JSC Kor Standard Bank

Consolidated financial statements

for the year ended 31 December 2015
together with independent auditors' report

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Independent Auditor's 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 2015, and the 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Kor Standard Bank and its subsidiary as at 31 December 2015, and their financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.

EY Georgia LLC

21 June 2016
Tbilisi, Georgia

A member firm of Ernst & Young Global Limited

Consolidated statement of financial position

As of 31 December 2015

(Thousands of Georgian lari)

	Notes	2015	2014 (restated)	2013
Assets				
Cash and cash equivalents	7	81,889	71,865	47,167
Mandatory reserve deposit with the National Bank of Georgia		44,052	31,222	28,673
Loans to customers	8	436,584	301,670	252,888
Investment securities:				
- held to maturity	9	24,141	46,180	40,191
- loans and receivables	9	9,808	–	–
Premises and equipment	10	16,096	12,640	13,695
Goodwill	11	20,374	20,374	20,374
Other intangible assets	12	5,013	5,542	6,462
Current income tax asset		209	209	209
Other financial assets	14	674	993	6,716
Other assets	15	19,965	5,382	5,765
Total assets		**658,805**	**496,077**	**422,140**
Liabilities				
Amounts due to credit institutions	16	62,270	35,388	20,683
Amounts due to customers	17	450,768	339,969	296,478
Deferred tax liability	13	597	332	605
Other financial liabilities	14	6,220	5,242	2,837
Other liabilities	15	348	92	80
Subordinated debts	18	36,012	28,020	8,737
Total liabilities		**556,215**	**409,043**	**329,420**
Equity	19			
Share capital		111,000	99,516	99,516
Accumulated losses		(8,410)	(12,482)	(6,796)
Total equity		**102,590**	**87,034**	**92,720**
Total liabilities and equity		**658,805**	**496,077**	**422,140**

Signed and authorised for release on behalf of the Bank on 21 June 2016:

Thea Lortkipanidze General Director

Maia Kakhetelidze Chief Accountant

Consolidated statement of comprehensive income

For the year ended 31 December 2015

(Thousands of Georgian lari)

	Notes	*2015*	*2014 (restated)*
Interest income		57,619	47,039
Interest expense		(30,116)	(23,195)
Net interest income	21	**27,503**	**23,844**
Loan impairment charge	8	(8,492)	(15,041)
Net interest income after loan impairment charge		**19,011**	**8,803**
Net fee and commission income	22	2,313	2,391
Net gains from trading in foreign currencies		1,697	1,865
Other income		774	401
Net gain/(loss) from foreign exchange translation		2,231	(107)
Other non-interest income		**7,015**	**4,550**
Personnel expenses		(10,257)	(9,061)
Depreciation and amortisation	10, 12	(3,452)	(3,165)
Other provisions		(169)	–
Other operating expenses	23	(7,811)	(7,086)
Other non-interest expenses		**(21,689)**	**(19,312)**
Income before income tax		**4,337**	**(5,959)**
Income tax (charge)/benefit	13	(265)	273
Profit for the year		**4,072**	**(5,686)**
Other comprehensive income		–	–
Total comprehensive income for the year		**4,072**	**(5,686)**

Consolidated statement of changes in equity

For the year ended 31 December 2015

(Thousands of Georgian lari)

	Notes	*Share capital*	*Accumulated losses*	*Total equity*
31 December 2013		**99,516**	**(6,796)**	**92,720**
Total comprehensive income for the year (restated)		–	(5,686)	**(5,686)**
31 December 2014 (restated)		**99,516**	**(12,482)**	**87,034**
Issue of share capital		11,484	–	**11,484**
Total comprehensive income for the year		–	4,072	**4,072**
31 December 2015		**111,000**	**(8,410)**	**102,590**

Consolidated statement of cash flows

For the year ended 31 December 2015

(Thousands of Georgian lari)

	Notes	*2015*	*2014*
Cash flows from operating activities			
Interest received		58,927	46,414
Interest paid		(32,569)	(22,711)
Fees and commissions received		4,761	3,956
Fees and commissions paid		(2,403)	(2,490)
Realised gains less losses from dealing in foreign currencies and operations with foreign currency derivatives		2,454	1,865
Other operating income received		254	16
Personnel expenses paid		(9,974)	(9,008)
Other operating expenses paid		(6,532)	(5,199)
Cash flows from operating activities before changes in operating assets and liabilities		**14,918**	**12,843**
Net decrease/(increase) in mandatory reserve deposits with the National Bank of Georgia		(5,327)	204
(Increase) in loans to customers		(122,370)	(40,202)
(Increase)/decrease in other financial assets		678	(507)
(Increase)/decrease in other assets		830	1,865
Increase in amounts due to credit institutions		8,357	13,672
Increase in amounts due to customers		93,047	20,549
Increase/(decrease) in other financial liabilities		(3,510)	2,232
Increase in other liabilities		98	12
Net cash from operating activities before income tax		**(13,279)**	**10,668**
Income taxes paid		–	–
Net cash from operating activities		**(13,279)**	**10,668**
Cash flows from investing activities			
Acquisition of investment securities		(9,799)	(41,954)
Proceeds from redemption of investment securities		22,420	36,340
Acquisition of premises and equipment		(4,539)	(758)
Proceeds from disposal of premises and equipment		1	48
Acquisition of other intangible assets		(1,356)	(725)
Net cash used in investing activities		**6,727**	**(7,049)**
Cash flows from financing activities			
Proceeds from subordinated debt		–	18,636
Proceeds from issue of share capital		11,484	–
Net cash from financing activities		**11,484**	**18,636**
Effect of exchange rates changes on cash and cash equivalents		5,092	2,443
Net increase in cash and cash equivalents		**10,024**	**24,698**
Cash and cash equivalents, beginning	7	**71,865**	**47,167**
Cash and cash equivalents, ending	7	**81,889**	**71,865**

In 2015, the Bank repossessed assets from non-performing borrowers of GEL 16,550 (2014: GEL 1,555) in non-cash transactions (Note 15).

(Thousands of Georgian lari)

1. Principal activities

JSC Kor Standard Bank ("the Bank") was registered on 6 March 2008 in accordance with Georgian legislation. 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.

As at 31 December 2015, the Bank has 18 operating branches in all major cities of Georgia (2014: 19, 2013: 18). The Bank's registered legal address is 3, K. Tsamebuli Avenue, Tbilisi 0103, Georgia.

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 2015, 2014 and 2013, the following shareholders own the Bank:

Shareholder	***%***
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 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 2015, 2014 and 2013 include following subsidiary:

	Country of	***The Bank ownership, %***		***Date of***	***Date of***
Subsidiary	***incorporation***	***2014***	***2013***	***incorporation***	***acquisition***
Standard Insurance LLC	Georgia	100%	100%	29 September 2007	6 March 2008

The subsidiary had no operations in 2015, 2014 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:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2010-2012 cycle

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

IFRS 2 Share-based Payment

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

- a performance condition must contain a service condition;
- a performance target must be met while the counterparty is rendering service;
- a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- a performance condition may be a market or non-market condition;
- if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

The Bank does not have any share-based payments, thus this amendment is not relevant for the Bank.

