JSC Silk Road Bank

Financial Statements

Year ended 31 December 2014

Together with independent auditor's report

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Independent auditor's report

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 auditor's report

To the shareholders and Board of Directors of JSC Silk Road Bank -

We have audited the accompanying financial statements of JSC Silk Road Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2014, 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.

Auditor's responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our 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 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 of the audited entity, 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 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

15 May 2015

Statement of financial position

As of 31 December 2014

(Thousands of Georgian Lari)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	6	51,163	27,429
Amounts due from credit institutions	7	9,084	18,491
Loans to customers	8	21,056	47,235
Investments securities:	9		
- available-for-sale		20	20
- held-to-maturity		5,323	6,562
Investment property	10	13,635	13,634
Property and equipment	11	15,672	16,600
Intangible assets		110	269
Current income tax assets	12	–	199
Other assets	13	1,166	1,542
Total assets		**117,229**	**131,981**
Liabilities			
Amounts due to credit institutions	14	135	735
Amounts due to customers	15	47,009	42,965
Other borrowed funds	16	35,459	57,642
Subordinated loan		–	3,080
Deferred income tax liabilities	12	2,170	2,332
Other liabilities	13	794	743
Total liabilities		85,567	107,497
Equity			
Share capital	17	30,000	30,000
Land and buildings revaluation reserve		3,313	3,384
Accumulated losses		(1,651)	(8,900)
Total equity		31,662	24,484
Total liabilities and equity		**117,229**	**131,981**

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

Irakli Kakabadze
Risk Management Director

Natia Merabishvili
Chief Financial Officer

15 May 2015

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201955027

The accompanying notes on pages 6 to 43 are an integral part of these financial statements.

Statement of profit or loss

For the year ended 31 December 2014

(thousands of Georgian Lari)

	Notes	2014	2013
Interest income			
Loans to customers		8,123	13,067
Investment securities - held-to-maturity		489	298
Amounts due from credit institutions		238	279
		8,850	**13,644**
Interest expense			
Other borrowed funds		(2,637)	(4,356)
Amounts due to customers		(2,057)	(3,433)
Amounts due to credit institutions		(46)	(168)
Subordinated loan		-	(226)
		(4,740)	**(8,183)**
Net interest income		**4,110**	**5,461**
Loan impairment reversal/(charge)	8	3,843	(4,352)
Net interest income after loan impairment charge		**7,953**	**1,109**
Net fee and commission income	19	886	1,203
Net gains/(losses) from foreign currencies:			
- dealing		990	1,166
- translation differences		90	(1,173)
Net gains on investment property revaluation	10	519	2,036
Net losses from disposal of investment property		(1,139)	(603)
Other income	20	7,280	1,469
Non-interest income		**8,626**	**4,098**
Personnel expenses		(4,951)	(5,264)
Other operating expenses	21	(3,661)	(4,091)
Depreciation and amortisation	11,12	(1,099)	(1,207)
Other impairment and provisions charge		(146)	(207)
Non-interest expenses		**(9,857)**	**(10,769)**
Profit/(Loss) before income tax		**6,722**	**(5,562)**
Income tax benefit / (expense)	12	206	(1,326)
Net profit/(loss) for the year		**6,928**	**(6,888)**

The accompanying notes on pages 6 to 43 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2014

(Thousands of Georgia Laris)

	Notes	2014	2013
Profit / (Loss) for the year		**6,928**	**(6,888)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain on land and buildings	11	294	312
Income tax relating to components of other comprehensive income	12	(44)	(47)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		250	265
Other comprehensive income for the year, net of tax		250	265
Total comprehensive income/(loss) for the year		7,178	**(6,623)**

The accompanying notes on pages 6 to 43 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2014

(Thousands of Georgian Laris)

	Share capital	*Revaluation reserve for land and buildings*	*Accumulated losses*	*Total equity*
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**
Total comprehensive loss for the year	-	250	6,928	**7,178**
Depreciation of revaluation reserve, net of tax	-	(321)	321	-
31 December 2014	**30,000**	**3,313**	**(1,651)**	**31,662**

The accompanying notes on pages 6 to 43 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2014

