed an internal analysis of fluctuation of real estate prices and determined that there were no significant fluctutations of real estate prices in Georgia during the year 2017.

Had the Bank’s buildings (other than land and buildings classified as held for sale) been measured on a historical cost basis, their carrying amount would have been GEL 8,713 thousand and GEL 8,829 thousand as at December 31, 2017 and December 31, 2016, respectively.

(in thousands of Georgian Lari)

11. Intangible assets

	Intangible
At initial cost:	
January 1, 2016	**3,183**
Additions	1,498
December 31, 2016	**4,681**
Additions	837
December 31, 2017	**5,518**
Accumulated amortization:	
January 1, 2016	**1,269**
Charge for the year	202
December 31, 2016	**1,471**
Charge for the year	302
December 31, 2017	**1,773**
Net book value	
As at December 31, 2017	**3,745**
As at December 31, 2016	**3,210**

Intangible assets include software and licenses.

12. Other assets

Other assets comprise:

	December 31, 2017	December 31, 2016
Other financial assets		
Accounts receivable	630	652
Other non-financial assets		
Repossessed assets	555	391
Prepaid expenses	179	198
Tax settlements, other than income tax	1	99
Prepayments for property and equipment	71	-
Other	211	125
Total other assets	**1,647**	**1,465**

(in thousands of Georgian Lari)

13. Deposits by banks

Deposits by banks comprise:

	Currency	Maturity Year	Nominal Interest Rate %	Weigthed average effective rate	December 31, 2017	December 31, 2016
Deposits by parent	USD	2018	1.5%-2.6%	1.87%	186,434	123,431
Loans from parent	USD	2021	3.5%-4%	3.95%	76,600	69,078
Deposits by resident commercial banks	USD	2017	2.5%-3.5%	3.3%	-	13,237
Total deposits by banks					**263,034**	**205,746**

As at December 31, 2017 and 2016 deposits by banks included accrued interest in the amount of GEL 3,814 thousand and GEL 711 thousand, respectively.

As at December 31, 2017 and 2016 deposits by Banks totaling GEL 263,034 thousand and GEL 192,509 thousand (100% and 94%) of total deposits by banks, respectively, were due to 1 Bank, which represents a significant concentration.

14. Deposits by customers

Deposits by customers comprise:

	December 31, 2017	December 31, 2016
Repayable on demand	27,539	44,825
Term deposits	34,144	35,307
Total deposits by customers	**61,683**	**80,132**

As at December 31, 2017 and 2016 deposits by customers included accrued interest in the amount of GEL 783 thousand and GEL 987 thousand, respectively.

	December 31, 2017	December 31, 2016
Analysis by industries:		
Trade and service	21,574	32,883
Individuals	22,898	21,687
Construction	6,521	9,346
State and public organisations	2,322	3,117
Transportation and communication	1,331	4,348
Energy	110	101
Other	6,927	8,650
Total deposits by customers	**61,683**	**80,132**

As at December 31, 2017 and 2016 deposits by customers totaling GEL 19,446 thousand and GEL 36,183 thousand (32% and 45% of total deposits by customers), respectively were due to 10 customers, which represents a significant concentration.

(in thousands of Georgian Lari)

As at December 31, 2017 and 2016 deposits by customers totaling GEL 2,575 thousand and GEL 16,188 thousand, respectively were held as security against guarantees issued by the Bank.

As at December 31, 2017 and 2016 deposits by customers totaling GEL 7,956 thousand and GEL 9,815 thousand, respectively, were pledged as security for loans to customers.

15. Other liabilities

Other liabilities comprise:

	December 31, 2017	December 31, 2016
Other financial liabilities:		
Accounts payable	730	668
Other non-financial liabilities:		
Accrued employee benefits costs	1,677	1,440
Provision for guarantees	179	146
Taxes payable, other than income tax	12	119
Total other liabilities	**2,598**	**2,373**

The movements in provisions on other operations were as follows:

	Guarantees
January 1, 2016	**137**
Provision recognized during the year	9
December 31, 2016	**146**
Provision recognized during the year	33
December 31, 2017	**179**

16. Subordinated debt

Subordinated debt comprises:

	Currency	Maturity date year	Nominal interest rate %	Weighted average effective rate	December 31, 2017	December 31, 2016
JSC Halyk Bank Kazakhstan	USD	2022	6%	6%	26,013	26,561
Total subordinated debt					**26,013**	**26,561**

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank’s liabilities to all other creditors.

