JSC Kor Standard Bank

Consolidated Financial Statements

For the year ended 31 December 2013
Together with Independent Auditors' Report

Contents

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Independent auditors` report

To the Shareholders and Board of Directors of JSC Kor Standard Bank

We have audited the accompanying consolidated financial statements of JSC Kor Standard Bank and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

EY Georgia LLC

7 April 2014

Consolidated statement of financial position

As of 31 December 2013

(Thousands of Georgian Lari)

	Notes	*2013*	*2012*
Assets			
Cash and cash equivalents	5	47,167	64,784
Mandatory reserve deposit with the National Bank of Georgia		28,673	24,542
Loans to customers	6	252,888	204,007
Investment securities held to maturity	7	40,191	18,017
Premises and equipment	8	13,695	10,516
Goodwill	9	20,374	20,374
Other intangible assets	10	6,462	7,284
Investment property	8	–	3,135
Current income tax asset		209	209
Deferred Tax Assets	11	–	361
Other financial assets	12	6,716	1,624
Other assets	13	5,765	5,765
Total assets		**422,140**	**360,618**
Liabilities			
Amounts due to credit institutions	14	20,683	84
Amounts due to customers	15	296,478	264,956
Deferred tax liability	11	605	–
Other financial liabilities	12	2,837	1,168
Other liabilities	13	80	729
Subordinated debts	16	8,737	8,336
Total liabilities		**329,420**	**275,273**
Equity	17		
Share capital		99,516	99,516
Accumulated losses		(6,796)	(14,171)
Total equity		**92,720**	**85,345**
Total liabilities and equity		**422,140**	**360,618**

Signed and authorised for release on behalf of the Bank:

Natia Chkoidze General Director

George Zhizhilashvili Financial Director

7 April 2014

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2013

(Thousands of Georgian Lari)

	Notes	*2013*	*2012*
Interest income		42,514	47,949
Interest expense		(21,523)	(21,470)
Net interest income	19	**20,991**	**26,479**
Loan impairment reversal / (charge)	6	1,893	(3,818)
Net interest income after loan impairment charge		**22,884**	**22,661**
Net fee and commission income	20	2,362	1,808
Net gains from trading in foreign currencies		2,282	2,141
Other income	21	249	239
Net loss from foreign exchange translation		(266)	(147)
Other non-interest income		**4,627**	**4,041**
Personnel expenses		(10,046)	(9,274)
Administrative and other operating expenses	22	(6,282)	(6,027)
Depreciation and amortisation	8,10	(3,071)	(4,064)
Loss on revaluation of Investment Property	8	229	(1,051)
Other non-interest expenses		**(19,170)**	**(20,416)**
Income before income tax		**8,341**	**6,286**
Income tax (charge)/benefit	11	(966)	56
Profit for the year		**7,375**	**6,342**
Total comprehensive income for the year		**7,375**	**6,342**

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

(Thousands of Georgian Lari)

	Notes	*Share capital*	*Accumulated losses*	*Total equity*
31 December 2011	**17**	**99,516**	**(20,513)**	**79,003**
Total comprehensive income for the year		–	6,342	6,342
31 December 2012		**99,516**	**(14,171)**	**85,345**
Total comprehensive income for the year		–	7,375	7,375
31 December 2013		**99,516**	**(6,796)**	**92,720**

Consolidated statement of cash flows

For the year ended 31 December 2013

(Thousands of Georgian Lari)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Interest received		42,042	46,986
Interest paid		(20,842)	(19,418)
Fees and commissions received		5,255	5,250
Fees and commissions paid		(3,055)	(3,470)
Net gains received from trading in foreign currencies		2,282	2,141
Other operating income received		343	426
Personnel expenses paid		(9,717)	(9,274)
Administrative and other operating expenses paid		(5,138)	(5,756)
Cash flows from operating activities before changes in operating assets and liabilities		**11,170**	**16,885**
Net (increase) in mandatory reserve deposits with the National Bank of Georgia		(2,511)	(5,857)
Net (increase) in loans to customers		(37,391)	(21,991)
Net (increase)/decrease in other financial assets		(7,902)	583
Net (increase) in other assets		(459)	(235)
Net increase/(decrease) in amounts due to credit institutions		19,397	(194)
Net increase in amounts due to customers		21,996	42,610
Net increase/(decrease) in other financial liabilities		1,157	(208)
Net increase/(decrease) in other liabilities		(648)	566
Net cash from/ (used in) operating activities before income tax		**4,809**	**32,159**
Income taxes paid		–	–
Net cash from operating activities		**4,809**	**32,159**
Cash flows from investing activities			
Acquisition of investment securities held to maturity		(52,899)	(24,431)
Proceeds from redemption of investment securities held to maturity		30,956	15,324
Acquisition of premises and equipment	8	(1,481)	(1,017)
Proceeds from disposal of premises and equipment		169	177
Acquisition of other intangible assets	10	(823)	(167)
Net cash used in investing activities		**(24,078)**	**(10,114)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	–	–
Net cash from financing activities		**–**	**–**
Effect of exchange rates changes on cash and cash equivalents		1,652	793
Net increase in cash and cash equivalents		**(17,617)**	**22,838**
Cash and cash equivalents, beginning	5	**64,784**	**41,946**
Cash and cash equivalents, ending	5	**47,167**	**64,784**

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

JSC Kor Standard Bank started its activity on 6 March 2008 after the acquisition of 100% shares of JSC Standard Bank. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG"; the central bank of Georgia) on 25 February 2008.

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 commercial and retail customers. Its head office is in Tbilisi. As at 31 December 2013 the Bank has 18 operating branches in all major cities of Georgia (2012:18). The Bank's registered legal address is 3, K. Tsamebuli Avenue, Tbilisi 0103, Georgia.

