JSC VTB Bank (Georgia)

Consolidated financial statements

For the year ended 31 December 2015
Together with independent auditors' report

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Independent auditors' report

To the shareholders and Board of Directors of JSC VTB Bank (Georgia) -

We have audited the accompanying consolidated financial statements of JSC VTB Bank (Georgia) and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated 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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated 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 of the audited entity, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of JSC VTB Bank (Georgia) and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

10 March 2016

Tbilisi, Georgia

Consolidated statement of financial position

As of 31 December

(Thousands of Georgian Lari)

	Notes	*2015*	*2014*
Assets			
Cash and cash equivalents	6	267,776	212,621
Amounts due from banks and international financial institutions	7	85,235	63,960
Loans and advances to customers	8	746,392	611,020
Investment securities available-for-sale	9	55,587	73,880
Property and equipment	10	36,185	33,142
Investment property	11	26,678	24,352
Current income tax assets		104	87
Deferred income tax assets	12	-	1,085
Other assets	13	6,092	6,122
Total assets		**1,224,049**	**1,026,269**
Liabilities			
Amounts due to banks and international financial institutions	14	225,012	56,758
Amounts due to customers	16	669,605	704,718
Debt securities issued	15	5,242	-
Other borrowed funds	17	114,735	100,897
Deferred income tax liabilities	12	1,574	-
Other liabilities	13	13,040	11,713
Subordinated loan	26	33,329	26,879
Total liabilities		**1,062,537**	**900,965**
Equity			
Share capital	18	191,293	171,293
Land and buildings revaluation reserve		2,758	943
Unrealised losses on investment securities available-for-sale	9	(607)	-
Accumulated losses		(31,932)	(46,932)
Total equity		**161,512**	**125,304**
Total liabilities and equity		**1,224,049**	**1,026,269**

Signed and authorised for release on behalf of the Management Board of the Bank on 10 March 2016:

Archil Kontselidze
Chief Executive Officer

Mamuka Menteshashvili
Chief Financial Officer

The accompanying notes on pages 6 to 50 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2015	2014
Interest income			
Loans and advances to customers		94,657	77,679
Investment securities available-for-sale		4,236	3,702
Cash and cash equivalents		2,005	2,332
Amounts due from banks and international financial institutions		–	2
		100,898	83,715
Interest expense			
Amounts due to customers		(32,196)	(26,277)
Amounts due to banks, international financial institutions and other borrowed funds		(10,827)	(8,756)
Interest expenses on securities issued		(63)	–
Subordinated loan		(2,365)	(1,504)
		(45,451)	(36,537)
Net interest income		55,447	47,178
Allowance / (reversal of allowance) for loan impairment	8	(5,628)	2,051
Net interest income after allowance for loan impairment		49,819	49,229
Net fee and commission income	20	7,540	8,196
Net gains/(losses) from foreign currencies:			
- Dealing		3,727	922
- Translation differences		1,474	4,813
Net gains from disposal of investment property	11	908	1,416
Net gains on investment property revaluation	11	515	(42)
Other income	21	7,992	6,021
Non-interest income		22,156	21,326
Personnel expenses	22	(33,159)	(30,463)
Depreciation	10	(3,351)	(3,154)
Other operating expenses	22	(17,653)	(13,304)
Other impairment and provision (charge)/reversal		(497)	35
Non-interest expenses		(54,660)	(46,886)
Profit before income tax expense		17,315	23,669
Income tax expense	12	(2,335)	(1,936)
Profit for the year		14,980	21,733

The accompanying notes on pages 6 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Note	*2015*	*2014*
Profit for the year		14,980	21,733
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealised gains/(losses) on investment securities available-for-sale	9	(607)	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(607)	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings	10	2,159	–
Income tax effect	10	(324)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		1,835	–
Other comprehensive income for the year, net of tax		1,228	–
Total comprehensive income for the year		16,208	21,733

The accompanying notes on pages 6 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Note	*Share capital*	*Land and buildings revaluation reserve*	*Unrealized gains/(losses) on investment securities available-for-sale*	*Accumulated losses*	*Total equity*
As of 31 December 2013		160,293	963	–	(68,685)	92,571
Total comprehensive income for the year		–	–	–	21,733	21,733
Issuance of share capital	18	11,000	–	–	–	11,000
Depreciation of revaluation reserve, net of tax		–	(20)	–	20	–
As of 31 December 2014		171,293	943	–	(46,932)	125,304
Total comprehensive income for the year		–	1,835	(607)	14,980	16,208
Issuance of share capital	18	20,000	–	–	–	20,000
Depreciation of revaluation reserve, net of tax		–	(20)	–	20	–
As of 31 December 2015		191,293	2,758	(607)	(31,932)	161,512

The accompanying notes on pages 6 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2015*	*2014*
Cash flows from operating activities			
Interest received		98,859	85,095
Interest paid		(42,248)	(36,058)
Fees and commissions received		12,566	13,343
Fees and commissions paid		(5,252)	(4,748)
Realised net gains from dealing in foreign currencies		6,664	(637)
Other income received		7,057	5,789
Personnel expenses paid		(33,417)	(29,863)
Other operating expenses paid		(17,115)	(12,116)
Cash flows from operating activities before changes in operating assets and liabilities		27,114	20,805
Net (increase)/decrease in operating assets			
Amounts due from banks and international financial institutions		(20,444)	(13,339)
Loans and advances to customers		(31,450)	(110,195)
Other assets		425	4,703
Net increase/(decrease) in operating liabilities			
Amounts due to banks and international financial institutions		152,044	(39,497)
Amounts due to customers		(109,710)	173,152
Debt securities issued		5,174	–
Other liabilities		1,522	(5,822)
Net cash flows from operating activities before income tax		24,674	29,807
Income tax paid		–	–
Net cash from operating activities		24,674	29,807
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(148,885)	(224,793)
Proceeds from sale and redemption of investment securities available-for-sale		167,407	204,911
Purchase of property, equipment and intangible assets		(5,495)	(3,711)
Proceeds from sale of property and equipment		–	19
Proceeds from disposal of investment property		5,667	8,495
Purchases of investment property		(3,147)	(599)
Net cash used in investing activities		15,547	(15,678)
Cash flows from financing activities			
Proceeds from issuance of share capital	18	20,000	11,000
Other borrowed funds received		322,108	32,961
Proceeds from Subordinated loan		–	5,519
Repayments of other borrowed funds		(328,715)	(29,757)
Dividends paid		(1)	(3)
Net cash from financing activities		13,392	19,720
Effect of exchange rates changes on cash and cash equivalents		1,542	910
Net increase in cash and cash equivalents		55,155	34,759
Cash and cash equivalents, beginning	6	212,621	177,862
Cash and cash equivalents, ending	6	267,776	212,621

The accompanying notes on pages 6 to 50 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Introduction

JSC VTB Bank (Georgia) (the "Bank" hereafter) was formed as a joint stock company on 7 April 1995 under the laws of Georgia under the name of United Georgian Bank. The Bank changed its name to VTB Bank (Georgia) on 7 December 2006. The Bank operates under a general banking licence issued by the National Bank of Georgia (the "NBG") on 19 May 1995.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. Its main office is in Tbilisi, Georgia. As of 31 December 2015, the Bank has 20 branches (10 of them in Tbilisi) and 15 service centres. As of 31 December 2014, the Bank had 18 branches (10 of them in Tbilisi) and 12 service centres.

The Bank's registered legal address is 14 Chanturia str. Tbilisi, Georgia.

As of 31 December 2015 and 2014, the following shareholders owned more than 1% of the outstanding shares:

Shareholder	*2015* %	*2014* %
VTB Bank OJSC	97.14	96.81
Lacarpa Enterprises Limited	1.61	1.80
Other	1.25	1.39
Total	100.0	100.0

VTB Bank OJSC ("the Parent bank") is the immediate parent of the Bank. The ultimate controlling party for the Group is the State of the Russian Federation ("RF"), acting through the Federal Property Agency, which holds 60.9% of issued and outstanding shares of the Parent bank as of 31 December 2015 (2014: 60.9%).

As of 31 December 2015 and 2014, none of the Supervisory Council and Management Board members owned shares of the Bank.

As of 31 December 2015, the Bank had 1,194 employees (2014: 1,116).

These consolidated financial statements have been prepared for JSC VTB Bank (Georgia) and its subsidiaries (together referred to as "the Group").

