JSC Silk Road Bank
Financial Statements

Year ended 31 December 2013
Together with Independent Auditors' Report

Contents

EY Georgia LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს ერნსტ ენდ იანგი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditors' report

To the Shareholders and Board of Directors of JSC BTA Bank

We were engaged to audit the accompanying financial statements of JSC Silk Road Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter - material uncertainty

Without qualifying our opinion, we draw attention to Note 3 to the financial statements which indicate that the Bank incurred a total comprehensive loss of GEL 6,623 thousand for the year ended 31 December 2013 and, as at that date, had accumulated losses of GEL 8,900 thousand. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern.

Emphasis of matter - related party transactions

Without qualifying our opinion, we draw attention to Note 28 to the financial statements which disclose a significant concentration of the Bank's financing activities with related parties.

EY Georgia LLC

14 January 2015

Statement of financial position
As at 31 December 2013
(Thousands of Georgian Lari)

	Notes	2013	2012
Assets			
Cash and cash equivalents	6	27,429	8,305
Amounts due from credit institutions	7	18,491	9,770
Loans to customers	8	47,235	75,409
Investments securities:	9		
- available-for-sale		20	20
- held-to-maturity		6,562	2,873
Property and equipment	10	16,600	17,335
Investment property	11	13,634	10,478
Intangible assets	12	269	415
Current income tax assets	13	199	199
Other assets	14	1,542	1,923
Total assets		**131,981**	**126,727**
Liabilities			
Amounts due to credit institutions	15	735	6,273
Amounts due to customers	16	42,965	35,228
Other borrowed funds	17	57,642	49,802
Subordinated loan	18	3,080	2,507
Deferred income tax liabilities	13	2,332	959
Provisions	24	-	30
Other liabilities	14	743	821
Total liabilities		107,497	95,620
Equity			
Share capital	19	30,000	30,000
Land and buildings revaluation reserve		3,384	3,302
(Accumulated losses)		(8,900)	(2,195)
Total equity		24,484	31,107
Total liabilities and equity		**131,981**	**126,727**

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

Kairat Kenzhegatin
General Director

Natalia Modrekelidze
Chief Accountant

14 January 2015

The accompanying notes on pages 8 to 46 are an integral part of these financial statements.

Statement of profit or loss
For the year ended 31 December 2013
(Thousands of Georgian Lari)

	Notes	2013	2012
Interest income			
Loans to customers		13,067	14,733
Investment securities - held-to-maturity		298	384
Amounts due from credit institutions		279	308
		13,644	15,425
Interest expense			
Other borrowed funds		(4,356)	(4,773)
Amounts due to customers		(3,433)	(2,573)
Amounts due to credit institutions		(168)	(500)
Subordinated loan		(226)	(223)
		(8,183)	(8,069)
Net interest income		5,461	7,356
Loan impairment charge	8	(4,352)	(1,982)
Net interest income after loan impairment charge		1,109	5,374
Net fee and commission income	21	1,203	1,051
Net gains/(losses) from foreign currencies:			
- dealing		1,166	1,218
- translation differences		(1,173)	(168)
Net gains/(losses) on investment property revaluation	11	2,036	(156)
Net losses on property revaluation	10	-	(121)
Net losses from disposal of investment property		(603)	(78)
Other income	22	1,469	777
Non-interest income		4,098	2,523
Personnel expenses	23	(5,264)	(5,420)
Other operating expenses	23	(4,091)	(4,437)
Depreciation and amortisation	10,12	(1,207)	(1,558)
Other impairment and provisions (charge)/reversal	24	(207)	(564)
Non-interest expenses		(10,769)	(11,979)
Loss before income tax benefit		(5,562)	(4,082)
Income tax (expense) / benefit	13	(1,326)	464
Loss for the year		(6,888)	(3,618)

Statement of comprehensive income
For the year ended 31 December 2013
(Thousands of Georgian Lari)

	Notes	2013	2012
Loss for the year		(6,888)	(3,618)
Other comprehensive income/ (loss) not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain/(loss) of land and buildings	10	312	(1,957)
Income tax relating to components of other comprehensive income	13	(47)	294
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		265	(1,663)
Other comprehensive loss for the year, net of tax		265	(1,663)
Total comprehensive loss for the year		(6,623)	(5,281)

The accompanying notes on pages 8 to 46 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2013
(Thousands of Georgian Lari)

	Share capital	*Revaluation reserve for property and equipment*	*Retained earnings/ (accumulated losses)*	*Total equity*
31 December 2011	30,000	5,207	1,181	36,388
Total comprehensive loss for the year	-	(1,663)	(3,618)	(5,281)
Transfer of revaluation reserve, net of tax	-	(242)	242	-
31 December 2012	30,000	3,302	(2,195)	31,107
Total comprehensive loss for the year	-	265	(6,888)	(6,623)
Transfer of revaluation reserve, net of tax	-	(183)	183	-
31 December 2013	30,000	3,384	(8,900)	24,484

Statement of cash flows
For the year ended 31 December 2013
(Thousands of Georgian Lari)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		13,409	14,612
Interest paid		(3,041)	(3,001)
Fees and commissions received		1,556	1,377
Fees and commissions paid		(352)	(327)
Net realised gains from dealing in foreign currencies		1,166	1,218
Other income received		1,288	778
Personnel expenses paid		(5,353)	(5,415)
Other operating expenses paid		(3,787)	(4,429)
Cash flows from operating activities before changes in operating assets and liabilities		4,886	4,813
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(8,174)	(4,058)
Loans to customers		23,009	(7,486)
Other assets		85	(45)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(5,520)	(2,302)
Amounts due to customers		6,384	8,039
Other liabilities		(46)	(38)
Net cash from/(used in) operating activities		20,624	(1,077)
Cash flows from investing activities			
Purchase of investment securities		(10,557)	(20)
Proceeds from sale and redemption of investment securities		6,829	675
Proceeds from sales of investment property		1,611	2,441
Purchase of intangible assets		(29)	-
Purchase of property and equipment		(12)	(334)
Proceeds from sale of property and equipment		5	180
Net cash from/(used in) investing activities		(2,153)	2,942
Net cash from/(used in) financing activities		-	-
Effect of exchange rates changes on cash and cash equivalents		653	(51)
Net increase in cash and cash equivalents		19,124	1,814
Cash and cash equivalents, beginning	6	8,305	6,491
Cash and cash equivalents, ending	6	27,429	8,305

The accompanying notes on pages 8 to 46 are an integral part of these financial statements.