(Thousands of Georgian Laris)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		10,264	13,409
Interest paid		(18,153)	(3,041)
Fees and commissions received		1,246	1,556
Fees and commissions paid		(360)	(352)
Net realised gains from dealing in foreign currencies		990	1,166
Other income received		1,192	1,288
Personnel expenses paid		(4,924)	(5,353)
Other operating expenses paid		(2,979)	(3,787)
Cash flows from operating activities before changes in operating assets and liabilities		(12,724)	4,886
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		10,270	(8,174)
Loans to customers		29,460	23,009
Other assets		(149)	85
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(613)	(5,520)
Amounts due to customers		2,806	6,384
Other liabilities		(15)	(46)
Net cash from operating activities		29,035	20,624
Cash flows from investing activities			
Purchase of investment securities		(4,424)	(10,557)
Proceeds from sale and redemption of investment securities		5,737	6,829
Proceeds from sales of investment property		704	1,611
Purchase of intangible assets		–	(29)
Purchase of property and equipment		(152)	(12)
Proceeds from sale of property and equipment		297	5
Net cash from/(used in) investing activities		2,162	(2,153)
Cash flows from financing activities			
Repayment of other borrowed funds		(6,079)	–
Repayment of subordinated loans		(2,789)	–
Net cash used in financing activities		(8,868)	–
Effect of exchange rates changes on cash and cash equivalents		1,405	653
Net increase in cash and cash equivalents		**23,734**	**19,124**
Cash and cash equivalents, beginning	6	27,429	8,305
Cash and cash equivalents, ending	6	**51,163**	**27,429**

The accompanying notes on pages 6 to 43 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal activities

JSC Silk Road Bank (the "Bank") is a Georgian joint stock company.

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.

As at 31 December 2014 and 31 December 2013, the shareholders of the Bank are as follows:

Shareholder	*2014* %	*2013* %
Silk Road Finance Group (Georgia)	99.99	50.99
JSC BTA Bank (Kazakhstan)	–	49.00
Other	0.01	0.01
Total	**100.00**	**100.00**

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

In 2014, subsequent to a change in shareholders the Bank was renamed from JSC BTA Bank to JSC Silk Road Bank.

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 a 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. 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 and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

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

These amendments 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. This amendment is not relevant to the Bank, since 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 amendments had no impact on the Bank's financial position.

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. This IFRIC had no impact on the Bank's financial statements as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

3. Summary of significant accounting policies (continued)

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

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. This amendment is not relevant to the Bank, since the Bank has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements which may have impact on the Bank's financial statements are disclosed below. The Bank intends to adopt this standard, when it becomes effective. Management does not expect application of other new standards and interpretations to have significant impact on financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

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 23.

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.

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.

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)
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.

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.

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.

Mandatory reserve deposit with the NBG

Mandatory reserve deposits with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory reserve is included in amounts due from credit institutions.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments such as currency swaps. These financial instruments are recorded at fair value and the fair values are estimated based on sport market prices, due to short term maturities of the financial instruments. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from foreign currencies dealing.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, other borrowed funds 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Leases

i. 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.

ii. 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.

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial instruments

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. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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 product monitoring 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.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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.

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment, except for land and buildings, 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.

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 value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The 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.

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.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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.

4. Going Concern

As at 31 December 2014 the Bank has a negative liquidity gap of GEL 6,818 for within one year period (Note 24). In addition, as at 31 December 2014 the Bank was in violation of one prudential ratio of the NBG: property investment coefficient (actual 71.37% with prudential limit not higher than 70%). The Bank has not received a waiver from the NBG with regard to violation of prudential ratio.

Notwithstanding these facts management assesses that the Bank has the ability to meet all of its liabilities as they become 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 22 and 24. These balances are included in amounts due in less than one year in the Maturity Analysis of assets and liabilities (Note 24).
- In February 2015 the Bank has sold part of the repossessed assets with a net book value of GEL 9,215 for a consideration of GEL 9,215 (Note 27). As a result of this sale the Bank closed its liquidity gap for within one year period and reduced property investment coefficient to below 70%.
- After 31 December 2014 and prior to issuing these financial statements the Bank has fully repaid other borrowed funds (Note 27).

As of now, all the operations are based on the assumption that the business will be continued; there is no material uncertainty 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.

(Thousands of Georgian Lari)

5. Significant accounting judgments 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. (Notes 10, 11)

(Thousands of Georgian Lari)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	11,807	9,119
Current accounts with the NBG	1,777	1,322
Current accounts with other credit institutions	30,079	14,438
Time deposits with credit institutions up to 90 days	7,500	2,550
Cash and cash equivalents	**51,163**	**27,429**

As at 31 December 2014 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 29,165 (2013: GEL 2,835) and GEL 914 (2013: GEL 11,603), respectively.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2014	*2013*
Obligatory reserve with the NBG	9,084	9,775
Time deposits for more than 90 days	-	8,716
Amounts due from credit institutions	**9,084**	**18,491**

Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG at 10% and at 15% (2013: 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 2014 and 2013 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.

