PKF

JSC "Ziraat Bank Georgia"

Financial Statements
As at 31 December, 2017
and
Independent Auditor's Report

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PKF

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF JSC "ZIRAAT BANK GEORGIA"

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of JSC "Ziraat Bank Georgia" (the Company) which comprise the statement of financial position as at 31, December 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 Company as at 31 December, 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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

Management's responsibility 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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 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 Company'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 Company'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 Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures 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

PKF Georgia LLC

Date: 30.04.2018

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FINANCIAL STATEMENTS

JSC "Ziraat Bank Georgia"
Statement of Comprehensive income
As at 31 December 2017
Amounts are express in "GEL"

	Note	2017	2016
Interest income	5	3,408,489	3,033,402
Interest expense	5	(350,100)	(230,346)
Net interest income		**3,058,388**	**2,803,056**
Change in provision for loan impairment	10	(266,649)	(269,452)
Net interest income after provision for loan impairment		**2,791,739**	**2,533,604**
Fee and commission income	6	1,117,388	1,219,562
Fee and commission expense	6	(536,608)	(495,327)
Income from foreign currency operations		1,799,643	2,158,750
General and administrative expenses	7	(3,534,389)	(3,210,893)
Other income		180,662	159,906
Change in provision for guarantees issued	14	(139,217)	50,081
Gain/(Loss) from foreign exchange translation differences		(137,982)	(151,042)
Profit before tax		**1,541,237**	**2,264,641**
Income tax expense	8	(62,201)	(236,806)
PROFIT FOR THE YEAR		**1,479,036**	**2,027,835**

Approved for issuing and signed on behalf of the Management on 30 April, 2018

General director
Mehmet Ucar

Accountant
Lina Davitidze

JSC "Ziraat Bank Georgia"
Statement of Financial Position
As at 31 December 2017
Amounts are express in "GEL"

	Note	2017	2016
Assets			
Cash and cash equivalents	9	49,165,684	27,557,490
Mandatory reserve with the NBG		6,735,692	10,477,637
Loans to customers	10	17,917,715	14,901,515
Held-to-maturity investments	11	15,815,783	10,152,177
Other assets		253,373	147,093
Property and equipment	12	3,540,429	3,854,076
Intangible assets		221,460	263,392
Total assets		**93,650,135**	**67,353,380**
Liabilities			
Customer accounts	13	61,630,939	45,058,045
Due to other branches of the bank		783,621	378,350
Provision for guarantees issued	14	228,406	147,498
Other liabilities		142,964	116,527
Tax liabilities		27,178	-
Total liabilities		**62,813,109**	**45,700,420**
Equity			
Owner's capital		30,000,000	15,204,182
Retained earnings		833,037	6,440,789
Other reserve		3,989	7,989
Total equity	15	**30,837,026**	**21,652,960**
Total liabilities and Equity		**93,650,135**	**67,353,380**

Approved to be signed on behalf of management on 30 April 2018:

Mehmet Ucar
General Director

Accountant
Lina Davitidze

JSC ZIRAAT BANK GEORGIA
ZIRAAT BANKASI A.Ş. GÜRCISTAN
404534170
სს ზირაათ ბანკი საქართველო

JSC "Ziraat Bank Georgia"
Statement of Changes in Equity
As at 31 December 2017
Amounts are express in "GEL"

	Owner's capital	Retained earnings	Other reserve	Total equity
Balance at 1 January 2016	**15,204,182**	**2,336,801**	**16,000**	**17,556,983**
Profit for the year	-	2,076,153	-	**2,076,153**
Amortization	-	-	(4,000)	**(4,000)**
Balance as at 31 December 2016	**15,204,182**	**4,412,954**	**12,000**	**19,629,136**
Profit for the year	-	2,027,835	-	**2,027,835**
Amortization	-	-	(4,011)	**(4,011)**
Balance as at 31 December 2017	**15,204,182**	**6,440,789**	**7,989**	**21,652,960**
Decrease in capital	(15,204,182)	-	-	**(15,204,182)**
Increase in capital	30,000,000		-	**30,000,000**
Accumulated profit/loss		(5,607,752)		**(5,607,752)**
Other reserves	-	-	(4,000)	**(4,000)**
Balance as at 31 December 2017	**30,000,000**	**833,037**	**3,989**	**30,837,026**

