JSC Liberty Bank and Subsidiaries

Consolidated financial statements

Year ended 31 December 2014
together with independent auditor's report

Contents

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Independent auditor's report

To the shareholders and Board of Directors of JSC Liberty Bank -

We have audited the accompanying consolidated financial statements of JSC Liberty Bank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

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 the Group and its subsidiaries as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

8 April 2015

Consolidated statement of financial position

As of 31 December 2014

(thousands of Georgian lari)

	Notes	2014	2013
Assets			
Cash and cash equivalents	6	479,998	355,089
Amounts due from credit institutions	7	50,946	40,451
Loans to customers	8	692,110	600,080
Investment securities held to maturity	9	196,906	133,441
Property and equipment	10	118,797	128,325
Intangible assets	11	11,269	9,660
Prepayments	13	9,183	9,927
Other assets	13	19,148	16,641
Total assets		**1,578,357**	**1,293,614**
Liabilities			
Amounts due to credit institutions	14	6,037	2,342
Amounts due to customers	15	1,412,981	1,158,671
Deferred income tax liabilities	12	5,972	7,314
Other liabilities	13	12,864	11,179
Subordinated debt	16	15,846	–
Total liabilities		**1,453,700**	**1,179,506**
Equity	17		
Share capital		53,383	53,284
Additional paid-in capital		42,559	42,559
Convertible preferred shares		6,139	5,179
Retained earnings/(accumulated losses)		14,121	(7,196)
Other reserves		8,455	20,282
Total equity		**124,657**	**114,108**
Total liabilities and equity		**1,578,357**	**1,293,614**

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

George Arveladze Chief Executive Officer

David Melikidze Chief Financial Officer

8 April 2015

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2014

(thousands of Georgian lari)

	Notes	*2014*	*2013*
Interest income			
Loans to customers		203,419	142,930
Investment securities		12,743	8,592
Amounts due from credit institutions		2,853	3,622
		219,015	**155,144**
Interest expense			
Amounts due to customers		(111,537)	(97,411)
Amounts due to credit institutions		(237)	(1,441)
Subordinated debt		(274)	–
Other		(65)	(206)
		(112,113)	**(99,058)**
Net interest income		**106,902**	**56,086**
Loan impairment (charge)/reversal	8	(25,257)	3,733
Net interest income after loan impairment (charge)/reversal		**81,645**	**59,819**
Net fee and commission income	19	24,171	21,413
Net gains/(losses) from foreign currencies:			
- Dealing		6,931	6,959
- Translation differences		174	(139)
Other income	20	10,365	6,224
Non-interest income		**41,641**	**34,457**
Personnel expenses	21	(48,731)	(41,866)
General and administrative expenses	21	(28,877)	(21,830)
Depreciation, amortisation and impairment	10, 11	(15,145)	(11,780)
Other operating expenses		(4,860)	(2,237)
Other impairment and provisions	13	(3,190)	(1,118)
Non-interest expense		**(100,803)**	**(78,831)**
Profit before income tax expense		**22,483**	**15,445**
Income tax (expense)/benefit	12	(709)	2,620
Profit for the year		**21,774**	**18,065**
Earnings per share:	17		
- Basic and diluted earnings per share (in GEL full amount)		0.00380	0.00315

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

(thousands of Georgian lari)

	Notes	2014	2013
Profit for the year		**21,774**	**18,065**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of buildings	10, 17	(13,380)	–
Income tax effect	12, 17	2,051	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(11,329)**	**–**
Other comprehensive loss for the year, net of tax		**(11,329)**	**–**
Total comprehensive income for the year		**10,445**	**18,065**

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2014

(thousands of Georgian lari)

	Attributable to shareholders of the Bank					
	Share capital	*Additional paid-in capital*	*Convertible preferred shares*	*Retained earnings/ (accumulated losses)*	*Other reserves*	*Total*
31 December 2012	**53,284**	**42,559**	**893**	**(18,839)**	**20,765**	**98,662**
Total comprehensive income for the year	**–**	**–**	**–**	**18,065**	**–**	**18,065**
Depreciation of revaluation reserve (Note 17)	–	–	–	483	(483)	**–**
Deferred tax (change in valuation estimate)	–	–	–	(6,188)	–	**(6,188)**
Dividends paid on the convertible preferred shares (Note 17)	–	–	–	(717)	–	**(717)**
Issue of the convertible preferred shares (Note 17)	–	–	4,286	–	–	**4,286**
31 December 2013	**53,284**	**42,559**	**5,179**	**(7,196)**	**20,282**	**114,108**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**21,774**	**(11,329)**	**10,445**
Depreciation of revaluation reserve (Note 17)	–	–	–	423	(423)	**–**
Revaluation reserve of sold asset (Note 17)	–	–	–	–	(75)	**(75)**
Dividends paid on the convertible preferred shares (Note 17)	–	–	–	(880)	–	**(880)**
Issue of share capital (Note 17)	99	–	–	–	–	**99**
Issue of the convertible preferred shares (Note 17)	–	–	960	–	–	**960**
31 December 2014	**53,383**	**42,559**	**6,139**	**14,121**	**8,455**	**124,657**

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2014

(thousands of Georgian lari)

	Notes	*2014*	*2013*
Cash flows from operating activities			
Interest received		209,684	175,475
Interest paid		(105,664)	(89,468)
Fees and commissions received		28,154	24,642
Fees and commissions paid		(3,902)	(4,463)
Net realised gains from dealing in foreign currencies		6,713	6,690
Recoveries of assets previously written off	8, 13	564	9,818
Other income received		10,391	6,030
Personnel expenses paid		(47,481)	(41,130)
General, administrative and other operating expenses paid		(32,145)	(21,552)
Cash flows from operating activities before changes in operating assets and liabilities		**66,314**	**66,042**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(10,093)	(64,322)
Loans to customers		(110,588)	(249,187)
Other assets		(3,154)	3,593
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		3,560	1,095
Amounts due to customers		231,605	444,074
Other liabilities		(2,347)	(3,065)
Net cash flows from operating activities before income tax		**175,297**	**198,230**
Income tax paid		–	–
Net cash from operating activities		**175,297**	**198,230**
Cash flows from investing activities			
Proceeds from redemption of investments available for sale		42	200
Purchase of investment securities		(258,884)	(341,170)
Proceeds from redemption of investment securities		199,549	270,063
Purchase of intangibles, property and equipment		(22,054)	(15,132)
Proceeds from sale of property and equipment		187	53
Net cash used in investing activities		**(81,160)**	**(85,986)**
Cash flows from financing activities			
Proceeds from issue of share capital	17	99	–
Sale of subordinated debt	16	15,534	–
Proceeds from issue of the convertible preferred shares		960	4,286
Dividends paid to shareholders of the convertible preferred shares	17	(880)	(717)
Net cash from financing activities		**15,713**	**3,569**
Effect of exchange rates changes on cash and cash equivalents		15,059	6,322
Net increase/(decrease) in cash and cash equivalents		**124,909**	**122,135**
Cash and cash equivalents, beginning	6	**355,089**	**232,954**
Cash and cash equivalents, ending	6	**479,998**	**355,089**