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

		The Group ownership interest			
Name	*Country of incorporation*	*2015*	*2014*	*Date of Incorporation*	*Activities*
Georgian Fund Company LLC	Georgia	100%	100%	24 June 1999	Financial services (Dormant)
GT+ LLC	Georgia	100%	100%	4 November 2008	Trading and commerce (Dormant)

2. Basis of preparation and significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for land and buildings, investment property, derivative financial instrument, investment securities available-for-sale and financial instruments at fair value through profit or loss, which are carried at fair value.

These consolidated financial statements are presented in thousands of Georgian lari ("GEL"), unless otherwise indicated. GEL is utilised as the functional currency as the majority of the Group's transactions are denominated or funded in GEL. Transactions in other currencies are treated as transactions in foreign currencies.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other category. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

If the Group has both the intention and ability to hold investment securities available-for-sale to maturity, they may be reclassified as investment securities held-to-maturity. In this case the fair value of securities, as of the date of reclassification, becomes their new amortised cost. For instruments with a fixed maturity the revaluation reserve as of the date of reclassification is amortised to profit or loss during the period until maturity using the effective interest rate method.

Determination of fair value

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding obligatory reserves, and amounts due from banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into certain derivative financial instruments contracts primarily including foreign exchange forwards and swaps. Such financial instruments are recorded at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in net gains/(losses) from foreign currency dealing in consolidated income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and international financial institutions, amounts due to customers, other borrowed funds and subordinated loans. These are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Amounts due to banks and international financial institutions represent funds attracted to manage the Group's liquidity, while other borrowed funds comprises funds received for general capital working purposes and under basic agreements with international credit institutions to finance activities of the Group's customers.

Operating lease – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating lease – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and advances to customers, amounts due from banks and international financial institutions

For assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Impairment of financial assets (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Restructuring of financial assets

The Group from time to time restructures some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in 3 basic scenarios:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized, which requires the estimation of a new effective interest rate. If the new effective interest rate is below the market interest rate, the loss on initial recognition is recognized in the reporting period.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated, the loan is not recognized as impaired. The loan is not derecognised but the new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity. If the new effective interest rate is below the market rate at the date of restructuring, the new carrying amount is calculated as the fair value of the loan after restructuring, being the present value of the future cash flows discounted using the market rate at the date of restructuring. In this case, the difference between the carrying amount before restructuring and the fair value of the loan after restructuring is recognized as a loss on loans restructuring.
- If the loan is impaired after restructuring, the Group uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in loan impairment charge for the period.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Non-performing loans

According to the Group's policy, non-performing loans are derecognized as follows:

- Individually significant loans are being written off based on respective decision of the Bank's Credit committee.
- Uncollectible loans are written-off against the related allowance for impairment after all necessary procedures to recover the loans have been completed and the amount of the irretrievable loss has been determined.

In case the Group receives any amounts from the borrower subsequently to the loan write off, respective amounts are recognized within allowance for loan impairment as recoveries.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, primarily consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Taxation (continued)

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment, except for land and buildings, are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation. Land is measured at fair value and not depreciated. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for land and buildings included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises or other premises at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.
Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	35-50
Utility systems and related features	10-40
Computers and communication equipment	4
Furniture, fixtures and office equipment	2-8
Motor vehicles	5
Leasehold improvements	Over the term of the underlying lease

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for sale in the ordinary course of business.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value which reflects current market value and represents potential price between knowledgeable, willing parties in an arm's length transaction. Revaluation of investment property is held on each reporting date and recognised in consolidated income statement as gains/losses on investment property revaluation. Earned rental income is recorded in consolidated income statement within other operating income.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 2 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Georgia.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Recognition of income and expenses (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Commission income on settlements and cash operations are recognized when the service is delivered to the customer.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees, including fee on guarantees and letters of credit issued, are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Georgian lari, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2015 and 2014 were 2.3949 GEL and 1.8636 GEL to 1 USD, respectively.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources and the financial support of the Parent bank to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 24.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

According to the current methodology, the Loss Rate is calculated with consideration of the recovery rate, which is based on statistics, indicating recoverability of losses after credits reach more than 90 overdue days.

Revaluation of property

The Group regularly reviews the value of its property (land, office buildings, leasehold improvements and investment property) for compliance with fair value and performs revaluation to ensure that the current carrying amount of property does not materially differ from its fair value. The Group performs revaluation using special valuation techniques and information about real estate transactions entered into in the local market.

As of 31 December 2015, an independent appraiser, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category, determined the fair value of the Group’s property. The market value of the property was determined based on the active market data. Refer to Note 10 and Note 11.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in Georgia where the Bank and its Subsidiaries operate.

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 12.

4. Changes in accounting policies and adoption of new or revised standards and interpretations

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The Group does not apply defined Benefit Plans, thus this amendment is not relevant for the Group.

(Thousands of Georgian Lari)

4. Changes in accounting policies and adoption of new or revised standards and interpretations (continued)

Adoption of new or revised standards and interpretations (continued)

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The Group does not have any share-based payments, thus this amendment is not relevant for the Group.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy. The Group does not have any business combinations, thus this amendment is not relevant for the Group.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

This amendment had no impact on the Group's consolidated financial statements. It is not relevant for the Group.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The amendment had no impact on the Group's financial position or performance. The Group recorded the revaluation of land and buildings on the net carrying amount. Refer to Note 10.

(Thousands of Georgian Lari)

4. Changes in accounting policies and adoption of new or revised standards and interpretations (continued)

Adoption of new or revised standards and interpretations (continued)

Annual improvements 2010-2012 Cycle (continued)

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The Group is not a joint arrangement, thus the amendment is not relevant for the Group.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

5. New accounting pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

(Thousands of Georgian Lari)

5. New accounting pronouncements (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

(Thousands of Georgian Lari)

5. New accounting pronouncements (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

(Thousands of Georgian Lari)

5. New accounting pronouncements (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (continued)

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that an entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.
IAS 19 *Employee Benefits* – regional market issue regarding discount rate.

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(Thousands of Georgian Lari)

5. New accounting pronouncements (continued)

Annual improvements 2012-2014 Cycle (continued)

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6. Cash and cash equivalents

	2015	*2014*
Current accounts with other credit institutions	105,896	9,935
Cash on hand	60,670	37,523
Time deposits with credit institutions	56,231	4,322
Current accounts with the NBG	44,979	76,519
Overnight deposit with the NBG	–	84,322
Cash and cash equivalents	267,776	212,621

As of 31 December 2015, 85.4% of total current accounts with credit institutions are placed with 2 non-resident credit institutions (2014: 61%).

As of 31 December 2015, GEL 56,231 were placed on two time deposits with credit institutions that had maturity period in January 2016 (As of 31 December 2014 Time deposits with credit institutions consist from one time deposit with maturity period in January 2015) and bear annual interest rates from 0.01% to 8.6% (2014: annual interest rate of 0.01%).

As of 31 December 2015 and 2014, the Bank's cash and cash equivalents were of high credit grade, were not either past due, or individually impaired, or renegotiated.

7. Amounts due from banks and international financial institutions

	2015	*2014*
Obligatory reserve with the NBG	84,937	63,760
Time deposits with credit institutions	298	200
Amounts due from banks and international financial institutions	85,235	63,960

Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is restricted by the statutory legislation.

In 2015 and 2014, the obligatory reserve on USD account bears interest at the rate of U.S. Federal Reserve System of less 0.5%, on EUR account – the rate of the European Central Bank of less 0.5%.

As of 31 December 2015, GEL 298 (2014: GEL 200) included in time deposits were placed on long term deposits and pledged as security for settlement operations to the international financial institutions.

(Thousands of Georgian Lari)

8. Loans and advances to customers

	2015	*2014*
Corporate lending	346,933	257,758
Consumer lending	274,463	232,063
Small business lending	153,853	139,836
Loans to individuals secured by deposits	6,871	6,833
Gross loans and advances to customers	782,120	636,490
Less – allowance for impairment	(35,728)	(25,470)
Loans and advances to customers, net	746,392	611,020

Allowance for impairment of loans and advances to customers

A reconciliation of the allowance for impairment of loans and advances to customers by class is as follows:

	Corporate lending 2015	*Consumer lending 2015*	*Small business lending 2015*	*Total 2015*
At 1 January 2015	16,980	5,896	2,594	25,470
Net (reversal)/charge for the year	2,185	4,908	(1,465)	5,628
Foreign currencies translation	4,757	419	480	5,656
Recoveries of previously written off loans and advances	856	942	550	2,348
Amounts written off	–	(2,784)	(590)	(3,374)
At 31 December 2015	24,778	9,381	1,569	35,728
Individual impairment	19,143	34	663	19,840
Collective impairment	5,635	9,347	906	15,888
	24,778	9,381	1,569	35,728
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	20,025	377	1,073	21,475

	Corporate lending 2014	*Consumer lending 2014*	*Small business lending 2014*	*Total 2014*
At 1 January 2014	18,998	3,670	3,363	26,031
Net charge/(reversal) for the year	(3,492)	2,838	(1,397)	(2,051)
Foreign currencies translation	1,010	86	101	1,197
Recoveries of previously written off loans and advances	609	1,077	527	2,213
Amounts written off	(145)	(1,775)	–	(1,920)
At 31 December 2014	16,980	5,896	2,594	25,470
Individual impairment	13,428	105	839	14,372
Collective impairment	3,552	5,791	1,755	11,098
	16,980	5,896	2,594	25,470
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	23,301	500	1,629	25,430

Individually impaired loans

Interest income of loans and advances, for which individual impairment allowances have been recognized, as at 31 December 2015, comprised GEL 440 (2014: GEL 2,333).