As at December 31, 2017 and 2016 subordinated debt included accrued interest in the amount of GEL 91 and GEL 93 thousand, respectively.

(in thousands of Georgian Lari)

	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
Subordinated debt	26,561	-	1,526	(1,530)	(544)	26,013

17. Share capital

As at December 31, 2017 and 2016 the Bank's authorized and issued share capital consisted of 48,000 ordinary shares with par value of GEL 1,000 each. As at December 31, 2017 and 2016, the Bank's issued share capital was fully paid.

18. Net interest income

	2017	2016
Interest income comprises:		
Financial assets recorded at amortized cost:		
- impaired financial assets	29,730	26,278
- unimpaired financial assets	2,105	2,112
Other	392	288
Total interest income	**32,227**	**28,678**
Financial assets recorded at amortized cost comprises:		
Loans to customers	29,337	25,990
Investments held to maturity	1,737	1,818
Cash and cash equivalents	674	496
Mandatory cash balance with the NBG	87	86
Other	392	288
Total interest income on financial assets recorded at amortized cost	**32,227**	**28,678**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost:		
Deposits by banks	(4,553)	(4,714)
Deposits by customers	(2,266)	(2,356)
Subordinated debt	(1,525)	(1,668)
Total interest expense	**(8,344)**	**(8,738)**
Net interest income before impairment on interest bearing financial assets	**23,883**	**19,940**

(in thousands of Georgian Lari)

19. Impairment losses on interest bearing assets

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

	Loans to Customers
January 1, 2016	**2,788**
Additional provision recognized	2,664
Recoveries of assets previously written off	1
December 31, 2016	**5,453**
Additional provision recognised	1,300
Write off	(7)
December 31, 2017	**6,746**

20. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprise:

	2017	**2016**
Dealing, net	1,192	1,142
Translation differences, net	(87)	(164)
Total net gain on foreign exchange operations through profit or loss	**1,105**	**978**

21. Fee and commission income and expense

Fee and commission income and expense comprise:

	2017	**2016**
Fee and commission income:		
Plastic card operations	3,767	3,397
Settlements	277	212
Cash operations	246	217
Other	66	76
Total fee and commission income	**4,356**	**3,902**
Fee and commission expense:		
Plastic card operations	(2,325)	(2,260)
Settlements	(151)	(149)
Cash operations	(34)	(33)
Other	-	(1)
Total fee and commission expense	**(2,510)**	**(2,443)**

As at December 31, 2017 and 2016 fee and commission income and expense included service fees for Plastic Cards operations. The Bank acts as an intermediary between the number of resident companies and the provider of the plastic card services – VISA and MasterCard, for which the Bank receives and pays commission charges.

(in thousands of Georgian Lari)

22. Operating expenses

Operating expenses comprise:

	2017	2016
Staff costs	7,503	6,526
Depreciation and amortization	976	701
Advertising costs	524	355
Operating leases	452	347
Professional services	149	137
Utilities	140	110
Taxes, other than income tax	125	117
Communications	119	153
Insurance expense	117	7
Office supplies	80	63
Security expenses	49	45
Property and equipment maintenance	35	60
Representative expenses	29	14
Business trip expenses	23	30
Other expenses	1,593	1,223
Total operating expenses	**11,914**	**9,888**

23. Income taxes

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Georgia, which differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

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 as at December 31, 2017 and 2016 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

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

Deferred tax liabilities as at December 31, 2017 and 2016 comprise:

	December 31, 2017	December 31, 2016
Other liabilities	278	246
Other assets	(123)	10
Property and equipment and intangible assets	(545)	(461)
Loans to customers	(1,360)	(1,515)
Net deferred tax liability	**(1,750)**	**(1,720)**

(in thousands of Georgian Lari)

The effective tax rate reconciliation is as follows for the years ended December 31, 2017 and 2016

