

JSC Isbank Georgia

Financial Statements

for the year ended 31 December 2015

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Independent Auditors' Report

To the Shareholder
JSC Isbank Georgia

We have audited the accompanying financial statements of JSC Isbank Georgia (the "Bank"), which comprise the statement of financial position as at 31 December 2015, 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 Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Georgia LLC

KPMG Georgia LLC
8 April 2016



KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

JSC Isbank Georgia
Statement of Profit or Loss and Other Comprehensive Income for the year ended
31 December 2015

	Notes	2015 GEL	2014 GEL
Interest income	4	12,766,686	5,059,804
Interest expense	4	(6,059,691)	(1,463,647)
Net interest income	4	6,706,995	3,596,157
Fee and commission gain		802,818	287,625
Fee and commission expense		(677,169)	(243,020)
Net fee and commission income		125,649	44,605
Net foreign exchange income		1,308,309	280,126
Operating income		8,140,953	3,920,888
Impairment losses	5	(1,324,291)	(1,090,899)
Personnel expenses	6	(2,739,380)	(1,696,384)
Other general administrative expenses	7	(2,201,827)	(1,273,961)
Profit/(loss) before income tax		1,875,455	(140,356)
Income tax (expense)/benefit	8	(205,100)	30,393
Profit/(loss) and total comprehensive income/(loss) for the year		1,670,355	(109,963)

The financial statements as set out on pages 4 to 42 were approved by management on 8 April 2016 and were signed on its behalf by:



Ahmet Turk
Chief Executive Officer



Ucha Saralidze
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

JSC Isbank Georgia
Statement of Financial Position as at 31 December 2015

	Notes	2015 GEL	2014 GEL
ASSETS			
Cash and cash equivalents	9	38,888,900	14,034,489
Mandatory reserves at National Bank of Georgia		25,819,008	5,436,305
Loans to customers	10	145,284,625	69,091,150
Property, equipment and intangible assets	11	2,831,260	1,950,545
Deferred tax assets	8	-	142,166
Other assets		232,899	757,769
Total assets		213,056,692	91,412,424
LIABILITIES			
Deposits and balances from banks	12	126,224,194	8,931,707
Current accounts and deposits from customers	13	55,016,364	32,842,780
Other borrowed funds	14	-	36,708,550
Deferred tax liabilities	8	39,665	-
Other liabilities		279,454	722,520
Total liabilities		181,559,677	79,205,557
EQUITY			
Share capital		30,000,000	-
Statutory reserve		-	13,013,484
Retained earnings/(accumulated losses)		1,497,015	(806,617)
Total equity	16	31,497,015	12,206,867
Total liabilities and equity		213,056,692	91,412,424

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

JSC Isbank Georgia
Statement of Cash Flows for the year ended 31 December 2015

	Notes	2015 GEL	2014 GEL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		1,875,455	(140,356)
<i>Adjustments for:</i>			
Depreciation and amortization		563,235	288,586
Interest income		(12,766,686)	(5,059,804)
Interest expense		6,059,691	1,463,647
Impairment losses		1,324,291	1,090,899
Net foreign exchange gain		(1,308,309)	(280,126)
		(4,252,323)	(2,637,154)
<i>Change in operating assets and liabilities:</i>			
Increase in mandatory reserves at National Bank of Georgia		(18,333,575)	(4,669,523)
Increase in loans to customers		(55,610,742)	(49,486,348)
Decrease/(increase) in other assets		524,870	(753,971)
Increase in deposits and balances from banks		63,527,317	6,589,871
Increase in current accounts and deposits from customers		14,093,259	28,518,802
(Decrease)/increase in other liabilities		(443,066)	712,147
Cash flows used in operations before interest and foreign exchange		(494,260)	(21,726,176)
Interest receipts		11,836,767	4,036,812
Interest payments		(4,762,108)	(1,248,368)
Net receipts from foreign exchange		998,362	400,623
Cash flows from/(used in) operations		7,578,761	(18,537,109)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(1,443,950)	(1,227,910)
Cash flows used in investing activities		(1,443,950)	(1,227,910)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from other borrowed funds		-	23,009,825
Repayment of other borrowed funds		-	(2,215,618)
Receipts from increase of share capital/statutory reserve		17,619,793	156,332
Cash flows from financing activities		17,619,793	20,950,539
Net increase in cash and cash equivalents		23,754,604	1,185,520
Effect of changes in exchange rates on cash and cash equivalents		1,099,807	231,307
Cash and cash equivalents as at the beginning of the year		14,034,489	12,617,662
Cash and cash equivalents as at the end of the year	9	38,888,900	14,034,489