(Thousands of Georgian Lari)

8. Loans and advances to customers (continued)

Collateral and other credit enhancements

The amount and type of required collateral depends on the counterparty Credit Risk assessment, for which the Bank has implemented guidelines and policies defining valuation parameters and acceptability of the collateral.

Accepted collateral types are as follows:

- For commercial lending: Real estate properties, inventories, bank deposits, trade receivables and bank guarantees.
- For retail lending: bank deposits, mortgages over residential properties, inventories, household assets and third party personal guarantees.

The group also accepts guarantees from customer's parent companies issued to insure the loans to their subsidiaries.

As of 31 December 2015, the Group repossessed collateral (land and buildings) during the year with cost as of repossession date of GEL 3,701 (2014: GEL 8,747), which were classified as investment property. Refer to Note 11.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Concentration of loans and advances to customers

As of 31 December 2015, the Bank had a concentration of loans represented by GEL 183,023 due from the ten largest third party borrowers or 23.4% of gross loan portfolio (2014 – GEL 131,744 or 20.66%) An allowance of GEL 15,221 (2014: GEL 10,397) was recognised against these loans.

Included in total loans to customers is an exposure to a single borrower of GEL 32,506 or 4.16% of total loan portfolio (2014 – GEL 25,174 or 3.95%), that bears an annual interest rate of 10% p.a. and matures in April 2029.

Loans have been extended to the following types of customers:

	2015	*2014*
Commercial legal entities	474,353	371,289
Individuals	307,767	265,201
Gross loans and advances to customers	782,120	636,490

As of 31 December 2015 and 2014, loans and advances to customers are principally issued within Georgia and their distribution by industry sectors is as follows:

	2015	*2014*
Individuals	307,767	265,201
Trading and service enterprises	257,945	229,502
Manufacturing	58,292	24,204
Real estate construction	57,818	45,580
Agriculture and food processing	41,167	21,996
Financial	18,094	15,730
Energy	9,291	5,414
Telecommunication and transportation	9,044	6,050
Other	22,702	22,813
Gross loans and advances to customers	782,120	636,490

9. Investment securities available-for-sale

As of 31 December 2015 investment securities available-for-sale comprised of securities of Ministry of Finance of Georgia with total carrying value of GEL 8,669 (2014: GEL 9,792), securities of National Bank of Georgia with total carrying value of GEL 46,864 (2014: GEL 64,034) and corporate shares of one Georgian company engaged in clearance of utility payments with total carrying value of GEL 54 (2014: GEL 54).

At the end of the period as a result of changes in market interest rates the Group revalued its investment securities at fair value with the loss GEL 607 (2014: GEL 0) recognised in other comprehensive income.

(Thousands of Georgian Lari)

10. Property and equipment

The movements in property and equipment during 2015 and 2014 were as follows:

	Land and buildings	*Computers and communi-cation equipment*	*Furniture, fixtures and office equipment*	*Utility systems and related features*	*Motor vehicles*	*Leasehold improve-ments*	*Construction in progress*	*Total*
Cost or revalued amount								
31 December 2013	23,280	7,901	8,040	1,938	1,262	2,211	–	44,632
Additions	441	895	697	–	426	–	582	3,041
Transfer	188	–	7	–	–	387	(582)	–
Disposals	–	(101)	(136)	–	(82)	–	–	(319)
31 December 2014	23,909	8,695	8,608	1,938	1,606	2,598	–	47,354
Additions	–	2,347	778	–	184	–	684	3,993
Transfer	196	–	–	–	–	488	(684)	–
Disposals	–	(198)	(40)	–	–		–	(238)
Effect of revaluation	930	–	–	–	–	(934)	–	(4)
31 December 2015	25,035	10,844	9,346	1,938	1,790	2,152	–	51,105
Accumulated depreciation and impairment								
31 December 2013	(493)	(5,790)	(3,851)	(160)	(789)	(265)	–	(11,348)
Depreciation charge	(494)	(969)	(1,148)	(68)	(156)	(319)	–	(3,154)
Disposals	–	99	109	–	82	–	–	290
31 December 2014	(987)	(6,660)	(4,890)	(228)	(863)	(584)	–	(14,212)
Depreciation charge	(509)	(988)	(1,207)	(68)	(229)	(350)	–	(3,351)
Disposals	–	177	36	–	–	–	–	213
Effect of revaluation	1,496	–	–	–	–	934	–	2,430
31 December 2015	–	(7,471)	(6,061)	(296)	(1,092)	–	–	(14,920)
Net book value								
31 December 2013	22,787	2,111	4,189	1,778	473	1,946	–	33,284
31 December 2014	22,922	2,035	3,718	1,710	743	2,014	–	33,142
31 December 2015	25,035	3,373	3,285	1,642	698	2,152	–	36,185

As of 31 December 2015 an independent appraiser determined the fair value of the Group's land and buildings.

The market value of the property was determined based on the active market data. The market approach was used to determine the fair value, the income approach was used to validate the obtained value estimates, and the cost approach was used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area was available.

As a result of revaluation of land and building, their value increased by GEL 2,426, from which GEL 2,159, GEL 245, GEL 512 were recognized in other comprehensive income, loss in other operating expenses and reversal of negative revaluation of property and equipment in other income, respectively.

If no revaluation of property and equipment had been performed, the original cost of property and equipment as of 31 December 2015 and 31 December 2014, recorded under the caption Land and Buildings would have amounted to GEL 31,295 (2014 – GEL 31,099) and accumulated depreciation would have amounted to GEL 9,944 (2014 – GEL 9,264).

The total value of fully depreciated property and equipment in use as of 31 December 2015 and 2014, amounted to GEL 7,965 and GEL 6,756, respectively.

(Thousands of Georgian Lari)

11. Investment property

	2015	2014
Opening balance at 1 January	24,352	26,926
Additions (Note 8)	3,701	8,747
Disposals	(1,890)	(11,279)
Unrealized gain/(loss) on revaluation	515	(42)
Closing balance at 31 December	26,678	24,352

Investment property is a real estate property comprised of land and buildings which was obtained by the Group through repossession of collateral on defaulted loans. Refer to Note 8.

As of 31 December 2015 net gains from disposal of investment property was GEL 908 (2014: GEL 1,416), the five largest gains comprised GEL 738 (81.3% of net gains from disposal of investment property), (2014: GEL 1,237 or 87.4%).

As of 31 December 2015, an independent appraiser determined the fair value of the Group's investment properties. The fair value represents the amount at which the asset could be exchanged between knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

The fair value of the property was determined based on the active market data. The market approach was used to determine the fair value, the income approach was used to validate the obtained value estimates, and the cost approach was used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area was available.

