

**Batumi Branch of JSC Is Bank
Turkey**

**Financial Statements
for the year ended 31 December 2014**

Contents

Independent Auditors' Report	3
Statement of profit or loss and other comprehensive income	4
Statement of financial position	5
Statement of cash flows	7
Statement of changes in equity	7
Notes to the financial statements	8
1 Background.....	8
2 Basis of preparation	8
3 Significant accounting policies	9
4 Net interest income	15
5 Impairment losses	15
6 Personnel expenses	15
7 Other general administrative expenses.....	16
8 Income tax expense.....	16
9 Cash and cash equivalents	17
10 Loans to customers	18
11 Property, equipment and intangible assets.....	23
12 Deposits and balances from the Bank	24
13 Current accounts and deposits from customers.....	24
14 Other borrowed funds	25
15 Risk management, corporate governance and internal control	25
16 Capital management.....	35
17 Credit related commitments	35
18 Operating leases.....	36
19 Contingencies.....	36
20 Related party transactions	37
21 Financial assets and liabilities: fair values and accounting classifications	38



KPMG Georgia LLC
4, Besiki Street,
Tbilisi, 0108,
Georgia

Telephone +995 (32) 2935695
Fax +995 (32) 2935713
Internet www.kpmg.ge

Independent Auditors' Report

To the Management
Batumi Branch of JSC Is Bank Turkey

We have audited the accompanying financial statements of Batumi Branch of JSC Is Bank Turkey (the "Branch"), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

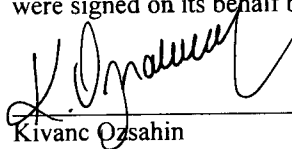
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Georgia LLC
23 April 2015


Batumi Branch of JSC Is Bank Turkey
Statement of Profit or Loss and Other Comprehensive Income for the year ended
 31 December 2014

	Notes	2014 GEL	2013 GEL
Interest income	4	5,059,804	1,404,297
Interest expense	4	(1,463,647)	(268,545)
Net interest income		3,596,157	1,135,752
Fee and commission income		287,625	198,664
Fee and commission expense		(243,020)	(4,505)
Net fee and commission income		44,605	194,159
Net foreign exchange income		280,126	83,661
Other operating income		-	10,539
Operating income		3,920,888	1,424,111
Impairment losses	5	(1,090,899)	(336,876)
Personnel expenses	6	(1,696,384)	(754,909)
Other general administrative expenses	7	(1,273,961)	(692,057)
Loss before income tax		(140,356)	(359,731)
Income tax benefit	8	30,393	54,036
Loss and total comprehensive loss for the year		(109,963)	(305,695)

The financial statements as set out on pages 4 to 39 were approved by management on 23 April 2015 and were signed on its behalf by:



Kivanc Ozsahin
Member of Board of Directors



Giorgi Khukhuni
Chief Accountant

Batumi Branch of JSC Is Bank Turkey
Statement of Financial Position as at 31 December 2014

	Notes	2014 GEL	2013 GEL
ASSETS			
Cash and cash equivalents	9	14,034,489	12,617,662
Mandatory reserves at National Bank of Georgia		5,436,305	601,368
Loans to customers	10	69,091,150	16,546,568
Property, equipment and intangible assets	11	1,950,545	1,011,221
Deferred tax assets	8	142,166	111,773
Other assets		757,769	3,798
Total assets		91,412,424	30,892,390
LIABILITIES			
Deposits and balances from banks	12	8,931,707	1,838,266
Current accounts and deposits from customers	13	32,842,780	3,473,809
Other borrowed funds	14	36,708,550	13,409,444
Other liabilities		722,520	10,373
Total liabilities		79,205,557	18,731,892
EQUITY			
Statutory reserve	16	13,013,484	12,857,152
Accumulated losses		(806,617)	(696,654)
Total equity		12,206,867	12,160,498
Total liabilities and equity		91,412,424	30,892,390

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Batumi Branch of JSC Is Bank Turkey
Statement of Cash Flows for the year ended 31 December 2014