The accompanying notes on pages 6 to 52 are an integral part of these consolidated financial statements.

(thousands of Georgian lari)

1. Principal activities

JSC Liberty Bank (the "Bank") is a joint stock company, formed in accordance with legislation of Georgia in 1993. The Bank operates under a general banking license N 3500/10 issued by the National Bank of Georgia (the "NBG"), the central bank of Georgia, on 10 February 1993.

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 retail and corporate customers. Its main office is in Tbilisi, Georgia and it had as of 31 December 2014, 629 (31 December 2013: 603) branches, service centers, distribution outlets and mobile banking units operating in Georgia. The Bank's registered legal address is Liberty Tower, 74 I. Chavchavadze Avenue, 0162 Tbilisi, Georgia.

As of 31 December 2014 and 2013, the following shareholders owned more than 1% of the outstanding ordinary shares of the Bank. Other shareholders owned less than 1% individually of the outstanding ordinary shares.

	2014	***2013***
Shareholder	***Ownership interest, %***	***Ownership interest, %***
Liberty Holding Georgia LLC (former Liberty Capital LLC)	70.83%	70.83%
BNY Limited (Nominees)	12.14%	11.71%
JSC Liberty Capital	7.12%	7.36%
Stichting Liberty ESOP*	2.98%	3.16%
Other shareholders (individually holding less than 1%)	6.93%	6.94%
Total	**100.00%**	**100.00%**

* *Ordinary shares sold on a deferred payment basis to Stichting Liberty ESOP as the trustee for the share based compensation programme (Note 17).*

In July 2014, IBG Enterprise Inc acquired 12.76% of Liberty Holding Georgia LLC. As of December 2014, IBG Enterprise was ultimately beneficially owned by Mr. Alexey Yusfin, a prominent London-based industrialist.

In August 2014, Dan Costache Patriciu, the majority beneficial owner of the Bank, passed away after a protracted battle with a serious disease.

In September 2014, 70.45% of Liberty Holding Georgia LLC and, consequently, a 49.9% beneficial equity interest in the Bank, was acquired by Diverse Investments Limited, beneficially owned by Denis Korotkov-Koganovich and Malik Ishmuratov, the principals of the Oracle Capital Group. The transaction has been approved by the NBG on a conditional basis.

The Bank is a publicly traded company and its ordinary shares are traded on the Georgian Stock Exchange. The free float amounted to 22.1% as of 31 December 2014 (31 December 2013: 21.8%).

As of 31 December 2014 and as of 31 December 2013, 3,201,321,628 ordinary shares held by Liberty Holdings Georgia LLC (58.18% of the ordinary shares outstanding) were encumbered by the order of Tbilisi City Court in connection with civil litigation. For details please refer to Note 27.

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

		The Group ownership interest			
Name	**Country of incorporation**	**31 December 2014**	**31 December 2013**	**Date of incorporation**	**Activities**
Bus Stop LLC	Georgia	100.00%	100.00%	27 August 2009	Outdoor advertising
JSC Smartex*	Georgia	21.26%	21.26%	5 January 2009	Courier services / Startup incubator and angel investor

* *21.26% is held by the Bank and 78.74% is held by Lado Gurgenidze. It is accounted for in the Group's financial statements under the equity method.*

(thousands of Georgian lari)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its subsidiaries maintain their accounting records in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, investment properties, buildings and available for sale securities as disclosed in the accounting policies below.

These consolidated financial statements are presented in thousands of Georgian lari ("GEL"), except per share amounts and unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since none of the entities in the Group qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

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

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

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the 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.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments, such as trading and available for sale securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 23.

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

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

The principal or the most advantageous market must be accessible by the Group. 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group 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 Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Held to maturity investments

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

Loans and receivables

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

Cash and cash equivalents

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

Amounts due from credit institutions

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Amounts due from credit institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit or loss.

Leases

i. Operating − Group as lessee

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

ii. Operating − Group as lessor

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

Measurement of financial instruments at initial recognition

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

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

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

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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

3. Summary of accounting policies (continued)

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is 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 Group. 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 profit or loss.

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

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

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

Held to maturity financial investments

For held to maturity investments the Group 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 profit or loss.

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

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available for sale financial investments

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

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

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

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements, agreement of new loan conditions and improvement of collateral. Once the terms have been renegotiated, the loan is no longer considered past due.

The accounting treatment of such restructuring is conducted in 2 basic scenarios:

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

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

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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.

Financial guarantees

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia. It represents the sum of the current and deferred tax expenses.

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, which are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment, except for buildings, is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis at the following annual prescribed rates:

Land	–
Buildings	2%-5%
Furniture and fixtures	10%-20%
Computer and office equipment	20%-25%
Motor vehicles	20%-25%
Leasehold improvements	10%-25%

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

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

Land is not amortized and carried at fair value. Leasehold improvements are amortized over the life of the related leased assets.

Assets under construction comprise costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in other income when the compensation becomes receivable.

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both and which are not used or held for the sale in the ordinary course of business. Investment properties are initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment properties is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Earned rental income is recorded in the profit or loss within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment properties are recorded in consolidated statement of profit or loss and presented within other income or other operating expenses lines.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Georgia. In addition, the Group has no post-retirement benefits.