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

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

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

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

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Bank did not revalue property, plant and equipment or intangible assets during the current period. Therefore the amendment has no impact on the bank's financial statements.

IAS 24 Related Party Disclosures

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

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2011-2013 cycle

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

IFRS 3 Business Combinations

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

- joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Bank is not a joint arrangement, thus the amendment is not relevant for the Bank.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of 'Effective IFRSs' – amendments to IFRS 1

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

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

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 14 Regulatory Deferral Accounts

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

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Bank is currently assessing the impact of IFRS 16 on its financial statements.

Amendments to IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. These amendments are not expected to have any impact on the Bank.

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

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

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

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are indefinitely postponed.

Amendments to IAS 1 Disclosure Initiative

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

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

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

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

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

Annual improvements 2012-2014 cycle

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

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal

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

IFRS 7 Financial Instruments: Disclosures – Servicing Contracts

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

IFRS 7 Financial Instruments: Disclosures – Applicability of the Offsetting Disclosures to Condensed Interim Financial Statements

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

The amendment removes the phrase ‘and interim periods within those annual periods’, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – Regional Market Issue Regarding Discount Rate

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

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

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 34 Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'

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

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group 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. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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 Group 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 financial statements are presented in Georgian Lari (GEL), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2015, 31 December 2014 and 31 December 2013, were GEL 2.3949, GEL 1.8636 and GEL 1.7363 to USD 1, respectively.

3. Summary of significant accounting policies (continued)

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.

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.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

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.

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the 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.

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the 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. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Offsetting of financial instruments (continued)

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

Impairment of financial assets

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

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 above.
- 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.

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.

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

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.

Taxation

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

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

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

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

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

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.

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	5-15
Vehicles	5
Furniture, fixtures and other fixed assets	5
Leasehold improvements	5-10

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Premises and equipment (continued)

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.

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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 or contractual maturity of the license.

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

Dividends

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

(Thousands of Georgian lari)

3. Summary of significant accounting policies (continued)

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest 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.

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 at 31 December 2015, GEL 440,535 of gross loan portfolio was assessed on collective basis and GEL 11,309 (2014: GEL 4,119) amount of loan loss allowance was created against it, which represents 2.57% of assessed loss rate on the loan portfolio assessed collectively (Note 8). Management uses estimates based on historical loss experience of past 3 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 2015.

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. The Bank's current policy relies primarily on borrowers' debt service for determination of loss event. For loans to customers for which the Bank assessed that loss event exists as at 31 December 2015 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 and expected future repayments. 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 2015, GEL 47,740 (2014: GEL 42,820 and 2013: 14,885) of gross loan portfolio was determined to be individually impaired and an allowance of GEL 14,797 (2014: GEL 18,789 and 2013: GEL 6,928) was created (Note 8).

In 2015, the Bank changed its criteria for individual assessment. Also the expected future repayments were considered in calculation of future cash flows of individually assessed loans apart from the value of pledged collateral. In addition the Bank changed its approach to estimation of collective loan loss allowance by disaggregating certain portfolios that have different credit risk characteristics and decrease of historical loss period from 5 to 3 years, which resulted in GEL 4,110 reversal of allowance for loan impairment in statement of profit or loss for the year ended 31 December 2015.

(Thousands of Georgian lari)

4. Significant accounting judgments and estimates (continued)

Allowance for loan impairment (continued)

The revaluation of collateral by independent external valuators due to suspicious fraudulent activity (Note 30) for the specific gold pawn loans in May 2016 revealed instances of loan disbursements in breach of the Bank's policies and credit limits. As a result of the fraud management assessed losses of GEL 11,656 related to its gold pawn operations, which were allocated to years 2014 and 2015 in the amounts of GEL 7,186 and GEL 4,470, respectively. The Bank has allocated losses to years, based on its assessment of periods when such losses originated, which resulted in restatement of previously issued financial information.

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.

Goodwill impairment and determination of the cash generating unit ("CGU")

Goodwill reported in the statement of financial position fully relates to the acquisition of JSC Standard Bank in 2008 by JSC Kor. JSC Kor was established as a commercial bank with a view of acquiring JSC Standard Bank and had no operations of its own prior to business combination. As required by IFRS the Bank tests goodwill for impairment at annually, at each reporting date. Testing of goodwill for impairment requires management to make significant judgments and estimates.

Management believes that the Bank consists of single CGU and therefore allocates existing goodwill entirely to the Bank's operations while testing it for an impairment. Management believes that its judgment is appropriate since JSC Kor had no material operations of its own prior to business combination and the Bank has not added any separate lines of business after business combination which could constitute a separate CGU.

Significant estimates made during impairment test of goodwill and the sensitivities of reported figures to those estimates are disclosed in Note 11.

5. Restatement

When preparing the consolidated financial statements as of and for the year ended 31 December 2015, management of the Bank identified employee fraud related to gold pawn loan operations. The Bank has adjusted the error caused by fraudulent event by restating the comparative amounts for the prior period presented in which, based on the managements judgment, the loss event had occurred.

The following restatements and reclassifications have been made to the statement of financial position as at 31 December 2014:

Statement of financial position	*As previously reported (2014)*	*Restatements (2014)*	*As adjusted (2014)*	*Notes*
Loans to customers	308,856	(7,186)	301,670	a
Accumulated losses	(6,374)	(6,108)	(12,482)	a, b
Deferred tax liability	(1,410)	1,078	(332)	b

The following restatements have been made to the statement of comprehensive income for the year ended 31 December 2014:

Statement of comprehensive income	*As previously reported (2014)*	*Restatements (2014)*	*As adjusted (2014)*	*Notes*
Loan impairment charge	7,855	7,186	15,041	a
Income tax charge/(benefit)	805	(1,078)	(273)	b
Total comprehensive income/(loss) for the year	422	(6,108)	(5,686)	a, b

(Thousands of Georgian lari)

5. Restatement (continued)

a) The Bank identified a fraud which affected the calculation of the loan loss allowance of the gold pawn loans as at 31 December 2014. The loan impairment charge is related to individually impaired gold pawn loans, which were previously assessed on collective basis and nil allowance was created against these loans. The fraud was identified in the period subsequent to the reporting date and represents an adjusting event of the prior period. As a result the allowance for loan impairment was increased by GEL 7,186 thousand as at 31 December 2014, thus decreasing the balance of net loans to customers by same amount. The corresponding loss was attributed to loan impairment charge in the statement of comprehensive income.

b) The restatement described above resulted in the decrease of the deferred tax liability in the Bank's consolidated statement of financial position as at 31 December 2014 by GEL 1,078 thousand. In addition, as a result of the restatement, the Bank decreased income tax charge in the consolidated statement of comprehensive income for the year ended 31 December 2014 by GEL 1,078.