Approved to be signed on behalf of management on 30 April 2018:

Mehmet Ucar
General Director

M. Ucar

Accountant
Lina Davitidze

ლ. დავითიძე

JSC ZIRAAT BANK GEORGIA * სს ზირაათ ბანკი საქართველო * ZIRAAT BANKASI A.Ş. GÜRCISTAN 404534170

JSC "Ziraat Bank Georgia"
Statement of Cash Flows
As at 31 December 2017
Amounts are express in "GEL"

Cash flows from operating activities	**2017**	**2016**
Profit before taxation	**1,541,237**	**2,264,641**
Adjustments for:		
- Depreciation and amortization	524,509	606,586
- Change in provisions	80,908	219,371
Increase/decrease in mandatory reserve with the NBG	3,741,945	(3,403,963)
Increase/Decrease in loans to customers	(3,280,065)	(1,774,694)
Decrease/Increase in held-to-maturity investments	(5,663,606)	586,077
Decrease/(increase) in other assets	(106,280)	218,297
Increase/(decrease) in customer accounts	16,572,894	3,751,599
(Decrease)/increase in other liabilities	26,438	(373,112)
(Decrease)/increase in tax liabilities	27,178	-
Cash generated from / (used in) operations	**13,465,157**	**2,094,802**
Income taxes paid	(260,643)	(198,889)
Net cash from / (used in) operating activities	**13,206,114**	**1,895,913**
Cash flow from investing activities		
Purchase of property and equipment and intangible assets	355,580	(2,316,196)
Net cash used in investing activities	**355,580**	**(2,316,196)**
Cash flows from financing activities		
Repayment of amounts due to other branches of the bank	405,271	(2,051,276)
Changes in Owner's capital	7,642,830	-
Net cash used in financing activities	**8,048,101**	**(2,051,276)**
Net increase in cash and cash equivalents	**21,608,194**	**(2,471,559)**
Cash and cash equivalents at beginning of period	**27,557,490**	**30,029,049**
Cash and cash equivalents at end of period	**49,165,684**	**27,557,490**

Approved to be signed on behalf of management on 30 April 2018:

Mehmet Ucar
General Director

M. Uc

Accountant
Lina Davitidze

ლ. დავითიძე

JSC ZIRAAT BANK GEORGIA
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NOTES TO THE FINANCIAL STATEMENTS

1. General information

JSC "Ziraat Bank Georgia" (the Bank) is registered under the laws of Georgia. The Bank with its service centres in Tbilisi, Batumi and Marnelle operates under a general banking license issued by the National Bank of Georgia (the NBG).

The company is registered at the following address: Georgia, Tbilisi, Old Tbilisi District, Sanapiro Street N-6.

Head:

General director	Mehmet Ucar
Deputy general director	Haluk cengiz
Director	Burcu erol

According to the Order No. 386 received in 27th April of 2017, the company has received a banking license and has therefore changed the identification code, but the sphere of activity remains unchanged and continues to function as "Zirat Bank Bank Georgia".

2. Basis of Preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2016.

The financial statements comprise a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes.

The financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below. Historical cost generally based on the fair value of the consideration has given in exchange for assets.

Fair value is the price that would receive to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Bank uses market observable data to the extent possible. If fair value of an asset or a liability has not been directly observable, the Bank would estimate it. Working closely with external qualified valuer, using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items. discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset/ liability that market participants would take into account.

3. Accounting Policies

3.1 Financial Instruments

The Bank classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments recognized when the Bank becomes a party to the contractual provisions of the instrument.

Financial instruments have recognized initially at fair value plus transactions costs that is directly attributable to the acquisition or issue of the financial instrument, except for financial assets at fair value through profit or loss and have initially measured at fair value, excluding transaction costs (which has recognized in profit or loss).