1. Principal activities

JSC Silk Road Bank (the "Bank") was established on 27 January 2000 as a joint stock company (JSC) following the merger of two Georgian banks: JSC Export-Import Bank and JSC Discount Bank. The Bank was established under the name of the JSC Silk Road Bank. The Bank was registered on 31 January 2000 with the Didube-Chugureti Regional Court of Tbilisi, registration number 2/5-98.

On 30 May 2003 the Bank acquired the assets and liabilities of JSC EA Bank.

On 23 September 2005 based on resolution number 2/5-98 of the Didube-Chugureti Regional Court, the shareholders of the Bank changed, and it was renamed JSC BTA Silk Road Bank. In 2008 based on order number 176-r of Large Payer Tax Inspection the Bank has changed its name to JSC BTA Bank. In 2014 the shareholders of the Bank changed and it was renamed JSC Silk Road Bank.

As at 31 December 2013 the Bank has a head office and seven service centres located in Tbilisi, one service centre in Poti, one service centre in Kobuleti and one branch and service centre in Batumi.

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. The Bank's registered legal address is 2 Zaarbrukeni Square Tbilisi, Georgia. The Bank is regulated by the National Bank of Georgia (the "NBG"; the central bank of Georgia) and conducts the business under license number 238.

The Bank's registered legal address is 2 Saarbruckan Square, 0102, Tbilisi, Geogia.

As at 31 December 2013 and 31 December 2012, the shareholders of the Bank are as follows:

Shareholder	*2013* %
Silk Road Finance Group (Georgia)	50.99
JSC BTA Bank (Kazakhstan)	49.00
Individuals	0.01
Total	100.00

The Bank is ultimately controlled by Giorgi Ramishvili, a Georgian national.

2. Basis of preparation

General

These 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 and investment securities available-for-sale, which are carried at fair value.

These 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 Bank'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 financial statements are set out below.

3. Going concern

The Bank incurred total comprehensive loss of GEL 6,623 for the year ended 31 December 2013 and as at that date had accumulated losses of GEL 8,900.

As at 31 December 2013 the Bank's Other Borrowed Funds amounted to GEL 57,642 and were maturing in the period from February 2014 till October 2014 (Note 17), GEL 3,080 classified as Subordinated loan was overdue with maturity expired in March 2013 (Note 18) and GEL 715 classified as Amounts due to credit institutions was maturing in November 2014 (Note 15). Moreover the Bank has negative liquidity gap of GEL 7,322 for within one year (Note 27). In addition as at 31 December 2013 the Bank is in violation of two prudential ratios of National bank of Georgia: Largest borrower coefficient (actual 18.56% with prudential limit of not higher than 15%) and property investment coefficient (actual 97.27% with prudential limit not higher than 70%). The Bank has not received a waiver from NBG with regard to violation of prudential ratios.

Notwithstanding these facts management assesses that the Bank will have the ability to meet all of its liabilities as they come due for the following reasons:

- The Bank's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. The undiscounted financial liability gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables disclosed in Notes 25 and 27. These balances are included in amounts due in less than one year in the Maturity Analysis of assets and liabilities (Note 27).
- On 28 October 2014 Silk Road Finance Group acquired 49% of the Bank's shares from JSC BTA Bank (Kazakhstan) thus becoming the owner of 99.99% of the Bank's shares. On 1 October 2014 the total of Other Borrowed Funds and Subordinated Loan owed to JSC BTA Bank Kazakhstan were acquired by an entity wholly owned by Silk Road Finance Group.
- The Bank's management has prepared a plan to remedy its current liquidity and financial problems, which it submitted to the NBG for approval on 28 November 2014. This plan, among other things, is based on following key actions:
    - recalculation of the interest on Other Borrowed Funds applying 8% annual interest rate for a period from 25 March 2010 until 31 December 2014 and forgiving the difference between interest accrued in the financial statements as at 31 December 2014, calculated at 12% per annum;
    - increase of share capital by GEL 5,907 by direct cash injection.
    - Sale of part of the repossessed property owned by the Bank to Silk Road Finance Group with a mark-up over the net book value;
    - repayment of the remaining indebtedness to Silk Road Finance Group through available cash and cash equivalents;
- The Bank's management is estimating that the abovementioned actions will enable it to reduce its cost of funds and attract more borrowers and thus increase its loan portfolio.
- The aggregate of these actions will result into reduced negative liquidity gap and compliance with the liquidity requirements of the NBG.

As a result of violation of the prudential ratios there is a risk of sanctions from the NBG towards the Bank. The aggregate of the actions described above will result in improvement of prudential ratios. Based on management's estimates none of the ratios will be violated during 2015. Therefore by providing the action plan for approval to NBG the Bank intends to demonstrate that it will be able to improve its ratios and as a result no sanctions will be applied by the NBG.

These statements are based on current expectations and projections. There are risks and uncertainties, many of which are beyond management's control that could cause the results to differ from reporting date the statements made. As of now, all the operations are based on the assumption that the business will be continued, however material uncertainty exists which may cast significant doubt about the Bank's ability to continue as a going concern. The financial statements are prepared on the basis that the company will continue to be a going concern and will realize its assets and discharge its liabilities in the ordinary course of business.

4. Summary of significant accounting policies

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

The Bank has adopted the following amended IFRS during the year:
IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Bank provides these disclosures in Note 26.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Bank's financial position or performance.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Bank's financial position.

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of the Bank's financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since none of the entities in the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Fair value measurement

The Bank measures financial instruments, such as available-for-sale securities and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 Bank 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 Bank 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 statement of profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the statement of profit or loss when the investments are impaired, as well as through the amortization process.

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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 statement of profit or loss. However, interest calculated using the effective interest method is recognised in the statement of profit or loss.

If the Bank 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

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or 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 statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

4. Summary of significant accounting policies (continued)

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 credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Borrowings include amounts due to credit institutions, amounts due to customers, borrowings from shareholder and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

Operating - Bank 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 - Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of profit or loss on a straight-line basis over the lease term as other income. 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.

Impairment of financial assets

The Bank 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.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank 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 Bank 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.

4. Summary of significant accounting policies (continued)

Amounts due from credit institutions and loans to customers (continued)

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 statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. 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. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

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 Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, 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 (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investmentis 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 coast and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss - is reclassified from other comprehensive income to the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

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 statement of profit or loss. 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 statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

4. Summary of significant accounting policies (continued)

Amounts due from credit institutions and loans to customers (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 statement of profit or loss.