As of 31 December 2013 and 31 December 2012 the following are the shareholders of the Bank:

Shareholder	***2013 %***
Sheikh Nahayan Mabarak Al Nahayan	45%
Sheikh Hamdan Bin Zayed Al Nehayan	20%
Sheikh Mohammed Butti Al Hamed	15%
Sheikh Mansoor Bin Sultan Al Nehayan	15%
LTD Investment Trading Group	5%
Total	**100%**

2. Basis of preparation

General

These consolidated financial statements of JSC Kor Standard Bank and its subsidiaries (collectively referred to as "the Bank") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivative financial assets and liabilities and investment property.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

Subsidiary

The consolidated financial statements as of 31 December 2013 and 2012 include following subsidiary:

Subsidiary	***Country of incorporation***	**The Bank ownership %**		***Date of incorporation***
		2013	***2012***	
Standard Insurance LLC	Georgia	100%	100%	29 September 2007

The subsidiary had no operations in 2012 and 2013

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has consistently applied its accounting policies and has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Bank.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

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

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Bank provides these disclosures in Note 24.

Amendments to IAS 19 Employee Benefits

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. These amendments had no impact on the Bank's financial position.

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment will not have any effect on the Bank’s financial statements.

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

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments will not have any effect on the Bank’s financial statements.

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

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

Basis of consolidation

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance. If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Foreign currency translation

The functional currency of each of the Bank's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Bank's presentation currency, is Georgian Lari ("GEL").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of NBG are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date.

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.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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. 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 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.

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 amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding mandatory 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 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 consolidated statement of cash flows.

Borrowings

Borrowings include amounts due to credit institutions, amounts due to customers and subordinated debts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are charged to current profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

Operating - Bank as lessee

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

Offsetting of financial instruments

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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 reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at cost when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments

The Bank enters into credit related commitments, including 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 and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Income Tax

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

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

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

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Bank controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and any accumulated impairment.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Premises and equipment (continued)

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Average useful life in years
Premises	25
Office and computer equipment	5
Vehicles	5
Furniture, fixtures and other fixed assets	5
Leasehold improvements	5 - 10

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Bank or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

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 profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

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 consolidated income statement in the period of derecognition.

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Bank tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Bank monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Intangible assets other than Goodwill

The Bank's intangible assets other than goodwill have definite useful life.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Capitalised computer software is amortised on a straight line basis over expected useful lives of three years.

The value of customer relationship identified as a result of business combination is amortised on a straight line basis over expected customer relationship with duration of ten years.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital

Share capital

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Balances receivable from shareholders representing un-paid capital are initially recognised at fair value with the discount reflected in an equity reserve. The unwinding of the discount is recognised through the statement of comprehensive income with the corresponding reclassification of fair value adjustment from the reserve to accumulated losses.

Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the events after the reporting period.

Recognition of income and expense

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets.

The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

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 quantify for offsetting. These are effective for annual periods beginning on or after 1 January 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

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

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. It is not expected that this amendment would be relevant to the Bank.

4. Significant accounting judgments and estimates

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

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. As of 31 December 2013 GEL 247,059 of gross loan portfolio was assessed on collective basis and GEL 2,129 amount of loan loss allowance was created against it, which represents 0.86% of assessed loss rate on the loan portfolio assessed collectively (Note 8). Management uses estimates based on historical loss experience of past 5 years for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. Actual losses on the portfolio of loans assessed collectively can be significantly different from the allowance amount created as at 31 December 2013.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Allowance for loan impairment (continued)

Determination of loss event has significant impact on assessment of loan loss allowance. The Bank annually assesses its determination of loss event and makes changes when necessary to reflect the actual behaviour of the borrowers that ultimately result in losses for the Bank. For loans to customers for which the Bank assessed that loss event exists as at 31 December 2013 the Bank makes individual assessment of the loan loss allowance as a difference between the carrying amount of the loan and the present value of estimated future cash flows. For such loans the Bank uses assumption that the future cash flow is the value of the collateral pledged. 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. As at 31 December 2013 GEL 14,885 (2012: GEL 18,882) of gross loan portfolio was determined to be individually impaired and an allowance of GEL 6,928 (2012: GEL 10,505) was created (Note 6).

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.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	19,985	23,684
Cash balances with NBG (other than mandatory reserve deposit)	12,197	10,428
Correspondent accounts and overnight placements with other banks	14,985	15,556
Time deposits with credit institutions up to 90 days	–	15,116
Total cash and cash equivalents	**47,167**	**64,784**

As of 31 December 2013 GEL 13,692 (2012: GEL 14,289) was placed on current and time deposit accounts with internationally recognized OECD banks that are the counterparties of the Bank in performing international settlements.

6. Loans to customers

Loans to customers comprise:

	2013	*2012*
Gold pawn loans	108,582	94,739
Corporate loans	73,151	57,242
Consumer loans	44,353	32,953
Mortgage loans	19,458	18,612
Loans to individual entrepreneurs	16,400	13,064
Gross loans to customers	**261,944**	**216,610**
Less: allowance for impairment	(9,056)	(12,603)
Loans to customers	**252,888**	**204,007**

(Thousands of Georgian Lari)

6. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Corporate loans 2013	*Consumer loans 2013*	*Individual entrepreneurs 2013*	*Mortgage loans 2013*	*Total 2013*
At 1 January 2013	**5,812**	**4,717**	**1,210**	**864**	**12,603**
(Reversal) for the year	(152)	(1,359)	(216)	(166)	(1,893)
Recoveries	117	37	–	–	154
Amounts written off	(1,696)	(17)	(94)	(1)	(1,808)
At 31 December 2013	**4,081**	**3,378**	**900**	**697**	**9,056**
Individual impairment	3,144	2,856	514	414	6,928
Collective impairment	937	522	386	283	2,128
	4,081	**3,378**	**900**	**697**	**9,056**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**9,278**	**3,176**	**1,037**	**1,394**	**14,885**

	Corporate loans 2012	*Consumer loans 2012*	*Individual entrepreneurs 2012*	*Mortgage loans 2012*	*Total 2012*
At 1 January 2012	**6,688**	**2,784**	**741**	**368**	**10,581**
Charge for the year	884	1,948	490	496	3,818
Recoveries	356	33	4	–	393
Amounts written off	(2,116)	(48)	(25)	–	(2,189)
At 31 December 2012	**5,812**	**4,717**	**1,210**	**864**	**12,603**
Individual impairment	4,774	4,293	940	498	10,505
Collective impairment	1,038	424	270	366	2,098
	5,812	**4,717**	**1,210**	**864**	**12,603**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**9,492**	**5,101**	**1,704**	**2,585**	**18,882**

Interest income accrued on loans, for which individual impairment allowances have been recognized for the year ended 31 December 2013 comprised GEL 1,253 (2012: GEL 1,699).

Impairment rate applicable to Gold Pawn loans is 0%. This is due to the fact that the loans are fully collateralized with gold or precious metals and historically the Bank has not incurred any losses for such loans.

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 trade receivables,
- 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.

(Thousands of Georgian Lari)

6. Loans to customers (continued)

Concentration of loans to customers

As of 31 December 2013, the Bank had a concentration of loans represented by GEL 84,583 due from the ten largest third party borrowers (32.29% of gross loan portfolio) (2012: GEL 52,137 or 24.07%). An allowance of GEL 549 (2012: GEL 274) was recognised against these loans.

Loans have been extended to the following types of customers:

	2013	*2012*
Private companies	182,294	147,693
Individuals	79,650	63,639
State controlled enterprises	–	5,278
	261,944	**216,610**

Loans are to borrowers within Georgia in the following industry sectors:

	2013		*2012*	
	Amount	*%*	*Amount*	*%*
Gold pawn loans	108,582	41.45	94,739	43.74
Individuals	79,650	30.41	63,639	29.38
Trading and service sector	34,940	13.34	37,155	17.15
Agriculture and food processing	24,170	9.23	2,792	1.29
Construction sector	11,600	4.43	5,435	2.51
Energy sector	827	0.32	3,429	1.58
Transportation and communications sector	–	–	6,555	3.03
Other sector	2,175	0.82	2,866	1.32
	261,944	**100.00**	**216,610**	**100.00**

7. Investment securities held to maturity

Held-to-maturity securities comprise:

	2013	*2012*
Deposit certificates of the NBG	14,437	8,313
Treasury bills of the Ministry of Finance	3,039	3,053
Treasury bonds of the Ministry of Finance	22,715	6,651
Held-to-maturity securities	**40,191**	**18,017**

Contractual interest rates and maturities of these securities are as follows:

	31 December 2013		*31 December 2012*	
	%	*Maturity*	*%*	*Maturity*
Deposit certificates of the NBG	4.01	2014	6.09	2013
Treasury bills of the Ministry of Finance	4.84	2014	6.28	2013
Treasury bonds of the Ministry of Finance	6.52	2014, 2015, 2018	9.98	2013, 2014

(Thousands of Georgian Lari)

8. Premises and equipment

The movements in premises and equipment were as follows:

	Land	*Premises*	*Office and computer equipment*	*Vehicles*	*Furniture, fixtures and other fixed assets*	*Leasehold improvements*	*Total*
Cost							
31 December 2012	**32**	**8,498**	**2,876**	**711**	**5,288**	**3,867**	**21,272**
Additions	–	–	600	196	654	31	**1,481**
Disposals	–	–	–	(187)	(9)	(452)	**(648)**
Transfers	–	–	–	–	(353)	353	–
Reclassification from Investment Property	–	3,364	–	–	–	–	**3,364**
31 December 2013	**32**	**11,862**	**3,476**	**720**	**5,580**	**3,799**	**25,469**
Accumulated depreciation							
31 December 2012	–	**1,181**	**2,462**	**375**	**4,043**	**2,695**	**10,756**
Depreciation charge	–	355	231	109	398	333	**1,426**
Disposals	–	–	–	(25)	(8)	(375)	**(408)**
31 December 2013	–	**1,536**	**2,693**	**459**	**4,433**	**2,653**	**11,774**
Net book value:							
31 December 2012	**32**	**7,317**	**414**	**336**	**1,245**	**1,172**	**10,516**
31 December 2013	**32**	**10,326**	**783**	**261**	**1,147**	**1,146**	**13,695**

	Land	*Premises*	*Office and computer equipment*	*Vehicles*	*Furniture, fixtures and other fixed assets*	*Leasehold improvements*	*Total*
Cost							
31 December 2011	**32**	**13,512**	**2,752**	**663**	**4,907**	**4,571**	**26,437**
Additions	–	–	124	327	541	25	1,017
Disposals	–	–	–	(279)	(39)	(850)	(1,168)
Transfers	–	–	–	–	(121)	121	–
Reclassification to Investment Property	–	(5,014)	–	–	–	–	(5,014)
31 December 2012	**32**	**8,498**	**2,876**	**711**	**5,288**	**3,867**	**21,272**
Accumulated depreciation							
31 December 2011	–	**1,452**	**2,102**	**424**	**3,454**	**2,837**	**10,269**
Depreciation charge	–	557	360	128	612	602	2,259
Disposals	–	–	–	(177)	(23)	(744)	(944)
Reclassification to Investment Property	–	(828)	–	–	–	–	(828)
31 December 2012	**-**	**1,181**	**2,462**	**375**	**4,043**	**2,695**	**10,756**
Net book value:							
31 December 2011	**32**	**12,060**	**650**	**239**	**1,453**	**1,734**	**16,168**
31 December 2012	**32**	**7,317**	**414**	**336**	**1,245**	**1,172**	**10,516**

Gross carrying value of premises and equipment fully depreciated as at 31 December 2013 but still in use was GEL 7,206 (2012: GEL 6,519).