Share capital

Share capital and additional paid in capital

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

Dividends

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

Segment reporting

The Group's segment reporting is based on the following operating segments: Retail Banking, Corporate and SME (Small & Medium Size) Banking, Private Banking and Corporate Centre functions.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

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

- *Fee income from providing transaction services*

  Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

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

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Bank's and subsidiaries' functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated 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 exchange rates used by the Group in the preparation of the consolidated financial statements as of 31 December 2014 and 31 December 2013 are as follows:

	2014	*2013*
GEL/1 US dollar	1.8636	1.7363
GEL/1 euro	2.2656	2.3891

Standards and interpretations issued but not yet effective

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

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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 Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

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 recognising 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 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

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

Amendments to 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. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

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.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

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

Amendments to IAS 16 and IAS 41Agriculture: Bearer Plants

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

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 will not have any impact on the Group's consolidated financial statements.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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.

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).

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.

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.

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.

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.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. 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.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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).

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.

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 has no impact on the Group, since Group is an existing IFRS preparer.

Annual improvements 2012-2014 Cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

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

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n 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.

(thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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.

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.

4. Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the year ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the Group's financial condition.

Allowance for impairment of loans

The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior and observable data indicating an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralised loans and receivables. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

(thousands of Georgian lari)

4. Significant accounting judgments and estimates (continued)

Measurement of fair value of investment properties and buildings

Investment properties and buildings are stated at fair value. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Buildings of the Group are subject to revaluation on a regular basis. The date of latest revaluation was 31 December 2014. Refer to Note 10.

Fair value of investment properties was determined by independent professionally qualified appraisers as of 31 December 2014. Fair value was determined by applying income approach based on discounted cash flow method, supported by the terms of any existing lease and other contracts and, when available, by external evidence such as current market rents for similar properties in a comparable location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The estimates of future cash flows include projections of cash outflows for rent or purchase of the land.

The estimates described above are subject to change as new transaction data and market evidence become available.

Taxation

Tax legislation in Georgia is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for six years including the year of review. Management believes that as of 31 December 2014 its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

5. Segment information

For management purposes, the Group is organised into the following operating segments based on products and service:

Retail Banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit card facilities, funds transfer payments and electronic banking services.
Corporate and SME Banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Private Banking	Principally providing private banking and wealth management services to high net worth individuals.
Corporate Centre	Principally providing treasury and back office services to all operating segments of the Bank.
Other	Segments not classified above, comprising non-banking operations.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

(thousands of Georgian lari)

5. Segment information (continued)

The Group operates in one geographical market – Georgia. Since the Group's assets are located in single geographical area, the Group's external income, total assets and capital expenditure are allocated to a single location.

2014	*Retail banking*	*Corporate & SME banking*	*Private banking*	*Corporate centre*	*Other*	*Adjustments and eliminations*	*Total*
Net interest income	**82,421**	**11,685**	**1,713**	**11,074**	**1**	**8**	**106,902**
Net fee and commission income	19,251	3,390	484	1,090	(44)	–	**24,171**
Net gains from foreign currencies	4,263	1,776	355	711	–	–	**7,105**
Other income	6,462	3,077	514	205	344	(237)	**10,365**
Total revenue	**112,397**	**19,928**	**3,066**	**13,080**	**301**	**(229)**	**148,543**
Net impairment charge on interest-bearing assets	(25,260)	(1,525)	26	–	–	1,502	**(25,257)**
Personnel expenses	(34,750)	(7,629)	(482)	(5,845)	(25)	–	**(48,731)**
Depreciation, amortisation and impairment	(10,358)	(2,250)	(150)	(2,251)	(136)	–	**(15,145)**
Other impairment and provisions	(991)	(571)	(40)	(86)	–	(1,502)	**(3,190)**
General and administrative and other operating expenses	(23,318)	(6,547)	(513)	(3,376)	(307)	324	**(33,737)**
Segment results	**17,720**	**1,406**	**1,907**	**1,522**	**(167)**	**95**	22,483
Income tax expense	–	–	–	–	–	–	**(709)**
Profit for the year	–	–	–	–	–	–	**21,774**
Segment assets	1,188,848	61,257	9,493	319,761	870	(1,872)	**1,578,357**
Segment liabilities	409,223	862,511	61,844	120,113	345	(336)	**1,453,700**
Other segment information							
Investments in associates	–	–	–	401	–	–	**401**
Share in income of associates	–	–	–	25	–	–	**25**

2013	*Retail banking*	*Corporate & SME banking*	*Private banking*	*Corporate centre*	*Other*	*Adjustments and eliminations*	*Total*
Net interest income	**45,528**	**2,929**	**722**	**6,897**	**1**	**9**	**56,086**
Net fee and commission income	13,358	5,359	400	901	(44)	–	**19,974**
Net gains from foreign currencies	4,093	1,705	341	682	(1)	–	**6,820**
Other income	3,835	1,827	304	122	390	(254)	**6,224**
Total revenue	**66,814**	**11,820**	**1,767**	**8,602**	**346**	**(245)**	**89,104**
Net impairment charge on interest-bearing assets	(5,053)	9,194	29	–	–	(437)	**3,733**
Personnel expenses	(29,854)	(6,554)	(414)	(5,021)	(23)	–	**(41,866)**
Depreciation, amortisation and impairment	(8,043)	(1,746)	(116)	(1,748)	(127)	–	**(11,780)**
Other impairment and provisions	(902)	(520)	(36)	(78)	(19)	437	**(1,118)**
General and administrative and other operating expenses	(15,593)	(4,379)	(343)	(2,257)	(366)	310	**(22,628)**
Segment results	**7,369**	**7,815**	**887**	**(502)**	**(189)**	**65**	**15,445**
Income tax benefit	–	–	–	–	–	–	**2,620**
Profit for the year	–	–	–	–	–	–	**18,065**
Segment assets	948,898	119,753	9,219	216,667	998	(1,921)	**1,293,614**
Segment liabilities	480,127	499,561	63,963	135,838	307	(290)	**1,179,506**
Other segment information							
Investments in associates	–	–	–	304	–	–	**304**
Share in income of associates	–	–	–	12	–	–	**12**

(thousands of Georgian lari)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	139,491	102,948
Current accounts with the NBG	126,535	124,455
Current accounts with other credit institutions	66,372	27,486
Time deposits with credit institutions up to 90 days	147,600	100,200
Cash and cash equivalents	**479,998**	**355,089**