4. Summary of significant accounting policies (continued)

Credit related commitments

In the ordinary course of business, the Bank gives credit related commitments, consisting of letters of credit, and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the amount of fees received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised fee and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The amount of fee received is recognised in the statement of profit or loss on a straight-line basis over the life of the guarantee.

Taxation

Income taxes have been provided in the financial statements in accordance with legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the statement of profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Property and equipment

Equipment is 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. The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case the increase is recognised in the statement of profit or loss. A revaluation deficit is recognised in the statement of profit or loss, 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.

4. Summary of significant accounting policies (continued)

Property and equipment (continued)

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	50
Furniture and fixtures	4-10
Computers and office equipment	4
Motor vehicles	5
Other	4-10

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 Bank or held for sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition.

Earned rental income is recorded in statement of profit or loss within other operating income.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The Bank's intangible assets have definite useful life. Intangible assets are amortised over the useful economic lives of 2 to 7 years (computer software: 6-7 years, licenses: 2-7 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognised when the Bank 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.

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.

4. Summary of significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the 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 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 Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified 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 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 Bank 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.

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

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income agency fees and other fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Bank'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 statement of profit or loss 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 at 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 NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

5. Significant accounting judgements and estimates

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

- Classification of investment securities as held to maturity;
- Useful life periods for the tangible and intangible assets
- Tax accruals

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank 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 Bank 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 Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Determination of fair value of property and equipment and investment property

The Company carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. In addition, it measures land and building at revalued amounts with changes in fair value being recognised in Other comprehensive loss. The Company engages independent valuator to assess the fair value of investment property owned and the land and buildings. For land and building and investment property market approach method was used. Under market approach the market value of the subject property is estimated by comparing it to other similar properties that have recently been sold, been listed for the sale, or for which offers have been made. The valuator obtains an indication of the subject property's value by adjusting the prices of the comparable properties to account for their differences from the subject property. Real estate valuators compare the legal, economic, locational and physical characteristics of the property they are appraising to those corresponding characteristics of similar sales, listings, or pending sales.

(Thousands of Georgian Lari)

6. Cash and cash equivalents

	2013	2012
Cash on hand	9,119	5,234
Current accounts with the NBG	1,322	37
Current accounts with other credit institutions	14,438	3,034
Time deposits with credit institutions up to 90 days	2,550	-
Cash and cash equivalents	27,429	8,305

As at 31 December 2013 current accounts with other credit institutions consist of non-interest bearing correspondent account balances with resident and non-resident banks in the amount of GEL 2,835 (2012: GEL 2,796) and GEL 11,603 (2012: GEL 238), respectively.

7. Amounts due from credit institutions

	2013	2012
Obligatory reserve with the NBG	9,775	6,203
Time deposits for more than 90 days	8,716	3,567
Amounts due from credit institutions	18,491	9,770

Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG at 10% and at 15% (2012: 10% and at 15%) of the previous month average of funds in GEL and foreign currencies, respectively, attracted from customers by the credit institution. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

In 2013 and 2012 the obligatory reserve on USD account bears Interest at the rate of U.S. Federal Reserve System less 0.5 % p.a.; on EUR account - the rate of the European Central Bank less 0.5 % p.a.

Time deposits for more than 90 days are placed with 3 resident banks, bearing an annual interest rate ranging from 2.25% to 13.70% and mature in January 2014. (2012: 2.00% to 17.70%)

8. Loans to customers

Loans to customers comprise:

	2013	2012
Corporate lending	27,524	42,093
Residential mortgages	18,932	23,514
Small business lending	3,767	6,773
Consumer lending	2,912	4,172
Credit cards	3,374	3,053
Auto loans	1,401	1,193
Other	1,978	3,054
Gross loans to customers	59,888	83,852
Less - Allowance for impairment	(12,653)	(8,443)
Loans to customers	47,235	75,409

Allowance for impairment of loans to customers

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

(Thousands of Georgian Lari)

8. Loans to customers (continued)

	Corporate lending 2013	*Residential mortgages 2013*	*Small business lending 2013*	*Consumer lending 2013*	*Credit cards 2013*	*Auto loans 2013*	*Other 2013*	*Total 2013*
At 1 January 2013	4,377	1,983	194	374	198	56	1,261	8,443
Net charge/(reversal) for the year	3,674	(228)	708	123	342	148	(415)	4,352
Recoveries of previously written off loans and advances	-	3	3	71	-	-	38	115
Amounts written off	(29)	(115)	-	-	-	(16)	(97)	(257)
At 31 December 2013	8,022	1,643	905	568	540	188	787	12,653
Individual impairment	6,635	460	80	-	-	-	140	7,315
Collective impairment	1,387	1,183	825	568	540	188	647	5,338
	8,022	1,643	905	568	540	188	787	12,653
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	15,918	1,958	238	-	-	-	294	18,408

	Corporate lending 2012	*Residential mortgages 2012*	*Small business lending 2012*	*Consumer lending 2012*	*Credit cards 2012*	*Auto loans 2012*	*Other 2012*	*Total 2012*
At 1 January 2012	3,792	1,257	379	523	33	192	417	6,593
Net charge/(reversal) for the year	585	735	(167)	(258)	166	(118)	1,039	1,982
Recoveries of previously written off loans and advances	-	1	4	216	-	18	68	307
Amounts written off	-	(10)	(22)	(107)	(1)	(36)	(263)	(439)
At 31 December 2012	4,377	1,983	194	374	198	56	1,261	8,443
Individual impairment	4,044	945	80	-	-	-	344	5,413
Collective impairment	333	1,038	114	374	198	56	917	3,030
	4,377	1,983	194	374	198	56	1,261	8,443
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	17,142	2,878	442	-	-	-	633	21,095

Individually impaired loans

Interest income accrued on loans and advances, for which individual impairment allowances have been recognized, for the year ended 31 December 2013 comprised GEL 1,783 (2012: GEL 2,485).

In accordance with the Georgian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

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 implemented regarding the acceptability of types of collateral and valuation parameters.

(Thousands of Georgian Lari)

8. Loans to customers (continued)

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, and cash held in bank.
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2013, the Bank had a concentration of loans represented by GEL 20,494 due from the ten largest third party borrowers (34% of gross loan portfolio) (2012: GEL 23,503 or 28%). An allowance of GEL 4,957 (2012: GEL 3,035) was recognised against these loans. Included in total loans to customers is an exposure to a single greatest borrower of GEL 4,407 or 7.4% of total loan portfolio (2012: GEL 2,485 or 3.0%), that bears an annual interest rate of 18% (2012: 18%).