12. Taxation

The corporate income tax expense comprises:

	2015	2014
Current tax expense	–	–
Deferred expense – origination and reversal of temporary differences	(2,659)	(1,936)
Less: deferred tax recognised in other comprehensive income	324	–
Income tax expense	(2,335)	(1,936)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2015	2014
Income before income tax expense	17,315	23,669
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	(2,597)	(3,550)
Change in unrecognized deferred tax assets (except expired portion)	1,286	887
Tax effect of expired portion of tax losses carried forward	(1,670)	–
Non-deductible expenses	(132)	(46)
Tax exempt income less income recognized for tax purposes only	778	773
Income tax expense	(2,335)	(1,936)

(Thousands of Georgian Lari)

12. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences					
	2013	*In the income statement*	*Directly in other compre-hensive income*	*2014*	*In the income statement*	*Directly in other compre-hensive income*	*2015*
Tax effect of deductible temporary differences							
Tax losses carried forward	4,347	(1,776)	–	2,571	(2,571)	–	–
Financial instruments adjustment for effective interest rates	1,307	84	–	1,391	(264)	–	1,127
Accrued expenses	1,076	100	–	1,176	30	–	1,206
Securities available-for-sale	161	–	–	161	–	–	161
Investment property	216	(216)	–	–	–	–	
Other	355	(48)	–	307	(15)	–	292
Gross deferred tax assets	7,462	(1,856)	–	5,606	(2,820)	–	2,786
Unrecognized deferred tax asset	(2,173)	887	–	(1,286)	1,286	–	–
Deferred tax assets	5,289	(969)	–	4,320	(1,534)	–	2,786
Tax effect of taxable temporary differences							
Allowance for loan impairment	(986)	(897)	–	(1,883)	(476)	–	(2,359)
Property and equipment	(984)	(66)	–	(1,050)	(139)	(324)	(1,513)
Investment property	–	(52)	–	(52)	(110)	–	(162)
Allowances for impairment and provision for other losses	(288)	42	–	(246)	(80)	–	(326)
Financial instruments adjustment for effective interest rate	(10)	6	–	(4)	4	–	–
Deferred tax liabilities	(2,268)	(967)	–	(3,235)	(801)	(324)	(4,360)
Net deferred tax assets/(liabilities)	3,021	(1,936)	–	1,085	(2,335)	(324)	(1,574)

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits was 15% for 2015 and 2014. The tax rate for companies other than banks was also 15%. According to the Georgian legislation, revenue from state securities is exempted from taxation.

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

During the year Bank utilised taxable loss carry forward by GEL 6,009 (2014: GEL 11,837) and wrote off the expired portion of GEL 11,132 (2014: GEL 0), respective tax effect of utilisation amounted to GEL 901 (2014: GEL 1,776) and tax effect of write off amounted to GEL 1,670 (2014: GEL 0).

(Thousands of Georgian Lari)

13. Other assets and liabilities

Other assets comprise:

	2015	*2014*
Financial assets		
Unsettled transactions on money transfers	687	1,326
Accrued commission receivable on guarantees and letters of credit	100	69
Accrued income for operating lease	12	7
Derivative financial assets	2	1,673
Other	3	–
Total financial assets	804	3,075
Non-financial assets		
Intangible assets	2,338	1,337
Prepaid expenses	2,278	1,363
Advances paid	306	185
Inventories in stock	135	120
Prepaid operational taxes	8	42
Other	223	–
Total non-financial assets	5,288	3,047
Other assets	6,092	6,122

Other liabilities comprise:

	2015	*2014*
Financial liabilities		
Accrued bonuses	6,465	6,814
Settlements on plastic cards	2,257	1,044
Accrued expenses	1,110	895
Payables for unused vacations	933	846
Unsettled transactions on money transfers	482	166
Derivative financial liabilities	217	382
Settlements on acquisition of property and equipment and inventory	99	23
Total financial liabilities	11,563	10,170
Non-financial liabilities		
Advances received	591	1,015
Provision for legal claims	463	–
Dividends payable to shareholders of the Bank	387	388
Operational taxes payable	36	140
Total non-financial liabilities	1,477	1,543
Other liabilities	13,040	11,713

As of 31 December 2015 and 2014, the Group's derivative financial instruments comprised of foreign exchange forwards and were attributable to the Level 2 of fair value hierarchy.

(Thousands of Georgian Lari)

13. Other assets and liabilities (continued)

Derivatives are valued using a valuation technique with market observable inputs. The applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives comprise:

	2015				*2014*			
	Notional amount		*Fair values*		*Notional amount*		*Fair values*	
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*
Foreign exchange contracts								
Forwards and Swaps – foreign	52,733	52,948	2	217	45,000	43,709	1,673	382
Total derivative assets/liabilities			2	217			1,673	382

14. Amounts due to banks and international financial institutions

	2015	*2014*
Loans received from the Parent bank	162,691	51,516
Time deposits and loans	59,329	5,000
Current accounts	2,992	242
Amounts due to banks and international financial institutions	225,012	56,758

As of 31 December 2015, loans received from the Parent bank had maturities ranging from January 2016 till August 2016 (2014: March 2015 till December 2015) and bear annual interest rates from 1% to 6.23% (2014: from 4.73% to 8.14%).

As of 31 December 2015, time deposits and loans had maturities in January 2016 (As of 31 December 2014 Time deposits and loans consist from one time deposit with maturity period in January 2015) and bear annual interest rates from 1.9% to 3.50% (2014: with annual interest rate of 5.1%).

15. Debt securities issued

From July 2015, Group had started issuance of debt security deposits. As of 31 December 2015, debt securities comprised of discount certificate deposits with amount of GEL 4,230 and coupon certificate deposits with amount of GEL 1,012 with maturities ranging from 9 March 2016 till 2 December 2017. Certificates of deposit may be freely resold or otherwise assigned to any third party without prior notification of the Bank.

(Thousands of Georgian Lari)

16. Amounts due to customers

	2015	*2014*
Individuals		
- Current/demand accounts	104,446	77,196
- Term deposits	163,843	123,332
Total due to individuals	268,289	200,528
State and budgetary organisations		
- Current/settlement accounts	53,268	46,942
- Term deposits	9,354	5,683
Total due to state and budgetary organisations	62,623	52,625
Commercial legal entities		
- Current/settlement accounts	204,286	353,659
- Term deposits	134,406	97,906
Total due to commercial legal entities	338,693	451,565
Total due to legal entities	401,316	504,190
Total amounts due to customers	669,605	704,718
Held as security against undrawn loan facilities	2,618	304
Held as security against guarantees issued	17,225	12,016
Held as security against letters of credit issued	11,964	18,640
Total amounts of cash held as security against letters of credit, undrawn loan facility and guarantees issued	31,807	30,960
Held as security against settlement operations	509	347

At 31 December 2015, amounts due to customers of GEL 209,765 (31.33%) were due to the ten largest third party customers (2014 – GEL 313,920 (45%).

In accordance with the internal procedures and contractual terms, the Bank is obliged to repay term deposits upon demand of a customer. In case a term deposit is repaid upon demand of the customer prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

An analysis of customer accounts by industry follows:

	2015	*2014*
Individuals	268,289	200,528
Trade and service	86,222	95,578
Transport and communication	78,882	161,721
Government	62,623	52,625
Energy	56,662	108,513
Finance	42,308	25,443
Real estate constructions	37,262	38,087
Manufacturing	23,434	9,631
Education	5,774	7,927
Agriculture	2,010	1,179
Other	6,139	3,486
Amounts due to customers	669,605	704,718

17. Other borrowed funds

	2015	*2014*
Borrowings from NBG	47,000	–
Borrowings from international financial institutions	32,711	44,748
Borrowings from the Parent bank	31,827	54,196
Borrowings from government organizations	3,197	1,953
Other borrowed funds	114,735	100,897

(Thousands of Georgian Lari)

17. Other borrowed funds (continued)

As of 31 December 2015, maturities of borrowings from the Parent bank were ranging from February 2016 till September 2019 (2014: from February 2015 till August 2019), annual interest rates from 3.37% to 6.28% (2014 from 3.52% to 8.95%). Refer to Note 26.

Borrowings from international financial institutions as of 31 December 2015 contained facilities in U.S. dollars and euro with maturities ranging from January 2017 to December 2032 (2014: from January 2015 to December 2032) and interest rates from Libor + 5% to Libor + 5.25% and one loan bearing annual interest rate of 0.75% (2014: from Libor + 3% to Libor + 5.25%; 0.75%).

Borrowings from government organizations as of 31 December 2015 contained facilities received from Municipal Development Fund of Georgia to finance energy sector companies. The borrowings are denominated in EUR, bear annual interest rate of 3% (2014: 3%) and with maturities ranging from May 2018 to November 2021 (2014: from May 2018 to November 2021).

As of 31 December 2015, GEL 47,000 borrowings from NBG were received under the following assets pledged as collateral: securities of ministry of finance of Georgia with total nominal value of GEL 9,024, securities of national bank of Georgia with total nominal value of GEL 37,613 and loans and advances to customers with total nominal value of GEL 4,289. The borrowings had maturity period in January 2016 and bears annual interest rate of 9.5%.

18. Equity

Share capital

Movements in ordinary shares authorized and fully paid were as follows:

	Number of shares authorized	*Number of shares fully paid*	*Nominal amount, GEL*
31 December 2013	160,292,701	160,292,701	160,293
Increase in share capital	11,000,000	11,000,000	11,000
31 December 2014	171,292,701	171,292,701	171,293
Increase in share capital	20,000,000	20,000,000	20,000
31 December 2015	191,292,701	191,292,701	191,293

The share capital of the Bank was contributed by the shareholders in Georgian lari and they are entitled to dividends and any capital distribution in Georgian lari.