	2017	**2016**
Profit before income tax	**13,613**	**9,911**
Tax at the statutory tax rate (15%)	2,042	1,487
Tax effect of permanent differences	(286)	(268)
Income tax expense	**1,756**	**1,219**
Current year tax expense	1,726	412
Deferred tax expense recognized in the current year	30	807
Income tax expense	**1,756**	**1,219**

Deferred income tax (liabilities)/assets	**2017**	**2016**
As at January 1 – deferred tax assets	**(1,720)**	**(877)**
Change in deferred income tax liability recongised in profit or loss	(30)	(807)
Change in deferred income tax asset recongised in other comprehensive income	-	(36)
As at December 31- deferred tax liabilities	**(1,750)**	**(1,720)**

24. Commitments and contingencies

In the normal course of business, the Bank 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 statement of financial position.

The Bank's 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 179 thousand and 146 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	9,910	8,094
Commitments on loans and unused credit lines	25,731	16,942
Total contingent liabilities and credit commitments	**35,641**	**25,036**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on the borrowers' financial performance, debt service and other conditions.

Capital commitments – No material capital commitments were 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 Bank 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 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 Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2014 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 Bank'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 Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

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.

25. 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.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), 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.

Cash and cash equivalents, mandatory reserves with NBG due from banks, deposits by banks and deposits by customers

For cash and cash equivalents, mandatory reserves with NBG due from banks, deposits by banks and deposits by customers fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

Loans to customers

Loans to individual customers are made both at variable and at fixed rates. As there is no active secondary market in Georgia for such loans and advances, there is no reliable market value available for this portfolio. Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

(in thousands of Georgian Lari)

Investments held to maturity

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.

Subordinated debt

The fair values of subordinated debt 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.

Other financial assets and liabilities

Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a 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).

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Bank is presented below:

		December 31, 2017		**December 31, 2016**	
	Fair value hierarchy	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	Level 1	20,335	20,335	30,629	30,629
Mandatory cash balance with the NBG	Level 2	44,955	44,955	37,751	37,751
Due from Banks	Level 2	1,645	1,645	871	871
Loans to customers	Level 3	326,416	327,405	273,510	274,966
Investments held to maturity	Level 2	16,823	18,857	16,757	18,091
Other financial assets	Level 3	630	630	652	652
Deposits by banks	Level 2	263,034	262,658	205,746	232,045
Deposits by customers	Level 3	61,683	61,996	80,132	75,974
Other financial liabilities	Level 3	730	730	668	668
Subordinated debt	Level 3	26,013	26,013	26,561	26,561

26. Capital risk management

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

The adequacy of the Bank’s capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

The ratios set by the NBG are monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Financial Manager and subsequently submitted to the NBG. Other objectives of capital management are evaluated on an ongoing basis.

Under the current capital requirements set by the National Bank of Georgia, banks are obliged to:

a) to hold the minimum level of share capital according to the following schedule:
   1. 30,000 thousand GEL as at December 31, 2017
   2. 40,000 thousand GEL as at June 30, 2018
   3. 50,000 thousand GEL as at Decmeber 31, 2018

b) maintain a ratio of regulatory capital to risk weighted assets ("regulatory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%.

According to the amendments to "the Regulation on Capital Adequacy Requirements for Commercial Banks" Pillar 1 minimum requirements have become compatible with the framework established by Basel Committee of Banking Supervision. In particular, conservation buffer in the amount of 2.5% which used to be merged with minimum requirements, has been separated from the minimum capital requirements (Common Equity Tier 1, Tier 1 and Total Regulatory Capital respectively being 7%, 8.5% and 10.5 %). Therefore, updated minimum capital requirements are: 4.5%, 6% and 8% for Common Equity Tier 1, Tier 1 and Total Regulatory Capital respectively.

Furthermore, besides abovementioned changes, banks are required to hold additional so called Combined Buffer through Common Equity Tier 1. The combined buffer consists of the conservation, the countercyclical and the systemic buffers. Rate for the conservation buffer has been set at 2.5% of risk weighted assets, while 0% rate has been set for countercyclical buffer. The countercyclical buffer can vary within the range of 0 % to 2.5 % and shall be reviewed periodically based on financial and macroeconomic environment.

The capital structure of the Bank consists of equity, comprising issued capital and accumulated deficit as disclosed in statement of changes in equity.