	Notes	2014 GEL	2013 GEL
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(140,356)	(359,731)
<i>Adjustments for:</i>			
Depreciation and amortization		288,586	123,691
Interest income		(5,059,804)	(1,404,297)
Interest expense		1,463,647	268,545
Impairment losses		1,090,899	336,876
Net foreign exchange income		(280,126)	(83,661)
		(2,637,154)	(1,118,577)
<i>Change in operating assets and liabilities:</i>			
Increase in mandatory reserves at NBG		(4,669,523)	(518,484)
Increase in loans to customers		(49,486,348)	(16,002,522)
(Increase) decrease in other assets		(753,971)	11,602
Increase in deposits and balances from banks		6,589,871	1,424,755
Increase in current accounts and deposits from customers		28,518,802	2,361,342
Increase (decrease) in other liabilities		712,147	(154,372)
Cash flows used in operations before interest and foreign exchange		(21,726,176)	(13,996,256)
Interest receipts		4,036,812	1,395,007
Interest payments		(1,248,368)	(256,337)
Net receipts from foreign exchange		400,623	-
Cash flows used in operations		(18,537,109)	(12,857,586)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(1,227,910)	(566,240)
Cash flows used in investing activities		(1,227,910)	(566,240)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from other borrowed funds		23,009,825	14,092,150
Repayment of other borrowed funds		(2,215,618)	(2,002,765)
Receipts to increase statutory reserve		156,332	29,109
Cash flows from financing activities		20,950,539	12,118,494
Net increase (decrease) in cash and cash equivalents		1,185,520	(1,305,332)
Effect of changes in exchange rates on cash and cash equivalents		231,307	12,265
Cash and cash equivalents as at the beginning of the year		12,617,662	13,910,729
Cash and cash equivalents as at the end of the year	9	14,034,489	12,617,662

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Batumi Branch of JSC Is Bank Turkey
Statement of Changes in Equity for the year ended 31 December 2014

GEL	Statutory reserve	Accumulated losses	Total equity
Balance as at 1 January 2013	12,828,043	(390,959)	12,437,084
Loss and total comprehensive loss for the year	-	(305,695)	(305,695)
Transactions with owners, recorded directly in equity			
Increase of statutory reserve	29,109	-	29,109
Total transactions with owners	29,109	-	29,109
Balance as at 31 December 2013	12,857,152	(696,654)	12,160,498
Balance as at 1 January 2014	12,857,152	(696,654)	12,160,498
Loss and total comprehensive loss for the year	-	(109,963)	(109,963)
Transactions with owners, recorded directly in equity			
Increase of statutory reserve	156,332	-	156,332
Total transactions with owners	156,332	-	156,332
Balance as at 31 December 2014	13,013,484	(806,617)	12,206,867

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Batumi Branch of JSC Is Bank Turkey (“the Branch”) was registered on 13 July 2012 as a branch of a foreign bank Türkiye İş Bankası Anonim Şirketi (“the Bank”) which was incorporated in Turkey in 1924. The principal activities are deposit taking and customer account maintenance, lending, cash and settlement operations and foreign exchange. The Branch has a general banking license and its activities are regulated by the National Bank of Georgia (“NBG”).

The registered office of the Branch is L. Asatiani/Rustaveli Street 1/25, Batumi, Georgia. The Branch has two service centers.

The majority of funding of the Branch is from the Bank. As a result the Branch is economically dependent upon the Bank. In addition, the activities of the Branch are closely linked with the requirements of the Bank.

The Branch is ultimately controlled by Isbank Members’ Supplementary Pension Fund. Related party transactions are disclosed in note 20.

(b) Business environment

Georgian business environment

The Branch’s operations are located in Georgia. Consequently, the Branch is exposed to the economic and financial markets of Georgia, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and financial position of the Branch. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of Georgia is Georgian Lari (“GEL”), which is the Branch’s functional currency and the currency in which these financial statements are presented. All financial information is presented in GEL except otherwise stated.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 10 (b) – key assumptions and judgments for estimating loan impairment.

(e) Changes in accounting policies and presentation

The Branch has adopted the following amendment to standards, with a date of initial application of 1 January 2014: *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32 Financial Instruments: Presentation).

The nature and the effect of the changes are explained below.

Amendments to IAS 32 Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amended standard did not have a material impact on the Branch financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by Branch, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Branch at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBG and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Branch in the management of short-term commitments. The mandatory reserve deposit with the NBG is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Branch:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Branch becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method.

All financial liabilities are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Branch measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Branch uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Branch determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vi) Gains and losses on subsequent measurement

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Branch neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Branch writes off assets deemed to be uncollectible.

(viii) Offsetting

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 set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- leasehold improvements	5 years
- computer and office equipment	5 years
- furniture and fixtures	5 years
- motor vehicles	5 years

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 6 to 7 years.

(f) Impairment

The Branch assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Branch determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Branch would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

(i) *Financial assets carried at amortised cost*

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Branch reviews its loans and receivables to assess impairment on a regular basis.

The Branch first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Branch uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Branch writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Non financial assets

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Credit related commitments

In the normal course of business, the Branch enters into credit related commitments, comprising undrawn loan commitments and guarantees.