Loans have been extended to the following types of customers:

	2013	*2012*
Commercial legal entities	31,292	48,867
Individuals	28,596	34,985
	59,888	83,852

Loans are made within Georgia in the following industry sectors:

	2013	*2012*
Individuals	28,596	34,985
Construction	10,606	15,572
Retail	8,019	10,548
Agriculture	3,339	3,977
Food Industry	2,870	4,672
Financial	2,225	4,880
Manufacturing	1,950	2,619
Energy	1,443	2,643
Transportation and Communication	127	212
Pharmacy	34	1,848
Tourism	28	652
Other	651	1,244
Gross loans and advances to customers	59,888	83,852

(Thousands of Georgian Lari)

9. Investment securities

Available for sale securities comprise:

	2013		2012	
	Share %	*Carrying Value*	*Share %*	*Carrying Value*
JSC Gudauri (JSC Gergeti in 2010)	2.05%	260	2.05%	260
JSC United Clearing Center	6.25%	20	6.25%	20
		280		280
Less Allowance for impairment		(260)		(260)
Available-for-sale securities		20		20

Held-to-maturity securities comprise:

	2013	2012
Government Treasury bonds of the Ministry of Finance of Georgia	1,186	2,873
Government certificate of deposits of the National Bank of Georgia	5,376	-
Held-to-maturity securities	6,562	2,873

	2013		2012	
	Nominal Annual Interest Rate	*Maturity*	*Nominal Annual Interest Rate*	*Maturity*
Government Treasury bonds of the Ministry of Finance of Georgia	5.56%-13.50%	2-5 years	8.90%-13.00%	1-5 years
Government certificate of deposits of the National Bank of Georgia	5.23%-6.28%	6 - 12 months	-	-

(Thousands of Georgian Lari)

10. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	Computers and communica-tion equipment	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improve-ments	Other	Total
Cost							
31 December 2011	16,372	1,862	1,663	275	1,344	1,941	23,457
Additions	15	70	81	122	-	46	334
Transfers from investment property	250	-	-	-	-	-	250
Disposals	-	-	-	(132)	-	(109)	(241)
Write-offs	-	(55)	(85)	-	-	(551)	(691)
Effect of revaluation	(2,422)	-	-	-	-	-	(2,422)
31 December 2012	14,215	1,877	1,659	265	1,344	1,327	20,687
Additions	12	-	-	-	-	-	12
Disposals	(4)	-	-	-	(22)	(2)	(28)
Write-offs	-	(105)	(51)	-	-	(31)	(187)
Effect of revaluation	(38)	-	-	-	-	-	(38)
31 December 2013	14,185	1,772	1,608	265	1,322	1,294	20,446
Accumulated depreciation							
31 December 2011	-	1,058	860	169	18	553	2,658
Depreciation charge	344	172	235	56	351	214	1,372
Disposals		-	-	(48)		(6)	(54)
Write-offs		(53)	(78)			(149)	(280)
Effect of revaluation	(344)						(344)
31 December 2012	-	1,177	1,017	177	369	612	3,352
Depreciation charge	351	127	176	24	215	139	1,032
Disposals	-	-	-	-	(21)	(1)	(22)
Write-offs	-	(86)	(48)	-	-	(31)	(165)
Effect of revaluation	(351)	-	-	-	-	-	(351)
31 December 2013	-	1,218	1,145	201	563	719	3,846
Net book value:							
31 December 2011	16,372	804	803	106	1,326	1,388	20,799
31 December 2012	14,215	700	642	88	975	715	17,335
31 December 2013	14,185	554	463	64	759	575	16,600

As at 31 December 2013, an independent appraiser, Baker Tilly, determined the fair value of the Bank's land and buildings. The appraiser is an industry specialist in valuing these types of property and equipment.

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 buildings, their value increased by GEL 312, this is unrealized gain on revaluation of land and building recognized in other comprehensive income.

If no revaluation of property and equipment had been performed, the original cost of property and equipment as at 31 December 2013 and 31 December 2012 recorded under the caption "Land and Buildings" would be as follows:

	2013	2012
Cost	19,967	19,955
Accumulated depreciation	(3,897)	(3,498)
Net carrying amount	16,070	16,457

(Thousands of Georgian Lari)

11. Investment Property

	2013	2012
Opening balance at 1 January	10,478	11,822
Additions	3,334	1,581
Disposals	(2,214)	(2,519)
Net gains/(losses) from fair value adjustment	2,036	(156)
Transfer to property and equipment, NBV	-	(250)
31 December	13,634	10,478

Investment property is represented by several properties which the Bank took possession in satisfaction of non-performing loans, and holds for long-term appreciation in value.

As at 31 December 2013 the Bank engaged an accredited independent appraiser to determine the fair value of these properties. The appraiser is an industry specialist in valuing these types of investment properties.

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.

Rental income arising from investment properties comprised GEL 423 (2012: GEL 424).

12. Intangible assets

The movements in intangible assets were as follows:

	Licences	Computer Software	Total
Cost			
31 December 2011	232	902	1,134
Additions	9	-	9
31 December 2012	241	902	1,143
Additions	29	-	29
31 December 2013	270	902	1,172
Accumulated amortization			
31 December 2011	(175)	(367)	(542)
Amortisation charge	(34)	(152)	(186)
31 December 2012	(209)	(519)	(728)
Amortisation charge	(23)	(152)	(175)
31 December 2013	(232)	(671)	(903)
Net book value:			
31 December 2011	57	535	592
31 December 2012	32	383	415
31 December 2013	38	231	269

(Thousands of Georgian Lari)

13. Taxation

The corporate income tax expense comprises:

	2013	2012
Deferred tax expense - origination and reversal of temporary differences	(1,373)	758
Less: deferred tax expense recognized directly in other comprehensive income	47	(294)
Income tax (expense)/benefit	(1,326)	464

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:

	2013	2012
Loss before income tax	(5,562)	(4,082)
Statutory tax rate	15%	15%
Theoretical income tax benefit at the statutory rate	834	612
Non-deductible expenses	(364)	98
Tax exempt income less income recognized for tax purposes only	49	62
Change in unrecognized deferred tax asset	(1,845)	(308)
Income tax benefit/(expense)	(1,326)	464

In accordance with Georgian tax legislation business and capital losses may be carried forward for up to 5 years.