On 28 February 2014 the Shareholders made a decision to increase the number of authorized ordinary shares by 11,000,000. Related share issue prospectus was approved by the National Bank of Georgia on 20 March 2014. The consideration received for these shares comprised of cash for the total amount of GEL 11,000.

On 13 October 2015 the Shareholders made a decision to increase the number of authorized ordinary shares by 20,000,000. Related share issue prospectus was approved by the National Bank of Georgia on 23 October 2015. The consideration received for these shares comprised of cash for the total amount of GEL 20,000.

Dividends

In accordance with the Georgian legislation, dividends may only be declared to the shareholders of the Bank from the net income as shown in the Bank's separate financial statements prepared in accordance with the NBG requirements. The NBG shall be informed regarding declaration of dividends and also shall be authorized to suspend or restrict payment of dividends, if a commercial bank has violated regulatory requirements of the NBG. No dividends were declared by the Bank during 2015.

(Thousands of Georgian Lari)

19. Commitments and contingencies

Operating environment

As a small open economy the Georgian economy is sensitive to regional and global challenges. Reduced exports to Georgia's main trading partners, combined with falling remittances, cause income and domestic demand to decline, which puts pressure on the exchange rate. The grim economic situation in the region has been exacerbated by the global appreciation of the US dollar, which stemmed from the solid recovery of the US economy and the monetary policy pursued by the Federal Reserve.

Responding to increased inflation expectations, NBG tightened monetary policy, over 2015 monetary policy rate increased gradually from 4% in the beginning of 2015 to 8%. As a result, inflation ended up at 4.9% in December 2015, which was in compliance with NBG's expectations of 5%. Budgetary spending was also maintained within the sustainable levels, initial estimate of fiscal deficit amounted to 3% of GDP, deficit spending has been more equally distributed across the year, unlike the practice in previous years, which helped to avoid additional pressure on GEL by the end of the year. Decreased exports and remittances have put a pressure on the current account, but this has been largely offset by the reduced imports as a consequence of the National Bank's prudent strategy to maintain the free float of the Georgian currency. Imports were also positively affected by the decrease in oil prices.

In year 2015, Economic Growth of Georgia reached 2.8%, despite complicated economic conditions observed in main trade partner states. Nominal GDP increased from 29.2 billion GEL to 31.8 billion GEL.

Legal

From time to time and in the normal course of business, claims against the Group are received. At the reporting date the Group had several unresolved legal claims. Management is of the opinion that there would be outflow of resources and accordingly provisions have been made in these consolidated financial statements. Refer to Note 13.

As of 31 December, the Group's financial commitments and contingencies comprised the following:

	2015	*2014*
Credit related commitments		
Guarantees issued	79,195	54,200
Undrawn loan facilities	67,759	42,471
Letters of credit	19,861	25,046
Other credit-related commitments	3,535	7,181
Financial commitments and contingencies (before deducting collateral)	170,350	128,898
Less – cash held as security against letters of credit, undrawn loan facility and guarantees issued (Note 16)	(31,807)	(30,960)
Financial commitments and contingencies	138,543	97,938
Operating lease commitments		
Not later than 1 year	777	616
Later than 1 year but not later than 5 years	2,766	2,271
Later than 5 years	901	1,045
	4,444	3,932

(Thousands of Georgian Lari)

20. Net fee and commission income

	2015	2014
Commission on settlements operations	7,606	8,148
Commission on guarantees and other credit related commitments	3,524	3,456
Commission on cash operations	1,620	1,191
Other	178	215
Fee and commission income	12,928	13,010
Commission on settlements operations	(3,690)	(3,590)
Commission on cash operations	(1,041)	(488)
Commission on guarantees and other credit related commitments	(586)	(623)
Other	(71)	(113)
Fee and commission expense	(5,388)	(4,814)
Net fee and commission income	7,540	8,196

21. Other income

	2015	2014
Penalties received from lending operations	5,958	4,598
Income from operation lease	652	376
Reversal of negative revaluation of land and buildings	512	–
Penalties received for deposit redemption before maturity	418	252
Reimbursement of the principal amount of eligible losses on EBRD Sub-loans	189	–
Reimbursement of integrated marketing communication campaign costs	171	261
Reimbursement of legal fees	17	26
Reimbursement of losses from insurance companies	6	362
Income from disposal of property	–	19
Other	69	127
Other income	7,992	6,021

22. Personnel and other operating expenses

	2015	2014
Salaries	23,695	21,517
Bonuses and premiums	9,464	8,946
Personnel expenses	33,159	30,463
Occupancy and rent	2,694	1,759
Marketing and advertising	2,218	1,881
Other operating expenses on plastic cards operation	1,969	1,302
Legal and consultancy	1,765	1,617
Repairs and maintenance of property and equipment	1,314	612
Computer software maintenance	1,192	851
Expenses on money collection services	947	759
Office supplies	923	772
Utilities	771	653
Communications	735	674
Representation expenses	636	587
Business travel and related expenses	435	395
Amortisation of intangible assets	424	273
Operating taxes	405	385
Charity	275	84
Loss on revaluation of property and equipment	245	–
Insurance	179	176
Security	94	80
Impairment charge for property and equipment	25	28
Other	407	416
Other operating expenses	17,653	13,304

(Thousands of Georgian Lari)

23. Risk management

The Group is required to manage financial risks that arise as a consequence of its operations to deliver its policy objectives as well as in the course of managing the Group's statement of financial position. These risks primarily include credit risk, liquidity risk and funding management, market risk, prepayment risk and operational risk.

Risk is inherent to the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Bank's Board of Directors is ultimately responsible for identifying and controlling risks of the Group; however, there are separate independent bodies responsible for managing and monitoring risks.

Supervisory Council

The Supervisory Council is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group. The Asset – liability and Risk management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

The Risk Management Unit (Risk Department) – is responsible for implementing and maintaining risk related procedures to ensure an independent control process. As at the end of 2015 Risk Department consisted of the following sub-divisions:

- Consolidated risk analysis division.
- Corporate credit risk division.
- Retail credit risk division.
- Market and operational risks division.
- Collateral evaluation and monitoring group.
- Credit deals monitoring group.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Group's assets and liabilities. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Council through the Audit Committee.

(Thousands of Georgian Lari)

23. Risk management (continued)

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected losses likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Information compiled from all the business divisions is examined and processed to analyse, control and identify risks timely. This information is provided to the Management Board, the Asset – liability and Risk management Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Risk management department assesses the appropriateness of the allowance for credit losses on a monthly basis.

A daily summary on liquidity utilisation is provided to the Management Board and all other relevant employees of the Group.

Risk mitigation

The Group uses collateral to reduce its credit risks (see below for more detail).

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Group manages and control credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

Credit-related commitments risks

The Group makes available to its customers guarantees and letters of credit which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the respective agreement. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings.

For the purpose of these consolidated financial statements all not past due collectively assessed loans to legal entities (Corporate lending and small business lending) are classified in three quality groups presented in the tables below.

- The high grade group includes borrowers with sound level of liquidity and profitability. The probability of default is assessed as low.
- The standard grade includes borrowers with average level of liquidity and profitability. The probability of default is assessed as moderate.
- The sub-standard grade group includes borrowers with satisfactory level of liquidity and profitability. The probability of breach of default is assessed as above moderate.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

For the purpose of these consolidated financial statements all not past due collectively assessed loans to individuals are classified in three quality groups presented in the tables below.