(Thousands of Georgian Lari)

8. Loans to customers

Loans to customers comprise:

	2014	2013
Residential mortgages	11,832	18,932
Corporate lending	8,758	27,524
Credit cards	2,496	3,374
Small business lending	2,404	3,767
Consumer lending	2,153	2,912
Auto loans	725	1,401
Other	1,420	1,978
Gross loans to customers	**29,788**	**59,888**
Less: allowance for impairment	(8,732)	(12,653)
Loans to customers	**21,056**	**47,235**

Allowance for impairment of loans to customers

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

	Corporate lending 2014	*Residential mortgages 2014*	*Small business lending 2014*	*Consumer lending 2014*	*Credit cards 2014*	*Auto loans 2014*	*Other 2014*	*Total 2014*
At 1 January 2014	**8,022**	**1,643**	**905**	**568**	**540**	**188**	**787**	**12,653**
Charge/ (reversal) for the year	(5,522)	1,497	(419)	125	166	397	(87)	(3,843)
Recoveries	29	13	–	21	–	15	34	112
Amounts written off	–	(96)	–	–	–	(34)	(60)	(190)
At 31 December 2014	**2,529**	**3,057**	**486**	**714**	**706**	**566**	**674**	**8,732**
Individual impairment	2,072	2,432	398	710	699	556	663	7,530
Collective impairment	457	625	88	4	7	10	11	1,202
	2,529	**3,057**	**486**	**714**	**706**	**566**	**674**	**8,732**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**4,304**	**5,094**	**1,806**	**734**	**789**	**612**	**1,043**	**14,382**

	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**
Charge/ (reversal) for the year	3,674	(228)	708	123	342	148	(415)	4,352
Recoveries	–	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, individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,918**	**1,958**	**238**	**–**	**–**	**–**	**294**	**18,408**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Interest income accrued on loans and advances, for which individual impairment allowances have been recognized, for the year ended 31 December 2014 comprised GEL 1,564 (2013: GEL 1,783).

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.

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 2014, the Bank had a concentration of loans represented by GEL 8,142 due from the ten largest group of borrowers (27.3% of gross loan portfolio) (2013: GEL 20,494 or 34%). An allowance of GEL 2,483 (2013: GEL 4,957) was recognised against these loans. Included in total loans to customers is an exposure to a single greatest borrower of GEL 1,371 or 4.6% of total loan portfolio (2013: GEL 4,407 or 7.4%), that bears an annual interest rate of 18% (2013: 18%).

Loans have been extended to the following types of customers:

	2014	*2013*
Individuals	18,608	28,596
Commercial legal entities	11,180	31,292
	29,788	**59,888**

Loans are made within Georgia in the following industry sectors:

	2014	*2013*
Individuals	18,608	28,596
Construction	4,352	10,606
Retail	2,868	8,019
Manufacturing	1,420	1,950
Financial	989	2,225
Food Industry	973	2,870
Energy	202	1,443
Agriculture	140	3,339
Other	236	840
Gross loans and advances to customers	**29,788**	**59,888**

(Thousands of Georgian Lari)

9. Investment securities

Available for sale securities comprise:

	2014		2013	
	Share %	Carrying Value	Share %	Carrying Value
JSC Gudauri	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:

	2014	2013
Government Treasury bonds of the Ministry of Finance of Georgia	4,347	1,186
Government T-bills of the Ministry of Finance of Georgia	976	–
Government certificate of deposits of the NBG	–	5,376
Held-to-maturity securities	**5,323**	**6,562**

10. Investment property

	2014	2013
Opening balance at 1 January	**13,634**	**10,482**
Additions	1,325	3,331
Disposals	(1,843)	(2,214)
Net gains from fair value adjustment	519	2,036
31 December	**13,635**	**13,634**

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 2014 the Bank engaged an 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. More details about the fair value of investment property are disclosed in Note 23.

Rental income arising from investment properties comprised GEL 427 (2013: GEL 423).

(Thousands of Georgian Lari)

11. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Computers and communication equipment*	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Other*	*Total*
Cost							
31 December 2013	14,185	1,772	1,608	265	1,322	1,294	20,446
Additions	97	37	11	–	–	7	152
Disposals	(382)	–	–	–	–	(3)	(385)
write-offs	–	(30)	(22)	–	–	(167)	(219)
Effect of revaluation	(50)	–	–	–	–	–	(50)
31 December 2014	**13,850**	**1,779**	**1,597**	**265**	**1,322**	**1,131**	**19,944**
Accumulated depreciation							
31 December 2013	–	1,218	1,145	201	563	719	3,846
Depreciation charge	346	37	128	18	197	213	939
Disposals	(2)	–	–	–	–	(3)	(5)
write-offs	–	(32)	(22)	–	–	(110)	(164)
Effect of revaluation	(344)	–	–	–	–	–	(344)
31 December 2014	–	**1,223**	**1,251**	**219**	**760**	**819**	**4,272**
Net book value							
31 December 2013	**14,185**	**554**	**463**	**64**	**759**	**575**	**16,600**
31 December 2014	**13,850**	**556**	**346**	**46**	**562**	**312**	**15,672**