Equity instruments, for which fair value is not determinable, has measured at cost and has classified as available-for-sale financial assets.

Subsequent measurement of financial instruments depends on their classification on initial recognition. During the reporting period, the Bank classified financial instruments in the following categories:

3.1.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that has not quoted in an active market. Assets that the Bank intends to sell immediately or in the near term have not classified in this category. These assets are carried at amortized cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or collectability.

Besides loans to customers, bank balances and cash have also classified in this category.

3.1.2 Held-to-maturity financial assets

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Financial assets that upon initial recognition the Bank designates as at fair value through profit or loss or available-for-sale and those that meet the definition of loans and receivables cannot be classified in this category. Similar to loans and receivables, these assets have carried at amortized cost using the effective interest method minus any reduction for impairment or collectability.

3.1.3 Subsequent measurement of financial liabilities

During the reporting period, the Bank did not classify any financial liabilities as held for trading or designated as at fair value through profit or loss. All the other financial liabilities are carried at amortized cost using the effective interest method. Customer accounts and due to other banks are classified in this category.

3.1.4 Interest income and expenses

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate.

3.1.5 Impairment of financial assets

At the end of each reporting period, the Bank assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected. Objective evidence of impairment could include significant financial difficulty of the counterparty, breach of contract, probability that the borrower will enter bankruptcy, disappearance of an active market for that financial asset because of financial difficulties, etc.

In addition, for loans to customers that are assessed not to be impaired individually, the Bank assesses them collectively for impairment, based on the Bank's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

The carrying amount of loans to customers is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

3.1.6 Offsetting and recognition of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 asset and settle the liability simultaneously.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or transferred and the Bank has transferred substantially all risk and rewards of ownership.

Financial liabilities have derecognized only when the liability has discharged, cancelled or expired (i.e. extinguished). The difference between the carrying amount of the financial liability derecognized and the consideration paid has recognized in profit or loss.

3.2 Property, plant and equipment

All property and equipment assets have stated at cost less accumulated depreciation and impairment losses.

Depreciation of property and equipment has provided to write off the cost, less residual value, on a straight-line basis over the estimated useful life.

- Buildings - 50 years
- Computer equipment - 4
- years Furniture and fittings - 6
- years Leasehold improvements - 5
- years Other - 4-5 years

Residual values, remaining useful lives and depreciation methods has reviewed annually and adjusted if these are appropriate.

Gains or losses on disposal are included in profit or loss

3.3 Intangible assets

Intangible assets acquired separately have shown at historical cost less accumulated amortization and impairment losses. Amortization has charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible asset unless such lives are indefinite. Intangible assets with an indefinite useful life have tested for impairment annually. Intangible assets are amortized from the date they are available for use. The useful life is 15 years. Amortization periods and methods have been reviewed annually and adjusted, if appropriate.

3.4 Impairment of non-financial assets

The Bank assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognized immediately in profit or loss. unless the asset is carried at a revalued amount, in which case the impairment loss is recognized as revaluation decrease.

3.5 Taxation

Income tax for the period is based on the taxable income for the year. Taxable income differs from profit as reported in the statement of comprehensive income for the period, as there are some items that may never be taxable or deductible for tax and other items that may be deductible or taxable in other periods. Income tax for the period is calculated using the current ruling tax rate.

Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the statement of financial position. Deferred tax assets and liabilities are not recognized if they arise in the following situations: the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of the deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

3.6 Provision

Provisions are recognized 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 recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

3.7 Foreign currencies

Foreign currency monetary assets and liabilities are translated into the functional currency of the Bank (Georgian Lari, "") using the exchange rates officially published by the National Bank of Georgia at the reporting date:

Name	USD	EURO	TRY
Exchange rate as at 31.12.2016	2.65	2.79	0.75
Exchange rate as at 31.12.2017	2.59	3.10	0.69

Gains and losses arising from changes in exchange rates after the date of the transaction are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

3.8 New Accounting Pronouncements

IFRS 9 "Financial Instruments

Financial assets are required to be classified into three measurement categories: (i) those to be measured subsequently at amortized cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL).

The classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments in line with the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, the management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key difference is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stages' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12- month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align more closely the accounting with the risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 9 is effective for annual periods starting from January 1, 2018 and is also permitted earlier. Retrospective use is obligatory, but no comparable information is required; On the date of transition (January 1, 2018) the effect shall be recorded in the retained earnings. Acceptance of IFR 9 is expected to affect the classification and evaluation of the financial assets of the company but will not affect the classification and evaluation of the financial liabilities of the company. The company expects a significant impact on its equity due to the introduction of IFR 9 requirements for impairment, but it will require additional detailed ànalysis to determine the scale of impact, including all reasonable and supporting information, including forecast elements.

4. Accounting estimates and judgement

In preparing its financial statements, the Bank has made significant judgements, estimates and assumptions that impact on the carrying value of certain assets and liabilities, income and expenses as well as other information reported in the notes. The Bank periodically monitors such estimates and assumptions and makes sure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

The judgements made in the process of applying the Bank's accounting policies that have the most significant effect on the amounts recognized in the financial statements, and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Impairment of financial assets

A financial asset or a group of financial assets, other than those categorised at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Impairment exists only when the Bank ascertains that a "loss event" affecting the estimated future cash flows of the financial asset has occurred. It may not be possible to identify a single, discrete event that caused the impairment, and moreover to determine when a loss event has occurred might involve the exercise of significant judgement.

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

4.2 Impairment of non-financial assets

The impairment analysis of non-financial assets requires an estimation of the value in use of the asset or the cash-generating unit to which the assets are allocated. Estimation of the value in use is primarily based on discounted cash flow models, which require the Bank to make an estimate of the expected future cash flows from the asset or the cash-generating unit and to choose an appropriate discount rate in order to calculate the present value of the cash flows.

5. Interest income and expenses

Interest income	**2017**	**2016**
Interest income from loans to customers	1,798,128	1,461,193
Interest income from held-to-maturity investments	968,386	857,406
Interest income from deposits in banks	641,975	714,803
	3,408,489	**3,033,402**
	2017	**2016**
Interest expense of deposits from banks	127,368	118,762
Interest expense of deposits from customers	222,732	111,584
	350,100	**230,346**

6. Fee and commission income and expenses

	2017	**2016**
Income from settlement operations	588,208	655,611
Income from cash operations	315,461	341,391
Income from guarantees	133,318	158,347
Other commission income	80,401	64,213

	1,117,388	**1,219,562**

	2017	**2016**
Expense of settlement operations	394,064	377,554
Expense of cash operations	142,543	117,773
	536,608	**495,327**

7. General and administrative expenses

	2017	**2016**
Salary	2,068,834	1,699,369
Depreciation and amortization	524,509	606,586
Rent	162,866	322,736
Taxes other than income tax	44,006	117,354
Professional services	85,734	108,047
Security	119,937	102,041
Utilities	82,523	60,441
Property insurance	52,568	36,479
Transaction insurance	100,000	-
Representative	51,682	35,976
Other expenses	241,730	121,864
	3,534,389	**3,210,893**

8. Income Tax

	2017	**2016**
Current income tax	**30,702**	**194,475**
Deferred income tax	**-**	**-**
Write-off due to the change of tax law (see below)	**31,499**	**-**
	62,201	**236,806**

9. Cash and cash equivalent

	2017	**2016**
Cash on hand	4,395,933	4,243,093
Cash in cash dispensers	397,461	129,969
Current accounts in NBG, excluding mandatory reserve	934,644	843,082
Current accounts in other banks	15,884,446	6,547,746
Deposits in other banks*	27,553,200	15,793,600
	49,165,684	**27,557,490**

*Georgian and Turkish Banks

10. Loans to customers

	2017	**2016**
Loans to individuals	9,997,701	9,082,212
Loans to customers operating in trade and service sector	6,379,099	5,973,152
Loans to customers operating in construction sector	2,106,356	204,000
Loans to customers operating in other sectors	66,936	114,565

	18,550,092	**15,373,929**
Accrued Interest	155,658	94,387
Allowance for impairment of loans to customers	(924,685)	(660,821)
Overdue Loans	136,651	94,020
	17,917,715	**14,901,515**

There is no material difference between the fair value of loans to customers and their carrying amount.