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

JSC Isbank Georgia
Statement of Changes in Equity for the year ended 31 December 2015

GEL	Statutory reserve	Share capital	Retained earnings/ (accumulated losses)	Total equity
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 owner, recorded directly in equity				
Increase of statutory reserve	156,332	-	-	156,332
Total transactions with owner	156,332	-	-	156,332
Balance as at 31 December 2014	13,013,484	-	(806,617)	12,206,867
Balance as at 1 January 2015	13,013,484	-	(806,617)	12,206,867
Profit and total comprehensive income for the year	-	-	1,670,355	1,670,355
Transactions with owner, recorded directly in equity				
Transfer of statutory reserve to the share capital	(13,013,484)	13,013,484	-	-
Transfer of accumulated losses as at 31 December to Share capital (Note 1a)	-	(806,617)	806,617	-
Transfer of accumulated gain as at 31 July 2015 to Share capital (Note 1a)	-	173,340	(173,340)	-
Cash contribution into the share capital	-	17,619,793	-	17,619,793
Total transactions with owner	(13,013,484)	30,000,000	633,277	17,619,793
Balance as at 31 December 2015	-	30,000,000	1,497,015	31,497,015

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 Isbank Turkey (the Branch) was registered on 13 July 2012 as a branch of a foreign bank Türkiye İş Bankası Anonim Şirketi (the Parent) which was incorporated in Turkey in 1924. On 1 August 2015 the Branch was reorganised into JSC Isbank Georgia (the Bank). All assets and liabilities of the Branch were transferred to the Bank as at that date. At the same date Statutory reserves as at 31 December 2014, accumulated losses as at 31 December 2014 and accumulated profits for the seven-month period ended 31 July 2015 of GEL 13,013,484, GEL 806,617 and GEL 173,340, respectively were transferred to the Share capital. See Statement of Changes in Equity.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, cash and settlement operations and foreign exchange transaction. The Bank has a general banking license and its activities are regulated by the National Bank of Georgia (the NBG).

The registered office of the Bank is D.Aghmashenebeli Ave. 140/B, Tbilisi, Georgia. The Bank has two branches in Tbilisi and Batumi and two service centers in Batumi.

The majority of the funding (51% as at 31 December 2015 and 64% as at 31 December 2014) of the Bank is from the Parent. As a result the Bank is economically dependent upon the Parent. In addition, the activities of the Bank are closely linked with the requirements of the Parent.

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

(b) Business environment

Georgian business environment

The Bank's operations are located in Georgia. Consequently, the Bank 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 Bank. 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 the Georgian Lari (GEL), which is the Bank'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 recognized 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.

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 Bank.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of the Bank 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 revaluation are recognized 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 Bank in the management of short-term commitments.

Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The mandatory reserve deposit with the NBG is not available to finance the Company's day to day operations and hence is not considered as part of cash and cash equivalents.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial instruments**(i) Classification**

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

- 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 recognized in the statement of financial position when the Bank 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 amortized cost.

(iv) Amortized cost

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized 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 amortized 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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank 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 Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize 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 Bank 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 recognized 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 recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Derecognition

The Bank derecognizes 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank 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 recognized amounts and there is an intention to settle on a net basis, or realize 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
- computers 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 amortization and impairment losses.

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

Amortization 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 Bank 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 Bank 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 Bank 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 amortized cost

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

The Bank 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 Bank 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 recognized 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 reflects 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 Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized 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 recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan's outstanding amount (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 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 recognized 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 recognized 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 amortization, if no impairment loss had been recognized.