	Land and buildings	*Computers and communication equipment*	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Other*	*Total*
Cost							
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 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 2012	**14,215**	**700**	**642**	**88**	**975**	**715**	**17,335**
31 December 2013	**14,185**	**554**	**463**	**64**	**759**	**575**	**16,600**

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2014. More details about the fair value of buildings are disclosed in Note 23.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2014	*2013*
Cost	19,740	19,967
Accumulated depreciation and impairment	(4,189)	(3,897)
Net carrying amount	**15,551**	**16,070**

(Thousands of Georgian Lari)

12. Taxation

Both in 2014 and 2013 income taxes fully comprised of deferred tax charges and benefits.

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:

	2014	*2013*
Profit/(loss) before tax	**6,722**	**(5,562)**
Statutory tax rate	15%	15%
Theoretical income tax (expense)/benefit at the statutory rate	**(1,008)**	**834**
Non-deductible expenditures	(33)	(364)
Tax exempt income	76	49
Change in unrecognised deferred tax assets	1,171	(1,845)
Income tax expense	**206**	**(1,326)**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2012	*In the income statement*	*In other compre-hensive income*	*2013*	*In the income statement*	*In other compre-hensive income*	*2014*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	(211)	460	–	249	(23)	–	226
Tax losses carried forward	1,736	417	–	2,153	(1,171)	–	982
Other Assets	–	–	–	–	6	–	6
Other liabilities	50	42	–	92	(44)	–	48
Gross deferred tax assets	1,575	919	–	2,494	(1,232)	–	1,262
Unrecognized deferred tax asset	(308)	(1,845)	–	(2,153)	1,171	–	(982)
Net deferred tax assets	1,267	(926)	–	341	(61)	–	280
Tax effect of taxable temporary differences:							
Investment property	274	(581)	–	(307)	(47)	–	(354)
Property and equipment	(2,500)	195	(47)	(2,352)	300	(44)	(2,096)
Other assets	–	(14)	–	(14)	14	–	–
Deferred tax liabilities	(2,226)	(400)	(47)	(2,673)	**267**	**(44)**	**(2,450)**
Net deferred tax liabilities	**(959)**	**(1,326)**	**(47)**	**(2,332)**	**206**	**(44)**	**(2,170)**

As at 31 December 2014 the Bank has tax losses carried forward amounting to GEL 672, GEL 3,099 and GEL 2,777 that will expire on 31 December 2015, 31 December 2017 and 31 December 2018 respectively. Deferred tax assets have not been recognized in respect of those losses as there is uncertainty whether the Bank will be able to generate taxable profit in the future.

(Thousands of Georgian Lari)

13. Other assets and liabilities

Other assets comprise:

	2014	2013
Financial assets		
Derivative assets, net	139	–
Receivable from operating lease	92	181
Other	104	72
Total financial assets	**335**	**253**
Non-financial assets		
Prepaid expenses	724	1,026
Prepaid operational taxes	99	257
Repossessed collateral (equipment)	8	6
Total non-financial assets	**831**	**1,289**
Other assets	**1,166**	**1,542**

Other liabilities comprise:

	2014	2013
Financial liabilities		
Creditors	518	484
Unsettled transactions on money transfers	5	15
Total financial Liabilities	**523**	**499**
Non-financial liabilities		
Unused vacations	271	244
Total non-financial liabilities	**271**	**244**
Total other liabilities	**794**	**743**

The table below shows the fair values of derivative financial instruments, recorded as assets, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk. There are no derivatives as of 31 December 2013.

	2014	
	Notional amount	Fair Value asset
Foreign exchange contracts		
SWAPS – foreign currency	5,461	139
Total derivative assets	**5,461**	**139**

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2014	2013
Current accounts	135	715
Term deposits	–	20
Amounts due to credit institutions	**135**	**735**

(Thousands of Georgian Lari)

15. Amounts due to customers

The amounts due to customers include the following:

	2014	*2013*
Current accounts	24,355	12,875
Time deposits	22,654	30,090
Amounts due to customers	**47,009**	**42,965**

As at 31 December 2014 amounts due to customers of GEL 27,453 (58%) were due to ten largest customers (2013 was GEL 16,996 (40%)). Cash held as security against guarantees amounts to GEL 108 (2013: GEL 433)

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

	2014	*2013*
Individuals:		
- Current accounts	1,425	1,949
- Term deposits	17,193	24,896
Total due to individuals	18,618	26,845
Commercial legal entities:		
- Current/settlement accounts	22,930	10,926
- Term deposits	5,461	5,194
Total due to commercial legal entities	28,391	16,120
Total amounts due to customers	**47,009**	**42,965**
Held as security against guarantees issued	108	433
Held as security against undrawn loan facilities	–	1,209