- The high grade group includes borrowers with good debt servicing and excellent financial position of the borrower, loans secured with deposits, loans secured with gold.
- The standard grade group includes borrowers with good/average debt servicing and excellent/moderate financial position of the borrower.
- The sub-standard grade group is represented by loans with average debt servicing and moderate financial position of the borrower. The table below shows the credit quality by class of credit risk bearing assets:

		Neither past due nor impaired				
	Notes	*High grade 2015*	*Standard grade 2015*	*Sub-standard grade 2015*	*Past due or individually impaired 2015*	*Total 2015*
Cash in credit organisations	6	206,891	215	–	–	207,106
Amounts due from banks and international financial institutions	7	85,145	90	–	–	85,235
Debt securities available-for-sale	9	55,533	–	–	–	55,533
Loans and advances to customers	8					
Corporate lending		115,406	107,633	90,864	8,252	322,155
Small business lending		147,143	-	2,376	2,765	152,284
Consumer lending		218,209	31,299	6,459	9,115	265,082
Loans to individuals secured with deposits		6,871	–	–	–	6,871
		487,629	138,932	99,699	20,132	746,392
Other financial assets	13	–	804	–	–	804
Total		835,198	140,041	99,699	20,132	1,095,070

		Neither past due nor impaired				
	Notes	*High grade 2014*	*Standard grade 2014*	*Sub-standard grade 2014*	*Past due or individually impaired 2014*	*Total 2014*
Cash in credit organisations	6	175,024	74	–	–	175,098
Amounts due from banks and international financial institutions	7	63,909	51	–	–	63,960
Debt securities available-for-sale	9	73,826	–	–	–	73,826
Loans and advances to customers	8					
Corporate lending		41,431	103,142	75,835	20,370	240,778
Small business lending		61,974	71,275	1,219	2,774	137,242
Consumer lending		108,523	105,835	5,251	6,558	226,167
Loans to individuals secured with deposits		6,733	–	–	100	6,833
		218,661	280,252	82,305	29,802	611,020
Other financial assets	13	1,673	1,402	–	–	3,075
Total		533,093	281,779	82,305	29,802	926,979

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Overdue but not impaired loans and advances include solely loans and advances that are not individually significant. The tables below show aging analysis of overdue loans.

Aging analysis of past due but not individually impaired loans per class of financial assets

As of 31 December 2015	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans and advances to customers					
Corporate lending	4,474	2,124	97	676	7,371
Consumer lending	4,835	1,074	551	2,312	8,772
Small business lending	1,243	589	384	139	2,355
Loans collateralized with deposits	–	–	–	–	–
Total	10,552	3,787	1,032	3,127	18,498

As of 31 December 2014	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans and advances to customers					
Corporate lending	2,783	–	–	1,460	4,243
Consumer lending	637	843	349	154	1,983
Small business lending	4,133	739	680	612	6,164
Loans collateralized with deposits	–	100	–	–	100
Total	7,553	1,682	1,029	2,226	12,490

For the purpose of these consolidated financial statements a loan is considered overdue when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as overdue.

Loans and advances to customers have been assessed for impairment on the collective basis. Details of loan loss allowance of loan portfolio are disclosed in Note 8.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated (restructured or refinanced) financial assets, by class.

	2015	*2014*
Loans and advances to customers		
Corporate lending	7,295	3,749
Consumer lending	6,535	3,297
Small business lending	3,140	1,631
Total	16,970	8,677

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Impairment assessment

Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired include any known financial difficulties of counterparties, infringement of the original terms of the contract, whether any payments of principal or interest is overdue and the reliability of related collateral if any.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy occurred, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances to customers that are not individually significant (including consumer lending and small business lending) and for individually significant loans where there is not yet any evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics within classification categories. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent, to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

The geographical concentration of Group's financial assets and liabilities is set out below:

	2015				*2014*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	134,803	57,189	75,784	267,776	199,916	11,289	1,416	212,621
Amounts due from banks and international financial institutions	84,937	208	90	85,235	63,816	93	51	63,960
Loans and advances to customers	738,933	4,146	3,313	746,392	598,882	3,229	8,909	611,020
Investment securities – available-for-sale	55,587	–	–	55,587	73,880	–	–	73,880
Other financial assets	804	–	–	804	2,371	–	704	3,075
	1,015,064	61,543	79,187	1,155,794	938,865	14,611	11,080	964,556
Liabilities								
Amounts due to banks and international financial institutions	62,064	–	162,948	225,012	5,065	49	51,644	56,758
Amounts due to customers	578,230	31,216	60,159	669,605	624,349	22,370	57,999	704,718
Debt securities issued	4,668	243	331	5,242				
Other borrowed funds	50,197	32,711	31,827	114,735	1,953	44,747	54,197	100,897
Subordinated loan	–	–	33,329	33,329	–	–	26,879	26,879
Other financial liabilities	11,384	–	179	11,563	9,788	–	382	10,170
	706,543	64,170	288,773	1,059,486	641,155	67,166	191,101	899,422
Net assets/(liabilities)	308,521	(2,627)	(209,586)	96,308	297,710	(52,555)	(180,021)	65,134
Net financial commitments	167,908	84	2,358	170,350	107,627	226	21,045	128,898

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Group policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

The list of acceptable forms of credit support is subject to periodical review. The Group has a set of requirements applicable to each from of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, a bank officer conducts inspection the physical existence of collateral offered.

The Group reassesses the fair value of pledged property with frequency stated for each from of pledge and, if necessary, requires additional collateral or acceptable forms of credit support.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Group's Management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

The Group maintains a portfolio of state securities that can be pledged to the NBG to obtain financing in the event of demand. The Group also has committed lines of credit that it can assess to meet liquidity needs.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratio established by National Bank of Georgia. As of 31 December 2015 and 2014 the ratio was as follows:

	2015	*2014*
LK "Average Liquidity Ratio" (Average monthly volume of liquid assets / Average monthly volume of liabilities)	32%	44%

In 2015 minimum limit of average liquidity ratio is 30% (2014: 30%).

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Non-derivative liabilities As of 31 December 2015	*On demand and less or equal 1 month*	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	134,339	721	846	90,909	–	226,815
Amounts due to customers	403,640	84,579	87,582	67,083	37,330	680,214
Debt securities issued	–	139	83	4,884	427	5,533
Other borrowed funds	52,231	3,334	1,514	9,850	53,870	120,799
Subordinated loan	609	–	603	1,212	41,042	43,466
Other liabilities	3,377	2,887	3,815	1,418	66	11,563
Total cash flow payable under non-derivative liabilities	594,132	91,521	94,360	170,536	132,308	1,082,857
Derivative financial instruments-gross settled						
Positive fair value of derivatives						
(Inflow)	(395)					(395)
Outflow	393					393
Derivative financial instruments-gross settled						
Negative fair value of derivatives						
(Inflow)	(39,253)	(13,085)				(52,338)
Outflow	39,426	13,129				52,555

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

Non-derivative liabilities As of 31 December 2014	*On demand and less or equal 1 month*	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	5,242	3,693	656	49,692	–	59,283
Amounts due to customers	495,427	38,935	80,328	76,573	22,468	713,731
Other borrowed funds	14,753	9,521	11,029	26,646	45,945	107,894
Subordinated loan	484	–	474	963	35,119	37,040
Other liabilities	2,102	3,872	221	3,925	50	10,170
Total cash flow payable under non-derivative liabilities	518,008	56,021	92,708	157,799	103,582	928,118
Derivative financial instruments-gross settled						
Positive fair value of derivatives						
(Inflow)	(25,196)	(3,945)				(29,141)
Outflow	24,227	3,241				27,468
Derivative financial instruments-gross settled						
Negative fair value of derivatives						
(Inflow)	(15,859)					(15,859)
Outflow	16,241					16,241

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	On demand and less or equal 1 month	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Total*
2015	35,104	16,655	24,155	43,783	50,653	170,350
2014	19,454	15,299	23,784	31,727	38,634	128,898

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand and in less or equal one month in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency and interest rate risks, the Group has no significant concentration of market risk.

Market risk – Trading

The Management Board has set limits on the level of risk that may be accepted. The Group's activity in market risks area is limited by NBG Deposit certificates, Ministry of Finance of Georgia Treasury Bills, CDs operations, also interbank loans and deposits, and exchange operations. The Group does not perform derivative trading.

(Thousands of Georgian Lari)

23. Risk management (continued)

Market risk (continued)

Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the consolidated income statement includes the effect of the reasonably possible changes in interest rates on the net interest income for one year based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2015*	*Sensitivity of pre-tax income 2015*
USD	0.17%	(87)
USD	(0.17%)	87
GEL	2.50%	(162)
GEL	(2.50%)	162

Currency	*Increase in basis points 2014*	*Sensitivity of pre-tax income 2014*
USD	0.05%	(25)
USD	(0.05%)	25
GEL	0.78%	(48)
GEL	(0.78%)	48

Currency risk

The Group is exposed to currency risk. Currency risk arises from open position in foreign currencies and adverse movements of market exchange rates that may have a negative impact on financial performance of the Group. The Management Board has set limits on positions by currency based on the NBG's regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2015 and 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the lari, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on consolidated statement of comprehensive income does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or consolidated statement of comprehensive income, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in% 2015*	*Effect on profit before tax 2015*	*Increase in currency rate in% 2014*	*Effect on profit before tax 2014*
USD	15%	3,478	7.01%	221
EUR	20%	(6)	8.64%	34
RUB	20%	139	18.1%	52

(Thousands of Georgian Lari)

23. Risk management (continued)

Market risk (continued)

Currency	*Decrease in currency rate in% 2015*	*Effect on profit before tax 2015*	*Decrease in currency rate in% 2014*	*Effect on profit before tax 2014*
USD	(11%)	(2,551)	(7.01%)	(221)
EUR	(16%)	5	(8.64%)	(34)
RUB	(30%)	(209)	(18.1%)	(52)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income
2015	11,685
2014	7,822

Operational risk

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

As of 31 December 2015, the Group obtained Banker's Blanket Bond and Computer Crime insurance on a total insured sum of GEL 2,395 (2014: GEL 1,864) from "IC-Group" insurance company. Total sum of insurance was reinsured by "AIG Europe" insurance company.