A reconciliation of the allowance for impairment of loans to customers was as follows:

Beginning Balance	660,821	391,369
Period Change	269,274	269,452
Ending Balance	**930,095**	**660,821**

Collateral

	2017	**2016**
Loans collateralized by real estate	17,100,845	12,497,772
Loans collateralized by third party guarantee	1,119,670	2,529,950
Unsecured loans	466,228	440,227
	18,686,743	**15,467,949**

Credit Quality

	2017	**2016**
Loans without indications of impairment	17,091,594	14,655,941
Loans with indications of impairment	1,595,149	812,008
	18,686,743	**15,467,949**

All the loans with indications of impairment are properly secured. The difference between their carrying amount and the present value of estimated future cash flows (discounted at the original effective interest rate) is lower than the allowance for impairment created by the Bank. The allowance has been created in accordance with the NBG regulations for reservation of loans to customers and has not been adjusted due to immateriality.

11. Held-to-maturity investment

	2017	**2016**
Certificates of deposit of the NBG	2,966,169	8,663,045
Treasury bills of the Ministry of Finance of Georgia	12,849,614	1,489,131
	15,815,783	**10,152,177**

12. Property, plant and equipment

	Land and building	Computers and office equipment	Furniture and fittings	Leasehold improvements	Another P&E	Total
Cost						
Opening cost at 1 January 2016	1,431,069	667,747	482,074	1,399,714	63,390	4,043,994
Addition	865,994	149,801	574,678	607,006	188,780	2,386,260
Disposal	-	46,710	35,317	970,402	-	1,052,429
Opening cost at 1 January 2017	**2,297,063**	**770,838**	**1,021,435**	**1,036,318**	**252,171**	**5,377,825**

Addition	-	18,733	13,686	-	71,031	103,450
Transfer	-	500,717	371,160	-	-	871,877
Disposal	-	592,381	413,124	-	-	1,005,505
cost at 31 January 2017	**297,063**	**697,907**	**993,158**	**1,036,318**	**323,202**	**5,347,647**

Accumulated Depreciation						
Opening cost at 1 January 2016	-	**515,224**	**297,682**	**1,053,782**	**18,537**	**1,885,225**
Depreciation	18,019	123,872	119,994	280,536	88,605	631,026
Accumulated depreciation	-	971	27,484	897,586	66,460	992,502
Opening cost at 1 January 2017	**18,019**	**638,124**	**390,192**	**436,732**	**40,682**	**1,523,749**
Depreciation	31,619	80,648	427,645	584,537	31,602	1,156,052
Transfer	-	107	-	-	-	107
Correction	-	17,353	185,805	429,312	-	632,470
Disposal	-	94,198	145,807	-	-	240,005
cost at 31 January 2017	**49,638**	**607,114**	**486,226**	**591,957**	**72,284**	**1,807,219**
1 January 2016	1,431,069	152,523	184,392	345,932	44,854	2,158,769
1 January 2017	2,279,044	132,714	631,243	599,586	211,489	3,854,076
31 January 2017	**2,247,425**	**90,792**	**506,932**	**444,361**	**250,918**	**3,540,428**

13. Customer accounts

	2017	**2016**
Current accounts of legal entities	32,230,817	18,606,695
Deposits of legal entities	18,375,975	17,008,852
	50,606,792	**35,615,546**
Current accounts of individuals	9,419,448	7,139,576
Deposits of individuals	1,566,571	2,272,137
	10,986,018	**9,411,713**
	61,592,810	**45,027,260**
Interest payable	38,129	30,786
	61,630,939	**45,058,045**

Sectors	**2017**	**2016**
Construction	36,632,330	22,699,715
Individuals	10,986,018	9,411,713
Trade and Commerce	8,520,103	9,022,291
Mining	2,867,707	1,782,785
Other	2,586,651	2,110,755
	61,592,810	**45,027,260**

14. Credit related commitments-guarantees issues

The primary purpose of guarantees issued is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

At 31 December 2017 there was no indication that the Bank would be required to make payments for these guarantees and those payments would become impaired. The provision for guarantees issued has been created in accordance with the NBG regulations and has not been adjusted due to immateriality.