An analysis of customer accounts by economic sector follows:

	2014	*2013*
Finance Sector	22,261	3,094
Individuals	18,618	26,845
Trade and Service	3,512	6,642
Transportation & communication	1,318	2
Construction	246	251
Mining	118	–
Public service organisations	107	5,612
Agriculture	77	32
Other	752	487
Amounts due to customers	**47,009**	**42,965**

(Thousands of Georgian Lari)

16. Other borrowed funds

As at 31 December 2014 the Bank's other borrowed funds amounted to GEL 35,459 and were maturing in the period from February 2014 till October 2014. On 9 October 2014 the total of other borrowed funds and subordinated loan owed to JSC BTA Bank Kazakhstan were acquired by Caspian Finance Limited. The interest on other borrowed funds was decreased from 12% to 8% for a period from origination date until maturity and thus forgiven interest in amount of GEL 6,178 was recorded in statement of profit and loss within other income (Note 20).

The Bank covered USD 14 million at 17 December, 2014 (GEL 26,030) and the remaining part was repaid during the first quarter of the year 2015.

	Date of placement	*Maturity date*	*2014*	*2013*
Caspian Finance Limited			35,459	–
JSC BTA Bank (Kazakhstan)	25-Jan-10	25-Oct-14	–	10,949
JSC BTA Bank (Kazakhstan)	30-Nov-09	27-Aug-14	–	13,251
JSC BTA Bank (Kazakhstan)	28-Sep-10	28-May-14	–	12,247
JSC BTA Bank (Kazakhstan)	5-Mar-10	4-Mar-14	–	4,832
JSC BTA Bank (Kazakhstan)	5-Mar-10	4-Mar-14	–	510
JSC BTA Bank (Kazakhstan)	18-Feb-10	18-Feb-14	–	12,020
JSC BTA Bank (Kazakhstan)	18-Feb-10	18-Feb-14	–	1,653
JSC BTA Bank (Kazakhstan)	11-Feb-10	11-Feb-14	–	2,180
Other borrowed funds			**35,459**	**57,642**

17. Equity

Share capital

	Number of shares authorized	*Number of shares fully paid*	*Nominal amount, GEL*
31 December 2014 and 2013	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. The NBG shall be informed regarding declaration of dividends and also is authorized to suspend or restrict payment of dividends, if a commercial bank has violated regulatory requirements of the NBG.
No dividends were declared or nor paid in 2014 and 2013.

Revaluation reserve

The revaluation reserve for land and buildings is used to record increases in the fair value of the land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(Thousands of Georgian Lari)

18. Commitments and contingencies

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

	2014	*2013*
Credit related commitments		
Undrawn loan commitments	1,575	3,807
Guarantees	2,262	1,182
	3,837	**4,989**
Operating lease commitments		
Not later than 1 year	75	82
Later than 1 year but not later than 5 years	1,787	446
Later than 5 years	–	1,051
	1,862	1,579
Commitments and contingencies (before deducting collateral)	**5,699**	**6,568**
Less - Cash held as security guarantees issued (Note 15)	(108)	(433)
Less – Cash held as security against loans (Note 15)	–	(1,209)
Commitments and contingencies	5,591	4,926

19. Net fee and commission income

Net fee and commission income comprises:

	2014	*2013*
Settlements operations	970	1,309
Guarantees and letter of credit issued	162	49
Cash operations	80	168
Currency conversion operations	30	24
Other	5	5
Fee and commission income	**1,247**	**1,555**
Cash operations	(148)	(144)
Plastic card operations	(138)	(135)
Settlements operations	(45)	(43)
Other	(30)	(30)
Fee and commission expense	**(361)**	**(352)**
Net fee and commission income	**886**	**1,203**

20. Other income

	2014	*2013*
Forgiven interest expense (Note 16)	6,178	–
Rental income from investment property (Note 10)	427	423
Income from fines and penalties on loans to customers	337	608
Refunded court fees	311	421
Other	27	17
Total other income	**7,280**	**1,469**

(Thousands of Georgian Lari)

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2014	*2013*
Occupancy and rent	1,103	1,087
Legal and consultancy	894	1,073
Office supplies	487	522
Security	368	365
Operating taxes	261	297
Loss on disposal of property and equipment	83	6
Insurance	73	68
Repair and maintenance of property and equipment	47	32
Penalties incurred	20	285
Other	325	356
Other operating expenses	**3,661**	**4,091**

22. 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 Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. Currently risk is monitored by the following units with the Management Board -

- Credit Risk is managed by the Credit Risk Committees;
- Liquidity Risk is managed by ALCO;
- Market Risk is managed by ALCO;
- Operational Risk is managed by the Operational Risk Management Department.