24. Fair value measurements

The Group's Board of directors determines the policies and procedures for recurring fair value measurement, such as investment property and buildings.

External valuers are involved for valuation of significant assets, such as investment property and buildings. Involvement of external valuers is decided upon annually by the Board of directors. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Board of directors decides, after discussions with the Bank's Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Board of directors analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the board of directors in conjunction with Group's external valuers verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

At 31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment securities available for sale	–	55,533	54	55,587
Total investment property	–	–	26,678	26,678
Land	–	–	4,098	4,098
Residential properties	–	–	7,172	7,172
Non-residential properties			15,408	15,408
Total revalued land and premises	–	–	25,035	25,035
Land	–	–	186	186
Office buildings	–	–	16,439	16,439
Service centers / means of production	–	–	8,410	8,410
Derivative financial assets	–	2	–	2
Assets for which fair values are disclosed				
Cash and cash equivalents	60,670	207,106		267,776
Amounts due from banks and international financial institutions	–	85,235	–	85,235
Loans to customers	–	–	756,652	756,652
Liabilities measured at fair value				
Derivative financial liabilities	–	217	–	217
Liabilities for which fair values are disclosed				
Amounts due to banks and international financial institutions	–	225,012	–	225,012
Amounts due to customers	–	–	671,591	671,591
Debt Securities issued		–	5,242	5,242
Other borrowed funds	–	112,841	–	112,841
Subordinated loans	–	33,329	–	33,329

At 31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment securities available for sale	–	73,826	54	73,880
Total investment property	–	–	24,352	24,352
Land	–	–	4,234	4,234
Residential properties	–	–	5,668	5,668
Non-residential properties			14,450	14,450
Total revalued land and premises	–	–	22,922	22,922
Land	–	–	186	186
Office buildings	–	–	15,983	15,983
Service centers / means of production	–	–	6,753	6,753
Derivative financial assets	–	1,673		1,673
Assets for which fair values are disclosed				
Cash and cash equivalents	37,523	175,098		212,621
Amounts due from banks and international financial institutions	–	63,960	–	63,960
Loans to customers	–	–	599,642	599,642
Liabilities measured at fair value				
Derivative financial liabilities	–	382	–	382
Liabilities for which fair values are disclosed				
Amounts due to banks and international financial institutions	–	56,758	–	56,758
Amounts due to customers	–	–	706,731	706,731
Other borrowed funds	–	99,092	–	99,092
Subordinated loan	–	26,879	–	26,879

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

During the years ended 31 December 2015 and 2014, there have been no transfers between levels of fair value hierarchy.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position, except for assets for which fair value approximates carrying value – those assets that are liquid or have a short term maturity (less than three months or bear floating interest rate).

	Carrying value 2015	*Fair value 2015*	*Unrecognised gain/(loss) 2015*	*Carrying value 2014*	*Fair value 2014*	*Unrecognised gain/(loss) 2014*
Financial assets						
Amounts due from banks and international financial institutions	85,235	85,235	–	63,960	63,960	–
Loans and advances to customers	746,392	756,652	10,260	611,020	599,642	(11,378)
Financial liabilities						
Amounts due to banks and international financial institutions	225,012	225,012	–	56,758	56,758	–
Amounts due to customers	669,605	671,591	(1,986)	704,718	706,731	(2,013)
Debt Securities issued	5,242	5,242	–	–	–	–
Other borrowed funds	114,735	112,841	1,894	100,897	99,092	1,805
Subordinated loan	33,329	33,329	–	26,879	26,879	–
Total unrecognised change in unrealised fair value			10,168			(11,586)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) or bear floating interest rate, it is assumed that the carrying amounts approximate to their fair value.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are already recorded at fair value in the consolidated financial statements.

Investment securities available-for-sale

Investment securities available-for-sale are valued using valuation technique. These securities are valued using models which incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Property and equipment (buildings and land) and investment property

The market value of the property is determined based on the active market data. The market approach is used to determine the fair value, the income approach is used to validate the obtained value estimates, and the cost approach is used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area is available.

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment as of 31 December 2015:

	Amount	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average) in*	*Other key information*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Investment property	26,678						
Land	4,098	Market approach	Price per square metre	0.06-444.44 (43.5) Georgian lari	Square metre	29-22,902 (3,696)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 397
Residential properties	7,172	Market approach	Price per square metre	0.37–2,163.6 (532.2) Georgian lari	Square metre	22–2,702 (176)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 725
Non-Residential properties	15,408						
	13,908	Market approach	Price per square metre	0.93–3,120.6 (1,028.9) Georgian lari	Square metre	7–30,001 (612)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,321
	1,500	Income approach	Cap. Rate	15.29%-15.29% (15.29%)			10% increase (decrease) in the cap rate would result in increase (decrease) in fair value by 151
Revaluated land and premises	25,035						
Land	186	Market approach	Price per square metre	0.06–444.44 (43.5) Georgian lari	Square metre	29-22,902 (3,696)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 19
Office buildings	16,439	Market approach	Price per square metre	2,380–2,666 (2,475) Georgian lari	Square metre	2,000–2,500 (2,333)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,596
Service centers / means of production	8,410						
	8,240	Market approach	Price per square metre	216–11,965 (2,823) Georgian lari	Square metre	61-1,100 (196)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 428
	170		Cap. rate	13.25%	Square metre		10% increase (decrease) in the cap.rate would result in increase (decrease) in fair value by 12

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment as of 31 December 2014:

	Amount	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average) in*	*Other key information*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Investment property	24,352						
Land	4,234	Market approach	Price per square metre	0.06-226.01 (47.66) Georgian lari	Square metre	100-22,902 (3,353)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 394
Residential properties	5,668	Market approach	Price per square metre	22.22-1,973.83 (572.2) Georgian lari	Square metre	14-1,149 (138)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 592
Non-Residential properties	14,450						
	13,040	Market approach	Price per square metre	4.28-3,428.57 (1,062.2) Georgian lari	Square metre	13-30,001 (771)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 805
	1,410	Income approach	Cap. Rate	15.29%-15.29% (15.29%)			10% increase (decrease) in the cap rate would result in increase (decrease) in fair value by 130
Revaluated land and premises	22,922						
Land	186	Market approach	Price per square metre	0.06-226.01 (47.66) Georgian lari	Square metre	100-22,902 (3,353)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 19
Office buildings	15,983	Market approach	Price per square metre	907-3,884 (2,187) Georgian lari	Square metre	900-4,725 (1,957)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,801
Service centers / means of production	6,753						
	6,523	Market approach	Price per square metre	337-7,662 (1,741) Georgian lari	Square metre	13-750 (147)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 524
	230	Income approach	Estimated rental value per sqm per month	21-28 (24) Georgian lari	Square metre	17-100 (59)	10% increase (decrease) in the estimated rental value per sqm per month would result in increase (decrease) in fair value by 27
			Cap. rate	15.1%	Square metre	17-100 (59)	10% increase (decrease) in the cap.rate would result in increase (decrease) in fair value by 25

(Thousands of Georgian Lari)

25. Maturity analysis of financial assets and liabilities

The table below shows assets and liabilities at 31 December 2015 by their remaining expected maturity. Refer to Note 23 for the Bank's contractual undiscounted repayment obligations.

Following principles underlying gap analysis presentation and the Group liquidity risk management are based on the mix of National Bank of Georgia approach and the Bank's practice:

- Cash and cash equivalents represent highly liquid assets and are classified as "On demand and less or equal 1 month".
- Loans and advances to customers, Investment securities available-for-sale, amounts due from banks and international financial institutions, other assets, amounts due to banks and international financial institutions, debt securities issued, other borrowed funds, Subordinated debt and other liabilities are included into gap analysis table based on remaining contractual maturities.
- Diversification of customer deposits of the bank by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Group during the previous periods and assumptions regarding the "stable part" of current account balances.