(in thousands of Georgian Lari)

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in line with NBG instructions:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Share capital	48,000	48,000
Retained earnings plus profit for the period	13,982	2,277
Less: intangible assets	(3,745)	(2,838)
Tier 1 capital	58,237	47,439
General provisions (maximum 1.25% credit and market risk weighted assets)	4,983	4,829
Subordinated debt (up to 100% / 50% of tier 1 capital)	20,738	26,468
Tier 2 capital	25,721	31,297
Total regulatory capital	**83,958**	**78,736**
Risk weighted assets	**421,310**	**547,248**
Tier 1 capital adequacy ratio	13.82%	8.67%
Total regulatory capital adequacy ratio	19.93%	14.39%

As at December 31, 2017 and 2016, the Bank included in the computation of total regulatory capital for capital adequacy purposes the subordinated deposit received, limited to 100% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

27. Risk management policies

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

- Credit risk
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework with the main purpose to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk. The Bank 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 Bank's Management Board. The Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for the credit risks identification and evaluation, implementation of the control and monitoring measures. The Risk Management division directly participates in the credit decision-making processes and consideration of internal rules, regulations and loan programs. Along with that, the division provides independent recommendations concerning credit exposure minimization measures, controls and monitors credit risks, provides relevant reporting to the management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or a group of borrowers, and to industry segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of guarantees issued, the Bank obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent guarantees or letter of credit. The credit risk on off-balance sheet financial instruments is defined as the 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 Bank 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 Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

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

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances that are calculated on individual loans or on groups of loans assessed collectively are recorded against the carrying amount of impaired loans on the balance sheet. Losses which may arise from future events are not recognised.

The Bank divides loan portfolio into individually significant and non-significant borrowers. Individually significant are borrowers which exposure exceeds 500,000 US Dollar. Individually significant borrowers are assessed for the probability of default using the Bank's specific methodology. In case of absence of impairment signs, an individually assessed loan is provided for using the rate that is based on the collective assessment applied to the same borrower category.

Individual assessment methodology. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the borrowers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets and the fair value of collaterals (real estate and deposits). These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Impairment allowance for individually significant borrowers are based on the estimate of discounted future cash flows of the individual loans taking into account repayments and realisation of any assets held as collateral against the loan.

The Bank assesses liquidation value of the collaterals considering time to sell period and application of valuation haircut.

Methodology for collective assessment of portfolio. Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant.

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. This assessment captures impairment losses that the group has incurred as a result of events occurring before the balance sheet date, which the group is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed individually.

(in thousands of Georgian Lari)

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant. Collective assessment is performed on a borrower level rather than contract level.

Portfolio subject to collective assessment was divided into Corporate, SME and Collateralised Retail and Non-collateralised Retail segments.

When appropriate empirical information is available, the group utilises migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date but which the group is not able to identify individually.

Observation period for each segment was taken as one year from November 2016. During the observation period by the state of end of months and with account of exposure of each loan, the one month migration matrices were generated. In order to exclude portfolio growth effect, the loans disbursed from June 2016 were excluded from the statistical analysis.

The results of on migration matrices is used to calculate 12-months probability of default for each segment. Default was determined as 90 days overdue for each segment.

Defaulted exposure is reduced by the loan recovery amount which was determined based on the discounted liquidation value of property pledged.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the balance sheet date.

Maximum exposure of credit risk. The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

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 Bank'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 valueless, is represented by the contractual amounts of those instruments.

December 31, 2017	Maximum Exposure	Net exposure
Cash and cash equivalents	13,700	13,700
Mandatory cash balance with the NBG	44,955	44,955
Due from banks	1,645	1,645
Loans to customers	333,162	326,416
Investments available-for-sale	54	54
Investments held to maturity	16,823	16,823
Other financial assets	630	630

December 31, 2016	Maximum Exposure	Net exposure
Cash and cash equivalents	24,120	24,120
Mandatory cash balance with the NBG	37,751	37,751
Due from banks	871	871
Loans to customers	278,954	273,501
Investments available-for-sale	54	54
Investments held to maturity	16,757	16,757
Other financial assets	652	652

(in thousands of Georgian Lari)

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

Geographical concentration. The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. The Bank's financial assets and financial liabilities as at December 31, 2017 and 2016 were concentrated in Georgia.