15. Capital management

The Bank's objectives, when managing capital are (I) to comply with the capital requirements set by the NBG, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain the minimum requirement levels stated in borrowing agreements (if any).

Bank calculates the minimum amount of supervisory capital in (within Pillar II) accordance with the instructions of the National Bank of Georgia and the Basel's original recommendations.
The bodies responsible for the adequacy of the Bank's internal capital are the Bank's Directorates, which is assisted by various structural units in the Bank for the fulfillment of this responsibility. The bank annually reviews and approves an internal capital adequacy valuation process. It also facilitates the adequacy of valuation process of the capital and determines all material risk.

According to the Order N61 / 04 of the President of the National Bank of Georgia " On determining the minimum amount of supervisory capital for the commercial banks" issues in 3rd of May 2017, minimum regulatory capital requirement of legal entity, interested in receiving a banking license and licensed commercial banks is 50 million GEL .The term of fulfillment of the request for licensed commercial banks is divided into three phases in particular, the minimum regulatory capital of those commercial banks should be no less than 30 million GEL by December 30, 2017, no less than 40 million GEL by 31 June, 2018 and not less than 50 million GEL by 31 December 2018.

At the request of NBG, banks must maintain their capital adequacy ratio, of 9,6% of the weighted assets and 6,4% of the capital adequacy coefficient.

The table below shows the calculation of capital adequacy ratio in accordance with the NBG regulations as for 2016 and 2017 years According to the basel I frame:

	2017	2016
Owner's capital	30,000,000	15,204,182
Prior years' retained earnings *	-	4,407,115
Less: intangible assets	(221,460)	(263,392)
Primary capital	**29,778,540**	**19,347,905**
Current year profit according to the NBG regulations**	859,435	2,009,923
General reserves according to the NBG regulations	570,237	293,117
Secondary capital	**1,429,672**	**2,303,040**
Regulatory capital	**31,208,212**	**21,650,945**
Risk weighted assets according to the NBG regulations (RWA)	**49,501,533**	**36,391,387**
Primary capital ratio (Primary capital I RWA)	**60.16%**	**53.17%**
Regulatory capital ratio (Regulatory capital I RWA)	**63.04%**	**59.49%**

*the owners capital consists of the retained earnings of prior years and profit/ loss of first 4 months (before receiving the bank license)

** Current year profit according to the NBG regulations- contains 8 months profit / loss (including the date of receiving the bank's license, including 31.12.2017)

as a result of changes made in "requirements of capital adequacy of commercial bank", The previously integrated conservation buffers were separated from supervisory capital's minimum requirements at the rate of 2,5 % . The renewed capital requirements are 4.5% , 6% and 8 % ,in compliance with the principal primary capital, primary equity and total supervisory capital.

Basel II/III

The calculation of capital adequacy coefficient of the bank as at 31 December 2016 and 2017, according to the basel III regulations. In the table below are included the amendments made in the "Regulations on Capital Adequacy Requirements of Commercial Banks" for 2016 and 2017 period

	2017	2016
Owner's capital	30,000,000	15,204,182
Retained earnings according to the NBG regulations	859,435	6,417,037
Less: intangible assets	(221,460)	(263,392)
Primary capital	**30,637,975**	**21,357,827**
General reserves according to the NBG regulations	570,237	293,117
Secondary capital	**570,237**	**293,117**
Regulatory capital	**31,208,212**	**21,650,944**
Risk weighted assets according to the NBG regulations (RWA)	**62,018,876**	**49,374,811**
Primary capital ratio (Primary capital I RWA)	**49.40%**	**43.26%**
Regulatory capital ratio (Regulatory capital I RWA)* **	**50.32%**	**43.85%**

***According to the changes in the methodology of calculation of risk position, Credit risk caused from the currency fluctuation does not take part in risk positions. Which led to the changes of risk position and capital adequacy ratio calculated based on basel-III

16. Events after the statement of financial position date

Significant events have not been observed before the reporting period is published.