6. Reclassification

Certain reclassifications have been made to the consolidated statement of profit and loss and other comprehensive income as at 31 December 2014 to conform to the presentation as at 31 December 2015. Management believes that current year presentation provides a better view of the consolidated statement of the profit and loss and other comprehensive income of the Bank, follows to market practice and enhances comparability with financial statements of other financial institutions. Reclassifications did not have any effect on the statement of financial position, statement of cash flows for the year ended 31 December 2014.

	As previously reported	*Reclassi-fication amount*	*As reclassified*	
	2014	*2014*	*2014*	*Description*
Other operating expenses	6,117	969	7,086	Reclassification of expenses related to certain third party services purchased by the Bank, which relate to the Bank's operations, but are not directly linked with generated fee income
Net fee and commission income	1,422	969	2,391	

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	*2014*
Cash on hand	30,596	23,242
Cash balances with the NBG (other than mandatory reserve deposit)	19,314	37,752
Correspondent accounts and overnight placements with other banks	31,979	5,870
Time deposits with credit institutions up to 90 days from origination date	–	5,001
Total cash and cash equivalents	**81,889**	**71,865**

As at 31 December 2015, GEL 30,624 (2014: GEL 5,257) was placed on current and time deposit accounts with internationally recognized OECD banks that are the counterparties of the Bank in performing international settlements.

(Thousands of Georgian lari)

8. Loans to customers

Loans to customers comprise:

	2015	*2014 (restated)*	*2013*
Gold pawn loans	173,598	149,271	108,582
Corporate loans	124,348	74,082	73,151
Consumer loans	75,526	64,428	44,353
Mortgage loans	40,273	19,770	19,458
Loans to individual entrepreneurs	48,945	17,027	16,400
Gross loans to customers	**462,690**	**324,578**	**261,944**
Less: allowance for impairment	(26,106)	(22,908)	(9,056)
Loans to customers	**436,584**	**301,670**	**252,888**

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 2015	*Consumer loans 2015*	*Individual entrepreneurs 2015*	*Mortgage loans 2015*	*Gold pawn loans 2015*	*Total 2015*
At 1 January 2015	**7,245**	**4,310**	**3,037**	**1,130**	**7,186**	**22,908**
Charge for the year	2,273	677	(33)	1,105	4,470	**8,492**
Recoveries	12	301	25	–	–	**338**
Amounts written off	(3,246)	(1,715)	(346)	(325)	–	**(5,632)**
At 31 December 2015	**6,284**	**3,573**	**2,683**	**1,910**	**11,656**	**26,106**
Individual impairment	2,544	123	463	11	11,656	**14,797**
Collective impairment	3,740	3,450	2,220	1,899	–	**11,309**
	6,284	**3,573**	**2,683**	**1,910**	**11,656**	**26,106**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,052**	**123**	**552**	**214**	**31,799**	**47,740**

	Corporate loans 2014	*Consumer loans 2014*	*Individual entrepreneurs 2014*	*Mortgage loans 2014*	*Gold pawn loans 2014 (restated)*	*Total 2014 (restated)*
At 1 January 2014	**4,081**	**3,378**	**900**	**697**	**–**	**9,056**
Charge for the year	3,209	1,873	2,335	438	7,186	**15,041**
Recoveries	3	116	31	–	–	**150**
Amounts written off	(48)	(1,057)	(229)	(5)	–	**(1,339)**
At 31 December 2014	**7,245**	**4,310**	**3,037**	**1,130**	**7,186**	**22,908**
Individual impairment	5,813	3,067	2,149	574	7,186	**18,789**
Collective impairment	1,432	1,243	888	556	–	**4,119**
	7,245	**4,310**	**3,037**	**1,130**	**7,186**	**22,908**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**14,281**	**3,462**	**3,291**	**1,529**	**20,257**	**42,820**

(Thousands of Georgian lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Corporate loans 2013	*Consumer loans 2013*	*Individual entrepreneurs 2013*	*Mortgage loans 2013*	*Gold pawn 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**

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 gold pawn lending, gold and other precious metals and jewelry;
- for commercial lending, charges over real estate properties, movable property, and inventory;
- for retail lending, real estate, vehicles and other movable properties.

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

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

Concentration of loans to customers

As at 31 December 2015, the Bank had a concentration of loans represented by GEL 93,590 due from the ten largest third party borrowers (19.17% of gross loan portfolio) (2014: GEL 90,736 or 27.95%, 2013: GEL 84,583 or 32.29%). An allowance of GEL 3,529 (2014: GEL 1,187, 2013: GEL 549) was recognised against these loans.

Loans have been extended to the following types of customers:

	2015	***2014***	***2013***
Private companies	304,333	229,265	182,294
Individuals	158,357	95,313	79,650
	462,690	**324,578**	**261,944**

(Thousands of Georgian lari)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
Gold pawn loans	173,598	37.52	149,271	45.99	108,582	41.45
Individuals	158,357	34.23	95,313	29.37	79,650	30.41
Trading and service sector	59,975	12.96	30,095	9.27	27,011	10.31
Construction sector	18,738	4.05	16,817	5.18	11,862	4.53
Energy sector	17,719	3.83	1,829	0.56	827	0.32
Health Care	13,474	2.91	8,558	2.64	5,796	2.21
Financial Institutions	9,518	2.06	3,872	1.19	1,555	0.59
Agriculture and food processing	9,310	2.01	17,338	5.34	24,170	9.23
Other sector	2,001	0.43	1,485	0.46	2,491	0.95
	462,690	**100.00**	**324,578**	**100.00**	**261,944**	**100.00**

9. Investment securities

Held-to-maturity securities comprise:

	2015	2014
Treasury bonds of the Ministry of Finance	24,141	35,341
Treasury bills of the Ministry of Finance	–	6,945
Deposit certificates of the NBG	–	3,894
Held-to-maturity securities	**24,141**	**46,180**

Loans and receivables comprise:

	2015	2014
Treasury bonds of the Ministry of Finance	9,808	–

All securities are denominated in GEL and their contractual interest rates and maturities are as follows:

	31 December 2015		31 December 2014	
	Average, %	Maturity	Average, %	Maturity
Deposit certificates of the NBG	–	–	4.24	2015
Treasury bills of the Ministry of Finance	–	–	6.32	2015
Treasury bonds of the Ministry of Finance	8.86	2016-2020	6.96	2015-2019

(Thousands of Georgian lari)