Internal Audit

Risk management processes throughout the Bank are audited 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 mitigation

The Bank actively uses collateral to reduce its credit risks.

(Thousands of Georgian Lari)

22. 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. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

The Bank established 5 levels of credit committees which are responsible for approving credit limits for individual borrowers. Review and approval limits for each credit committee differs per loan type.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Due to relatively small size of the Bank's operations during the year credit risk exposure is monitored by the Management board.

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 guarantees. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit review process.

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

- A financial asset that is neither past due nor impaired at the reporting date, also historically has never been either past due or impaired and is secured by deposit, real estate or by other collaterals is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, also historically has never been either past due or impaired is assessed as a financial asset with Standard Grad;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due is assessed as a financial asset with Sub-Standard Grade.

(Thousands of Georgian Lari)

22. 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 2014	Standard grade 2014	Sub-standard grade 2014	Past due but not impaired 2014	Individually impaired 2014	Total 2014
Amounts due from credit institutions	7	9,084	–	–	–	–	9,084
Loans to customers	8						
Residential mortgages		2,741	–	2,963	1,034	5,094	11,832
Corporate lending		474	989	2,593	398	4,304	8,758
Credit cards		32	1,231	415	29	789	2,496
Small business lending		282	–	149	167	1,806	2,404
Consumer lending		615	296	470	38	734	2,153
Auto loans		49	–	62	2	612	725
Other		–	129	145	103	1,043	1,420
		4,193	**2,645**	**6,797**	**1,771**	**14,382**	**29,788**
Debt investment securities	9						
Held to maturity		5,323	–	–	–	–	5,323
Total		**18,600**	**2,645**	**6,797**	**1,771**	**14,382**	**44,195**

	Notes	*Neither past due nor impaired* High grade 2013	Standard grade 2013	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**

(Thousands of Georgian Lari)

22. Risk management (continued)

Credit risk (continued)

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

	Less than 30 days 2014	*31 to 60 days 2014*	*61 to 90 days 2014*	*More than 90 days 2014*	*Total 2014*
Loans to customers					
Residential mortgages	840	172	22	–	**1,034**
Corporate lending	315	83	–	–	**398**
Credit cards	26	3	–	–	**29**
Small business lending	–	140	27	–	**167**
Consumer lending	30	8	–	–	**38**
Auto loans	2	–	–	–	**2**
Other	30	–	73	–	**103**
Total	**1,243**	**406**	**122**	**–**	**1,771**

	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**

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 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 its ability to improve performance once a financial difficulty has arisen, 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)

22. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not past due of more than 90 days and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date for each portfolio based on overdue day's buckets.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration historical losses on the portfolio. The impairment allowance is then reviewed by the management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

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

	2014				*2013*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	50,249	795	119	51,163	15,825	–	11,604	27,429
Amounts due from credit institutions	9,084	–	–	9,084	18,491	–	–	18,491
Loans to customers	21,056	–	–	21,056	47,235	–	–	47,235
Investment securities:								
- available-for-sale	20	–	–	20	20	–	–	20
- held-to-maturity	5,323	–	–	5,323	6,562	–	–	6,562
All other assets	30,574	9	–	30,583	32,235	9	–	32,244
	116,306	804	119	117,229	120,368	9	11,604	131,981
Liabilities:								
Amounts due to credit institutions	135	–	–	135	24	–	711	735
Amounts due to customers	26,375	570	20,064	47,009	39,147	611	3,207	42,965
Other borrowed funds	–	–	35,459	35,459	–	–	57,642	57,642
Subordinated loans	–	–	–	–	–	–	3,080	3,080
All other liabilities	2,962	–	2	2,964	3,060	15	–	3,075
	29,472	570	55,525	85,567	42,231	626	64,640	107,497
Net assets / (liabilities)	**86,834**	**234**	**(55,406)**	**31,662**	**78,137**	**(617)**	**(53,036)**	**24,484**

(Thousands of Georgian Lari)

22. 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 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 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 2014 and 2013 the ratio was as follows:

	2014	*2013*
LK "Average Liquidity Ratio" (Average monthly volume of liquid assets / Average monthly volume of liabilities)	56.10%	50.90%

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 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 2014	*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	135	–	–	–	–	**135**
Amounts due to customers	30,292	1,767	13,281	2,622	–	**47,962**
Other borrowed funds	35,459	–	–	–	–	**35,459**
Subordinated loan	–	–	–	–	–	–
Other financial liabilities	369	–	154	–	–	**523**
Total undiscounted financial liabilities	**66,255**	**1,767**	**13,435**	**2,622**	**–**	**84,079**

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**

(Thousands of Georgian Lari)

22. 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*
2014						
Undrawn loan facilities	393	77	563	542	–	**1,575**
Guarantees issued	–	90	2,097	75	–	**2,262**
	393	**167**	**2,660**	**617**	–	**3,837**
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**

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.