As of 31 December 2014, GEL 55,866 (31 December 2013: GEL 20,367) was placed on current and time deposit accounts with internationally recognised OECD banks that are the counterparties of the Group in performing international settlements. As of 31 December 2014, GEL 147,600 (31 December 2013: GEL 100,200) was placed on short-term time and overnight deposits with the NBG. The interest rates on time deposits with credit institutions up to 90 days range between 2.25% and 2.5% per annum.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2014	*2013*
Obligatory reserve with the NBG	44,608	37,847
Time deposits for more than 90 days	6,338	2,604
Amounts due from credit institutions	**50,946**	**40,451**

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

As of 31 December 2014, GEL 2,795 (31 December 2013: GEL 2,604) was placed on inter-bank deposits with internationally recognised OECD banks, that are the main counterparties of the Group in performing international settlements. The interest rate on such deposits ranges from 0.05%-0.1% per annum.

8. Loans to customers

Loans to customers comprise:

	2014	*2013*
Loans to retail clients with regular inflows	429,830	365,755
Consumer loans	134,430	81,991
Micro loans	81,084	58,923
Gold pawn loans	47,088	54,012
Corporate and SME loans	29,963	50,319
Residential mortgage loans	17,367	15,902
Gross loans to customers	**739,762**	**626,902**
Less – allowance for loan impairment	(47,652)	(26,822)
Loans to customers	**692,110**	**600,080**

Loans to retail clients with regular inflows are provided to individuals who have a stream of regular (typically monthly) inflows into their accounts at the Bank either in form of a salary, state pension or welfare payment.

(thousands of Georgian lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Loans to retail clients with regular inflows 2014	*Consumer loans 2014*	*Micro loans 2014*	*Gold pawn loans 2014*	*Corporate & SME loans 2014*	*Residential mortgage loans 2014*	*Total 2014*
At 1 January 2014	**14,026**	**8,007**	**418**	**–**	**4,116**	**255**	**26,822**
Charge for the year	9,383	12,143	1,615	434	1,527	155	**25,257**
Recoveries	373	140	10	–	31	–	**554**
Amounts written off	(3,454)	(598)	(235)	–	(551)	(143)	**(4,981)**
At 31 December 2014	**20,328**	**19,692**	**1,808**	**434**	**5,123**	**267**	**47,652**
Individual impairment	17,193	15,992	1,461	434	4,966	206	**40,252**
Collective impairment	3,135	3,700	347	–	157	61	**7,400**
	20,328	**19,692**	**1,808**	**434**	**5,123**	**267**	**47,652**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**17,193**	**15,992**	**1,461**	**585**	**14,991**	**206**	**50,428**

Allowance for impairment of loans to customers (continued)

	Loans to retail clients with regular inflows 2013	*Consumer loans 2013*	*Micro loans 2013*	*Gold pawn loans 2013*	*Corporate & SME loans 2013*	*Residential mortgage loans 2013*	*Total 2013*
At 1 January 2013	**10,319**	**5,410**	**447**	**–**	**4,185**	**465**	**20,826**
Charge/(reversal) for the year	3,329	2,365	(23)	–	(9,194)	(210)	**(3,733)**
Recoveries	449	237	–	–	9,125	–	**9,811**
Amounts written off	(71)	(5)	(6)	–	–	–	**(82)**
At 31 December 2013	**14,026**	**8,007**	**418**	**–**	**4,116**	**255**	**26,822**
Individual impairment	10,855	6,257	267	–	3,350	169	**20,898**
Collective impairment	3,171	1,750	151	–	766	86	**5,924**
	14,026	**8,007**	**418**	**–**	**4,116**	**255**	**26,822**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**10,934**	**6,295**	**267**	**–**	**12,078**	**169**	**29,743**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised as of 31 December 2014 comprised GEL 2,843 (2013: GEL 6,051). Related allowance charges were recognised both in 2014 and 2013 and are recorded in consolidated statement of profit or loss under net impairment charge on interest-bearing assets.

(thousands of Georgian lari)

8. Loans to customers (continued)

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 lending to legal entities: mortgages over real estate properties, inventory and trade receivables;
- For retail lending: mortgages over residential properties and gold over gold pawns.

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 of 31 December 2014, the concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 14,960 accounting for 2.0% of the gross loan portfolio of the Group (2013: GEL 33,066 and 5.3%, respectively). An allowance of GEL 2,834 (2013: GEL 246) was established against these loans.

Loans have been extended to the following types of customers:

	2014	*2013*
Individuals	703,578	556,651
Private companies	36,184	70,251
Loans to customers, gross	**739,762**	**626,902**
Less – allowance for loan impairment	(47,652)	(26,822)
Loans to customers, net	**692,110**	**600,080**

Loans are made principally within Georgia in the following industry sectors:

	2014	*2013*
Individuals	703,578	556,651
Trade and service	23,883	44,935
Construction	2,248	2,684
Agriculture	–	329
Other	10,053	22,303
Loans to customers, gross	**739,762**	**626,902**
Less – allowance for loan impairment	(47,652)	(26,822)
Loans to customers, net	**692,110**	**600,080**

9. Investment securities held to maturity

Held to maturity securities comprise:

	2014	*2013*
Treasury bonds of the Ministry of Finance of Georgia	124,403	66,839
Treasury bills of the Ministry of Finance of Georgia	55,616	53,546
Certificates of deposit of the NBG	16,887	13,056
Held to maturity securities	**196,906**	**133,441**

(thousands of Georgian lari)

10. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under const-ruction*	*Total*
Cost or revalued amount							
31 December 2013	**90,839**	**40,959**	**17,519**	**12,138**	**6,175**	–	**167,630**
Additions	3,058	8,366	4,386	526	1,584	–	**17,920**
Disposals	(162)	–	–	(126)	(14)	–	**(302)**
Revaluation	(18,454)	–	–	–	–	–	**(18,454)**
Reclassifications	(191)	–	–	–	191	–	**–**
31 December 2014	**75,090**	**49,325**	**21,905**	**12,538**	**7,936**	**–**	**166,794**
Accumulated depreciation and impairment							
31 December 2013	**3,397**	**16,709**	**12,018**	**6,570**	**611**	**–**	**39,305**
Depreciation charge	2,036	4,750	2,282	2,168	2370	–	**13,606**
Disposals	(7)	–	–	(111)	(14)	–	**(132)**
Revaluation	(4,782)	–	–	–	–	–	**(4,782)**
Reclassification	(84)	–	–	–	84	–	**–**
31 December 2014	**560**	**21,459**	**14,300**	**8,627**	**3,051**	**–**	**47,997**
Net book value							
31 December 2013	**87,442**	**24,250**	**5,501**	**5,568**	**5,564**	**–**	**128,325**
31 December 2014	**74,530**	**27,866**	**7,605**	**3,911**	**4,885**	**–**	**118,797**

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2012	**86,056**	**36,316**	**15,570**	**11,466**	**4,962**	**1,081**	**155,451**
Additions	4,387	4,647	1,951	1,148	1,213	–	**13,346**
Write offs	(36)	(4)	(2)	–	–	(649)	**(691)**
Disposals	–	–	–	(476)	–	–	**(476)**
Transfers	432	–	–	–	–	(432)	**–**
31 December 2013	**90,839**	**40,959**	**17,519**	**12,138**	**6,175**	**–**	**167,630**
Accumulated depreciation and impairment							
31 December 2012	**1,522**	**12,783**	**9,669**	**4,894**	**488**	**–**	**29,356**
Depreciation charge	1,880	3,929	2,351	2,139	123	–	**10,422**
Write offs	(5)	(3)	(2)	–	–	–	**(10)**
Disposals	–	–	–	(463)	–	–	**(463)**
31 December 2013	**3,397**	**16,709**	**12,018**	**6,570**	**611**	**–**	**39,305**
Net book value							
31 December 2012	**84,534**	**23,533**	**5,901**	**6,572**	**4,474**	**1,081**	**126,095**
31 December 2013	**87,442**	**24,250**	**5,501**	**5,568**	**5,564**	**–**	**128,325**

Buildings and land of the Group are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2014.

The Group's buildings are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2014.

(thousands of Georgian lari)

10. Property and equipment (continued)

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

	2014	*2013*
Cost	48,941	46,198
Accumulated depreciation and impairment	(6,322)	(5,342)
Net carrying amount	**42,619**	**40,856**

11. Intangible assets

The movements in intangible assets, which comprised computer software and licenses, were as follows:

	Computer software and licenses
Cost	
31 December 2013	**14,507**
Additions	3,148
Disposals	–
31 December 2014	**17,655**
Accumulated amortisation	
31 December 2013	**4,847**
Amortisation charge	1,539
Disposals	–
31 December 2014	**6,386**
Net book value	
31 December 2013	**9,660**
31 December 2014	**11,269**

	Computer software and licenses
Cost	
31 December 2012	**12,769**
Additions	1,739
Disposals	(1)
31 December 2013	**14,507**
Accumulated amortisation	
31 December 2012	**3,489**
Amortisation charge	1,358
Disposals	–
31 December 2013	**4,847**
Net book value	
31 December 2012	**9,280**
31 December 2013	**9,660**

12. Taxation

The corporate income tax expense/(benefit) comprised:

	2014	*2013*
Current year tax charge	–	–
Deferred tax charge/(benefit) – origination and reversal of temporary differences	709	(2,620)
Income tax expense/(benefit)	**709**	**(2,620)**

(thousands of Georgian lari)

12. Taxation (continued)

Georgian legal entities must file tax declarations. The tax rate for banks for profits other than on state securities was 15% for 2014 and 2013. The tax rate for interest income on state securities and the NBG deposits is 0%.

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

	2014	*2013*
Profit before income tax	**22,483**	**15,445**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**3,372**	**2,317**
Change in unrecognised deferred tax asset	(770)	(3,633)
Tax effect from income from state securities and deposits placed with the NBG at 0%	(2,197)	(1,679)
Non-tax deductible expenses	304	375
Income tax expense/(benefit)	**709**	**(2,620)**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2012	*In the statement of profit or loss*	*Effect of change in statement of changes in equity*	*2013*	*In the statement of profit or loss*	*Effect of change in statement of comprehensive income*	*2014*
Tax effect of deductible temporary differences							
Property and equipment	**269**	(269)	–	**–**	–	–	**–**
Taxable loss carried forward	**5,829**	(4,534)	–	**1,295**	(770)	–	**525**
Loans to customers	**1,716**	2,933	–	**4,649**	(558)	–	**4,091**
Equity investments	**1,073**	–	–	**1,073**	(798)	–	**275**
Other assets	**204**	149	–	**353**	483	–	**836**
Other liabilities	**411**	64	–	**475**	149	–	**624**
Gross deferred tax assets	**9,502**	**(1,657)**	**–**	**7,845**	**(1,494)**	**–**	**6,351**
Unrecognised deferred tax asset	**(5,626)**	4,331	–	**(1,295)**	770	–	**(525)**
Deferred tax asset	**3,876**	**2,674**	**–**	**6,550**	**(724)**	**–**	**5,826**
Tax effect of taxable temporary differences							
Property and equipment and intangible assets	**(7,622)**	(54)	(6,188)	**(13,864)**	15	2,051	**(11,798)**
Deferred tax liabilities	**(7,622)**	**(54)**	**(6,188)**	**(13,864)**	**15**	**2,051**	**(11,798)**
Net deferred tax assets/(liabilities)	**(3,746)**	**2,620**	**(6,188)**	**(7,314)**	**(709)**	**2,051**	**(5,972)**

(thousands of Georgian lari)

12. Taxation (continued)

The Group has available GEL 3,497 (2013: GEL 8,632) of taxable losses carried forward which begin to expire in 2015, if not utilised. The Group has fully provisioned this taxable loss carry forward. During the year the Bank utilised a taxable loss carry forward of GEL 5,133 (2013: GEL 27,367) with the respective tax effect of the utilisation amounting to GEL 770 (2013: GEL 4,105). The schedule of the available taxable loss carried forward with the respective expiration dates is presented below:

Year of expiration	*2014*	*2013*
2014	–	6,310
2015	3,497	2,322
Taxable loss carried forward, gross	**3,497**	**8,632**
Unrecognised taxable loss carried forward	(3,497)	(8,632)
Taxable loss carried forward, net	**–**	**–**