(g) Credit related commitments

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

Financial guarantees are contracts that require the Bank 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 recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized, less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized 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 had a statutory reserve as at 31 December 2014.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized 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 recognized 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 recognized 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 Bank 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 recognized 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 utilized. 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 recognized 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 amortized 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 recognized in profit or loss when the corresponding service is provided.

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

4 Net interest income

	<u>2015</u> GEL	<u>2014</u> GEL
Interest income		
Cash and cash equivalents	671,281	211,915
Loans to customers	<u>12,095,405</u>	<u>4,847,889</u>
	<u>12,766,686</u>	<u>5,059,804</u>
Interest expense		
Deposits and balances from banks	(3,437,228)	(87,660)
Current accounts and deposits from customers	(2,436,974)	(205,885)
Other borrowed funds	<u>(185,489)</u>	<u>(1,170,102)</u>
	<u>(6,059,691)</u>	<u>(1,463,647)</u>
	<u>6,706,995</u>	<u>3,596,157</u>

Included within interest income on loans to customers for the year ended 31 December 2015 GEL 6,220,062 (2014: GEL 1,371,760) is accrued on impaired or overdue financial assets.

5 Impairment losses

	<u>2015</u> GEL	<u>2014</u> GEL
Loans to customers	<u>1,324,291</u>	<u>1,090,899</u>

6 Personnel expenses

	<u>2015</u> GEL	<u>2014</u> GEL
Employee compensation	<u>2,739,380</u>	<u>1,696,384</u>

7 Other general administrative expenses

	2015 GEL	2014 GEL
Operating lease	813,804	411,689
Depreciation and amortization	563,235	288,586
Professional services	350,055	237,704
Communications and information services	115,214	73,062
Travel expenses	58,409	72,991
Entertainment expenses	47,611	36,422
Taxes other than on income	39,827	10,465
Utilities	32,000	23,787
Repairs and maintenance	21,345	14,485
Insurance	18,193	7,996
Office supplies	14,792	26,900
Advertising and marketing	9,885	3,114
Other	117,457	66,760
	2,201,827	1,273,961

8 Income tax expense

	2015 GEL	2014 GEL
Current year tax expense	(23,269)	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(181,831)	30,393
Total income tax (expense)/benefit	(205,100)	30,393

In 2015, the applicable tax rate for current and deferred tax is 15% (2014: 15%).

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

	2015 GEL	%	2014 GEL	%
Profit/(loss) before tax	1,875,455	100%	(140,356)	100%
Income tax at the applicable tax rate	(281,318)	(15%)	21,053	15%
Non-taxable income and other differences	76,218	4%	9,340	7%
	(205,100)	(11%)	30,393	22%

(a) Deferred tax assets and liabilities

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows.

GEL	Balance 1 January 2015	Recognized in profit or loss	Balance 31 December 2015
Property, equipment and intangible assets	(20,493)	28,121	7,628
Loans to customers	-	(209,952)	(209,952)
Tax loss carry-forwards	162,659	-	162,659
Net tax assets/(liabilities)	142,166	(181,831)	(39,665)

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

9 Cash and cash equivalents

	2015 GEL	2014 GEL
Cash on hand	2,646,297	2,242,182
Nostro accounts with the NBG	528,125	338,950
Nostro accounts with other banks		
- rated BBB-	17,710,063	6,069,111
- rated BB-	-	823,494
Total amount on Nostro accounts	17,710,063	6,892,605
Cash equivalents		
-Term deposits with other banks		
- rated BBB-	13,503,329	4,560,752
- not rated	4,501,086	-
Total cash equivalents	18,004,415	4,560,752
Total cash and cash equivalents	38,888,900	14,034,489

No cash and cash equivalents are impaired or past due.

As at 31 December 2015 the Bank has three banks (2014: three banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is GEL 34,556,529 (2014: GEL 11,453,357).

The above ratings are based on Fitch Ratings agency.