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised, less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

(h) Statutory reserve

According to the Georgian Law on Entrepreneurs, a branch does not have registered charter capital. In accordance with the NBG requirements the Branch has a statutory reserve.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(j) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Branch plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was

finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Branch recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Branch has not analysed the impact of these changes yet. The Branch does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Branch has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 GEL	2013 GEL
Interest income		
Cash and cash equivalents	211,915	432,141
Loans to customers	4,847,889	972,156
	5,059,804	1,404,297
Interest expense		
Deposits and balances from banks	(87,660)	(3,842)
Current accounts and deposits from customers	(205,885)	(8,366)
Other borrowed funds	(1,170,102)	(256,337)
	(1,463,647)	(268,545)
	3,596,157	1,135,752

Included within various line items under interest income for the year ended 31 December 2014 is a total of GEL 1,114,520 (2013: nil) accrued on impaired or overdue financial assets.

5 Impairment losses

	2014 GEL	2013 GEL
Loans to customers	1,090,899	336,876

6 Personnel expenses

	2014 GEL	2013 GEL
Employee compensation	1,696,384	754,909

7 Other general administrative expenses

	2014	2013
	GEL	GEL
Operating lease	411,689	138,136
Depreciation and amortization	288,586	123,691
Professional services	237,704	227,379
Communications and information services	73,062	54,627
Travel expenses	72,991	20,873
Entertainment expenses	36,422	13,947
Office supplies	26,900	5,396
Utilities	23,787	13,124
Repairs and maintenance	14,485	16,178
Taxes other than on income	10,465	13,743
Insurance	7,996	12,090
Advertising and marketing	3,114	18,805
Other	66,760	34,068
	1,273,961	692,057

8 Income tax expense

	2014	2013
	GEL	GEL
Current year tax expense	-	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	30,393	54,036
Total income tax benefit	30,393	54,036

In 2014, the applicable tax rate for current and deferred tax is 15% (2013: 15%).

Reconciliation of effective tax rate for the year ended 31 December:

	2014		2013	
	GEL	%	GEL	%
Loss before tax	140,356		359,731	100%
Income tax at the applicable tax rate	21,053	15%	53,960	15%
Non-taxable income	9,340	7%	76	0%
	30,393	22%	54,036	15%

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2014 and 31 December 2013.

The deductible temporary differences do not expire under current tax legislation. The tax losses carried forward of GEL 130,514 and GEL 32,145 expire in 2018 and 2019, respectively.

Movements in temporary differences during the years ended 31 December 2014 and 2013 are presented as follows.

2014	Balance	Recognised	Balance
GEL	1 January 2014	in profit or loss	31 December 2014
Property and equipment	(18,741)	(1,752)	(20,493)
Tax loss carry-forward	130,514	32,145	162,659
	111,773	30,393	142,166

2013	Balance	Recognized	Balance
GEL	1 January 2013	in profit or loss	31 December 2013
Property and equipment	(9,605)	(9,136)	(18,741)
Tax loss carry-forwards	67,342	63,172	130,514
	57,737	54,036	111,773

The management believes that recognition of deferred tax assets with regards to tax loss carry-forwards is appropriate as management consider it probable that future taxable profits would be available against which the deferred tax assets can be utilised.

9 Cash and cash equivalents

	2014	2013
	GEL	GEL
Cash on hand	2,242,182	273,707
Nostro accounts with the NBG	338,950	77,878
Nostro accounts with other banks		
- rated BBB-	6,069,111	62,544
- rated from BB- to BB+	823,494	2,996,373
Total nostro accounts with other banks	6,892,605	3,058,917
Cash equivalents		
-Term deposits with other banks		
- rated from BB- to BB+	4,560,752	9,207,160
Total cash equivalents	4,560,752	9,207,160
Total cash and cash equivalents	14,034,489	12,617,662

No cash and cash equivalents are impaired or past due.

As at 31 December 2014 the Branch has three banks (2013: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is GEL 11,453,357 (2013: GEL 12,176,953). The above ratings are based on Fitch rating agency.

10 Loans to customers

	2014 GEL	2013 GEL
Loans to legal entities		
Loans to small and medium size companies	68,896,912	16,741,646
Total loans to legal entities	68,896,912	16,741,646
Loans to individuals		
Loans collateralized by real estate	476,919	76,276
Consumer loans	1,145,094	65,522
Total loans to individuals	1,622,013	141,798
Gross loans to customers	70,518,925	16,883,444
Impairment allowance	(1,427,775)	(336,876)
Net loans to customers	69,091,150	16,546,568

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to legal entities GEL	Loans to individuals GEL	Total GEL
Balance at the beginning of the year	334,059	2,817	336,876
Net charge	1,061,276	29,623	1,090,899
Balance at the end of the year	1,395,335	32,440	1,427,775