17. Related parties

	2017	2016
Current accounts in head office of Ziraat Bank	15,574,949	6,415,380
Deposits in New York branch of Ziraat Bank	-	5,293,600
Loans to key management	209,867	130,599
Loans to other related parties	119,679	64,953
Due to other branches of the bank	783,621	378,350
Customer accounts of key management	11,075	4,907
Current accounts in head office of Ziraat Bank	10,567	78,978
Management Compensation	**579,251**	**799,063**

18. Information on financial risks

In performing its operating, investing and financing activities, the Bank has exposed to the following financial risks:

Credit risk
the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Bank.

Liquidity risk
the risk that the Bank may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.

Market risk
the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result, of a fluctuation in market prices. The Bank has exposed to interest rate risk and currency risk.

In order to, effectively manage those risks the Bank has approved specific strategies for the management of financial risks, which are in line with corporate objectives. These strategies set up guidelines for the short and long-term objectives and action has to be taken in order to manage the financial risks that the Bank faces. Internal audits have conducted to ensure that the Bank's policies and procedures have followed in practice.

The following table summarizes the carrying amount of financial assets and financial liabilities:

	2017	2016
Cash and cash equivalents	49,165,684	27,557,490
Mandatory reserve with the NBG	6,735,692	10,477,637
Loans to customers before allowance for impairment	18,842,401	15,562,336
Held-to-maturity investments	15,815,783	10,152,177
	90,559,560	**63,749,639**
Customer accounts	61,630,939	45,058,045
Due to other branches of the bank	783,621	378,350
	62,414,560	**45,436,395**

18.1 Credit risk

Cash and cash equivalents less cash in hand and cash in cash dispensers	44,372,290	23,184,428
Mandatory reserve with the NBG	6,735,692	10,477,637
Loans to customers before allowance for impairment	18,842,401	15,562,336
Held-to-maturity investments	15,815,783	10,152,177
	85,766,166	**59,376,577**

18.2 Liquidity risk-financial liabilities' maturity analysis

The Bank manages liquidity risk on the basis of expected maturity dates.

The following tables analyses financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

2017	**Due or due in less than 1 month**	**Between 1-3 months**	**Between 1-3 months**	**Between 6-12 months**	**More than 1 year**	TOTAL
Customer accounts	59,693,598	837,608	527,162	289,284	283,286	**61,630,938**
Due to other branches of the bank	5,561	-	401	129,610	648,050	**783,621**
	59,699,159	**837,608**	**527,563**	**418,894**	**931,336**	**62,414,560**

2016	**Due or due in less than 1 month**	**Between 1-3 months**	**Between 1-3 months**	**Between 6-12 months**	**More than 1 year**	TOTAL
Customer accounts	42,669,418	1,288,942	880,933	26,236	192,516	45,058,045
Due to other branches of the bank	113,670	-	-	-	264,680	378,350
	42,783,088	**1,288,942**	**880,933**	**26,236**	**457,196**	**45,436,395**

18.3 Interest rate risk

The Bank does not have financial assets and liabilities with floating rate.

18.4 Foreign currency risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

Financial assets by currency as at 31 December 2017:

2017	GEL	USD	EUR	OTHER	TOTAL
Cash and cash equivalents	13,733,702	34,707,098	655,756	69,129	**49,165,685**
Mandatory reserve with the NBG		6,322,267	413,425		**6,735,692**
Loans to customers before allowance for impairment	7,625,342	11,217,059	-	-	**18,842,401**
Held-to-maturity investments	15,815,783	-	-	-	**15,815,783**
	37,174,827	**52,246,424**	**1,069,181**	**69,129**	**90,559,561**