In August 2013 the Management of the Bank decided to use the building classified as investment property for business use. The fair value of the property was assessed as at 31 July 2013 by Georgian Valuation Company Ltd. an accredited independent valuer. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. Gain from revaluation of investment property was included in the consolidated statement of comprehensive income in amount of GEL 229.

(Thousands of Georgian Lari)

8. Premises and equipment (continued)

Movement on Investment Property was as follows:

	Investment Property
Opening balance at 1 January 2012	–
Reclassification from Premises and Equipment, NBV	4,186
Net loss from fair value adjustment	(1,051)
31 December 2012	3,135
Net gain from revaluation	229
Reclassification to Premises and Equipment (Note 8)	3,364
31 December 2013	–

9. Goodwill

Impairment testing of goodwill

The entire Bank currently represents the business continuation of JSC Standard Bank and as such is treated by management as one cash generating unit ("CGU"). The carrying amount of goodwill allocated to the cash generating unit as at 31 December 2013 and 2012 amounts to GEL 20,374.

The recoverable amount of CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on one year financial budgets approved by management and are adjusted for uncertainties taken into account during the budgeting process. The Management estimates that the CGU will generate cash flows for at least 10 years. Cash flows for second and subsequent years are extrapolated using 5% growth rate per year.
The discount rates used are pre-tax and reflect specific risks relating to the CGU. The discount rate used as at 31 December 2013 is 8.2% p.a. (2012: 8.8%)

10. Other intangible assets

The movements in other intangible assets were as follows:

	Customer relationships	*Computer software licenses*	*Total*
Cost			
31 December 2012	**13,657**	**1,573**	**15,230**
Additions	–	823	823
31 December 2013	**13,657**	**2,396**	**16,053**
Accumulated amortisation			
31 December 2012	**6,589**	**1,357**	**7,946**
Amortisation charge	1,365	280	**1,645**
31 December 2013	**7,954**	**1,637**	**9,591**
Net book value:			
31 December 2012	**7,068**	**216**	**7,284**
31 December 2013	**5,703**	**759**	**6,462**

	Customer relationships	*Computer software licenses*	*Total*
Cost			
31 December 2011	**13,657**	**1,406**	**15,063**
Additions	–	167	167
31 December 2012	**13,657**	**1,573**	**15,230**
Accumulated amortization			
31 December 2011	**5,220**	**921**	**6,141**
Amortisation charge	1,369	436	1,805
31 December 2012	**6,589**	**1,357**	**7,946**
Net book value:			
31 December 2011	**8,437**	**485**	**8,922**
31 December 2012	**7,068**	**216**	**7,284**

Gross carrying value of intangible assets fully amortised as at 31 December 2013 but still in use was GEL 1,479 (2012: GEL 935).

(Thousands of Georgian Lari)

11. Taxation

The corporate income tax expense comprises:

	2013	*2012*
Current tax charge	–	–
Deferred tax (charge)/benefit– origination and reversal of temporary differences	(966)	56
Income tax (charge)/benefit	**(966)**	**56**

The income tax rate applicable to the majority of the Bank's 2013 income is 15% (2012: 15%).

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

	2013	*2012*
Profit before income tax	**8,341**	**6,286**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**(1,251)**	**(943)**
Tax effect of items which are not deductible for taxation purposes:		
Leasehold improvements and applicable VAT	(12)	(27)
Taxes other than income	–	(49)
Recognition of repossessed collateral	–	(44)
Reversal for unrecognised deferred tax assets (Unused tax losses carried forward)	(74)	584
Tax exempt income:		
Interest Income from HTM Securities	235	149
Interest Income from Deposits in resident banks	31	49
Other	105	337
Income tax (charge)/benefit	**(966)**	**56**

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

	2011	*In the income statement*	*2012*	*In the income statement*	*2013*
Tax effect of taxable temporary differences:					
Tax losses carried forward	3,048	(416)	2,632	(1,379)	1,253
Other financial assets	–	(4)	(4)	58	54
Other financial liabilities	–	–	–	51	51
Other assets	11	(127)	(116)	148	32
Investment property	–	138	138	(138)	–
Gross deferred tax assets	**3,059**	**(409)**	**2,650**	**(1,260)**	**1,390**
Unrecognised deferred tax assets	**(1,230)**	**584**	**(646)**	**542**	**(104)**
Gross deferred tax assets	**1,829**	**175**	**2,004**	**(718)**	**1,286**
Tax effect of deductible temporary differences:					
Intangible assets, including goodwill	(1,166)	(228)	(1,394)	(184)	(1,578)
Loans to customers	94	(253)	(159)	(145)	(304)
Premises and equipment	(398)	355	(43)	34	(9)
Amounts due to customers	(54)	54	–	–	–
Other liabilities	–	(47)	(47)	47	–
Gross deferred tax liabilities	**(1,524)**	**(119)**	**(1,643)**	**(248)**	**(1,891)**
Deferred tax assets/ (liabilities)	**305**	**56**	**361**	**(966)**	**(605)**

In accordance with Georgian tax legislation current income tax losses may be carried forward for up to 5 years. As of 31 December 2013 tax loss carry forward amounting GEL 8,164 and GEL 189 will expire on 31 December 2014 and 31 December 2015, respectively.