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to legal entities GEL	Loans to individuals GEL	Total GEL
Balance at the beginning of the year	-	-	-
Net charge	334,059	2,817	336,876
Balance at the end of the year	334,059	2,817	336,876

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2014:

	Gross loans GEL	Impairment allowance GEL	Net loans GEL	Impairment allowance to gross loans, %
Loans to legal entities				
Loans to small and medium size companies				
Loans without individual signs of impairment	55,236,547	(1,104,851)	54,131,696	2.0%
Overdue or impaired loans:				
-overdue less than 90 days	13,660,365	(290,484)	13,369,881	2.1%
Total overdue or impaired loans	13,660,365	(290,484)	13,369,881	2.1%
Total loans to legal entities	68,896,912	(1,395,335)	67,501,577	2.0%

	Gross loans GEL	Impairment allowance GEL	Net loans GEL	Impairment allowance to gross loans, %
Loans to individuals				
Consumer loans				
- not overdue	1,145,094	(22,902)	1,122,192	2.0%
Total consumer loans	1,145,094	(22,902)	1,122,192	2.0%
Loans collateralized by real estate				
- not overdue	476,919	(9,538)	467,381	2.0%
Total loans collateralized by real estate	476,919	(9,538)	467,381	2.0%
Total loans to individuals	1,622,013	(32,440)	1,589,573	2.0%
Total loans to customers	70,518,925	(1,427,775)	69,091,150	2.0%

The following table provides information on the credit quality of the loans to customers as at 31 December 2013:

GEL	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to legal entities				
Loans to small and medium size companies				
Loans without individual signs of impairment	16,741,646	(334,059)	16,407,587	2.0%
Total loans to legal entities	16,741,646	(334,059)	16,407,587	2.0%
Loans to individuals				
Consumer loans				
- not overdue	65,522	(1,301)	64,221	2.0%
Total consumer loans	65,522	(1,301)	64,221	2.0%
Loans collateralized by real estate				
- not overdue	76,276	(1,516)	74,760	2.0%
Total loans collateralized by real estate	76,276	(1,516)	74,760	2.0%
Total loans to individuals	141,798	(2,817)	138,981	2.0%
Total loans to customers	16,883,444	(336,876)	16,546,568	2.0%

As at 31 December 2014 in the loan portfolio there are no renegotiated loans to legal entities and individuals that would otherwise be past due or impaired (2013: nil).

(b) Key assumptions and judgments for estimating loan impairment

(i) Loans to legal entities

The Branch estimates loan impairment for loans to legal entities based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to legal entities, management makes the following key assumptions:

- Collective provision rate of 2.0% considering the economic environment and market loss experience

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to legal entities as at 31 December 2014 would be GEL 675,016 lower/higher (2013: GEL164,076 lower/higher).

(ii) Loans to individuals

The Branch estimates loan impairment for loans to individuals based on the economic environment and market loss experience

The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- Collective provision rate of 2.0% considering the economic environment and market loss experience

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to individuals as at 31 December 2014 would be GEL 47,687 lower/higher (2013: GEL 4,169).

(c) Analysis of collateral and other credit enhancements

(i) Loans to legal entities

Loans to legal entities are subject to individual credit appraisal and impairment testing. The general creditworthiness of a legal entity tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Branch generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to legal entities, net of impairment, by types of collateral:

31 December 2014 GEL	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment			
Cash and deposits	18,437,187	18,437,187	-
Real estate	35,650,583	35,650,583	-
No collateral or other credit enhancement	43,926	-	43,926
Total loans without individual signs of impairment	54,131,696	54,087,770	43,926
Overdue or impaired loans			
Real estate	13,369,881	13,369,881	-
Total overdue or impaired loans	13,369,881	13,369,881	-
Total loans to legal entities	67,501,577	67,457,651	43,926

31 December 2013 GEL	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment			
Real estate	16,407,587	16,407,587	-
Total loans without individual signs of impairment	16,407,587	16,407,587	-
Total loans to legal entities	16,407,587	16,407,587	-

The tables above excludes overcollateralisation.

The Branch has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which the fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Branch does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to individuals

Loans collateralized by real estate are secured by the underlying real estate. The Branch's policy is to issue loans to individuals with a loan-to-value ratio at the date of loan issuance of a maximum of 70%.

The following tables provide information on real estate collateral securing loans to individuals, net of impairment:

31 December 2014 GEL	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of loan inception date
Not overdue loans	467,381	467,381
Total loans collateralized by real estate	467,381	467,381

31 December 2013 GEL	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of loan inception date
Not overdue loans	74,760	74,760
Total loans collateralized by real estate	74,760	74,760

The tables above exclude overcollateralisation.