13. Other assets, prepayments and other liabilities

Other assets comprise:

	2014	*2013*
Investment properties	5,017	4,986
Derivative asset	4,033	–
Receivables from remittances systems operators	1,789	6,273
Guarantee deposits placed	1,647	1,403
Receivable from guarantees paid	1,276	764
Repossessed property	1,252	725
Prepaid taxes other than income tax	1,097	555
Current income tax assets	533	637
Investment in associate	401	304
Receivable from documentary operations	341	274
Other	5,832	3,094
	23,218	**19,015**
Less – allowance for impairment of other assets	(4,070)	(2,374)
Other assets	**19,148**	**16,641**

Investment properties primarily comprise of class B office space located in downtown Zugdidi with total rental space of 1,848 square meters and a warehouse building located in an industrial area of Tbilisi with gross usable space of 7,850 square meters, as well as several other properties located outside of Tbilisi.

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2014. The valuation was performed by an accredited independent valuator with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Refer to Note 23 for details.

There were no significant movements in investment properties during 2014 except fair value revaluation.

The Group's investment properties items are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2014.

(thousands of Georgian lari)

13. Other assets, prepayments and other liabilities (continued)

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.

	2014			2013		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – domestic	56,076	4,033	–	–	–	–
Total derivative assets/liabilities	**56,076**	**4,033**	**–**	**–**	**–**	**–**

As of 31 December 2014, the Group has positions in the following types of derivatives:

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

The Group's forward is classified to Level 2 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2014.

Receivables from remittances in the amount of GEL 1,789 (2013: GEL 6,273) represent money transfers made in advance toward the retail clients at the period end that were subsequently settled by the systems operators within several days in accordance with respective service contracts.

Guarantee deposits placed as of 31 December 2014 primarily represent pledged funds at VISA Inc. and MasterCard Inc. in the amount of GEL 654 and GEL 992, respectively (31 December 2013: VISA Inc. for GEL 609, MasterCard Inc. for GEL 793).

Prepayments comprise:

	2014	2013
Prepayments for fixed and intangible assets	5,446	5,174
Prepayments for security services	2,145	3,297
Prepaid insurance	266	109
Prepayments for professional services	211	198
Other	1,115	1,149
Total prepayments	**9,183**	**9,927**

Advances for security service represent a prepayment made to Legal Entity of Public Law (LEPL) Security Police Department (SPD). On 30 May 2012, the Bank signed a five year service agreement with SPD for 63 months until 1 September 2017 in the amount of GEL 5 million. According to the agreement, SPD provides security services at the Bank's head office, branches and other distribution outlets, as well as for vehicles used for cash transportation. In connection with this agreement, the Bank has recognised an expense in the amount of GEL 1,152 for the year ended 31 December 2014 (2013: GEL 1,104).

Other liabilities comprise:

	2014	2013
Bonus accrual	4,319	3,069
Funds pending settlements	3,341	2,804
Provision on guarantees and commitments	1,661	159
Sundry creditors	1,385	1,647
Operating taxes payable	233	264
Payables for intangible assets	–	840
Other	1,925	2,396
Other liabilities	**12,864**	**11,179**

(thousands of Georgian lari)

13. Other assets, prepayments and other liabilities (continued)

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

	Other assets	*Guarantees and commitments*	*Total*
31 December 2013	**2,374**	**159**	**2,533**
Charge/(reversal)	1,688	1,502	**3,190**
Write-offs	(2)	–	**(2)**
Recoveries	10	–	**10**
31 December 2014	**4,070**	**1,661**	**5,731**

	Other assets	*Guarantees and commitments*	*Total*
31 December 2012	**1,780**	**188**	**1,968**
Charge/(reversal)	1,147	(29)	**1,118**
Write-offs	(560)	–	**(560)**
Recoveries	7	–	**7**
31 December 2013	**2,374**	**159**	**2,533**

Provisions for claims, guarantees and commitments are recorded in other liabilities.

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2014	*2013*
Current accounts	5,105	2,168
Time deposits and loans	932	174
Amounts due to credit institutions	**6,037**	**2,342**

15. Amounts due to customers

The amounts due to customers include the following:

	2014	*2013*
Current accounts	843,773	750,699
Time deposits (including certificates of deposits)	569,208	407,972
Amounts due to customers	**1,412,981**	**1,158,671**
Held as security against guarantees issued	2,713	5,020

At 31 December 2014, amounts due to customers of GEL 289,246 (20.5%) were due to the ten largest customers (31 December 2013: GEL 274,665 (23.7%)).

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

	2014	*2013*
Individuals	774,121	542,922
State and public sector	447,570	474,457
Private enterprises	191,290	141,292
Amounts due to customers	**1,412,981**	**1,158,671**

(thousands of Georgian lari)

15. Amounts due to customers (continued)

The amounts due to customers by economic sector are as follows:

	2014	*2013*
Individuals	774,121	542,922
State and public sector	447,570	474,457
Energy	28,504	15,678
Trade	26,369	37,321
Transport and communication	25,269	19,136
Real estate constructions	4,962	3,304
Agriculture	440	785
Mining	87	67
Other	105,659	65,001
Amounts due to customers	**1,412,981**	**1,158,671**

16. Subordinated debt

In November 2014, the Bank commenced the sale of unsecured Subordinated Loan Contracts (the "SLCs") to high net worth individuals and corporate clients. The primary reason for issuance of the SLCs was to attract Tier 2 qualified capital to support the Bank's capitalisation (see Note 27).

As of 31 December 2014, the Bank had GEL 15,846 of Subordinated Debt outstanding, of which GEL 6,485 qualified for the inclusion in the Tier 2 capital.

17. Equity

Share capital

As of 31 December 2014, the authorised share capital of the Bank comprised 7,500,000,000 ordinary shares, of which 5,918,670,396 were issued and 5,338,298,249 ordinary shares were fully paid (31 December 2013: 7,500,000,000 ordinary shares, of which 5,918,670,396 were issued and 5,328,424,855 were fully paid). Each share has nominal value of GEL 0.01. Out of total number of ordinary shares issued, 163,956,105 shares are sold on a deferred payment basis to Stichting Liberty ESOP and are attributable to the share based compensation programme.