(Thousands of Georgian Lari)

12. Other financial assets and liabilities

Other financial assets comprise:

	2013	*2012*
Financial assets from services rendered	6,222	955
Restricted cash	182	175
Interest accrued on guarantees and letters of credit	95	28
Settlements on money transfer operations	70	37
Prepayments receivable	–	224
Other accrued assets	147	205
Other financial assets	**6,716**	**1,624**

Restricted cash represents balances on correspondent accounts with Georgian banks, JSC TBC Bank and JSC Liberty Bank placed by the Bank as guarantees for transactions performed by the Bank's customers and processed by respective counterparty banks.

Other financial liabilities comprise:

	2013	*2012*
"Swap" agreements	1,486	80
Debit or credit card payables	593	328
Financial liabilities from services received	285	470
Settlements on money transfer operations	52	41
Liabilities for payments to utility companies	31	27
Other accrued liabilities	390	222
Other financial liabilities	**2,837**	**1,168**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index 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.

	2013		*2012*	
	Notional Amount	*Fair value Liabilities*	*Notional Amount*	*Fair value Liabilities*
Foreign exchange contracts				
Swaps – domestic	54,619	1,486	61,336	80
Total derivative liabilities		**1,486**		**80**

13. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Repossessed collateral	4,092	4,632
Prepayments for repossessed collateral and property & equipment	1,011	413
Other tax prepayments	520	505
Prepayments for services	115	199
Other	27	16
Other assets	**5,765**	**5,765**

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose the assets in the foreseeable future. However, the assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, *Inventories*. These assets were initially recognized at cost when acquired and subsequently measured at amount lower of cost and net realizable value.

Other liabilities comprise:

	2013	*2012*
Advances received from buyers of repossessed collateral	68	335
Taxes payable	12	394
Other liabilities	**80**	**729**

(Thousands of Georgian Lari)

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2013	*2012*
Time deposits from credit institutions	14,552	–
Loans from financial organisations	6,033	–
Short-term placements of other banks	98	84
Due to other banks	**20,683**	**84**

The Bank has credit facility equivalent of USD 5,000 (equivalent of GEL 8,682) from Black Sea Trade and Development Bank (BSTDB). As of 31 December 2013 the Bank has utilized equivalent of GEL 5,817 (bearing average interest rate of 7.17% p.a.) out of available GEL 8,682. Loans from financial organisations in total represent loans from BSTDB denominated in USD with contractual maturity of one year, maturing in 2014 (2012: nil).

Time deposits from credit institutions represent short-term deposits received from Georgian and foreign banks in different currencies (2012: nil). As of 31 December 2013, the Bank received equivalent of GEL 1,736 as USD denominated deposit from one Georgian bank with contractual maturity of 6 months bearing interest rate of 4.25% p.a. and GEL 12,816 as deposits in USD and EUR from one foreign bank with contractual maturity of 9 months bearing average interest rate of 8% p.a.

The Bank recognised total of GEL 2,350 interest expense on amounts due to credit institutions in 2013 (2012 – GEL 2,895)

15. Amounts due to customers

Amounts due to customers comprise:

	2013	*2012*
Current accounts	163,603	163,448
Time deposits	132,875	101,508
Amounts due to customers	**296,478**	**264,956**
Held as security against guarantees and letters of credit issued (Note 18)	**21,273**	**16,549**

At 31 December 2013, amounts due to customers of GEL 151,874 (51.2%) were due to the ten largest customers (2012: GEL 132,246 (49.9%)).

Amounts due to customers comprise the following types of customers:

	2013	*2012*
Private enterprises	127,700	118,643
Individuals	120,454	101,172
State and budgetary organisations	48,324	45,141
Customer accounts	**296,478**	**264,956**

An analysis of amounts due to customers by economic sector follows:

	2013		***2012***	
	Amount	**%**	**Amount**	**%**
Individuals	120,454	40.63	101,172	38.18
Energy	51,858	17.49	36,354	13.72
Not-for-profit organizations	51,720	17.44	47,988	18.11
Trade and service	39,076	13.18	42,614	16.08
Transport and communication	15,565	5.25	15,102	5.70
Construction	7,166	2.42	10,161	3.84
Other	10,639	3.59	11,565	4.37
Amounts due to customers	**296,478**	**100.00**	**264,956**	**100.0**

(Thousands of Georgian Lari)

16. Subordinated debts

Subordinated debts comprise:

	2013	*2012*
Standard Capital Georgia Ltd (US dollar denominated, granted 29 September 2005; 10 equal annual payments with annual interest rate of 11%, maturing 29 September 2025)	5,234	4,993
Standard Capital Georgia Ltd (US dollar denominated, granted 15 December 2006; 10 equal annual payments, with annual interest rate of 11%, maturing 15 December 2026)	3,503	3,343
Subordinated debts	**8,737**	**8,336**

The debts rank after all other creditors in case of liquidation.

17. Equity

As of 31 December 2013, authorized, issued and fully paid share capital comprised of 995,159 common shares (2012: 995,159). Each share has a nominal value of GEL 0.1 (2012: GEL 0.1). Each ordinary share carries one vote.

In accordance with Georgian legislation, dividends may only be declared to the Shareholders of the Bank from the net income as shown in the Bank's financial statements prepared in accordance with the NBG requirements. The NBG shall be informed regarding declaration of dividends. The NBG has right to suspend or restrict payment of dividends, if a commercial bank has violated regulatory requirements of the NBG.