For certain loans above the Branch updates the appraised values of collateral obtained at inception of the loan to the current values, taking into account the approximate changes in property values. The Branch may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For consumer loans, there is no collateral or it is impracticable to determine the fair value of the collateral. Per management estimates recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the collateral.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers located within the Georgia who operate in the following economic sectors:

	2014 GEL	2013 GEL
Trade and service	46,768,395	98,986
Hospitality	13,660,365	14,902,646
Real estate	6,771,797	-
Agriculture	1,696,355	1,740,014
Loans to individuals	1,622,013	141,798
	70,518,925	16,883,444
Impairment allowance	(1,427,775)	(336,876)
	69,091,150	16,546,568

(e) Significant credit exposures

As at 31 December 2014, the Branch has nine borrowers or groups of connected borrowers (2013: three), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is GEL 66,964,689 (2013: GEL 16,642,660).

To comply with the NBG requirements, the Branch received loans from the Bank to finance the loans to six borrowers (2013: one), whose balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is GEL 44,684,064 (2013: GEL 13,435,468). The loans received have the same maturity as the loans to the borrowers mentioned above and are not payable unless the loans from the customers are repaid or the collateral is realized.

(f) Loan maturities

The maturity of the loan portfolio is presented in note 15 (f) which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Branch, it is likely that many of the loans will be renewed at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term.

11 Property, equipment and intangible assets

GEL	Leasehold improvements	Computers and office equipment	Furniture and fixtures	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2014	377,561	173,926	98,346	102,703	424,995	1,177,531
Additions	876,943	111,449	122,911	-	116,607	1,227,910
Balance at 31 December 2014	1,254,504	285,375	221,257	102,703	541,602	2,405,441
Depreciation and amortisation						
Balance at 1 January 2014	(76,992)	(45,963)	(23,918)	(6,847)	(12,590)	(166,310)
Depreciation and amortization for the year	(128,953)	(42,941)	(30,231)	(20,541)	(65,920)	(288,586)
Balance at 31 December 2014	(205,945)	(88,904)	(54,149)	(27,388)	(78,510)	(454,896)
Carrying amount						
At 31 December 2014	1,048,559	196,471	167,108	75,315	463,092	1,950,545

GEL	Leasehold improvements	Computers and office equipment	Furniture and fixtures	Motor vehicles	Intangible assets	Total
Cost						
Balance at 1 January 2013	346,081	154,126	98,346	-	12,738	611,291
Additions	31,480	19,800	-	102,703	412,257	566,240
Balance at 31 December 2013	377,561	173,926	98,346	102,703	424,995	1,177,531
Depreciation and amortisation						
Balance at 1 January 2013	(22,719)	(12,340)	(7,560)	-	-	(42,619)
Depreciation and amortization for the year	(54,273)	(33,623)	(16,358)	(6,847)	(12,590)	(123,691)
Balance at 31 December 2013	(76,992)	(45,963)	(23,918)	(6,847)	(12,590)	(166,310)
Carrying amount						
At 31 December 2013	300,569	127,963	74,428	95,856	412,405	1,011,221

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2014 (2013: nil).

12 Deposits and balances from the Bank

	2014 GEL	2013 GEL
Vostro accounts	2,397,240	1,838,266
Term deposits	6,534,467	-
	8,931,707	1,838,266

As at 31 December 2014 the Branch has one bank (2013: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is GEL 8,931,707 (2013: GEL 1,838,266).

13 Current accounts and deposits from customers

	2014 GEL	2013 GEL
Current accounts and demand deposits		
- Retail	1,125,819	303,948
- Corporate	6,776,595	2,458,066
Term deposits		
- Retail	19,086,395	-
- Corporate	5,853,971	711,795
	32,842,780	3,473,809

As at 31 December 2014, the Branch maintained customer deposit balances of GEL 18,636,000 (2013: nil) that serve as collateral for loans granted by the Branch. As at 31 December 2014, the Branch has seven customers (2013: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2014 are GEL 29,912,799 (2013: GEL 1,573,863).

14 Other borrowed funds

	2014 GEL	2013 GEL
Türkiye İş Bankası Anonim Şirketi	<u>36,708,550</u>	<u>13,409,444</u>

As at 31 December 2014 and 2013, loans from Türkiye İş Bankası Anonim Şirketi secure loans to legal entities as described in note 10(e). The loan repayment schedules are consistent with the repayment schedules of the loans to the customers.

15 Risk management, corporate governance and internal control

(a) Corporate governance framework

The Branch is established as a branch in accordance with Georgian law. The supreme governing body of the Branch is the general shareholders' meeting. The general shareholders' meeting makes strategic decisions on the Branch's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Branch's activities.