	2015							
	On demand and less or equal 1 month	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Overdue*	*No stated maturity*	*Total*
Financial assets								
Cash and cash equivalents	267,776	–	–	–	–	–	–	267,776
Amounts due from banks and international financial institutions	19,766	12,094	7,526	22,587	23,262	–	–	85,235
Loans and advances to customers	49,608	65,105	85,005	121,193	421,434	4,047	–	746,392
Investment securities - available-for-sale	9,983	19,424	18,860	1,385	5,881	–	54	55,587
Other assets	782	13	–	8	1	–	–	804
Total	347,915	96,636	111,391	145,173	450,578	4,047	54	1,155,794
Financial liabilities								
Amounts due to banks and international financial institutions	134,265	157	–	90,590	–	–	–	225,012
Amounts due to customers	116,986	105,307	101,890	65,596	279,826	–	–	669,605
Debt securities issued	–	138	81	4,643	380	–	–	5,242
Other borrowed funds	52,145	3,157	1,112	8,880	49,441	–	–	114,735
Subordinated debt	454	–	–	–	32,875	–	–	33,329
Other liabilities	3,377	2,887	3,815	1,418	66	–	–	11,563
Total	307,227	111,646	106,898	171,127	362,588	–	–	1,059,486
Net	40,688	(15,010)	4,493	(25,954)	87,990	4,047	54	96,308
Cumulative gap	40,688	25,678	30,171	4,217	92,207	96,254	96,308	–

(Thousands of Georgian Lari)

25. Maturity analysis of financial assets and liabilities (continued)

	2014							
	On demand and less or equal 1 month	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Overdue*	*No stated maturity*	*Total*
Financial assets								
Cash and cash equivalents	212,621	–	–	–	–	–	–	212,621
Amounts due from banks and international financial institutions	26,306	6,436	8,214	20,185	2,819	–	–	63,960
Loans and advances to customers	36,244	60,525	94,712	107,857	307,823	3,859	–	611,020
Investment securities - available-for-sale	–	54,666	13,499	–	5,661	–	54	73,880
Other assets	2,099	712	–	253	–	–	11	3,075
Total	277,270	122,339	116,425	128,295	316,303	3,859	65	964,556
Financial liabilities								
Amounts due to banks and international financial institutions	5,242	3,063	–	48,453	–	–	–	56,758
Amounts due to customers	138,685	61,839	92,887	73,742	337,565	–	–	704,718
Other borrowed funds	14,617	9,039	10,085	25,235	41,921	–	–	100,897
Subordinated debt	360	–	–	–	26,519	–	–	26,879
Other liabilities	2,102	3,872	221	3,925	50	–	–	10,170
Total	161,006	77,813	103,193	151,355	406,055	–	–	899,422
Net	116,264	44,526	13,232	(23,060)	(89,752)	3,859	65	65,134
Cumulative gap	116,264	160,790	174,022	150,962	61,210	65,069	65,134	–

As of 31 December 2015, total amount of funding obtained from the Parent bank amounted to GEL 228,100 (2014: GEL 132,714). Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment. Refer to note 26.

Long-term loans are generally not available in Georgia. However, in the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

26. Related party disclosures

As of 31 December 2015 and 2014, outstanding balances on related party transactions are as follows:

	2015			2014		
	The Parent bank	*Entities under common control*	*Key manage-ment personnel*	*The Parent bank*	*Entities under common control*	*Key manage-ment personnel*
Cash and cash equivalents	75,577	14,920	–	1,294	501	–
Loans and advances to customers, gross	–	–	440	–	–	316
Less: allowance for impairment	–	–	–	–	–	–
Loans and advances to customers, net	–	–	440	–	–	316
Other assets	–	–	–	704	–	–
Amounts due to banks and international financial institutions (Note 14)	162,944	4	–	51,639	7	–
Amounts due to customers	–	10,244	4,266	–	39,327	2,161
Other borrowed funds (Note 17)	31,827	–	–	54,196	–	–
Subordinated loan	33,329	–	–	26,879	–	–
Other liabilities	230	–	3,621	382	–	2,722

(Thousands of Georgian Lari)

26. Related party disclosures (continued)

Entities under common control are companies that directly or indirectly through one or more intermediaries control or are controlled by or are under common control with the Bank (this includes holding companies subsidiaries and fellow subsidiaries). In these consolidated financial statements included into entities under common control are the members of VTB Group and other legal entities controlled by the Russian Federation.

On 25 October 2005, the Group entered into a subordinated loan agreement with the Parent bank for the total amount of USD 12,000 thousand, with interest rate of Libor + 6% payable quarterly and maturity on 26 October 2019. On 13 October 2014, the Group entered into a subordinated loan agreement with the Parent bank for the total amount of RUR 126,400 thousand, with interest rate of 11% payable quarterly and maturity on 13 October 2021.In the case of a liquidation of the Group, these loans are only repayable after all the obligations to the Group senior creditors have been met.

As of 31 December 2015 other liabilities to key management personnel comprised of accrued bonuses totalling GEL 3,490 (2014: GEL 2,624) and unpaid vacation of GEL 131 (2014: GEL 98).

The income and expense arising from related party transactions are presented in the table below:

	2015			*2014*		
	The Parent bank	*Entities under common control*	*Key manage-ment personnel*	*The Parent bank*	*Entities under common control*	*Key manage-ment personnel*
Interest income	5	2	49	2	12	38
Interest expense	(10,330)	(701)	(203)	(7,933)	(1,361)	(94)
Loan impairment charge	–	–	–	–	–	(3)
Fee and commission income	–	34	7	–	16	2
Fee and commission expense	(165)	(28)	–	(5)	(77)	–
Net gains from foreign currencies dealing	(704)	637	23	(4,363)	319	7
Other operating expenses	(18)	–	–	–		

For the year ended 31 December 2015, remuneration of the members of the key management personnel comprised salaries, bonuses and other staff related expenses totalling GEL 6,525 (2014: GEL 4,771).

Key management personnel as of 31 December 2015 comprise 7 members of the Supervisory Board and 6 members of the Management Board of the Bank (2014: 5 members of the Supervisory Board and 5 members).

The Group had no significant transactions with members of the Supervisory Board in 2015 and 2014.

27. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank’s capital is monitored using, among other measures, the ratios established by the National Bank of Georgia (the “NBG”) in supervising the Bank.

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders’ value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may return capital to shareholders or issue capital securities.

Capital adequacy ratio

Regulatory capital consists of Tier 1 capital, which comprises common shares, reserve fund and retained earnings excluding current year profit or loss less amount of property revaluation reserve transferred to authorised capital, and intangible assets. The other component of regulatory capital is Tier 2 capital, which includes profit or loss of current year, general reserves (not more than 1.25% of risk weighted assets) and subordinated long-term debt.

(Thousands of Georgian Lari)

27. Capital adequacy (continued)

The NBG requires banks to maintain a minimum regulatory capital adequacy ratio of 11.4% (2014: 12%) of risk-weighted assets, computed based on the NBG guidelines. As of 31 December 2015 the Bank's statutory regulatory capital adequacy ratio as calculated in accordance with the NBG requirements was 13.31% (2014: 13.79%).

The NBG also requires banks to maintain a minimum tier one capital adequacy ratio of 7.6% (2014: 8%) of risk-weighted assets, computed based on the NBG guidelines. As of 31 December 2015 the Bank's statutory tier one capital adequacy ratio as calculated in accordance with the NBG requirements was 9.96% (2014: 8.50%)

Besides from 30 June 2014 the NBG also requires fulfilment of capital adequacy ratios computed in accordance with Basel II/III with some modifications by the NBG requirements. The requirements for banks are to maintain a minimum tier one capital adequacy ratio of 8.5% of risk-weighted assets and total regulatory capital of 10.5% of risk-weighted assets computed based on the NBG guidelines. The Bank was in compliance with these capital adequacy ratios as of 31 December 2015 and 2014. The Bank's capital adequacy ratios on this basis were as follows:

	2015	*2014*
Tier 1 capital	133,717	105,180
Tier 2 capital	35,648	33,956
Total regulatory capital for ratio calculation	169,365	139,136
Risk weighted assets	1,320,031	1,080,826
Tier 1 capital adequacy ratio	10.13%	9.73%
Total Capital adequacy ratio	12.83%	12.87%

Capital adequacy ratio of the Bank in accordance with Basel I computed on IFRS-based of the groups consolidated financial statements as modified by the NBG requirements is as follows:

	2015	*2014*
Tier 1 capital	157,022	123,024
Tier 2 capital	33,567	31,638
Total regulatory capital for ratio calculation	190,589	154,662
Risk weighted assets	951,418	751,389
Capital adequacy ratio	20.03%	20.58%