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2011	*In the income statement*	*In other compre-hensive income*	*2012*	*In the income statement*	*In other compre-hensive income*	*2013*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	68	(279)	-	(211)	460	-	249
Tax losses carried forward	1,271	465	-	1,736	417	-	2,153
Other liabilites	94	(44)	-	50	42	-	92
Gross deferred tax assets	1,433	142	-	1,575	919	-	2,494
Unrecognized deferred tax asset	-	(308)	-	(308)	(1,845)	-	(2,153)
Net deferred tax assets	1,433	(166)	-	1,267	(926)	-	341
Tax effect of taxable temporary differences:							
Investment property	22	252	-	274	(581)	-	(307)
Property and equipment	(3,146)	352	294	(2,500)	195	(47)	(2,352)
Other assets	(26)	26	-	-	(14)	-	(14)
Deferred tax liabilities	(3,150)	630	294	(2,226)	(400)	(47)	(2,673)
Net deferred tax liabilities	(1,717)	464	294	(959)	(1,326)	(47)	(2,332)

(Thousands of Georgian Lari)

13. Taxation (continued)

As at 31 December 2013 current income tax assets comprised GEL 199 (31 December 2012: GEL 199)

As at 31 December 2013 the Bank has tax losses carried forward amounting to GEL 7,802, GEL 672, GEL 3,099 and GEL 2,777 that will expire on 31 December 2014, 31 December 2015, 31 December 2017 and 31 December 2018 respectively.

14. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Financial assets		
Receivable from operating lease	181	-
Repossessed collateral (equipment)	6	234
Other	72	126
Total financial assets	**259**	**360**
Non-financial assets		
Prepaid expenses	1,026	1,285
Prepaid operational taxes	257	278
Total non-financial assets	**1,283**	**1,563**
Other assets	**1,542**	**1,923**

Other liabilities comprise:

	2013	*2012*
Financial liabilities		
Creditors	484	415
Unsettled transactions on money transfers	15	73
Accrued bonuses	-	81
Total financial Liabilities	**499**	**569**
Non-financial liabilities		
Unused vacations	244	252
Total non-financial liabilities	**244**	**252**
Total other liabilities	**743**	**821**

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2013	*2012*
Term deposits	715	6,262
Current accounts	20	11
Amounts due to credit institutions	**735**	**6,273**

Included in term deposits is a deposit from JSC BTA Bank (Kazakhstan) of GEL 715 (2012: GEL 1,415) maturing in November 2014 and bearing interest rate of 10% p.a.

(Thousands of Georgian Lari)

16. Amounts due to customers

The amounts due to customers include the following:

	2013	2012
Current accounts	12,875	8,006
Time deposits	30,090	27,222
Amounts due to customers	42,965	35,228

As at 31 December 2013 amounts due to customers of GEL 16,996 (39.6%) were due to ten largest third party customers. (2012 was GEL 12,751 (36%). Cash held as security against guarantees amounts to GEL 433 (2012: GEL 408).

Amounts due to customers include accounts with the following types of customers:

	2013	2012
Individuals:		
- Current accounts	1,949	1,515
- Term deposits	24,896	24,311
Total due to individuals	26,845	25,826
Commercial legal entities:		
- Current/settlement accounts	10,926	6,491
- Term deposits	5,194	2,911
Total due to commercial legal entities	16,120	9,402
Total due to legal entities	16,120	9,402
Total amounts due to customers	42,965	35,228
Held as security against guarantees issued	433	408
Held as security against undrawn loan facilities	1,209	9

An analysis of customer accounts by economic sector follows:

	2013	2012
Individuals	26,841	25,826
Trade and Service	6,642	4,338
Public service organisations	5,612	8
Finance Sector	3,094	1,892
Construction	251	312
Agriculture	32	98
Real estate	3	2,293
Other	490	461
Amounts due to customers	42,965	35,228

(Thousands of Georgian Lari)

17. Other borrowed funds

Other borrowed funds comprise of loans received from JSC BTA Bank (Kazakhstan) with interest rates of 12% p.a. All loans are denominated in USD with initial maturities ranging from January 2010 till March 2011. In March 2010 the loans were restructured and maturity dates were prolonged until 2014:

	Date of placement	*Maturity date*	*2013*	*2012*
JSC BTA Bank (Kazakhstan)	25-Jan-10	25-Oct-14	10,949	9,478
JSC BTA Bank (Kazakhstan)	30-Nov-09	27-Aug-14	13,251	11,456
JSC BTA Bank (Kazakhstan)	28-Sep-10	28-May-14	12,247	10,571
JSC BTA Bank (Kazakhstan)	5-Mar-10	4-Mar-14	4,832	4,173
JSC BTA Bank (Kazakhstan)	5-Mar-10	4-Mar-14	510	440
JSC BTA Bank (Kazakhstan)	18-Feb-10	18-Feb-14	12,020	10,376
JSC BTA Bank (Kazakhstan)	18-Feb-10	18-Feb-14	1,653	1,427
JSC BTA Bank (Kazakhstan)	11-Feb-10	11-Feb-14	2,180	1,881
Other borrowed funds			57,642	49,802

Interest accrued on these loans and the loan principal is repayable at maturity.

18. Subordinated loan

On 14 March 2006, the Bank entered into a subordinated loan agreement with JSC BTA Bank (Kazakhstan) for the total amount of USD 1,500 thousand, with interest rate of 9% p.a. payable quarterly and maturity date of 14 March 2013. Outstanding at 31 December 2013 amounts to GEL 3,080 (2012: GEL 2,507) including accrued penalty in amount of GEL 285 (2012: nil). Total outstanding amount of subordinated debt is overdue as at 31 December 2013 (Note 28).

19. Equity

Share capital

	Number of shares authorized	*Number of shares fully paid*	*Nominal amount, GEL*
31 December 2013 and 2012	30,000	30,000	30,000

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.

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. National Bank 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 National Bank.

No dividends were declared nor paid in 2013 and 2012.

(Thousands of Georgian Lari)

20. Commitments and contingencies

Financial commitments and contingencies

As at 31 December the Bank's financial commitments and contingencies comprised the following:

	2013	2012
Credit-related commitments		
Undrawn loan facilities	3,807	2,389
Guarantees issued	1,182	1,054
	4,989	3,443
Operating lease commitments		
Not later than 1 year	82	113
Later than 1 year but not later than 5 years	446	594
Later than 5 years	1,051	1,175
	1,579	1,882
Financial commitments and contingencies (before deducting collateral)	6,568	5,325
Less - Cash held as security guarantees issued (Note 16)	(433)	(408)
Less - Cash held as security against loans (Note 16)	(1,209)	(9)
Financial commitments and contingencies	4,926	4,908

Insurance

The Bank has arrangement for employee's medical insurance with insurance company "Ardi Group". According to the agreement, the Bank makes monthly payments of insurance premium to the insurer.