Movements in the ordinary and the convertible preferred shares are described below:

	Number of shares		*Nominal amount*		
	Convertible preferred	*Ordinary*	*Convertible preferred*	*Ordinary*	*Total*
31 December 2012	**892,584**	**5,328,424,855**	**893**	**53,284**	**54,177**
Increase in share capital	4,286,480	–	4,286	–	**4,286**
31 December 2013	**5,179,064**	**5,328,424,855**	**5,179**	**53,284**	**58,463**
Increase in share capital	960,000	9,873,394	960	99	**1,059**
31 December 2014	**6,139,064**	**5,338,298,249**	**6,139**	**53,383**	**59,522**

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

During 2014 no new ordinary shares have been issued.

(thousands of Georgian lari)

17. Equity (continued)

Convertible preferred shares

In August 2012, the Bank issued and made available for sale to the general public in a public offer in Georgia 10,000,000 non-redeemable convertible preferred shares at the gross placement price of GEL 1 per convertible preferred share (with the permissible size of the public offer subsequently increased to 30,000,000 convertible preferred shares), of which 6,139,064 convertible preferred shares were outstanding and fully paid-up as of 31 December 2014 (2013: 5,179,064), and the remainder was available for sale through the public offer expiring on 31 December 2015. The convertible preferred shares issued by the Bank are not listed. The convertible preferred shares are perpetual and can be converted, at the holder's discretion, into ordinary shares of the Bank at the conversion price based on 1.05 times the IFRS audited ordinary equity book value of the Bank as of the end of the preceding calendar year.

The dividend rate on the convertible preferred shares is 17% per annum, payable annually, subject to the AGM approval in each given year. The dividends are non-cumulative. The conversion option was classified as equity component as of the initial recognition date.

The ability to pay dividends is subject to the Bank's financial condition and results of operations and compliance with the prudential capital adequacy requirements and may be restricted by, among other things, applicable laws and regulations, and by the NBG.

In 2014, 12 senior employees who were collectively awarded a retention gross bonus of GEL 1,200 purchased 960,000 convertible preferred shares with the gross placement price of GEL 1 per convertible preferred share fully paid up.

Basic/diluted earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding of the effect of all dilutive potential ordinary shares, which comprise share options granted to employees and the convertible preferred shares.

In 2014, net income attributable to ordinary shareholders of the Group comprised GEL 21,774 (2013: GEL 18,065) and the weighted average number of ordinary shares outstanding during the year was 5,502,254,354 (2013: 5,502,254,354), resulting in earnings per share of GEL 0.00380 (full amount) for 2014 (2013: GEL 0.00315).

At 31 December 2014, the convertible preferred shares did not have a dilutive effect as the conversion price of GEL 0.023 exceeded the quoted weighted average market price for the period of GEL 0.015. Thus, the dilution did not include the potential effect from the conversion of 6,139,064 convertible preferred shares into ordinary shares as of 31 December 2014 (At 31 December 2013, the convertible preferred shares did not have a dilutive effect as the conversion price of GEL 0.021 exceeded the quoted weighted average market price for the period of GEL 0.009).

Dividends

The Bank has not paid any dividends on its ordinary shares for the years 2014 and 2013. The bank paid dividends on the convertible preferred shares in the amount of GEL 880 in 2014 (2013: 717).

Other reserves

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	*Total*
At 31 December 2012	**20,765**	**20,765**
Depreciation of revaluation reserve, net of tax	(483)	**(483)**
At 31 December 2013	**20,282**	**20,282**
Revaluation of buildings	(13,380)	**(13,380)**
Tax effect of revaluation of buildings	2,051	**2,051**
Revaluation reserve of sold assets, net of tax	(75)	**(75)**
Depreciation of revaluation reserve, net of tax	(423)	**(423)**
At 31 December 2014	**8,455**	**8,455**

(thousands of Georgian lari)

17. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

18. Commitments and contingencies

Operating environment

Parliamentary elections of 1 October 2012 and the subsequent peaceful transition of power relieved political uncertainty and strengthened the democratic governance in Georgia, further strengthened by the presidential elections held on 27 October 2013. Subsequent to the parliamentary elections, the credit rating agencies reconfirmed their sovereign ratings of Georgia with stable outlook which was reaffirmed to positive in October 2014. Georgia remains under precautionary (non-cash) stand-by arrangement with the IMF which ensures dialogue on all aspects of macro-fiscal and monetary decision-making. All Georgian sovereign and corporate Eurobonds traded on 31 December 2014 above their par value. In the recent years, Georgia implemented far-reaching structural reforms. In 2014 Georgia was No. 15 in the World Bank Ease of Doing Business global rankings and No 22 in the Index of Economic Freedom. Supply-side economic reforms have contributed to the resilience and helped to contain Georgia's exposure to exogenous challenges stemming from the global financial and credit market conditions, and regional geopolitical realities. After a relatively insignificant dip in 2009, the economy rebounded growing in real terms by 6.2%, 3.3% and 4.7% in 2012, 2013 and 2014 respectively, with GDP growth projected to exceed 2% in 2015.

Budget deficit in 2013 and 2014 amounted, on a preliminary basis, to 2.6% and 3.2% of GDP, respectively. Proper fiscal-monetary interaction and prudent banking sector supervision allowed to sustain positive development dynamics in the financial sector and to counter the exchange rate and credit risks, providing for incremental loan book growth while keeping sector NPLs (defined as loans overdue by 90 days) at a relatively low level (below 5%). The banking sector remains relatively dollarised (60% of sector loans), while the share of the local-currency lending has been increasing slowly, partly reflecting efforts by the NBG to grant the banks access to longer-term GEL funding.

The end-of-period inflation rate changed from 2.4% as of 31 December 2013 to 2.0% as of 31 December 2014. Public debt as a share of GDP comprised 35.7% and 34.7% as of 31 December 2014 and 31 December 2013, respectively. The government and the NBG sustain sufficient liquidity – in the form of the government cash deposit at the NBG and in the form of the NBG's international reserves.