No dividends were declared or paid in 2013 or 2012.

18. Commitments and contingencies

Financial commitments and contingencies

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

	2013	*2012*
Credit related commitments		
Letters of Credit	19,747	14,646
Guarantees	1,739	2,168
	21,486	**16,814**
Less – Cash held as security against guarantees and letters of credit (Note 15)	(21,273)	(16,549)
	213	**265**
Undrawn loan commitments	**18,866**	**3,939**
Operating lease commitments		
Not later than 1 year	1,758	1,794
Later than 1 year but not later than 5 years	3,963	3,922
Later than 5 years	1,233	787
	6,954	**6,503**
Capital expenditure commitments	**1,267**	**–**
Commitments and contingencies	**27,300**	**10,707**

(Thousands of Georgian Lari)

19. Interest income and expense

Interest income and expense comprises:

	2013	*2012*
Loans to customers	38,079	41,851
Amounts due from other banks and mandatory reserve with NBG	2,870	5,107
Investment securities held to maturity	1,565	991
Total interest income	**42,514**	**47,949**
Amounts due to customers	18,258	17,664
Amounts due to credit institutions	2,350	2,895
Subordinated debts	915	911
Total interest expense	**21,523**	**21,470**
Net interest income	**20,991**	**26,479**

20. Fee and commission income and expenses

Fee and commission income comprises:

	2013	*2012*
Plastic card transactions	2,085	2,679
Cash transactions	1,561	1,258
Settlement transactions	1,116	966
Servicing of current accounts	350	255
Guarantees and letters of credit issued	318	87
Other	21	33
Fee and commission income	**5,451**	**5,278**

Fee and commission expense comprises:

Plastic card transactions	1,136	1,349
Settlement transactions	696	522
Cash transactions	94	81
Currency conversion operations	35	140
Other	1,128	1378
Fee and commission expense	**3,089**	**3,470**
Net fee and commission income	**2,362**	**1,808**

21. Other income

	2013	*2012*
Revenue from fines	236	164
Other	13	75
Total other operating income	**249**	**239**

(Thousands of Georgian Lari)

22. Administrative and other operating expenses

	2013	2012
Operating lease expense for premises and equipment	2,609	2,187
Building security expense	450	453
Loss on recognition of financial assets from services rendered	358	–
Repair and maintenance	323	324
Transportation and cash collection	310	288
Office supply	296	344
Taxes other than on income	285	594
Losses from disposal of repossessed collateral	274	165
Representative expenses	270	240
Advertising and marketing services	245	426
Professional services	151	269
Vehicle expenses	149	178
Insurance	117	119
Other expenses	445	440
Administrative and other operating expenses	**6,282**	**6,027**

23. Risk management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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,. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.
The Bank established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- ► The Supervisory Board reviews and approves limits above USD 500 equivalent in GEL 868 and meets on regular basis;
- ► The senior credit committee reviews and approves limits up to USD 500 equivalent in GEL 868 and meets on regular basis. It is also responsible for issuing guidance to lower level credit committees;
- ► The junior credit committees review and approve credit limits below USD 50 equivalent in GEL 87 and meet on regular basis.

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.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board. The financial assets of the Bank can be analysed as follows:

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

	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
Mandatory reserve deposit with NBG		28,673	–	–	–	–	28,673
Loans to customers	6						
Corporate lending		2,610	49,461	3,411	8,391	9,278	73,151
Gold pawn loans		108,582	–	–	–	–	108,582
Consumer lending		4,122	6,087	29,303	1,665	3,176	44,353
Mortgage loans		–	15,953	133	1,978	1,394	19,458
Individual entrepreneurs		–	11,094	3,481	788	1,037	16,400
		115,314	**82,595**	**36,328**	**12,822**	**14,885**	**261,944**
Investment securities held to maturity	7	40,191	–	–	–	–	40,191
Other financial assets	12	494	–	–	6,222	–	6,716
		40,685	**–**	**–**	**6,222**	**–**	**46,907**
Total		**184,672**	**82,595**	**36,328**	**19,044**	**14,885**	**337,524**

	Notes	*Neither past due nor impaired* High grade 2012	Standard grade 2012	Sub-standard grade 2012	Past due but not impaired 2012	Individually impaired 2012	Total 2012
Mandatory reserve deposit with NBG		24,542	–	–	–	–	24,542
Loans to customers	6						
Corporate lending		3,891	27,852	5,341	10,666	9,492	57,242
Gold pawn loans		94,739	–	–	–	–	94,739
Consumer lending		3,507	3,868	20,047	430	5,101	32,953
Mortgage loans		–	15,162	–	865	2,585	18,612
Individual entrepreneurs		–	6,339	4,175	846	1,704	13,064
		102,137	**53,221**	**29,563**	**12,807**	**18,882**	**216,610**
Investment securities held to maturity	7	18,017	–	–	–	–	18,017
Other financial assets	12	1,624	–	–	–	–	1,624
		19,641	**–**	**–**	**–**	**–**	**19,641**
Total		**146,320**	**53,221**	**29,563**	**12,807**	**18,882**	**260,793**

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired because of high quality and adequacy of collateral.

Neither past due nor impaired financial assets of the Bank are classified as follows:

- A financial asset with no overdue days secured by deposit or precious metals is assessed as a financial asset with High Grade; The Bank treats mandatory reserve deposit amount with NBG, together with Ministry of Finance treasury bills and bonds and deposit certificated of NBG as High Grade financial assets;
- A financial asset with no overdue days secured by real estate is assessed as a financial asset with Standard Grade;
- A financial asset with no overdue days secured by other collateral is assessed as a financial asset with Substandard Grade.