(b) Internal control policies and procedures

Management has responsibility for the development, implementation and maintaining of internal controls in the Branch that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Branch's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

Management believes that the Branch complies with the NBG requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Branch's operations. The major risks faced by the Branch are those related to market risk, credit risk, liquidity risk and operational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Branch, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Management has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Branch operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to management.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and Risk Management Division.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Branch manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by management.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Branch is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

GEL	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2014						
ASSETS						
Cash and cash equivalents	14,034,489	-	-	-	-	14,034,489
Mandatory reserves at NBG	5,436,305					5,436,305
Loans to customers	3,231,719	2,152,424	5,459,894	54,511,442	3,735,671	69,091,150
	22,702,513	2,152,424	5,459,894	54,511,442	3,735,671	88,561,944
LIABILITIES						
Deposits and balances from banks	8,931,707	-	-	-	-	8,931,707
Current accounts and deposits from customers	14,098,397	1,506,083	-	-	17,238,300	32,842,780
Other borrowed funds	1,524,865	1,881,071	4,270,278	27,789,935	1,242,401	36,708,550
	24,554,969	3,387,154	4,270,278	27,789,935	18,480,701	78,483,037
	(1,852,456)	(1,234,730)	1,189,616	26,721,507	(14,745,030)	10,078,907
31 December 2013						
ASSETS						
Cash and cash equivalents	12,617,662	-	-	-	-	12,617,662
Mandatory reserves at NBG	601,368	-	-	-	-	601,368
Loans to customers	334,748	706,566	2,161,090	13,016,162	328,002	16,546,568
	13,553,778	706,566	2,161,090	13,016,162	328,002	29,765,598
LIABILITIES						
Deposits and balances from banks	1,838,266	-	-	-	-	1,838,266
Current accounts and deposits from customers	2,762,014	711,795	-	-	-	3,473,809
Other borrowed funds	222,071	611,611	1,691,565	10,884,197	-	13,409,444
	4,822,351	1,323,406	1,691,565	10,884,197	-	18,721,519
	8,731,427	(616,840)	469,525	2,131,965	328,002	11,044,079

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014		2013	
	Average effective interest rate, %		Average effective interest rate, %	
	GEL	USD	GEL	USD
Interest bearing assets				
Cash and cash equivalents	3.41%	0.5%	4.0%	0.2%
Loans to customers	8.7%	9.0%	16.5%	11.4%

	2014		2013		
	Average effective interest rate, %		Average effective interest rate, %		
	GEL	USD	GEL	USD	
Interest bearing liabilities					
Deposits and balances from banks	-	2.3%	-	-	-
Current accounts and deposits from customers					
- Term deposits	4.5%	6.7%	-	1.0%	-
Other borrowed funds	-	4.7%	-	3.9%	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013, is as follows:

	2014 GEL	2013 GEL
100 bp parallel fall	103,960	85,963
100 bp parallel rise	(103,960)	(85,963)

(ii) Currency risk

The Branch has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Branch hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	EUR GEL	USD GEL	TRY GEL	Total GEL
ASSETS				
Cash and cash equivalents	942,106	7,041,378	489,419	8,472,903
Mandatory reserves at NBG	161,678	5,274,627	-	5,436,305
Loans to customers	-	61,256,743	-	61,256,743
Other financial assets	-	689,310	-	689,310
Total assets	1,103,784	74,262,058	489,419	75,855,261
LIABILITIES				
Deposits and balances from banks	702,029	8,229,678	-	8,931,707
Current accounts and deposits from customers	5,406	29,445,497	34,106	29,485,009
Other borrowed funds	-	36,708,550	-	36,708,550
Other financial liabilities	-	689,310	-	689,310
Total liabilities	707,435	75,073,035	34,106	75,814,576
Net position	396,349	(810,977)	455,313	40,685

The following table shows the currency structure of financial assets and liabilities as at 31 December 2013:

	EUR GEL	USD GEL	TRY GEL	Total GEL
ASSETS				
Cash and cash equivalents	29,831	3,186,323	75,495	3,291,649
Mandatory reserves at NBG	929	600,439		601,368
Loans to customers	-	16,513,684		16,513,684
Total assets	30,760	20,300,446	75,495	20,406,701
LIABILITIES				
Deposits and balances from banks	519,786	1,318,480	-	1,838,266
Current accounts and deposits from customers	6,200	3,357,434	4,831	3,368,465
Loans and borrowings	-	13,409,444	-	13,409,444
Total liabilities	525,986	18,085,358	4,831	18,616,175
Net position	(495,226)	2,215,088	70,664	1,790,526

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2014 and 2013, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Branch considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014 GEL	2013 GEL
20% appreciation of USD against GEL	(137,866)	376,565
20% appreciation of EUR against GEL	67,379	(84,188)
20% appreciation of TRY against GEL	77,403	12,009

A strengthening of the GEL against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(e) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Branch has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by management.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers (legal entities and individuals)
- methodology for the evaluation of collateral
- credit documentation requirements

- procedures for the ongoing monitoring of loans and other credit exposures

The Branch Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy. Loans above USD 100,000 are passed for further approval to the Bank Credit Committee in Turkey.