21. Net fee and commission income

Net fee and commission income comprises:

	2013	2012
Commissions on settlements operations	1,309	959
Commission on cash operations	168	262
Commission on guarantees issued	49	130
Currency conversion operations	24	20
Other	5	7
Fee and commission income	1,555	1,378
Commission on settlements operations	(43)	(55)
Commission on cash operations	(144)	(133)
Commission on plastic card operations	(135)	(110)
Other	(30)	(29)
Fee and commission expense	(352)	(327)
Net fee and commission income	1,203	1,051

(Thousands of Georgian Lari)

22. Other income

Other income comprises:

	2013	2012
Rental Income (Note 11)	423	424
Refunded court fees	421	221
Income from fines and penalties on loans to customers	608	124
Other	17	8
Total other income	1,469	777

23. Personnel and other operating expenses

Personnel expenses comprise:

	2013	2012
Salaries	5,264	4,927
Bonuses and other benefits	-	493
Personnel expenses	5,264	5,420

Other operating expenses comprise:

	2013	2012
Occupancy and rent	1,087	1,079
Legal and consultancy	1,073	948
Office supplies	522	665
Security	365	384
Operating taxes	297	302
Penalties incurred	285	114
Insurance	68	39
Marketing and advertising	47	337
Repair and maintenance of property and equipment	32	35
Business travel and related	20	45
Other	295	489
Other operating expenses	4,091	4,437

24. Other impairment allowances and provisions

The movements in other impairment allowances and provisions were as follows:

	Legal claims	Other Assets	Property and Equipment	Total
31 December 2011	100	-	-	100
Charge /(reversal)	(70)	223	411	564
Write-offs	-	(223)	(411)	(634)
31 December 2012	30	-	-	30
Charge /(reversal)	-	185	22	207
Write-offs	(30)	(185)	(22)	(237)
31 December 2013	-	-	-	-

25. Risk management

The Bank 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 Bank'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 in the Bank'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 Bank's continuing profitability and each individual within the Bank 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 Bank's strategic planning process.

Risk management structure

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank. 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.

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division and used to assess and conclude on the risks of the Bank.

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

25. Risk management (continued)

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank 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 statement of financial position, before the effect of mitigation through the use of 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 Bank internal credit ratings.

All neither past due nor impaired loans to customers excluding loans to individuals are classified in three quality Banks presented in the tables below:

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

All neither past due nor impaired loans to individuals are classified in three quality groups presented in the tables below:

- High grade group includes borrowers with good debt servicing and excellent financial position, loans secured with deposits, loans secured with gold.
- Standard grade group includes borrowers with good/average debt servicing and moderate financial position of the borrower.
- Sub-standard grade group is represented by loans with average debt servicing and moderate financial position of the borrower.

(Thousands of Georgian Lari)

25. Risk management (continued)

Credit Risk (continued)

The table below shows the credit quality by class of credit risk bearing assets:

	Notes	*Neither past due nor impaired* High grade 2013	*Neither past due nor impaired* Standard grade 2013	*Neither past due nor impaired* Sub-standard grade 2013	Past due but not impaired 2013	Individually impaired 2013	Total 2013
Amounts due from credit institutions	7	18,491	-	-	-	-	18,491
Loans to customers	8						
Corporate lending		3,110	3,964	256	4,276	15,918	27,524
Residential mortgages		1	10,939	634	5,400	1,958	18,932
Small business lending		245	1,447	269	1,568	238	3,767
Consumer lending		667	1,444	102	699	-	2,912
Credit cards		97	2,568	-	709	-	3,374
Auto loans		5	767	-	629	-	1,401
Other		118	267	144	1,155	294	1,978
		4,243	21,396	1,405	14,436	18,408	59,888
Debt investment securities	9						
Held to maturity		6,562	-	-	-	-	6,562
Total		29,296	21,396	1,405	14,436	18,408	84,941

	Notes	*Neither past due nor impaired* High grade 2012	*Neither past due nor impaired* Standard grade 2012	*Neither past due nor impaired* Sub-standard grade 2012	Past due but not impaired 2012	Individually impaired 2012	Total 2012
Amounts due from credit institutions	7	9,770	-	-	-	-	9,770
Loans to customers	8						
Corporate lending		10,069	9,130	1,663	4,089	17,142	42,093
Residential mortgages		1,551	15,142	798	3,145	2,878	23,514
Small business lending		2,296	3,060	167	808	442	6,773
Consumer lending		1,022	2,436	113	601	-	4,172
Credit cards		113	2,547	15	378	-	3,053
Auto loans		18	911	74	190	-	1,193
Other		87	97	816	1,421	633	3,054
		15,156	33,323	3,646	10,632	21,095	83,852
Debt investment securities	9						
Held to maturity		2,873	-	-	-	-	2,873
Total		27,799	33,323	3,646	10,632	21,095	96,495

(Thousands of Georgian Lari)

25. Risk management (continued)

Credit Risk (continued)

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

	Less than 30 days 2013	*31 to 60 days 2013*	*61 to 90 days 2013*	*More than 90 days 2013*	*Total 2013*
Loans to customers					
Corporate lending	693	565	9	3,009	4,276
Residential mortgages	1,779	215	331	3,075	5,400
Small business lending	205	27	383	953	1,568
Consumer lending	62	65	37	535	699
Credit cards	84	30	40	555	709
Auto loans	239	142	14	234	629
Other	294	23	124	714	1,155
Total	3,356	1,067	938	9,075	14,436

	Less than 30 days 2012	*31 to 60 days 2012*	*61 to 90 days 2012*	*More than 90 days 2012*	*Total 2012*
Loans to customers					
Corporate lending	3,566	331	-	192	4,089
Residential mortgages	589	765	352	1,439	3,145
Small business lending	411	164	-	233	808
Consumer lending	170	58	36	337	601
Credit cards	148	42	28	160	378
Auto loans	71	38	16	65	190
Other	300	97	42	982	1,421
Total	5,255	1,495	474	3,408	10,632

For the purpose of these 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.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days for individuals and 180 days for legal entities or there are any known difficulties in the cash flows of counterparties, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas- individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank 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.