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

	Georgia	Other non-OECD countries	OECD countries	December 31, 2017 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	19,102	1,233	-	20,335
Mandatory cash balance with the NBG	44,955	-	-	44,955
Due from banks	-	1,645	-	1,645
Loans to customers	325,661	755	-	326,416
Investments available-for-sale	54	-	-	54
Investments held to maturity	16,823	-	-	16,823
Other financial assets	630	-	-	630
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**407,225**	**3,633**	**-**	**410,858**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Deposits by banks	48,952	11,545	1,186	61,683
Deposits by customers	-	263,034	-	263,034
Other financial liabilities	730	-	-	730
Subordinated debt	-	26,013	-	26,013
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**49,682**	**300,592**	**1,186**	**351,460**
NET POSITION ON FINANCIAL INSTRUMENTS	**357,543**	**(296,959)**	**(1,186)**	**59,398**

	Georgia	Other non-OECD countries	OECD countries	December 31, 2016 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	19,928	10,480	221	30,629
Mandatory cash balance with the NBG	37,751	-	-	37,751
Due from banks	-	-	871	871
Loans to customers	272,226	1,275	-	273,501
Investments available-for-sale	54	-	-	54
Investments held to maturity	16,757	-	-	16,757
Other financial assets	652	-	-	652
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**347,368**	**11,755**	**1,092**	**360,215**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Deposits by banks	64,464	12,391	3,277	80,132
Deposits by customers	13,237	192,509	-	205,746
Other financial liabilities	668	-	-	668
Subordinated debt	-	26,561	-	26,561
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**78,369**	**231,461**	**3,277**	**313,107**
NET POSITION ON FINANCIAL INSTRUMENTS	**268,999**	**(219,706)**	**(2,185)**	**47,108**

(in thousands of Georgian Lari)

Collateral

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

The main types of collateral obtained are as follows:

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

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. As at December 31, 2017 and 2016 market values of the collaterals pledged were GEL 789,073 thousand and GEL 630,407 thousand, respectively.

Credit quality by class of financial assets

The following table details an analysis of individually assessed loans to customers:

Loans to customers	**Neither past due nor individually impaired**	**Past due but not individually impaired**	**Individually impaired**	**(Impairment allowance)**	**Total**
December 31, 2017	40,812	5,458	8,231	(2,623)	5,609
December 31, 2016	19,019	22,293	8,000	(2,755)	46,557

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.

The following table details the credit ratings of financial assets held by the Bank as at December 31, 2017 and 2016:

December 31, 2017	**AA**	**A**	**AA-**	**BBB**	**<BBB**	**Not rated**	**Total**
Cash and cash equivalents	-	-	-	-	20,230	105	**20,335**
Mandatory cash balance with the NBG	-	-	-	-	44,955	-	**44,955**
Due from banks	-	-	1,645	-	-	-	**1,645**
Loans to customers	-	-	-	-	-	326,416	**326,416**
Investments available-for-sale	-	-	-	-	-	54	**54**
Investments held to maturity	-	-	-	-	16,823	-	**16,823**
Other financial assets	-	-	-	-	-	630	**630**
December 31, 2016							
Cash and cash equivalents	-	10,480	-	203	10,233	9,713	**30,629**
Mandatory cash balance with the NBG	-	-	-	-	37,751	-	**37,751**
Due from banks	871	-	-	-	-	-	**871**
Loans to customers	-	-	-	-	-	273,501	**273,501**
Investments available-for-sale	-	-	-	-	-	54	**54**
Investments held to maturity	-	-	-	-	16,757	-	**16,757**
Other financial assets	-	-	-	-	-	652	**652**

(in thousands of Georgian Lari)

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 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 Bank's risk management policy are not breached.

The credit rating of Georgia according to the international rating agencies corresponded to investment level BB-.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank 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 transparency of financial information, availability of audited financial statements, quality of management, competitive ability, share on market, related parties etc.

Renegotiated loans and advances. Loans and advances 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.

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	12,774	11,731
Less: allowance	(2,043)	(1,791)
Carrying value	**10,731**	**9,940**

Liquidity risk

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 Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank'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 Bank 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.