10 Loans to customers

	<u>2015</u> <u>GEL</u>	<u>2014</u> <u>GEL</u>
Loans to legal entities		
Loans to corporate customers	140,506,626	54,703,052
Loans to small and medium size companies	2,867,131	14,193,860
Total loans to legal entities	<u>143,373,757</u>	<u>68,896,912</u>
Loans to individuals		
Consumer loans	3,343,596	776,363
Mortgage loans	1,296,903	835,639
Overdrafts	22,436	10,011
Total loans to individuals	<u>4,662,935</u>	<u>1,622,013</u>
Gross loans to customers	148,036,691	70,518,925
Impairment allowance	(2,752,066)	(1,427,775)
Net loans to customers	<u>145,284,625</u>	<u>69,091,150</u>

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	<u>Loans to legal entities</u> <u>GEL</u>	<u>Loans to individuals</u> <u>GEL</u>	<u>Total</u> <u>GEL</u>
Balance at the beginning of the year	1,395,335	32,440	1,427,775
Net charge	1,172,553	151,738	1,324,291
Balance at the end of the year	<u>2,567,888</u>	<u>184,178</u>	<u>2,752,066</u>

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

	<u>Loans to legal entities</u> <u>GEL</u>	<u>Loans to individuals</u> <u>GEL</u>	<u>Total</u> <u>GEL</u>
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	<u>1,395,335</u>	<u>32,440</u>	<u>1,427,775</u>

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	Gross loans GEL	Impairment allowance GEL	Net loans GEL	Impairment allowance to gross loans, %
Loans to legal entities				
Loans to corporate customers				
Loans without individual signs of impairment	83,059,359	(2,511,891)	80,547,468	3.02%
Loans with individual signs of impairment but not impaired	57,447,267	-	57,447,267	0.00%
Total loans to corporate customers	140,506,626	(2,511,891)	137,994,735	1.79%
Loans to small and medium size companies				
Loans without individual signs of impairment	2,680,824	(52,358)	2,628,466	1.95%
Overdue or impaired loans:				
-Overdue loans less than 90 days	186,307	(3,639)	182,668	1.95%
Total loans to small and medium size companies	2,867,131	(55,997)	2,811,134	1.95%
Total loans to legal entities	143,373,757	(2,567,888)	140,805,869	1.79%
Loans to individuals				
Consumer loans				
- not overdue	3,069,352	(130,221)	2,939,131	4.24%
-overdue less than 90 days	246,338	(10,811)	235,527	4.39%
-overdue more than 90 days	27,906	(27,906)	-	100.00%
Mortgage loans				
- not overdue	1,183,536	(12,221)	1,171,315	1.03%
-overdue less than 90 days	113,368	(1,171)	112,197	1.03%
Overdrafts				
- not overdue	22,435	(1,849)	20,586	8.24%
Total loans to individuals	4,662,935	(184,178)	4,478,756	3.95%
Total loans to customers	148,036,691	(2,752,066)	145,284,625	1.86%

No provision was provided on loans of GEL 57,447,267 with individual signs of impairment as they are fully collateralized by cash and deposits, see note 10 (c) (i) and therefore the credit risk is fully mitigated; in case of a default of those loans the cash collaterals can be repossessed. Cash and deposits are provided as a cash cover against loans to customers to be in compliance with single borrower lending limits in accordance with the NBG regulation.

The following table provides information on the credit quality of the 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	824,321	(16,777)	807,544	2.04%
Overdue or impaired loans:				
-overdue less than 90 days	13,369,540	(280,760)	13,088,779	2.10%
Total overdue or impaired loans	14,193,860	(297,538)	13,896,323	2.10%
Loans to corporate customer				
Loans without individual signs of impairment	54,703,051	(1,097,798)	53,605,253	2.01%
Overdue or impaired loans:				
-overdue less than 90 days	-	-	-	-
Total loans to corporate customers	54,703,051	(1,097,798)	53,605,253	2.01%
Total loans to legal entities	68,896,912	(1,395,335)	67,501,577	2.03%
Loans to individuals				
Mortgage loans				
- not overdue	835,639	(16,713)	818,926	2.00%
Overdrafts				
- not overdue	10,011	(200)	9,811	2.00%
Consumer loans				
- not overdue	776,363	(15,527)	760,836	2.00%
Total loans to individuals	1,622,013	(32,440)	1,589,573	2.00%
Total loans to customers	70,518,925	(1,427,775)	69,091,150	2.00%

As at 31 December 2015 in the loan portfolio renegotiated loans to legal entities and individuals that would otherwise be past due or impaired were GEL 48,173,206 (2014: nil).