10. 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 improve-ments*	*Total*
Cost 31 December 2014	**32**	**12,364**	**3,572**	**686**	**5,519**	**2,843**	**25,016**
Additions	–	1,310	2,410	62	699	58	**4,539**
Disposals	–	–	(3)	(72)	(28)	(76)	**(179)**
Transfers	–	3	–	–	(16)	12	**(1)**
Transfer from repossessed assets	417	136	–	–	–	–	**553**
31 December 2015	**449**	**13,813**	**5,979**	**676**	**6,174**	**2,837**	**29,928**
Accumulated depreciation							
31 December 2014	**–**	**2,030**	**2,942**	**525**	**4,815**	**2,064**	**12,376**
Depreciation charge	–	559	327	69	360	261	**1,576**
Disposals	–	–	(1)	(72)	(16)	(31)	**(120)**
31 December 2015	**–**	**2,589**	**3,268**	**522**	**5,159**	**2,294**	**13,832**
Net book value							
31 December 2014	**32**	**10,334**	**630**	**161**	**704**	**779**	**12,640**
31 December 2015	**449**	**11,224**	**2,711**	**154**	**1,015**	**543**	**16,096**

	Land	*Premises*	*Office and computer equipment*	*Vehicles*	*Furniture, fixtures and other fixed assets*	*Leasehold improve-ments*	*Total*
Cost 31 December 2013	**32**	**11,862**	**3,476**	**720**	**5,580**	**3,799**	**25,469**
Additions	–	25	97	–	532	105	**759**
Disposals	–	(18)	(1)	(34)	–	(1,159)	**(1,212)**
Transfers	–	495	–	–	(593)	98	**–**
31 December 2014	**32**	**12,364**	**3,572**	**686**	**5,519**	**2,843**	**25,016**
Accumulated depreciation							
31 December 2013	**–**	**1,536**	**2,693**	**459**	**4,433**	**2,653**	**11,774**
Depreciation charge	–	497	250	73	382	327	**1,529**
Disposals	–	(3)	(1)	(7)	–	(916)	**(927)**
31 December 2014	**–**	**2,030**	**2,942**	**525**	**4,815**	**2,064**	**12,376**
Net book value							
31 December 2013	**32**	**10,326**	**783**	**261**	**1,147**	**1,146**	**13,695**
31 December 2014	**32**	**10,334**	**630**	**161**	**704**	**779**	**12,640**

Gross carrying value of premises and equipment fully depreciated as at 31 December 2015 but still in use was GEL 9,529 (2014: GEL 7,396).

11. Goodwill

Impairment testing of goodwill

As discussed in Note 4 management believes that entire Bank represents a single CGU, acquired in a business combination in 2008.

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 same cash flow is also used as a terminal amount and disclosed as a perpetuity applying a terminal growth rate of 5%, equal to long-term GDP growth rate forecast for Georgia.

(Thousands of Georgian lari)

11. Goodwill (continued)

Impairment testing of goodwill (continued)

The discount rates used are pre-tax and reflect specific risks relating to the CGU. The discount rate used as at 31 December 2015 is 7.2% p.a. (2014: 7.1%).

As at 31 December 2015, discount rate at which recoverable amount of the CGU equals the carrying value of the goodwill is 12.8% (2014: 7.4%).

12. Other intangible assets

The movements in other intangible assets were as follows:

	Customer relationships	*Computer software licenses*	*Total*
Cost			
31 December 2014	**13,657**	**3,112**	**16,769**
Additions	–	1,356	**1,356**
Disposal	–	(22)	**(22)**
31 December 2015	**13,657**	**4,446**	**18,103**
Accumulated amortization			
31 December 2014	**9,320**	**1,907**	**11,227**
Amortisation charge	1,366	510	**1,876**
Amortisation on disposals	–	(13)	**(13)**
31 December 2015	**10,686**	**2,404**	**13,090**
Net book value			
31 December 2014	**4,337**	**1,205**	**5,542**
31 December 2015	**2,971**	**2,042**	**5,013**

	Customer relationships	*Computer software licenses*	*Total*
Cost			
31 December 2013	**13,657**	**2,396**	**16,053**
Additions	–	716	**716**
31 December 2014	**13,657**	**3,112**	**16,769**
Accumulated amortization			
31 December 2013	**7,954**	**1,637**	**9,591**
Amortisation charge	1,366	270	**1,636**
31 December 2014	**9,320**	**1,907**	**11,227**
Net book value			
31 December 2013	**5,703**	**759**	**6,462**
31 December 2014	**4,337**	**1,205**	**5,542**

Gross carrying value of intangible assets fully amortised as at 31 December 2015 but still in use was GEL 1,650 (2014: GEL 1,530).

(Thousands of Georgian lari)

13. Taxation

The corporate income tax expense comprises:

	2015	*2014 (restated)*	*2013*
Current tax charge	–	–	–
Deferred tax charge – origination and reversal of temporary differences	(265)	273	(966)
Income tax charge	**(265)**	**273**	**(966)**

The income tax rate applicable to the Bank's 2015 income is 15% (2014: 15% and 2013: 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:

	2015	*2014 (restated)*	*2013*
Profit before income tax	**4,337**	**(5,959)**	**8,341**
Statutory tax rate	15%	15%	15%
Theoretical income tax benefit/(expense) at the statutory rate	**(651)**	**894**	**(1,251)**
Tax effect of items which are not deductible for taxation purposes			
Leasehold improvements and applicable VAT	(8)	(41)	(12)
Other	(16)	(6)	–
Expired tax losses carried forward	(107)	(1,225)	(616)
Change in unrecognized deferred tax assets	–	104	542
Tax exempt income			
Interest income from HTM securities	427	423	235
Interest income from deposits in resident banks	75	42	31
Other	15	82	105
Income tax charge	**(265)**	**273**	**(966)**

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

	2012	*In the income statement*	*2013*	*In the income statement (restated)*	*2014 (restated)*	*In the income statement*	*2015*
Tax effect of taxable temporary differences							
Tax losses carried forward	2,632	(1,379)	1,253	385	1,638	(1,523)	115
Other financial liabilities	–	51	51	(9)	42	53	95
Other assets	(116)	148	32	75	107	50	157
Investment property	138	(138)	–	–	–	–	–
Gross deferred tax assets	**2,654**	**(1,318)**	**1,336**	**451**	**1,787**	**(1,420)**	**367**
Unrecognised deferred tax assets	(646)	542	(104)	104	–	–	–
Gross deferred tax assets	**2,008**	**(776)**	**1,232**	**555**	**1,787**	**(1,420)**	**367**
Tax effect of deductible temporary differences							
Intangible assets, including goodwill	(1,394)	(184)	(1,578)	(138)	(1,716)	(73)	(1,789)
Loans to customers	(159)	(145)	(304)	(119)	(423)	1,300	877
Premises and equipment	(43)	34	(9)	33	24	(72)	(48)
Amounts due to customers	–	–	–	(1)	(1)	1	–
Other financial assets	(4)	58	54	(57)	(3)	(1)	(4)
Other liabilities	(47)	47	–	–	–	–	–
Gross deferred tax liabilities	**(1,647)**	**(190)**	**(1,837)**	**(282)**	**(2,119)**	**1,155**	**(964)**
Net deferred tax assets/(liabilities)	**361**	**(966)**	**(605)**	**273**	**(332)**	**(265)**	**(597)**

In accordance with Georgian tax legislation current income tax losses may be carried forward for up to 5 years. As of 31 December 2015 tax loss carry forward amounting GEL 767 will expire on 31 December 2019.