The Bank sets limits for the ratio of cumulative GAP (difference between assets and liability) to total assets in order to control liquidity risk. In case of violation of the limits ALMC makes decision on corrective measures.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability, and

(in thousands of Georgian Lari)

(b) estimated term till maturity of financial assets, 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 Bank expects that cash flows will be received in the different time.

An analysis of the liquidity 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 Bank.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2017 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	8,360	-	-	-	-	-	8,360
Mandatory cash balance with the NBG	44,955	-	-	-	-	-	44,955
Investments held to maturity	108	507	42	5,302	10,864	-	16,823
Loans to customers	12,930	12,663	70,760	134,687	95,376	-	326,416
Total interest bearing financial assets	**66,353**	**13,170**	**70,802**	**139,989**	**106,240**	**-**	**396,554**
Cash and cash equivalents	11,975	-	-	-	-	-	11,975
Due from banks	-	-	-	-	1,645	-	1,645
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	630	-	-	-	-	-	630
Total non-interest bearing financial assets	**12,605**	**-**	**-**	**-**	**1,645**	**54**	**14,304**
TOTAL FINANCIAL ASSETS	**78,958**	**13,170**	**70,802**	**139,989**	**107,885**	**54**	**410,858**
FINANCIAL LIABILITIES							
Deposits by banks	7,821	18,264	160,349	76,600	-	-	263,034
Deposits by customers	9,062	3,940	16,521	4,621	-	-	34,144
Subordinated debt	-	-	-	-	26,013	-	26,013
Total interest bearing financial liabilities	**16,883**	**22,204**	**176,870**	**81,221**	**26,013**	**-**	**323,191**
Deposits by customers	27,539	-	-	-	-	-	27,539
Other financial liabilities	730	-	-	-	-	-	730
Total non-interest bearing financial liabilities	28,269	-	-	-	-	-	28,269
TOTAL FINANCIAL LIABILITIES	**45,152**	**22,204**	**176,870**	**81,221**	**26,013**	**-**	**351,460**
Interest sensitivity gap	49,470	(9,034)	(106,068)	58,768	80,227	-	
Cumulative interest sensitivity gap	**49,470**	**40,436**	**(65,632)**	**(6,864)**	**73,363**	**73,363**	
Liquidity gap	33,806	(9,034)	(106,068)	58,768	81,872	54	
Cumulative liquidity gap	**33,806**	**24,772**	**(81,296)**	**(22,528)**	**59,344**	**59,398**	

(in thousands of Georgian Lari)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2016 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	11,188	-	-	-	-	-	11,188
Mandatory cash balance with the NBG	37,751	-	-	-	-	-	37,751
Investments held to maturity	5,309	1,033	87	5,264	5,064	-	16,757
Loans to customers	15,754	15,088	63,202	105,014	74,443	-	273,501
Total interest bearing financial assets	**70,002**	**16,121**	**63,289**	**110,278**	**79,507**	**-**	**339,197**
Cash and cash equivalents	19,441	-	-	-	-	-	19,441
Due from banks	-	-	-	871	-	-	871
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	652	-	-	-	-	-	652
Total non-interest bearing financial assets	**20,093**	**-**	**-**	**871**	**-**	**54**	**21,018**
TOTAL FINANCIAL ASSETS	**90,095**	**16,121**	**63,289**	**111,149**	**79,507**	**54**	**360,215**
FINANCIAL LIABILITIES							
Deposits by banks	74,148	60,901	16,182	54,515	-	-	205,746
Deposits by customers	7,496	1,668	21,742	4,396	-	-	35,302
Subordinated debt	-	-	-	-	26,561	-	26,561
Total interest bearing financial liabilities	**81,644**	**62,569**	**37,924**	**58,911**	**26,561**	**-**	**267,609**
Deposits by customers	44,830	-	-	-	-	-	44,830
Other financial liabilities	668	-	-	-	-	-	668
Total non-interest bearing financial liabilities	**45,498**	**-**	**-**	**-**	**-**	**-**	**45,498**
TOTAL FINANCIAL LIABILITIES	**127,142**	**62,569**	**37,924**	**58,911**	**26,561**	**-**	**313,107**
Interest sensitivity gap	(11,642)	(46,448)	25,365	51,367	52,946	-	
Cumulative interest sensitivity gap	(11,642)	(58,090)	(32,725)	18,642	71,588	71,588	
Liquidity gap	(37,047)	(46,448)	25,365	52,238	52,955	54	
Cumulative liquidity gap	**(37,047)**	**(83,495)**	**(58,130)**	**(5,892)**	**47,054**	**47,108**	