(b) Key assumptions and judgments for estimating loan impairment

(i) Individually significant loans

The Bank uses a threshold of 2% of total equity to consider a borrower as individually significant. Impairment for loans to significant borrowers are determined based on an analysis of following triggers:

- the loan meets the definition of a non-performing loan
- the loan has been restructured

- there was a material decrease in the collateral value
- there was a material decrease in the estimated future cash flows of the borrower
- there is an evident deterioration in the borrower's debt servicing capacity

The amount of impairment is measured as the difference between the carrying amount of the credit facility and the present value of estimated future cash flows, discounted at the credit facility's original effective interest rate. The estimated future cash flows will include any expected cash flows from the borrowers operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable.

(ii) *Collectively assessed loans*

For the assessment of collectively assessed loans, the Bank estimates loan impairment based on the following criteria:

- Credit facility type
- Collateral type
- Days in arrears
- Economic sectors

Based on the above criteria, the Bank creates the following groups for collective assessment and determines impairment provision rates, based on the banking sector financial information as provided by the NBG to the financial institutions.

The resulting collective provision rates are as follows:

- Mortgage loans: 1.03%
- Consumer loans: 4.40%
- Loans to employees: 1.01%
- Overdrafts: 8.24%
- Loans to small and medium size companies: 1.95%
- Corporate loans: 2%-8% considering the economic environment and market loss experience.

(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 Bank 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 2015 GEL	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of loan inception date
Loans without individual signs of impairment		
Cash and deposits	36,744,219	36,744,219
Real estate	45,958,007	45,958,007
No collateral or other credit enhancement	473,708	-
Total loans without individual signs of impairment	83,175,934	82,702,226
Loans with individual signs of impairment but not impaired		
Cash and deposits	57,447,267	57,447,267
Total loans with individual signs of impairment but not impaired	57,447,267	57,447,267
Overdue or impaired loans		
No collateral or other credit enhancement	182,668	-
Total overdue or impaired loans	182,668	-
Total loans to legal entities	140,805,869	140,149,493

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	35,931,685	35,931,685	-
No collateral or other credit enhancement	43,926	-	43,926
Total loans without individual signs of impairment	54,412,798	54,368,872	43,926
Overdue or impaired loans			
Real estate	13,088,779	13,088,779	-
Total overdue or impaired loans	13,088,779	13,088,779	-
Total loans to legal entities	67,501,577	67,457,651	43,926

The tables above excludes overcollateralisation.

The Bank has loans, for which the fair value of collateral is not determined. For other 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 small and medium size 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 Bank does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to individuals

Mortgage Loans and partly consumer loans are secured by the underlying real estate. The Bank'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 2015	Loans to customers,	Fair value of collateral:
GEL	carrying amount	for collateral
		assessed as of loan
		inception date
Not overdue loans	1,171,315	1,171,314
Overdue less than 90 days	112,197	112,198
Total mortgage loans	1,283,512	1,283,512
Not overdue loans	2,939,131	2,939,132
Overdue less than 90 days	235,527	235,526
Total consumer loans	3,174,658	3,174,658

31 December 2014	Loans to customers,	Fair value of collateral:
GEL	carrying amount	for collateral
		assessed as of loan
		inception date
Not overdue loans	818,926	818,926
Total mortgage loans	818,926	818,926
Not overdue loans	41,862	41,862
Total consumer loans	41,862	41,862

The tables above exclude overcollateralisation.

For certain loans above the Bank 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 Bank 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 overdrafts, 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 Georgia who operate in the following economic sectors:

	2015 GEL	2014 GEL
Trade and service	42,039,157	46,768,395
Hospitality	65,969,709	13,660,365
Real estate	33,372,747	6,771,797
Agriculture	1,992,143	1,696,355
Loans to individuals	4,662,935	1,622,013
	148,036,691	70,518,925
Impairment allowance	(2,752,066)	(1,427,775)
	145,284,625	69,091,150

(e) Significant credit exposures

As at 31 December 2015, the Bank has eight borrowers or groups of connected borrowers (2014: nine), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 is GEL 128,371,627 (2014: GEL 66,964,689).