(Thousands of Georgian Lari)

25. Risk management (continued)

Credit Risk (continued)

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.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet any evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by Risk management department to ensure alignment with the Bank's overall policy.

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

	2013				2012			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	15,825	-	11,604	27,429	8,067	6	232	8,305
Amounts due from credit institutions	18,491	-	-	18,491	9,770	-	-	9,770
Loans to customers	47,235	-	-	47,235	75,409	-	-	75,409
Investment securities:								
- available-for-sale	20	-	-	20	20	-	-	20
- held-to-maturity	6,562	-	-	6,562	2,873	-	-	2,873
All other assets	32,235	9	-	32,244	30,342	8	-	30,350
	120,368	9	11,604	131,981	126,481	14	232	126,727
Liabilities:								
Amounts due to credit institutions	24	-	711	735	4,848	-	1,425	6,273
Amounts due to customers	39,147	611	3,207	42,965	30,590	509	4,129	35,228
Other borrowed funds	-	-	57,642	57,642	-	-	49,802	49,802
Subordinated loans	-	-	3,080	3,080	-	-	2,507	2,507
All other liabilities	3,060	15	-	3,075	1,777	-	33	1,810
	42,231	626	64,640	107,497	37,215	509	57,896	95,620
Net assets / (liabilities)	78,137	(617)	(53,036)	24,484	89,266	(495)	(57,664)	31,107

(Thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Bank'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.

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

The liquidity position is assessed and managed by the Bank based on certain liquidity ratio established by National Bank of Georgia. The NBG requires banks to maintain liquidity ratio of more than 30%. As at 31 December 2013 and 2012 the ratio was as follows:

	2013	*2012*
LK "Average Liquidity Ratio" (Average monthly volume of liquid assets / Average monthly volume of liabilities)	50.90%	34.70%

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2013	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	20	-	777	-	-	797
Amounts due to customers	22,912	3,947	10,783	6,727	99	44,468
Other borrowed funds	33,573	4,772	26,312	-	-	64,657
Subordinated loan	3,080	-	-	-	-	3,080
Other financial liabilities	99	-	400	-	-	499
Total undiscounted financial liabilities	59,684	8,719	38,272	6,727	99	113,501

Financial liabilities As at 31 December 2012	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	4,862	-	-	1,680	-	6,542
Amounts due to customers	17,007	3,575	9,933	5,900	617	37,032
Other borrowed funds	-	-	-	62,203	-	62,203
Subordinated loan	-	2,552	-	-	-	2,552
Provisions	30	-	-	-	-	30
Other financial liabilities	385	151	33	-	-	569
Total undiscounted financial liabilities	22,284	6,278	9,966	69,783	617	108,928

(Thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management (continued)

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

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2013						
Undrawn loan facilities	3,807	-	-	-	-	3,807
Guarantees issued	20	24	-	1,048	90	1,182
	3,827	24	-	1,048	90	4,989
2012						
Undrawn loan facilities	2,389	-	-	-	-	2,389
Guarantees issued	45	173	415	421	-	1,054
	2,434	173	415	421	-	3,443

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.
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 less than one month in the tables above.
Included in due to customers are term deposits of individuals. In accordance witn the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

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 Bank has no significant concentration of market risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the National Bank of Georgia (NBG) regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 and 2012 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 statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase.

(Thousands of Georgian Lari)

25. Risk management (continued)

Market risk (continued)

Currency	change in currency rate in % 2013	Effect on profit before tax 2013	change in currency rate in % 2012	Effect on profit before tax 2012
USD	4.73 %/(4.73%)	38/(38)	(0.75%)/0.75%	(18)/18
EUR	9.35%/ (9.35 %)	(91)/91	1.34%/ (1.34%)	(19)/19

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank 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.

Interest rate risk

All of the interest-bearing borrowings have fixed rates and do not expose the Bank to interest rate risk.

Prepayment risk

Prepayment risk is the risk that the Bank 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 loss before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year excluding the effect of any prepayment penalty income, with all other variables held constant would be GEL 1,246 (2012: GEL 1,647).

26. Fair values of financial instruments

The Bank'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 Bank'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 Bank's accounting policies. For this analysis, the Board of directors in conjunction with Bank'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.

Fair value hierarchy

For the purpose of fair value disclosures, the Bank'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:

(Thousands of Georgian Lari)

26. Fair values of financial instruments (continued)

At 31 December 2013	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Investment securities available-for-sale	-	20	-	20
Investment property	-	-	13,634	13,634
Property and equipment – buildings	-	-	14,185	14,185
Assets for which fair values are disclosed				
Cash and cash equivalents	27,429	-	-	27,429
Amounts due from credit institutions	18,491	-	-	18,491
Loans to customers	-	-	66,407	66,407
Investment securities held-to-maturity	-	-	6,991	6,991
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	735	-	-	735
Amounts due to customers	-	-	43,218	43,218
Other borrowed funds	-	-	57,642	57,642
Subordinated loan	-	-	3,080	3,080

At 31 December 2012	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Investment securities available-for-sale	-	20	-	20
Investment property	-	-	10,478	10,478
Property and equipment – buildings	-	-	14,215	14,215
Assets for which fair values are disclosed				
Cash and cash equivalents	8,305	-	-	8,305
Amounts due from credit institutions	9,770	-	-	9,770
Loans to customers	-	-	80,407	80,407
Investment securities held-to-maturity	-	-	2,984	2,984
Liabilities for which fair values are disclosed				
Amounts due to Credit institutions	6,273	-	-	6,273
Amounts due to customers	-	-	35,253	35,253
Other borrowed funds	-	-	49,802	49,802
Subordinated loan	-	-	2,507	2,507

During the years ended 31 December 2013 and 2012, there have been no transfers between levels of fair value hierarchy.

(Thousands of Georgian Lari)

26. Fair values of financial instruments (continued)

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 2013	*Fair value 2013*	*Unrecognised gain/(loss) 2013*	*Carrying value 2012*	*Fair value 2012*	*Unrecognised gain/(loss) 2012*
Financial assets						
Loans to customers	47,235	66,407	19,172	75,409	80,407	(4,998)
Investment securities held-to-maturity	6,562	6,991	429	2,873	2,984	111
Financial liabilities						
Amounts due to Credit institutions	735	735	-	6,273	6,273	-
Amounts due to customers	42,965	43,218	253	35,228	35,253	25
Other borrowed funds	57,642	57,642	-	49,802	49,802	-
Subordinated loan	3,080	3,080	-	2,507	2,507	-
Total unrecognised change in unrealised fair value			**682**			**136**

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), 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 amortized cost are estimated by comparing market interest rates when they were first recognized 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.