For loans to legal entities above USD 100,000, the Branch hires independent experts to perform due diligence that focuses on the customer's business and financial performance.

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees. Valuation of collateral is performed by independent experts for loans mentioned above.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see note 10.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 17.

(f) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Branch maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by management.

The Branch seeks to actively support a diversified and stable funding base in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- monitoring liquidity ratios against regulatory requirements

Liquidity position is monitored by the Finance Department and the Risk Management Division. Under the normal market conditions, information on the liquidity position is presented to the management on a weekly basis. Decisions on liquidity management are made by Risk management Division and the Management and implemented by the Finance Department.

In addition, the Branch monitors on a regular basis the liquidity ratio calculated in accordance with the NBG requirements.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks	(8,934,298)	-	-	-	-	-	(8,934,298)	(8,931,707)
Current accounts and deposits from customers	(13,421,778)	(695,830)	(2,026,867)	(493,803)	(7,585,002)	(17,238,300)	(41,461,580)	(32,842,780)
Other borrowed funds	(804,479)	(999,479)	(2,308,683)	(5,038,636)	(30,981,119)	(1,384,995)	(41,517,391)	(36,708,550)
Other financial liabilities	(689,310)	-	-	-	-	-	(689,310)	(689,310)
Total financial liabilities	(23,849,865)	(1,695,309)	(4,335,550)	(5,532,439)	(38,566,121)	(18,623,295)	(92,602,579)	(79,172,347)
Credit related commitments	(2,266,896)	-	-	-	-	-	(2,266,896)	(2,266,896)

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	(1,838,266)	-	-	-	-	(1,838,266)	(1,838,266)
Current accounts and deposits from customers	(2,762,013)	(729,710)	-	-	-	(3,491,723)	(3,473,809)
Other borrowed funds	(110,729)	(237,074)	(738,201)	(1,917,115)	(11,648,253)	(14,651,372)	(13,409,444)
Other financial liabilities	(10,373)	-	-	-	-	(10,373)	(10,373)
Total financial liabilities	(4,721,381)	(966,784)	(738,201)	(1,917,115)	(11,648,253)	(19,991,734)	(18,731,892)

Under Georgian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. Accordingly, these deposits, are shown in the table above in accordance with their stated maturity. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2014 GEL	2013 GEL
Demand and less than 1 month	5,501,020	-
From 1 to 3 months	694,963	-
From 3 to 12 months	1,506,083	711,795
From 1 to 5 years	-	-
More than 5 years	17,238,300	-
	24,940,366	711,795

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2014:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	14,034,489	-	-	-	-	-	14,034,489
Mandatory reserves at the NBG	5,436,305	-	-	-	-	-	5,436,305
Loans to customers	2,319,346	912,373	7,612,318	54,511,442	3,735,671	-	69,091,150
Property, equipment and intangible assets	-	-	-	-	-	1,950,545	1,950,545
Deferred tax assets	-	-	-	-	-	142,166	142,166
Other assets	757,769	-	-	-	-	-	757,769
Total assets	22,547,909	912,373	7,612,318	54,511,442	3,735,671	2,092,711	91,412,424
LIABILITIES							
Deposits and balances from banks	8,931,707	-	-	-	-	-	8,931,707
Current accounts and deposits from customers	13,403,434	694,963	1,506,083	-	17,238,300	-	32,842,780
Other borrowed funds	804,479	720,386	6,151,349	27,789,935	1,242,401	-	36,708,550
Other liabilities	722,520	-	-	-	-	-	722,520
Total liabilities	23,862,140	1,415,349	7,657,432	27,789,935	18,480,701	-	79,205,557
Net position	(1,314,231)	(502,976)	(45,114)	26,721,507	(14,745,030)	2,092,711	12,206,867

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2013:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	12,617,662						12,617,662
Mandatory reserves at the NBG	601,368						601,368
Loans to customers	128,833	205,915	2,867,656	13,016,162	328,002	-	16,546,568
Property, equipment and intangible assets	-	-	-	-	-	1,011,221	1,011,221
Deferred tax assets	-	-	-	-	-	111,773	111,773
Other assets	3,798	-	-	-	-	-	3,798
Total assets	13,351,661	205,915	2,867,656	13,016,162	328,002	1,122,994	30,892,390
LIABILITIES							
Deposits and balances from banks	1,838,266	-	-	-	-	-	1,838,266
Current accounts and deposits from customers	2,762,014	-	711,795	-	-	-	3,473,809
Other borrowed funds	64,759	157,312	2,303,176	10,884,197	-	-	13,409,444
Other liabilities	10,373	-	-	-	-	-	10,373
Total liabilities	4,675,412	157,312	3,014,971	10,884,197	-	-	18,731,892
Net position	8,676,249	48,603	(147,315)	2,131,965	328,002	1,122,994	12,160,498

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Branch’s operations.