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

(in thousands of Georgian Lari)

Demand deposits by customers are included in the up to 1 month liquidity category, as contractually any amount at reporting date can be withdrawn upon the customer's demand. The main deposit holders of the Bank are borrowers which under the loan agreements are required to have an operational accounts and maintain certain turnover ratios through the Bank.

	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**December 31, 2017 Total**
Fixed interest rate instruments							
Deposits by banks	2.46%	7,824	18,314	162,356	83,662	-	272,156
Deposits by customers	5.12%	9,066	3,960	17,144	5,186	-	35,356
Subordinated debt	6.00%					26,013	26,013
Total fixed interest bearing financial liabilities		16,890	22,274	179,500	88,848	26,013	333,525
Non-interest bearing instruments							
Deposits by customers		27,538	-	-	-	-	27,538
Other financial liabilities		730	-	-	-	-	730
Total non-interest bearing financial liabilities		28,268	-	-	-	-	28,268
Total financial liabilities		45,158	22,274	179,500	88,848	26,013	361,793

	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**December 31, 2016 Total**
Fixed interest rate instruments							
Deposits by banks	3.58%	74,180	60,964	16,397	61,306	33,039	245,886
Deposits by customers	7.56%	7,496	1,739	22,666	5,113	-	37,014
Subordinated debt	7.00%	51	160	1,261	3,757	26,561	31,790
Total fixed interest bearing financial liabilities		**81,727**	**62,863**	**40,324**	**70,176**	**59,600**	**314,690**
Non-interest bearing instruments							
Deposits by customers		44,830	-	-	-	-	44,830
Other financial liabilities		668	-	-	-	-	668
Total non-interest bearing financial liabilities		**45,498**	**-**	**-**	**-**	**-**	**45,498**
Total financial liabilities		**127,225**	**62,863**	**40,324**	**70,176**	**59,600**	**360,188**

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(in thousands of Georgian Lari)

Market risk. Market risk is that the risk that the Bank'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, credit spreads, etc. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

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

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

Main tool for management on interest rate risk in the bank is establishment and monitoring of limits on interest rate GAP. According to market risk management policy of the Bank limit on interest rate GAP is established taking into consideration that loss caused by changes on interest rates by 2%, should not exceed 10% of net interest income stated in the budget of the year.

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 on profit before tax based on asset values as at December 31, 2017 and 2016:

	As at December 31, 2017		**As at December 31, 2016**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Non-derivative financial assets:				
Cash and cash equivalents	167	(167)	224	(224)
Mandatory cash balance with the NBG	899	(899)	755	(755)
Loans to customers	6,530	(6,530)	5,470	(5,470)
Investments held to maturity	335	(335)	335	(335)
Non-derivative financial liabilities:				
Deposits by banks	(5,261)	5,261	(4,115)	4,115
Deposits by customers	(683)	683	(706)	706
Subordinated debt	(520)	520	(531)	531
Net impact on profit before tax	**1,467**	**(1,467)**	**1,432**	**(1,432)**
Net impact on shareholder's equity	**1,247**	**(1,247)**	**1,218**	**(1,218)**

***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 Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC 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 Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBG.

(in thousands of Georgian Lari)

The Bank'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
FINANCIAL ASSETS					
Cash and cash equivalents	11,206	8,023	955	151	20,335
Mandatory cash balance with the NBG	-	44,501	454	-	44,955
Due from banks	-	1,645	-	-	1,645
Loans to customers	59,848	266,225	343	-	326,416
Investments available-for-sale	54	-	-	-	54
Investments held to maturity	16,823	-	-	-	16,823
Other financial assets	296	334	-	-	630
TOTAL FINANCIAL ASSETS	**88,227**	**320,728**	**1,752**	**151**	**410,858**
FINANCIAL LIABILITIES					
Deposits by banks	-	263,034	0	-	263,034
Deposits by customers	26,599	33,342	1,657	85	61,683
Subordinated debt	-	26,013	-	-	26,013
Other financial liabilities	472	195	63	-	730
TOTAL FINANCIAL LIABILITIES	**27,071**	**322,584**	**1,720**	**85**	**351,460**
OPEN POSITION	**61,156**	**(1,856)**	**32**	**66**	