(Thousands of Georgian lari)

14. Other financial assets and liabilities

Other financial assets comprise:

	2015	*2014*
Restricted cash	306	426
Financial assets from services rendered	133	318
Settlements on money transfer operations	84	140
Interest accrued on guarantees and letters of credit	114	45
Other accrued assets	37	64
Other financial assets	**674**	**993**

Restricted cash in amount of GEL 306 (2014: GEL 335) represents balances on correspondent accounts with Georgian banks placed by the Bank as guarantees for transactions performed by the Bank's customers and processed by respective counterparty banks. Restricted cash in amount of nil (2014: GEL 91) represents cash placed in foreign bank under a guarantee agreement with a single customer.

Other financial liabilities comprise:

	2015	*2014*
Swap agreements	3,930	3,976
Debit or credit card payables	–	565
Financial liabilities from services received	548	274
Liabilities for payments to utility companies	34	33
Settlements on money transfer operations	370	5
Accrued employee benefit costs	1,252	269
Other accrued liabilities	86	120
Other financial liabilities	**6,220**	**5,242**

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.

	2015		*2014*	
	Notional amount	***Fair value liabilities***	***Notional amount***	***Fair value liabilities***
Foreign exchange contracts				
Swaps – domestic	37,012	3,930	64,430	3,976
Total derivative liabilities		**3,930**		**3,976**

15. Other assets and liabilities

Other assets comprise:

	2015	*2014*
Repossessed collateral	19,281	4,636
Other tax prepayments	247	401
Prepayments for services	282	231
Prepayments for repossessed collateral and property & equipment	73	97
Other	82	17
Other assets	**19,965**	**5,382**

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.

15. Other assets and liabilities (continued)

Other liabilities comprise:

	2015	*2014*
Provisions for Guarantees and Credit Related Commitments	181	–
Advances received from buyers of repossessed collateral	103	78
Taxes payable	64	14
Other liabilities	**348**	**92**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2015	*2014*
Loans from financial organisations	46,291	33,388
Time deposits from credit institutions	12,642	2,000
Short-term placements of other banks	3,337	–
	62,270	**35,388**

Included in loans from financial organisations is GEL 25,000 loan from the NBG which was initiated on 31 December 2015, was bearing 9.2% annual interest rate and matured on 8 January 2015. The loan is denominated in GEL.

The Bank has credit facility equivalent of USD 5,000 thousand (equivalent of GEL 11,974) from the Black Sea Trade and Development Bank (BSTDB). As of 31 December 2015 the Bank has utilized equivalent of GEL 9,101 (2014: 3,286) bearing average interest rate of 6.34% p.a. (2014: 7.08%) out of available GEL 11,974 (2014: 9,318), Credit facility matures in 2016.

In addition, the bank has borrowed USD 5,000 (GEL 11,974) from Black Sea Trade and Development Bank (BSTDB) on 8 October 2015 bearing interest rate of 5.5% plus LIBOR (aggregating 5.98% as of 31 December 2015). Loan is denominated in USD and mature in 2018.

Borrowings from the BSTDB are received upon certain conditions (the "Lender Covenants") that the Bank needs to maintain. At 31 December 2015 the Bank violated 1 (out of 10) Lender Covenants of the borrowings from BSTDB. The Bank violated Open Credit Exposure to Capital ratio (max 25%, actual 33.62%). The reason of covenant violation was increase of open credit exposure. For the purposes of the covenant, open credit exposure, among other things include gross amount of loans that are individually determined to be impaired. As a result of the Bank's assessment of gold pawn loans involved in fraud (Note 5) on individual bases, open credit exposure to capital ratio exceeded allowed cap of 25%. The Bank has not obtained the waiver from BSTDB as at 31 December 2015.

As at 31 December 2015, time deposits from credit institutions represents a short-term deposit received from a Georgian bank of USD 2,000,000 (GEL 4,790) bearing 2.9% interest rate p.a. and EUR 3,000,000 (GEL 7,852) bearing 2.0% interest rate.

The Bank recognised total of GEL 2,874 interest expense on amounts due to credit institutions in 2015 (2014: GEL 2,476).

17. Amounts due to customers

Amounts due to customers comprise:

	2015	*2014*
Current accounts	196,207	158,283
Time deposits	254,561	181,686
Amounts due to customers	**450,768**	**339,969**
Held as security against guarantees and letters of credit issued	**7,901**	**13,341**

At 31 December 2015, amounts due to customers of GEL 182,870 (40.6%) were due to the ten largest customers (2014: GEL 178,745 (52.6%)).

17. Amounts due to customers (continued)

Amounts due to customers comprise the following types of customers:

	2015	*2014*
Private enterprises	226,846	187,962
Individuals	126,031	93,971
State and budgetary organisations	97,891	58,036
Customer accounts	**450,768**	**339,969**

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

	2015		*2014*	
	Amount	*%*	*Amount*	*%*
Individuals	126,031	27.96	93,971	27.64
Trade and service	44,278	9.82	15,461	4.55
Transport and communication	33,410	7.41	37,955	11.17
Non-banking credit organizations	25,623	5.68	4,851	1.43
Energy	25,316	5.62	55,540	16.34
Insurance	16,209	3.6	11,493	3.38
Construction	13,582	3.01	22,806	6.71
Mining	3,001	0.67	219	0.06
Financial Institutions	2,313	0.51	7	0
Agriculture	2,042	0.45	321	0.09
Manufacturing	1,225	0.27	1,025	0.3
Health Care	910	0.2	1	0
Not-for-profit organizations	–	–	8,911	2.62
Other	58,937	13.07	29,372	8.64
State and public sector	97,891	21.73	58,036	17.07
Amounts due to customers	**450,768**	**100.00**	**339,969**	**100.00**

18. Subordinated debts

Subordinated debts comprise:

	2015	*2014*
Standard Capital Georgia Ltd (US dollar denominated, granted 29 September 2005; 10 equal annual payments of principal starting from 2016 and monthly payment of interest, with annual interest rate of 11%, maturing 15 September 2025)	7,222	5,620
Standard Capital Georgia Ltd (US dollar denominated, granted 15 December 2006; 10 equal annual payments of principal starting from 2017 and monthly payment of interest, with annual interest rate of 11%, maturing 15 December 2026)	4,833	3,761
Al Dhabi Contracting LLC (US dollar denominated, granted 31 December 2014 with annual interest rate of 6%, maturing 1 April 2022)	23,957	18,639
Subordinated debts	**36,012**	**28,020**

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

19. Equity

As of 31 December 2015, authorized, issued and fully paid share capital comprised of 1,110,000 ordinary shares (2014: 995,159). Each ordinary share has a nominal value of GEL 0.1 (2014: GEL 0.1). Each ordinary share carries one vote. In 2015 the bank issued share capital with nominal value of GEL 11,484, which was proportionally distributed among shareholders.