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

	Less than 30 days 2013	***31 to 60 days 2013***	***61 to 90 days 2013***	***More than 90 days 2013***	***Total 2013***
Loans to customers					
Corporate lending	2,269	–	5,890	232	**8,391**
Consumer lending	1,365	35	25	240	**1,665**
Residential mortgages	843	394	25	716	**1,978**
Individual entrepreneurs	339	21	–	428	**788**
Total	**4,816**	**450**	**5,940**	**1,616**	**12,822**

	Less than 30 days 2012	***31 to 60 days 2012***	***61 to 90 days 2012***	***More than 90 days 2012***	***Total 2012***
Loans to customers					
Corporate lending	260	2,991	6,338	1,077	10,666
Consumer lending	362	22	16	30	430
Residential mortgages	474	197	10	184	865
Individual entrepreneurs	22	–	37	787	846
Total	**1,118**	**3,210**	**6,401**	**2,078**	**12,807**

See Note 6 for more detailed information with respect to the allowance for impairment of loans to customers.
Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

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

The table below shows the carrying amount for renegotiated financial assets, by class.

	2013	***2012***
Loans to customers		
Corporate lending	12,599	7,431
Consumer lending	114	314
Mortgage loans	294	423
Individual entrepreneurs	366	435
Total	**13,373**	**8,603**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

The geographical concentration of Bank's assets and liabilities is totally in Georgia except for Cash and cash equivalents which is concentrated as shown below:

	2013	***2012***
Georgia	32,680	49,909
OECD	13,692	14,289
CIS and other foreign banks	795	586
	47,167	**64,784**

Liquidity risk and funding management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Management Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.
The Bank's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Bank's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Bank's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

Treasury function within the Bank is charged with the following responsibilities:

- Compliance with the liquidity requirements of the NBG as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (GEL, USD, EUR), cash positions, statement of financial position changes;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBG. As at 31 December, these ratios were as follows:

	2013, %	*2012, %*
Average liquidity ratio for the year	39.68%	41.64%
Maximum liquidity ratio	47.44%	47.32%
Minimum liquidity ratio	36.76%	36.99%

Average liquidity ratio of the Bank for 2013, in accordance with the NBG liquidity regulation, comprises 39.68% (2012: 41.64%) as compared to the minimum required of 30%.

ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Management Board.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize 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. 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 below. These balances are included in amounts due in less than three months in the tables below:

Financial liabilities As at 31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	15,931	5,026	–	–	20,957
Amounts due to customers	196,018	96,130	9,327	81	301,556
Other financial liabilities	2,837	–	–	–	2,837
Subordinated debts	293	716	3,821	15,573	20,403
Total undiscounted financial liabilities	**215,079**	**101,872**	**13,148**	**15,654**	**345,753**

Financial liabilities As at 31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	84	–	–	–	84
Amounts due to customers	185,439	73,045	12,772	58	271,314
Other financial liabilities	1,168	–	–	–	1,168
Subordinated debts	279	684	3,645	15,770	20,378
Total undiscounted financial liabilities	**186,970**	**73,729**	**16,417**	**15,828**	**292,944**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2013	23,044	18,302	5,993	1,234	**48,573**
2012	4,857	17,601	4,010	788	**27,256**

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

(Thousands of Georgian Lari)

23. Risk management (continued)

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in currency products which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The only floating rate financial instruments as at 31 December 2013 are Loans from financial institutions in amount of GEL 6,033 (Note 14). The sensitivity of the net interest income to changes in the interest rate on these instruments is immaterial.

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 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 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 % 2013***	***Effect on profit before tax 2013***	***Change in currency rate in % 2012***	***Effect on profit before tax 2012***
USD	(0.6)	0.4	(0.48)	(8.8)
EUR	0.81	0.2	(3.31)	(0.1)

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

24. Fair value measurements

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the level of the fair value hierarchy as explained above:

	Fair value measurement using			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	47,167	**47,167**
Obligatory reserve with NBG	–	–	28,673	**28,673**
Loans to customers	–	–	252,888	**252,888**
Investment securities held-to-maturity	–	–	40,191	**40,191**
Other financial assets	–	–	6,716	**6,716**

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

	Fair value measurement using			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities measured at fair value				
Derivative financial instruments	–	1,486	–	**1,486**
Liabilities for which fair values are disclosed				
Amounts due to other banks	–	–	20,683	**20,683**
Amounts due to customers	–	–	296,478	**296,478**
Subordinated debts	–	–	8,737	**8,737**
Other financial liabilities	–	–	2,837	**2,837**

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2012:

At 31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial liabilities				
Derivative financial instruments	–	80	–	80
	–	**80**	**–**	**80**

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 consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2013	***Fair value 2013***	***Unrecognised gain/(loss) 2013***	***Carrying value 2012***	***Fair value 2012***	***Unrecognised gain/(loss) 2012***
Financial assets						
Cash and cash equivalents	47,167	47,167	–	64,784	64,784	–
Obligatory reserve with NBG	28,673	28,673	–	24,542	24,542	–
Loans to customers	252,888	252,698	(190)	204,007	203,614	(393)
Investment securities - held-to-maturity	40,191	40,191	–	18,017	18,017	–
Other financial assets	6,716	6,716	–	1,624	1,624	–
Financial liabilities						
Amounts due to other banks	20,683	20,683	–	84	84	–
Amounts due to customers	296,478	296,478	–	264,956	264,956	–
Subordinated debts	8,737	8,737	–	8,336	8,336	–
Other financial liabilities	2,837	2,837	–	1,168	1,168	–
Total unrecognised change in unrealised fair value			**(190)**			**(393)**

Valuation techniques and assumptions

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 financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having 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

The Bank assumes that fair value of Held-to-maturity Investment securities equals its carrying value, due to the fact that secondary market for such instruments does not exist and it is irrelevant to consider the opportunity of disposing Investment securities. This is caused by the fact that NBG permits the Georgian commercial banks to take loans of 95% of nominal amount by pledging these securities.