To comply with the NBG requirements, the Bank received deposits and borrowed funds from the Parent to finance the loans to eight borrowers (2014: six), whose balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 is GEL 128,371,627 (2014: GEL 44,684,064). 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 Bank, 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 2015	1,254,504	285,375	221,257	102,703	541,603	2,405,441
Additions	841,218	227,525	122,808	64,988	187,411	1,443,950
Balance at 31 December 2015	2,095,722	512,900	344,065	167,691	729,014	3,849,391
Depreciation and amortisation						
Balance at 1 January 2015	(205,945)	(88,904)	(54,149)	(27,388)	(78,510)	(454,896)
Depreciation and amortization for the year	(324,651)	(70,320)	(46,570)	(32,205)	(89,490)	(563,235)
Balance at 31 December 2015	(530,596)	(159,224)	(100,719)	(59,593)	(168,000)	(1,018,131)
Carrying amount						
At 31 December 2015	1,565,126	353,676	243,346	108,098	561,014	2,831,260

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

12 Deposits and balances from banks

	2015 GEL	2014 GEL
Vostro accounts	2,800,184	2,397,240
Term deposits	123,424,010	6,534,467
	126,224,194	8,931,707

As at 31 December 2015 the Bank has two banks (2014: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is GEL 126,224,194 (2014: GEL 8,931,707).

The major part of term deposits was obtained from the Parent to be in compliance with NBG requirement, see note 10 (e).

13 Current accounts and deposits from customers

	2015 GEL	2014 GEL
Current accounts and demand deposits		
- Retail	6,054,218	1,125,819
- Corporate	3,275,991	6,776,595
Term deposits		
- Retail	40,551,262	19,086,395
- Corporate	5,134,893	5,853,971
	55,016,364	32,842,780

As at 31 December 2015, the Bank maintained customer deposit balances of GEL 35,085,285 (2014: GEL 18,636,000) that serve as collateral for loans granted by the Parent. As at 31 December 2015, the Bank has six customers (2014: seven customers), whose balances exceed 10% of equity. These balances as at 31 December 2015 are GEL 46,031,488 (2014: GEL 29,912,799).

14 Other borrowed funds

	2015 GEL	2014 GEL
Türkiye İş Bankası Anonim Şirketi	-	36,708,550

As at 2015 borrowings from the parent company Türkiye İş Bankası Anonim Şirketi was transferred and reclassified into deposits and balances from banks due to the regulatory requirements for the reorganization from the Branch into the Bank.

15 Risk management, corporate governance and internal control

(a) Corporate governance framework

The Bank is established as a bank in accordance with Georgian law. The supreme governing body of the Bank is the Supervisory Council. The Supervisory Council makes strategic decisions on the Bank's operations.

The Supervisory Council elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

(b) Internal control policies and procedures

Management has responsibility for the development, implementation and maintaining of internal controls in the Bank 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 Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

Management believes that the Bank 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 Bank's operations. The major risks faced by the Bank 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 Bank, 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 Bank 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 Bank 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 Bank 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 2015						
ASSETS						
Cash and cash equivalents	38,888,900	-	-	-	-	38,888,900
Mandatory reserves at NBG	25,819,008	-	-	-	-	25,819,008
Loans to customers	10,662,984	11,938,685	20,305,243	76,667,500	25,710,213	145,284,625
	75,370,892	11,938,685	20,305,243	76,667,500	25,710,213	209,992,533
LIABILITIES						
Accounts and deposits from banks	3,041,235	8,167,373	53,667,869	11,556,541	49,791,176	126,224,194
Current accounts and deposits from customers	18,787,076	12,049,100	5,993,544	18,186,644	-	55,016,364
	21,828,310	20,216,474	59,661,413	29,743,184	49,791,176	181,240,558
	53,542,581	(8,277,788)	(39,356,170)	46,924,316	(24,080,964)	28,751,975
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