	GEL	USD USD 1 = GEL 2.6468	EUR EUR 1 = GEL 2.7940	Other currency	December 31, 2016 Total
FINANCIAL ASSETS					
Cash and cash equivalents	14,011	13,667	2,849	102	30,629
Mandatory cash balance with the NBG	-	36,786	965	-	37,751
Due from banks	-	871	-	-	871
Loans to customers	43,977	228,202	1,322	-	273,501
Investments available-for-sale	54	-	-	-	54
Investments held to maturity	16,757	-	-	-	16,757
Other financial assets	652	-	-	-	652
TOTAL FINANCIAL ASSETS	**75,451**	**279,526**	**5,136**	**102**	**360,215**
FINANCIAL LIABILITIES					
Deposits by banks	-	205,746	-	-	205,746
Deposits by customers	28,734	46,229	5,071	98	80,132
Subordinated debt	-	26,561	-	-	26,561
Other financial liabilities	668	-	-	-	668
TOTAL FINANCIAL LIABILITIES	**29,402**	**278,536**	**5,071**	**98**	**313,107**
OPEN POSITION	**46,049**	**990**	**65**	**4**	

Currency risk sensitivity. The following table details the Bank's sensitivity to a 25% increase and decrease in the USD against the GEL. 25% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 25% change in foreign currency rates.

(in thousands of Georgian Lari)

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

	As at December 31, 2017		As at December 31, 2016	
	GEL/USD 25%	GEL/USD (25%)	GEL/USD 25%	GEL/USD (25%)
Impact on profit or loss	(464)	464	248	(248)
Impact on equity	(395)	395	211	(211)

	As at December 31, 2017		As at December 31, 2016	
	GEL/EUR 25%	GEL/EUR (25%)	GEL/EUR 10%	GEL/EUR (10%)
Impact on profit or loss	8	(8)	16	(16)
Impact on equity	6	(6)	14	(14)

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 analysis do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank'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 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 analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank'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 Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank 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 margin and collateral requirements. With respect to undrawn loan commitments the Bank 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 Bank cannot expect to eliminate all operational risks, but it endeavours 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.

(in thousands of Georgian Lari)

28. Transactions with related parties

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

	December 31, 2017		December 31, 2016	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Cash and cash equivalents	1,185	20,335	203	30,629
- the parent	1,127		203	
-other related parties	58			
Loans to customers	922	333,162	783	278,954
- key management personnel of the Bank	749		377	
-other related parties	173		406	
Allowance for impairment losses on loans to customers	6	6,746	5	5,453
- key management personnel of the Bank	5		1	
- other related parties	1		4	
Deposits by banks	263,034	263,034	192,509	205,746
- the parent	263,034		192,509	
Deposits by customers	2,692	61,683	669	80,132
- key management personnel of the Bank	305		380	
- other related parties	2,387		289	
Subordinated debt	26,013	26,013	26,561	26,561
- the parent	26,013		26,561	

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

	2017		2016	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	1,191	7,503	851	6,526
Total	**1,191**	**7,503**	**851**	**6,526**

(in thousands of Georgian Lari)

Included in the statement of profit or loss and other comprehensive income for the year 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 financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	67	32,227	117	28,678
- key management personnel of the Bank	61		36	
-Other related parties	6		81	
Interest expense	6,144	8,344	6,152	8,738
-Parent	6,065		6,138	
- key management personnel of the Bank	5		2	
- Other related parties	74		9	
Operating expenses	1,197	11,914	857	9,888
- key management personnel of the Bank	1,197		857	
Fee and commission expense	48	2,510	-	2,443
-Parent	48		-	
Net gain on foreign exchange operations	5	1,105	-	978
-Parent	5		-	

29. Subsequent events

On February 14, 2018 Board of Directors of JSC Halyk Bank Kazakhstan has reached agreement to make additional capital injection in the Bank in the amount of GEL 14,000 thousand.