The Branch’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch’s reputation with overall cost effectiveness and innovation. In all cases, the Branch policy requires compliance with all applicable legal and regulatory requirements.

The Branch manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

16 Capital management

The National Bank of Georgia sets and monitors capital requirements for the Branch.

The Branch defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBG, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2014, this minimum level is 12%. The Branch is in compliance with the statutory capital ratio as at 31 December 2014 and 2013.

The calculation of capital adequacy based on requirements set by the NBG as at 31 December is as follows:

GEL	2014	2013
Statutory reserve	13,013,484	12,857,152
Accumulated losses	(806,617)	(696,654)
Total capital	12,206,867	12,160,498
Risk-weighted assets (unaudited)	48,178,342	23,283,602
 Capital adequacy ratio (%) (unaudited)	25%	52%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

17 Credit related commitments

The Branch has outstanding credit related commitments to extend loans. These credit related commitments take the form of overdraft facilities.

The Branch provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Branch applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2014 GEL	2013 GEL
Contracted amount		
Undrawn overdraft facilities	13,764	-
Guarantees	2,253,132	-
	2,266,896	-

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

Of these credit related commitments, GEL 1,482,952 are to one counterparty at 31 December 2014. This exposure represents a significant credit risk exposure to the Branch.

18 Operating leases

(a) Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2014 GEL	2013 GEL
Less than 1 year	447,264	104,178
Between 1 and 5 years	1,267,248	269,127
	1,714,512	373,305

The Branch leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

19 Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Branch does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Branch obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Branch is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in Georgia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

20 Related party transactions

(a) Control relationships

Batumi Branch of JSC Is Bank Turkey is ultimately controlled by Isbank Members' Supplementary Pension Fund.

No publicly available financial statements are produced by the Branch's ultimate controlling party. However, such financial statements are produced by Türkiye İş Bankası Anonim Şirketi, which is an intermediate controlling party of the Branch.

(b) Transactions with the key management personnel

Total remuneration included in personnel expenses for the years ended 31 December 2014 and 2013 is as follows:

	2014 GEL	2013 GEL
Short-term employee benefits	812,127	478,982

(c) Transactions with other related parties

Other related parties include parent company and other subsidiaries of the parent company. The outstanding balances and the related average effective interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the year ended 31 December 2014 with other related parties are as follows.

GEL	The Bank	Other subsidiaries of the Bank	Total
Statement of financial position			
ASSETS			
Cash and cash equivalents			
- In TRY	478,311	-	478,311
- In USD	5,590,800	-	5,590,800

GEL	The Bank	Other subsidiaries of the Bank	Total
LIABILITIES			
Deposits and balances from banks			
- In EUR	702,029	-	702,029
- In USD	8,229,678	-	8,229,678
Other borrowed funds			
- In USD	36,708,550	-	36,708,550
Profit (loss)			
Interest expense	(1,170,102)	-	(1,170,102)

The outstanding balances and the related average effective interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows.

GEL	The Bank	Other subsidiaries of the Bank	Total
Statement of financial position			
ASSETS			
Cash and cash equivalents			
- In TRY	62,544	-	62,544
LIABILITIES			
Deposits and balances from banks			
- In EUR	519,787	-	519,786
- In USD	1,318,480	-	1,318,480
Other borrowed funds			
- In USD	13,409,444	-	13,409,444
Profit (loss)			
Interest expense	(260,170)	-	(260,170)
Other general and administrative expenses	-	(5,696)	(5,696)

The majority of balances resulting from transactions with related parties, except for the loans from the Bank at 31 December 2014 and 31 December 2013 (see note 14), mature within one year. Transactions with related parties are not secured.

21 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Management believes that the fair value of financial assets and liabilities approximates their carrying amounts. The principles for determining fair values is disclosed in note 3c(v).

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 8.7% to 9.0% are used for discounting future cash flows from loans to customers.
- a discount rate of 4.7% is used for discounting future cash flows from liabilities.

(b) Fair value hierarchy

The Branch measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.