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2015 and 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2015			2014		
	Average effective interest rate, %			Average effective interest rate, %		
	GEL	USD	EUR	GEL	USD	EUR
Interest bearing assets						
Cash and cash equivalents	8.8%	-	-	3.4%	0.5%	-
Loans to customers	11.9%	10.8%	10.5%	8.7%	9.0%	-
Interest bearing liabilities						
Deposits and balances from banks	-	3.9%	-	-	2.3%	-
Deposits from Customers	4.0%	6.4%	2.5%	4.5%	6.7%	-
Other borrowed funds	-	-	-	-	4.7%	-

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 2015 and 2014, is as follows:

	2015	2014
	GEL	GEL
100 bp parallel fall	211,317	103,960
100 bp parallel rise	(211,317)	(103,960)

(ii) *Currency risk*

The Bank 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. The Bank constantly monitors that the NBG limits of currency positions against regulatory capital are maintained.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

	EUR GEL	USD GEL	TRY GEL	GBP GEL	Total GEL
ASSETS					
Cash and cash equivalents	868,098	17,207,949	302,048	916,577	19,294,672
Mandatory reserves at NBG	295,816	25,523,192	-	-	25,819,008
Loans to customers	158,773	135,463,948	-	-	135,622,721
Other financial assets	-	9,579	-	-	9,579
Total assets	1,322,687	178,204,668	302,048	916,577	180,745,980
LIABILITIES					
Deposits and balances from banks	1,185,041	124,437,786	-	601,367	126,224,194
Current accounts and deposits from customers	27,291	53,418,850	10,969	-	53,457,110
Other borrowed funds	-	-	-	-	-
Other financial liabilities	-	24,452	-	-	24,452
Total liabilities	1,212,332	177,881,088	10,969	601,367	179,705,756
Net position	110,355	323,580	291,079	315,210	1,040,224

The following table shows the currency 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				
Accounts and deposits 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
Loans and borrowings	-	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

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2015 and 2014, 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 Bank 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.

	2015 GEL	2014 GEL
20% appreciation of USD against GEL	55,009	(137,866)
20% appreciation of EUR against GEL	18,760	67,379
20% appreciation of TRY against GEL	49,483	77,403
20% appreciation of GBP against GEL	53,586	-

A strengthening of the GEL against the above currencies at 31 December 2015 and 2014 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 Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank 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 Bank 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 below USD 150,000 are authorized by the Bank Credit Committee, the loans above USD 150,000 and below USD 500,000 are authorized by the Bank Board of Directors, and the loans above USD 500,000 are authorized by the Supervisory Council of the Bank.

For all loans to legal entities the Bank performs 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 Bank 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 Bank 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 Bank 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

The 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 the Risk management Division and the Management and implemented by the Finance Department.

In addition, the Bank 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 2015 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	(3,041,736)	-	(8,256,822)	(55,053,960)	(13,309,235)	(66,460,421)	(146,122,173)	(126,224,194)
Current accounts and deposits from customers	(13,645,001)	(9,030,882)	(11,241,642)	(11,603,094)	(11,559,396)	-	(57,080,015)	(55,016,364)
Other financial liabilities	(256,185)	-	-	-	-	-	(256,185)	(256,185)
Total financial liabilities	(16,942,922)	(9,030,882)	(19,498,464)	(66,657,053)	(24,868,631)	(66,460,421)	(203,458,373)	(181,496,743)
Credit related commitments	(5,309,958)	-	-	-	-	-	(5,309,958)	(5,309,958)

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)

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:

	2015 GEL	2014 GEL
Demand and less than 1 month	-	5,501,020
From 1 to 3 months	425,874	694,963
From 3 to 12 months	2,184,206	1,506,083
From 1 to 5 years	36,431,937	-
More than 5 years	-	17,238,300
	39,042,017	24,940,366

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2015:

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	38,888,900	-	-	-	-	-	38,888,900
Mandatory reserves at the NBG	25,819,008	-	-	-	-	-	25,819,008
Loans to customers	7,117,608	3,545,376	32,243,928	76,667,500	25,710,213	-	145,284,625
Property, equipment and intangible assets	-	-	-	-	-	2,831,260	2,831,260
Other assets	232,899	-	-	-	-	-	232,899
Total assets	72,058,415	3,545,376	32,243,928	76,667,500	25,710,213	2,831,260	213,056,692
LIABILITIES							
Deposits and balances from banks	3,041,235	-	61,835,243	11,556,541	49,791,176	-	126,224,194
Current accounts and deposits from customers	9,518,818	9,268,258	18,042,644	18,186,644	-	-	55,016,364
Other liabilities	279,454	-	-	-	-	-	279,454
Total liabilities	12,839,507	9,268,258	79,877,887	29,743,184	49,791,176	-	181,520,012
Net position	59,218,908	(5,722,883)	(47,633,958)	46,924,316	(24,080,964)	2,831,260	31,536,680

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
Other assets	757,769	-	-	-	-	-	757,769
Total assets	22,547,909	912,373	7,612,318	54,511,442	3,735,671	1,950,545	91,270,258
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)	1,950,545	12,064,701

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 Bank's operations.

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

The Bank 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 Bank.

The Bank 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 2015, this minimum level is 10.5 % (2014: 12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2015 and 2014.

After the reorganization of the Branch into a Joint Stock Company on 1 August 2015 the Bank registered its share capital.

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

GEL	2015	2014
Statutory reserve/Share Capital	30,000,000	13,013,484
Retained earnings/(accumulated losses)	1,497,015	(806,617)
Total capital	31,497,015	12,206,867
Risk-weighted assets (unaudited)	118,717,477	48,178,342
Capital adequacy ratio (%) (unaudited)	27%	25%

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

The Bank 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 Bank 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.

	2015 GEL	2014 GEL
Contracted amount		
Undrawn overdraft facilities	25,495	13,764
Guarantees	5,284,463	2,253,132
	5,309,958	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 3,685,084 are to two counterparties (2014: GEL 1,482,952 to one counterparty). This exposure represents a significant credit risk exposure to the Bank.

18 Operating leases

(a) Leases as lessee

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

	2015 GEL	2014 GEL
Less than 1 year	998,217	447,264
Between 1 and 5 years	2,822,814	1,267,248
	3,821,031	1,714,512

The Bank 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 Bank has insured against business interruption and third-party liability in respect of damage arising from managerial decisions related to operations.

(b) Litigation

In the ordinary course of business, the Bank 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 four 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.

In early 2016 the Government of Georgia has announced its intention to move to the so-called Estonian model of corporate taxation, which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. On 24 March 2016 the respective amendments to the Tax Code of Georgia were presented to the Parliament of Georgia for consideration. The introduction of this legislation could have a significant impact on the corporate tax profit of entities operating in Georgia. Based on current information, the new system of corporate taxation does not apply to not for profit organizations. The Government is keen to make the law effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019

20 Related party transactions

(a) Control relationships

JSC Isbank Georgia is ultimately controlled by Isbank Members' Supplementary Pension Fund.

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

(b) Transactions with the key management personnel

Total remuneration included in personnel expenses for the years ended 31 December 2015 and 2014 is as follows:

	2015 GEL	2014 GEL
Short-term employee benefits	725,094	812,127

(c) Transactions with other related parties

Other related parties include the parent company.

The outstanding balances and related profit or loss amounts of transactions are as below:

GEL	<u>The Parent 2015</u>	<u>The Parent 2014</u>
Statement of financial position		
ASSETS		
Cash and cash equivalents		
- In TRY	157,706	478,311
- In USD	-	5,590,800
LIABILITIES		
Deposits and balances from banks		
- In EUR	1,187,167	702,029
- In USD	76,459,808	8,229,678
- In GBP	601,367	-
Other borrowed funds		
- In USD	-	36,708,550
Profit/(loss)		
Interest expense	(1,894,796)	(1,170,102)

The deposits and balances from related parties mature as follows: GEL 16,900,625 matures in less than 12 months, GEL 11,556,541 during 1 to 5 years and GEL 49,791,176 in more than 5 years.

Transactions with related parties are not secured.

The average effective interest rate on above deposit is 4.5 %.

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 Bank 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.