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 2015 and 2014.

(Thousands of Georgian lari)

20. Commitments and contingencies

Financial commitments and contingencies

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

	2015	*2014*
Credit related commitments		
Guarantees	18,783	18,853
Letters of credit	2,350	1,321
	21,133	**20,174**
Less: cash held as security against guarantees and letters of credit	(7,901)	(13,341)
Net exposure to guarantees and letters of credit	**13,232**	**6,833**
Undrawn loan commitments	**16,518**	**13,153**
Operating lease commitments		
Not later than 1 year	1,519	1,752
Later than 1 year but not later than 5 years	2,699	4,027
Later than 5 years	357	950
	4,575	**6,729**
Capital expenditure commitments	**–**	**662**

21. Interest income and expense

Interest income and expense comprises:

	2015	*2014*
Loans to customers	52,548	40,521
Amounts due from other banks and mandatory reserve with the NBG	2,274	3,700
Investment securities	2,797	2,818
Total interest income	**57,619**	**47,039**
Amounts due to customers	24,631	19,748
Amounts due to credit institutions	2,874	2,476
Subordinated debts	2,611	971
Total interest expense	**30,116**	**23,195**
Net interest income	**27,503**	**23,844**

22. Fee and commission income and expenses

Fee and commission income comprises:

	2015	*2014*
Plastic card transactions	1,588	1,491
Settlement transactions	1,053	943
Cash transactions	1,047	689
Servicing of current accounts	579	476
Guarantees and letters of credit issued	346	305
Other	103	52
Fee and commission income	**4,716**	**3,956**

(Thousands of Georgian lari)

22. Fee and commission income and expenses (continued)

Fee and commission expense comprises:

	2015	*2014*
Plastic card transactions	1,508	975
Settlement transactions	342	264
Cash transactions	214	56
Guarantees and letters of credit	89	–
Other	250	270
Fee and commission expense	**2,403**	**1,565**
Net fee and commission income	**2,313**	**2,391**

23. Other operating expenses

	2015	*2014*
Operating lease expense for premises and equipment	2,047	2,050
Professional services	1,217	953
Advertising and marketing services	929	236
Representative expenses	489	329
Losses from disposal of repossessed collateral	410	744
Repair and maintenance	361	414
Communications	343	369
Taxes other than on income	336	228
Building security expense	320	419
Office supply	285	318
Transportation and cash collection	275	226
Insurance	152	93
Plastic card expenses	97	60
Vehicle expenses	91	150
Business trip expenses	55	58
Loss on disposal of property and equipment	46	243
Postal expenses	40	26
Other expenses	318	170
Other operating expenses	**7,811**	**7,086**

24. Risk management

The risk management function within the Bank is carried out in respect of credit risk, financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate 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.

The Bank established 3 levels of credit committees which are responsible for approving credit limits for individual borrowers. Review and approval limits for each credit committee differs per loan type. Only sanctioned retail loans (payroll/credit card/overdraft) with the maximum amount of GEL 17 are issued on branch level.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit.

(Thousands of Georgian lari)

24. Risk management (continued)

Credit risk (continued)

In order to monitor credit risk exposures, regular reports are produced by portfolio analysis manager and reviewed by the credit risk department. Monitoring includes review of the customer's financial performance. The financial assets of the Bank can be analysed as follows:

		Neither past due nor impaired					
	Notes	***High grade 2015***	***Standard grade 2015***	***Sub-standard grade 2015***	***Past due but not impaired 2015***	***Individually impaired 2015***	***Total 2015***
Cash and cash equivalents (except cash on hand)		51,293	–	–	–	–	**51,293**
Mandatory reserve deposit with the NBG		44,052	–	–	–	–	**44,052**
Loans to customers	8						
Corporate lending		4,073	85,050	18,561	1,612	15,052	**124,348**
Gold pawn loans		133,811	–	7,182	806	31,799	**173,598**
Consumer lending		3,454	16,904	50,769	4,276	123	**75,526**
Mortgage loans		-	37,269	420	2,370	214	**40,273**
Individual entrepreneurs		–	42,399	1,549	4,445	552	**48,945**
		141,338	**181,622**	**78,481**	**13,509**	**47,740**	**462,690**
Investment securities held to maturity	9	24,141	–	–	–	–	**24,141**
Investment securities loans and receivable		9,808	–	–	–	–	**9,808**
Other financial assets	14	525	–	–	149	–	**674**
Total		**271,157**	**181,622**	**78,481**	**13,658**	**47,740**	**592,658**

		Neither past due nor impaired					
	Notes	***High grade 2014***	***Standard grade 2014***	***Sub-standard grade 2014***	***Past due but not impaired 2014***	***Individually impaired 2014***	***Total 2014***
Cash and cash equivalents (except cash on hand)		48,623	–	–	–	–	**48,623**
Mandatory reserve deposit with the NBG		31,222	–	–	–	–	**31,222**
Loans to customers	8						
Corporate lending		2,964	37,317	7,189	12,331	14,281	**74,082**
Gold pawn loans		128,163	–	400	451	20,257	**149,271**
Consumer lending		5,890	8,104	45,741	1,231	3,462	**64,428**
Mortgage loans		–	15,558	260	2,423	1,529	**19,770**
Individual entrepreneurs		–	11,592	948	1,196	3,291	**17,027**
		137,017	**72,571**	**54,538**	**17,632**	**42,820**	**324,578**
Investment securities held to maturity	9	46,180	–	–	–	–	**46,180**
Other financial assets	14	675	–	–	318	–	**993**
		46,855	**–**	**–**	**318**	**–**	**47,173**
Total		**263,717**	**72,571**	**54,538**	**17,950**	**42,820**	**451,596**

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 the NBG, together with Ministry of Finance treasury bills and bonds and deposit certificated of the 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.

(Thousands of Georgian lari)

24. Risk management (continued)

Credit risk (continued)

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

	Less than 30 days 2015	*31 to 60 days 2015*	*61 to 90 days 2015*	*More than 90 days 2015*	*Total 2015*
Loans to customers					
Corporate lending	616	56	–	940	**1,612**
Consumer lending	1,759	449	174	1,894	**4,276**
Residential mortgages	378	268	822	902	**2,370**
Gold pawn loans	806	–	–	–	**806**
Individual entrepreneurs	935	254	180	3,076	**4,445**
Total	**4,494**	**1,027**	**1,176**	**6,812**	**13,509**

	Less than 30 days 2014	*31 to 60 days 2014*	*61 to 90 days 2014*	*More than 90 days 2014*	*Total 2014*
Loans to customers					
Corporate lending	12,063	–	7	261	**12,331**
Consumer lending	916	54	118	143	**1,231**
Residential mortgages	1,402	132	–	889	**2,423**
Gold pawn loans (restated)	451	–	–	–	**451**
Individual entrepreneurs	601	88	89	418	**1,196**
Total	**15,433**	**274**	**214**	**1,711**	**17,632**

See Note 8 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.