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.

(Thousands of Georgian Lari)

26. Fair values of financial instruments (continued)

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 at 31 December 2013:

	Amount	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*	*Other key information*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Investment property	13,634						
Land	1,363	Market approach	Price per square metre	0.15-194.81 (24.00) Georgian Lari	square metre	4400-10,490 (3,500)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 136
Residential properties	11,427	Market approach	Price per square metre	39.39-2,125.00 (592.37) Georgian Lari	square metre	18-4,000 (257)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,085
Non-Residential properties	844	Market approach	Price per square metre	19.98 - 916.67 (554.15) Georgian Lari	square metre	18 - 12,009 (868)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 68

	Amount	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*	*Other key information*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Revaluated land and premises	14,185						
land	380	Market approach	Price per square metre	66.00 - 1,020.00 (497.72) Georgian Lari	square metre	100-450 (310)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 66
office buildings	12,101	Market approach	Price per square metre	3,517.24 - 5,950.00 (4,792.78) Georgian Lari	square metre	570 - 1,015 (828)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,202
service centers/means of production	1,704	Market approach	Price per square metre	404.25 - 4,572.59 (2,242.78) Georgian Lari	square metre	19-250 (82)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 183

(Thousands of Georgian Lari)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2013			2012		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	27,429	-	27,429	8,305	-	8,305
Amounts due from credit institutions	18,491	-	18,491	9,770	-	9,770
Loans to customers	8,876	38,359	47,235	10,376	65,033	75,409
Investment securities	-	-	-	-	-	-
available-for-sale	-	20	20	-	20	20
held-to-maturity	5,783	779	6,562	1,950	923	2,873
Other financial assets	247	12	259	117	243	360
Total	60,826	39,170	99,996	30,518	66,219	96,737
Financial liabilities						
Amounts due to credit financial institutions	735	-	735	4,858	1,415	6,273
Amounts due to customers	36,973	5,992	42,965	29,876	5,352	35,228
Other borrowed funds	57,642	-	57,642	-	49,802	49,802
Subordinated debt	3,080	-	3,080	2,507	-	2,507
Provisions	-	-	-	30	-	30
Other financial liabilities	499	-	499	569	-	569
Total	98,929	5,992	104,921	37,840	56,569	94,409
Net	(38,103)	33,178	(4,925)	(7,322)	9,650	2,328
Cumulative gap	(38,103)	(4,925)	(4,925)	(7,322)	2,328	2,328

The Bank's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. The undiscounted financial liability gap 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 in less than one month in the tables above. Refer to Note 3 for the Bank`s management judgment and discussion related to liquidity gap.

28. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

As at 31 December 2013 and 2012 outstanding balances on related party transactions are as follows:

(Thousands of Georgian Lari)

28. Related party disclosures (continued)

	2013			2012		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans outstanding at 31 December, gross	-	-	74	-	-	373
Less: allowance for impairment at 31 December	-	-	(8)	-	-	(152)
Loans outstanding at 31 December, net	-	-	66	-	-	221
Deposits at 31 December	-	-	5	-	-	41
Current accounts at 31 December	161	383	28	14	160	39
Other Assets	-	625	-	-	775	-
Other Liabilities	-	-	65	-	-	45
Amounts due to credit institutions (Note 15)	715	-	-	1,415	-	-
Other borrowed funds (Note 17)	57,642	-	-	49,802	-	-
Subordinated loan (Note 18)	3,080	-	-	2,507	-	-
Commitments and guarantees issued	-	-	40	-	-	10

Entities under the same group 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).

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December					
	2013			2012		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Interest income on loans to customers	-	-	45	-	-	36
Loan impairment charge	-	-	147	-	-	179
Interest expense on amounts due to customers	-	8	1	-	-	5
Interest expense on amounts due to credit institutions	106	-	-	180	-	-
Interest expense on other borrowed funds	4,356	-	-	4,773	-	-
Interest expense on subordinated loan	226	-	-	223	-	-
Fee and commission income	1	7	4	1	6	2
Fee and commission expense	-	-	-	2	-	-
Other operating expenses	-	150	-	-	150	-

Compensation of key management personnel was comprised of the following:

	2013	2012
Salaries and other short-term benefits	802	900
Total key management compensation	802	900

As at 31 December 2013 other liabilities to key management personnel comprised of unpaid vacation of GEL 65 in 2013 (2012: GEL 45).

(Thousands of Georgian Lari)

28. Related party disclosures (continued)

Key management personnel as at 31 December 2013 and 2012 comprised 5 members of the Supervisory Board and 6 members of the Management Board of the Bank.

The Bank had no significant transactions with members of the Supervisory Board in 2013 and 2012.

29. 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 (i) to ensure that the Bank complies with externally imposed capital requirements set by National Bank of Georgia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by National Bank of Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant subsequently submitted to NBG.

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. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 12% (2012 - 12%) of risk-weighted assets and Tier 1 Capital adequacy ratio of 8% (2012 - 8%). As at 31 December 2013 and 2012, the Bank's capital adequacy ratios on this basis were as follows:

	2013	*2012*
Core capital	21,011	20,865
Supplementary capital	(3,736)	1,164
Total regulatory capital	17,275	22,029
Risk-weighted assets	120,823	154,038
Capital adequacy ratio	17.39%	14.30%
Tier 1 Capital adequacy ratio	14.30%	13.55%

Regulatory capital consists of core capital, which comprises share capital and retained earnings including current year profit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG. The other component of regulatory capital is Supplementary capital, which includes subordinated debt and revaluation reserve.

30. Events after the reporting date

On 1 October 2014, Notice of Assignment was sent to the Bank from JSC BTA Bank (Kazakhstan) informing Assignment of total Other Borrowed Funds and Subordinated loan from JSC BTA Bank (Kazakhstan) to SRG Investments B.V.

On 9 October 2014 SRG Investments B.V. assigned rights to abovementioned borrowings to Caspian Finance Limited - an entity that is 100% owned by Silk Road Finance Group (Georgia).

On 28 October 2014 49% of the Bank's shares owned by JSC BTA Bank (Kazakhstan) were acquired by Silk Road Finance Group (Georgia).

On 14 November 2014 on the Shareholder meeting decision was made to change Bank's name from JSC BTA Bank to JSC Silk Road Bank, process was finalized on 3 December 2014.