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 2014 and 2013 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.

Currency	*change in currency rate in % 2014*	*Effect on profit before tax 2014*	*change in currency rate in % 2013*	*Effect on profit before tax 2013*
USD	7.32%/(7.32%)	33/(33)	4.73 %/(4.73%)	38/(38)
EUR	(4.93%)/4.93%	1/(1)	9.35%/ (9.35 %)	(91)/91

(Thousands of Georgian Lari)

22. Risk management (continued)

Market risk (continued)

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. 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 651 (2013: GEL 1,248).

23. Fair value Measurement

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)

23. Fair values measurement (continued)

At 31 December 2014	*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	–	–	13,635	**13,635**
Property and equipment – buildings	–	–	13,850	**13,850**
Assets for which fair values are disclosed				
Cash and cash equivalents	51,163	–	–	**51,163**
Amounts due from credit institutions	–	–	9,084	**9,084**
Loans to customers			21,056	**21,056**
Investment securities held-to-maturity	–	–	5,497	**5,497**
Liabilities measured at fair value				
Derivative financial assets	–	139	–	**139**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	135	**135**
Amounts due to customers	–	–	47,095	**47,095**
Other borrowed funds	–	–	35,459	**35,459**

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	–	–	47,235	**47,235**
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**

During the years ended 31 December 2014 and 2013, there have been no transfers between levels of fair value hierarchy.

(Thousands of Georgian Lari)

23. Fair values of measurement (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 Bank's financial instruments that are not carried at fair value in the 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).

	Carrying value 2014	*Fair value 2014*	*Unrecognised gain/(loss) 2014*	*Carrying value 2013*	*Fair value 2013*	*Unrecognised gain/(loss) 2013*
Financial assets						
Loans to customers	21,056	21,056	–	47,235	47,235	–
Investment securities held-to-maturity	5,323	5,497	174	6,562	6,991	429
Other financial assets	335	335	–	253	253	–
Financial liabilities						
Amounts due to Credit institutions	135	135	–	735	735	–
Amounts due to customers	47,009	47,095	86	42,965	43,218	253
Other borrowed funds	35,459	35,459	–	57,642	57,642	–
Subordinated loan				3,080	3,080	–
Other financial liabilities	523	523	–	499	499	–
Total unrecognised change in unrealised fair value			**260**			**682**

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. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to credit institutions and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for similar financial instruments on similar terms, credit risk and remaining maturities.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are currency swaps. The fair values of derivative financial instruments are estimated based on sport market prices, due to short term maturities of the financial instruments.

Movement in level 3 assets and liabilities at fair value

Reconciliation of the opening and closing amounts of investment properties and land and buildings are disclosed in Note 10 and Note 11 respectively.

(Thousands of Georgian Lari)

23. 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 2014:

	Amount	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*	*Other key information*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Investment property	**13,635**						
Land	1,809	Market approach	Price per square metre	0.2-242.2 (50.4) Georgian Lari	square metre	100-25,000 (2,116)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 194
Residential properties	10,325	Market approach	Price per square metre	5.8-2,330.6 (922.3) Georgian Lari	square metre	17-3,000 (232)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,043
Non-Residential properties	1,501	Market approach	Price per square metre	83.3-2,571.43 (847.9) Georgian Lari	square metre	6-4,000 (361)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 137

	Amount	*Valuation technique*	*Significant unobservabl e inputs*	*Range (weighted average)*	*Other key information*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Revaluated land and premises	**13,850**						
office buildings	11,950	Market approach	Price per square metre	3,600-8,000 (5,533.3) Georgian Lari	square metre	405-2,000 (1,102)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,158
service centres/means of production	1,900	Market approach	Price per square metre	1,264.04-5,296.6 (3,120.3) Georgian Lari	square metre	17-623 (209)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 221

(Thousands of Georgian Lari)

23. Fair values of financial instruments (continued)

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 2014:

	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 unobservabl e 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)

24. 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 22 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2014			*2013*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	51,163	–	51,163	27,429	–	27,429
Amounts due from credit institutions	9,084	–	9,084	18,491	–	18,491
Loans to customers	12,439	8,617	21,056	8,876	38,359	47,235
Investment securities				–	–	–
available-for-sale	–	20	20	–	20	20
held-to-maturity	944	4,379	5,323	5,783	779	6,562
Other financial assets	332	3	335	247	6	253
Total	**73,962**	**13,019**	**86,981**	**60,826**	**39,164**	**99,990**
Financial liabilities						
Amounts due to credit financial institutions	135	–	135	735	–	735
Amounts due to customers	44,663	2,346	47,009	36,973	5,992	42,965
Other borrowed funds	35,459	–	35,459	57,642	–	57,642
Subordinated debt	–	–	–	3,080	–	3,080
Other financial liabilities	523	–	523	499	–	499
Total	**80,780**	**2,346**	**83,126**	**98,929**	**5,992**	**104,921**
Net	**(6,818)**	**10,673**	**3,855**	**(38,103)**	**33,172**	**(4,931)**
Cumulative gap	**(6,818)**	**3,855**	**3,855**	**(38,103)**	**(4,931)**	**(4,931)**

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 5 for the Bank`s management judgment and discussion related to liquidity gap.