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.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Realisable value of collateral is considered when determining allowance amounts. 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 historical losses on the portfolio.

(Thousands of Georgian lari)

24. Risk management (continued)

Credit risk (continued)

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans. The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2015				*2014*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	50,812	30,624	453	**81,889**	66,176	5,257	432	**71,865**
Mandatory reserves with the NBG	44,052	–	–	**44,052**	31,222	–	–	**31,222**
Loans to customers	436,584	–	–	**436,584**	301,670	–	–	**301,670**
Investment securities:								
- held-to-maturity	24,141	–	–	**24,141**	46,180	–	–	**46,180**
- loans and receivables	9,808	–	–	**9,808**	–	–	–	**–**
Other financial assets	674	–	–	**674**	902	91	–	**993**
	566,071	**30,624**	**453**	**597,148**	**446,150**	**5,348**	**432**	**451,930**
Liabilities								
Due to other banks	40,986	21,284	–	**62,270**	32,004	3,384	–	**35,388**
Customer accounts	417,490	157	33,121	**450,768**	335,711	73	4,185	**339,969**
Other financial liabilities	6,175	45	–	**6,220**	5,198	44	–	**5,242**
Subordinated debt	12,055	23,957	–	**36,012**	9,381	18,639	–	**28,020**
	476,706	**45,443**	**33,121**	**555,270**	**382,294**	**22,140**	**4,185**	**408,619**
Net assets/(liabilities)	**89,365**	**(14,819)**	**(32,668)**	**41,878**	**63,856**	**(16,792)**	**(3,753)**	**43,311**

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)

24. 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. The NBG requires minimum average monthly liquidity ratio to be 30%. As at 31 December, daily ratios were as follows:

	2015, %	*2014, %*
Average liquidity ratio for the year	32.43%	33.87%
Maximum liquidity ratio	34.75%	39.28%
Minimum liquidity ratio	29.85%	30.66%

Average liquidity ratio of the Bank for 2015, in accordance with the NBG liquidity regulation, comprises 32.43% (2014: 33.87%) 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 ALCO.

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:

As at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	62,415	–	–	–	**62,415**
Amounts due to customers	263,147	148,884	57,264	133	**469,428**
Other financial liabilities	6,220	–	–	–	**6,220**
Subordinated debts	774	2,066	11,018	44,586	**58,444**
Total undiscounted financial liabilities	**332,556**	**150,950**	**68,282**	**44,719**	**596,507**

As at 31 December 2014	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	32,878	2,669	–	–	**35,547**
Amounts due to customers	211,822	124,337	10,592	54	**346,805**
Other financial liabilities	5,242	–	–	–	**5,242**
Subordinated debts	506	1,328	7,083	35,073	**43,990**
Total undiscounted financial liabilities	**250,448**	**128,334**	**17,675**	**35,127**	**431,584**

(Thousands of Georgian lari)

24. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. 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*
2015	22,583	11,303	7,983	357	**42,226**
2014	16,247	9,531	13,990	950	**40,718**

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

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 is guided by the NBG's prudential ratio requirements on open currency position limits. These limits are 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 2015 are Loans from financial institutions in amount of GEL 12,142 (2014: 3,378) (Note 16). Increase/decrease in interest rates by one percentage point, with all other variables held constant, causes GEL 120 decrease/increase of Profit before tax of the Bank.

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 Georgian 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 % 2015*	*Effect on profit before tax 2015*	*Change in currency rate in % 2014*	*Effect on profit before tax 2014*
USD	15%/-15%	1,179/(1,179)	3.77%/-3.77%	83.6/(83.6)
EUR	16%/-16%	37/(37)	1.76%/-1.76%	(0.4)/0.4

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.

(Thousands of Georgian lari)

25. 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			
At 31 December 2015	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	81,889	–	–	**81,889**
Obligatory reserve with the NBG	44,052	–	–	**44,052**
Loans to customers	–	–	436,116	**436,116**
Investment securities				
- held to maturity	–	22,761	–	**22,761**
- loans and receivables	–	9,605	–	**9,605**
Other financial assets	–	–	674	**674**
Liabilities measured at fair value				
Derivative financial instruments (valued at 31 December 2015)	–	3,930	–	**3,930**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	61,863	**61,863**
Amounts due to customers	–	–	450,444	**450,444**
Subordinated debts	–	–	38,901	**38,901**
Other financial liabilities	–	–	6,220	**6,220**

	Fair value measurement using			
At 31 December 2014	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	71,865	–	–	**71,865**
Obligatory reserve with the NBG	31,222	–	–	**31,222**
Loans to customers	–	–	301,393	**301,393**
Investment securities held-to-maturity	–	46,180	–	**46,180**
Other financial assets	–	–	993	**993**
Liabilities measured at fair value				
Derivative financial instruments (valued at 31 December 2014)	–	3,976	–	**3,976**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	35,388	**35,388**
Amounts due to customers	–	–	339,969	**339,969**
Subordinated debts	–	–	32,894	**32,894**
Other financial liabilities	–	–	5,242	**5,242**

(Thousands of Georgian lari)

25. Fair value measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2015	*Fair value 2015*	*Unrecognised gain/(loss) 2015*	*Carrying value 2014*	*Fair value 2014*	*Unrecognised gain/(loss) 2014*
Financial assets						
Cash and cash equivalents	81,889	81,889	–	71,865	71,865	–
Obligatory reserve with the NBG	44,052	44,052	–	31,222	31,222	–
Loans to customers	436,584	436,116	(468)	301,670	301,393	(277)
Investment securities:						
- held-to-maturity	24,141	22,761	(1,380)	46,180	46,180	–
- loans and receivables	9,808	9,605	(203)	–	–	–
Other financial assets	674	674	–	993	993	–
Financial liabilities						
Amounts due to other banks	62,270	61,863	407	35,388	35,388	–
Amounts due to customers	450,768	450,444	324	339,969	339,969	–
Subordinated debts	36,012	38,901	(2,889)	28,020	32,894	(4,874)
Other financial liabilities	6,220	6,220	–	5,242	5,242	–
Total unrecognised change in fair value			**(4,209)**			**(5,151)**

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 the 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.

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.