Based on the analysis performed in relation to long term credit lines, the Bank considers subordinated loans terms to be in line with current market range.

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Valuation techniques and assumptions (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are currency swaps contracts. Due to the fact that these contracts have maturity of less than one year the Bank applies foreign exchange spot rates as at reporting date in order to calculate fair value of such contracts.

Fixed rate financial instruments

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The Bank offsets GEL 53,133 (2012: GEL 61,255) in derivative financial assets and liabilities. Net amount of derivative financial liabilities presented in the consolidated statement of financial position is GEL 1,486 (2012: GEL 80).

25. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the statement of financial position:

2013	***Gross amount of recognized financial assets set off in the consolidated statement of financial position***	***Gross amount of recognized financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial liabilities presented in the consolidated statement of financial position***
Derivative financial liabilities (Note 12)	53,133	54,619	1,486

2012	***Gross amount of recognized financial assets set off in the consolidated statement of financial position***	***Gross amount of recognized financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial liabilities presented in the consolidated statement of financial position***
Derivative financial liabilities (Note 12)	61,256	61,336	80

26. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are contractually due to be recovered or settled. See Note 23 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2013			***2012***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	47,167	–	47,167	64,784	–	**64,784**
Mandatory reserve deposit with the NBG	28,673	–	28,673	24,542	–	**24,542**
Loans to customers	141,489	111,399	252,888	141,932	62,075	**204,007**
Investment securities - held-to-maturity	20,467	19,724	40,191	15,510	2,507	**18,017**
Other financial assets	6,534	182	6,716	1,449	175	**1,624**
Total	**244,330**	**131,305**	**375,635**	**248,217**	**64,757**	**312,974**
Amounts due to credit institutions	20,683	–	20,683	84	–	**84**
Amounts due to customers	288,357	8,121	296,478	254,416	10,540	**264,956**
Subordinated debts	54	8,683	8,737	–	8,336	**8,336**
Other financial liabilities	2,837	–	2,837	1,168	–	**1,168**
Total	**311,931**	**16,804**	**328,735**	**255,668**	**18,876**	**274,544**
Net	**(67,601)**	**114,501**	**46,900**	**(7,451)**	**45,881**	**38,430**

(Thousands of Georgian Lari)

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

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.

As of 31 December 2013 total Current accounts within Amounts due to customers amounted to GEL 163,603 (2012: GEL 163,448). The Bank conducts analysis of the stability of the Current accounts within Amounts due to customers for the period of the preceding two years on a monthly basis. Current accounts end-of-month balances have not fallen below GEL 115,846 (2012: GEL 97,864) for the preceding 24 months. Significant part of total Current accounts represents interest bearing corporate current accounts which historically are of long-term nature. As such, it is reasonable to treat these funds for estimation of liquidity position of the Bank in Amounts due to customers as with maturity of more than one year.

As of 31 December 2013 the Bank has Treasury Bonds of Ministry of Finance with maturity ranging from 2015 to 2018 and nominal amount of GEL 19,593 which can be pledged to NBG for refinancing purposes, anytime with 5% discount (generating GEL 18,613).

The Bank has access to interbank short-term facility which is not expensive and can be obtained with 3.5% to 5% annual interest rate for the period from overnight to six months. During 2013 the Bank utilized and repaid the total amount of GEL 112,359 (2012: GEL 199,580) of such interbank placements.

According to NBG regulation monthly average liquidity ratio should not be less than 30%. The Bank was compliant with NBG prudential ratio requirements in respect of liquidity during 2013 and 2012. Average liquidity ratio of the Bank for 2013 was 39.68%. For more details please refer to Note 23, Liquidity risk and funding management caption.

27. 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 income and expenses for the year are as follows:

	2013			***2012***		
	Entities under common control	***Key management personnel***	***Other related parties***	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans and advances to customers	907	5	72	2,919	1	134
Amounts due to customers	568	62	55	1,305	116	65
Interest income on loans	243	–	10	1,449	–	41
Interest expense on deposits	16	8	2	9	1	2

As at 31 December 2013 undrawn loan commitments of key management personnel and other related parties consisted of GEL 6 and GEL 4, respectively (2012: GEL 10 and GEL 3).

Compensation of key management personnel was comprised of the following:

	2013	***2012***
Salaries and other short-term benefits	1,140	1,019
Total key management personnel compensation	**1,140**	**1,019**

In 2013 key management personnel comprised of 6 persons (2012: 4).

(Thousands of Georgian Lari)

28. 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 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 NBG, (ii) to safeguard the Bank's ability to continue as a going concern and is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant subsequently submitted to the 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 adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 12% (2012 – 12%) of risk-weighted assets and tier 1 capital adequacy ratio of 8% (2012 – 8%)., computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As of 31 December, the Bank's capital adequacy ratio on this basis was as follows:

	2013	*2012*
Core capital	53,651	47,902
Supplementary capital	19,711	16,977
Less: Deductions from capital	(500)	(500)
Total regulatory capital	**72,862**	**64,379**
Risk weighted assets	**518,055**	**437,814**
Total Capital adequacy ratio	**14.06%**	**14.70%**
Tier 1 Capital adequacy ratio	**10.36%**	**10.94%**

29. Events after the reporting period

Based on supervisory board decision on 16 January 2014 GEL 273 was paid to former CEO as a bonus for prior periods.