25. 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 2014 and 2013 outstanding balances on related party transactions are as follows:

(Thousands of Georgian Lari)

25. Related party disclosures (continued)

	2014			2013		
	Share-holders	Other related parties	Key manage-ment personnel	Share-holders	Entities under common control	Key manage-ment personnel
Loans outstanding at 31 December, gross	–	–	51	–	–	74
Less: allowance for impairment at 31 December	–	–	–	–	–	(8)
Loans outstanding at 31 December, net	–	–	51	–	–	66
Amounts due to customers at 31 December	208	19,669	45	161	383	33
Other Assets	–	475	–	–	625	–
Other Liabilities	–	–	62	–	–	65
Amounts due to credit institutions (Note 14)	–	–	–	715	–	–
Other borrowed funds (Note 16)	–	35,459	–	57,642	–	–
Subordinated loan	–	–	–	3,080	–	–
Commitments and guarantees issued	–	–	28	–	–	40

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

	For the year ended 31 December					
	2014			2013		
	Share-holders	Other related parties	Key manage-ment personnel	Share-holders	Entities under common control	Key manage-ment personnel
Interest income on loans to customers	–	1,371	–	–	–	45
Loan impairment charge	–	–	143	–	–	147
Interest expense on amounts due to customers	–	–	1	–	8	1
Interest expense on amounts due to credit institutions	33	–	–	106	–	–
Interest expense on other borrowed funds	–	2,637	–	4,356	–	–
Interest expense on subordinated loan	–	–	–	226	–	–
Fee and commission income	–	–	–	1	7	4
Other operating income	–	6,178	–	–	–	–
Other operating expenses	–	150	–	–	150	–

Compensation of key management personnel was comprised of the following:

	2014	2013
Salaries and other short-term benefits	613	802
Total key management compensation	**802**	**900**

(Thousands of Georgian Lari)

25. Related party disclosures (continued)

As at 31 December 2014 other liabilities to key management personnel comprised of unpaid vacation of GEL 53 in 2014 (2013: GEL 65).

Key management personnel as at 31 December 2014 comprised 5 members of the Supervisory Board (2013:5) and 4 members of the Management Board (2013:6) of the Bank.

The Bank had no significant transactions with members of the Supervisory Board in 2014 and 2013.

26. 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% (2013 - 12%) of risk-weighted assets and Tier 1 Capital adequacy ratio of 8% (2013 – 8%). As at 31 December 2014 and 2013, the Bank's capital adequacy ratios on this basis were as follows:

	2014	*2013*
Core capital	12,282	21,011
Supplementary capital	7,282	(3,736)
Total regulatory capital	**19,564**	**17,275**
Risk-weighted assets	**82,427**	**120,823**
Capital adequacy ratio	23.73%	14.30%
Tier 1 Capital adequacy ratio	14.90%	17.39%

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.

(Thousands of Georgian Lari)

26. Capital Adequacy (Continued)

NBG capital adequacy ratio (continued)

Starting from 30 June 2014 the NBG requires that all banks comply with Basel II regulations in their capital adequacy assessment. This implies the minimum ratio of 10.50% for total regulatory capital coefficient, minimum 7.00% of the core Tier 1 capital coefficient and minimum 8.50 % for Tier 1 capital coefficient. As at 31 December 2014, the Bank's capital adequacy ratios on the Basel II basis were as follows:

	31 December 2014 Per the NBG
Share capital	30,000
Prior years accumulated deficit	(3,024)
Less: Intangible assets, net	(110)
Current year loss	5,499
Core tier 1 capital	**32,365**
Tier 1 capital	**32,365**
Supplementary capital	272
Total regulatory capital	**32,637**
Risk weighted assets	**108,495**
Capital adequacy ratio	30.08%
Core Tier 1 capital/Tier 1 capital adequacy ratio	29.83%

27. Events after the reporting date

The Bank repaid borrowed funds USD 1,200, USD 14,000 and USD 3,827 on February 6, 2015 February 20, 2015 and April 15, 2015 respectively and as a result other borrowed funds were fully repaid as of 15 April 2015.

In February 2015 the Bank sold Investment property with net book value of GEL 9,215 for a consideration of GEL 9,215.