(Thousands of Georgian lari)

26. Offsetting of financial instruments

The Bank offsets GEL 25,585 (2014: GEL 60,453) in derivative financial assets and liabilities. Net amount of derivative financial liabilities presented in the consolidated statement of financial position is GEL 3,930 (2014: 3,976).

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

2015	*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 14)	25,585	29,515	3,930

2014	*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 14)	60,453	64,429	3,976

27. 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 24 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2015			*2014*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	81,889	–	**81,889**	71,865	–	**71,865**
Mandatory reserve deposit with the NBG	44,052	–	**44,052**	31,222	–	**31,222**
Loans to customers	257,282	179,302	**436,584**	204,712	96,958	**301,670**
Investment securities:						
- held-to-maturity	13,195	10,946	**24,141**	22,659	23,521	**46,180**
- loans and receivables	–	9,808	**9,808**	–	–	**–**
Other financial assets	368	306	**674**	658	335	**993**
Total	**396,786**	**200,362**	**597,148**	**331,116**	**120,814**	**451,930**
Amounts due to credit institutions	62,270	–	**62,270**	35,388	–	**35,388**
Amounts due to customers	376,825	73,943	**450,768**	330,236	9,733	**339,969**
Subordinated debts	86	35,926	**36,012**	64	27,956	**28,020**
Other financial liabilities	6,220	–	**6,220**	5,242	–	**5,242**
Total	**445,401**	**109,869**	**555,270**	**370,930**	**37,689**	**408,619**
Net	**(48,615)**	**90,493**	**41,878**	**(39,814)**	**83,125**	**43,311**

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.

Due to violation of the Lender Covenant (1 out of 10), amounts due to BSTDB (Note 16) has been classified as on demand credit facilities, however at the date of this audit report issuance BSTDB has not requested early recovery of these facilities.

As at 31 December 2015, total current accounts within amounts due to customers amounted to GEL 225,547 (2014: 158,283). 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 154,247 (2014: GEL 116,865) 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.

(Thousands of Georgian lari)

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

As at 31 December 2015, the Bank has treasury bonds of Ministry of Finance with maturity ranging from 2016 to 2020 and nominal amount of GEL 32,657 which can be pledged to the NBG for refinancing purposes, anytime with 5% discount (generating GEL 31,024).

According to the NBG regulation monthly average liquidity ratio should not be less than 30%. The Bank was compliant with the NBG prudential ratio requirements in respect of liquidity during 2015 and 2014. Average liquidity ratio of the Bank for 2015 was 32.43%. For more details please refer to Note 24, Liquidity risk and funding management caption.

28. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

		2015			***2014***		
	Note	***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		–	345	–	–	257	–
Amounts due to customers		4,478	447	–	2,615	25	–
Subordinated debt	18	23,957	–	–	18,639	–	–
Interest income on loans			31	–	1	5	–
Interest expense on deposits		159	19	–	29	–	–
Interest expense on subordinated debt	21	1,361	–	–	–	–	–

In 2015, the Bank issued letter of credit to entity under common control in amount of GEL 2,351 (2014: GEL 1,323).

As at 31 December 2015, undrawn loan commitments of key management personnel consisted of GEL 14 (2014: GEL 6).

As at 31 December 2015 key management personnel comprised of 6 persons (2014: 5). Compensation of key management personnel comprised of salaries and short-term benefits and amounted to GEL 1,751 in 2015 (2014: GEL 1,169) out of which GEL 610 is accrued liability in 2015.

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the 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 the 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 and 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.

(Thousands of Georgian lari)

29. Capital adequacy (continued)

During subsequent period, in April 2016, the Bank violated established regulatory capital requirements due to the losses attributable to the discovered fraud case (Note 5), which were recorded in April 2016 for the NBG reporting purposes. As a result of the losses related to fraud the Bank's capital adequacy was 8.06% on 30 April 2016, which is below the NBG's requirement of 8.5%. To breach the gap the Bank needs additional capital of GEL 3,360. The Bank has obtained a waiver letter form the NBG granting the Bank right to operate under lower capital adequacy requirements till 31 October 2016. Management believes that the Bank will be able to cover the gap by internally generated profits till the maturity date of the wavier. As at 31 May 2016, the Bank has reduced the capital adequacy shortfall by 0.09% from 30 April 2016. If the Bank's operations do not generate sufficient profits till the date of the waiver, the Bank will be able to increase the capital adequacy by converting certain of the loans received from entities under common control to equity. Management believes that the controlling shareholders of the Bank have sufficient resources and intentions to convert part of the GEL 23,957 debt outstanding to entities under common control at 31 December 2015 to equity to remedy the Bank's lack of capital adequacy, if needed.

The NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 11.4% of risk-weighted assets and Tier 1 capital adequacy ratio of 7.6%, computed based on the Bank's standalone special purpose financial statements prepared in accordance with the NBG regulations and pronouncements. As of 31 December, the Bank's capital adequacy ratio on this basis was as follows:

	2015	*2014*
Core capital	64,135	60,880
Supplementary capital	48,359	23,072
Less: deductions from capital	–	–
Total regulatory capital	**112,494**	**83,952**
Risk weighted assets	**716,892**	**554,456**
Total capital adequacy ratio	15.69%	15.14%
Tier 1 capital adequacy ratio	8.95%	10.98%

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

	2015	*2014*
Core capital	71,626	52,131
Supplementary capital	41,613	31,821
Total regulatory capital	**113,239**	**83,952**
Risk weighted assets	**785,320**	**570,994**
Total capital adequacy ratio	14.42%	14.70%
Tier 1 capital adequacy ratio	9.12%	9.13%

30. Events after the reporting date

Change of the brand name

In May 2016, The Bank finished rebranding process and changed its brand name to Terabank. It was influenced by changing business strategy over a year ago to offer its clients different atmosphere and service standards. The Terabank brand has been developed to reflect all the changes that occurred in the process. Focused on SME's, owners and employees, Terabank will be a customer centric, boutique bank, providing exceptional customer experience. The new brand has been designed to be stand-out, to be different from the rest of the market.

Terabank's functional positioning was developed around the strengths that the bank already has or are in the process of developing, namely flexibility, personal service, and solutions, while emotional positioning was based around the thematic concepts of "financial home" that gives rise to a place and a style of communication that is personal, close, non-intimidating and as comfortable for the customer as being at his/her own home.

(Thousands of Georgian lari)

30. Events after the reporting date (continued)

Discovered employee fraud

In 2016 the fraudulent activity from the bank employees has been discovered. Particularly, for some gold pawn loans overstated amount of collateral received was recorded, therefore loan collateralization was inadequate.

Bank hired independent external valuator to examine and revalue all potentially suspicious collateral. Criminal investigation for the fraudulent action against the former employee is in progress. Internal and external experts identified potential timing of these events, therefore loan loss allowances for the 2014 and 2015 financial statements have been recalculated. Consequently, loan loss allowance for the 2014 financial year has been revised, which caused restatement of the financial statements (Note 5).