Georgia remains a small open economy, which is exposed to exogenous trends and pressures. However, the management believes that the Bank is well-equipped to withstand such pressures, due to the fact that 95.7% of gross loans and 78.8% of amounts due to customers are denominated in GEL. Adverse developments in the region in 2014 have resulted in increased pressure on the GEL due to the stagnation, reduced levels of foreign currency inflows to fund current account deficit. As of 31 March 2015, the GEL depreciated year to date by 19.5% against the US dollar. The impact of the currency depreciation in economic growth, inflation, consumer demand for loans and their credit worthiness, and the availability of GEL funding on commercially attractive terms may be pronounced. Changes in economic conditions are correlated with the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

(thousands of Georgian lari)

18. Commitments and contingencies (continued)

Legal (continued)

The Group's commitments and contingencies comprised the following:

	2014	*2013*
Credit related commitments		
Guarantees	4,620	13,083
Letters of credit	–	157
Undrawn loan commitments	39,033	53,136
	43,653	**66,376**
Operating lease commitments		
Not later than 1 year	4,701	3,826
Later than 1 year but not later than 5 years	12,907	9,341
Later than 5 years	6,309	4,811
	23,917	**17,978**
Capital expenditure commitments	645	1,279
Less – provisions (Note 13)	(1,661)	(159)
Commitments and contingencies (before deducting collateral)	**66,554**	**85,474**
Less – cash held as security against guarantees issued	(2,713)	(5,020)
Commitments and contingencies	**63,841**	**80,454**

As of 31 December 2014 and 31 December 2013, the Bank had Bankers Blanket Bond insurance, Directors and Officers liability insurance, and Property and Vehicle insurance coverage.

19. Net fee and commission income

Net fee and commission income comprised:

	2014	*2013*
Plastic card operations	7,502	4,982
Settlements operations	6,174	5,599
Remittances	6,113	7,084
Cash operations	2,928	1,614
Fee income received from bill payments	1,237	1,362
Guarantees and letters of credit	393	507
Other	3,794	3,404
Fee and commission income	**28,141**	**24,552**
Plastic card operations	(3,163)	(2,450)
Settlements operations	(781)	(618)
Cash operations	(13)	(45)
Guarantees and letters of credit	(13)	(26)
Fee and commission expense	**(3,970)**	**(3,139)**
Net fee and commission income	**24,171**	**21,413**

(thousands of Georgian lari)

20. Other income

Other income comprised:

	2014	*2013*
Income from penalty on late payments on customer loans & advances	7,807	4,583
Income from rent	762	670
Income from advertising	107	155
Gain from sale of assets	68	47
Gain from revaluation of investment properties	–	194
Other	1,621	575
Total other income	**10,365**	**6,224**

21. Personnel and general and administrative expenses

Personnel and general and administrative expenses comprise:

	2014	*2013*
Salaries	40,195	34,392
Variable monthly bonuses	3,397	3,780
Performance based discretionary bonus pool	3,939	2,494
Employee retention of the convertible preferred shares	1,200	1,200
Personnel expenses	**48,731**	**41,866**

	2014	*2013*
Occupancy and rent	5,854	4,035
Office supplies	3,295	2,223
Marketing and advertising	3,159	2,438
Communications	3,116	2,739
Legal and other professional services	2,703	1,707
Utility expense	1,928	1,714
Operating taxes	1,299	1,397
Security	1,158	1,098
Repair and maintenance	839	454
Travel expenses	661	550
Corporate hospitality and entertainment	555	576
Insurance	474	406
Other	3,836	2,493
General and administrative expenses	**28,877**	**21,830**

22. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operational risk. The risk management framework adopted by the Bank sets the boundaries of Risk bearing capacity for each risk and business line and ensures its compliance.

The responsibility of the individuals responsible for risk management is to ensure the compliance of the Bank to the Risk Appetite Statement ("RAS") set by the Supervisory Board of the Bank. The compliance is ensured by continuous monitoring of the RAS parameters and informing the Supervisory Board and proposing any changes to these parameters when circumstances change.

22. Risk management (continued)

Risk management structure

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. Currently the Risk Appetite metrics are set by the Chairman of the Board and monitored by the following units with the Management Board -

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

It is planned to create in 2015 a separate Risk Management Committee under the Management Board which will monitor and propose amendments to the RAS to the Supervisory Board, on a regular basis.

Audit Committee

The Audit Committee has the overall responsibility for the implementation and monitoring of the Risk Appetite Statement set by the Supervisory Board. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Internal Audit

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

Risk Measurement and Reporting Systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience.

Monitoring and controlling risks is primarily performed based on limits established by the RAS. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Group uses collateral and diversification to mitigate its credit risks.

Excessive risk concentration

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

Credit risk

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

(thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Actual exposure per borrower against limits is monitored on loans granted. The Credit Committee may initiate a change in the limits.

Where appropriate, the Bank obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit-related commitments risks

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit policies. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the categories specified in the tables.

As of 31 December 2014	*Notes*	*Neither past due nor impaired 2014*	*Past due but not fully impaired 2014*	*Individually impaired 2014*	*Total 2014*
Amounts due from credit institutions	7	50,945	–	–	**50,945**
Loans to customers	8				
Loans to retail clients with regular inflows		402,461	10,176	17,193	**429,830**
Consumer loans		109,801	8,637	15,992	**134,430**
Micro loans		78,646	977	1,461	**81,084**
Gold pawn loans		44,324	2,179	585	**47,088**
Corporate & SME loans		14,491	481	14,991	**29,963**
Residential mortgage loans		16,819	342	206	**17,367**
		666,542	**22,792**	**50,428**	**739,762**
Investment securities held to maturity	9	196,906	–	–	**196,906**
Total		**914,393**	**22,792**	**50,428**	**987,613**

As of 31 December 2013	*Notes*	*Neither past due nor impaired 2013*	*Past due but not fully impaired 2013*	*Individually impaired 2013*	*Total 2013*
Amounts due from credit institutions	7	40,451	–	–	**40,451**
Loans to customers	8				
Loans to retail clients with regular inflows		347,083	7,738	10,934	**365,755**
Consumer loans		66,691	9,005	6,295	**81,991**
Micro loans		58,188	468	267	**58,923**
Gold pawn loans		52,802	1,210	–	**54,012**
Corporate & SME loans		33,282	4,959	12,078	**50,319**
Residential mortgage loans		15,420	313	169	**15,902**
		573,466	**23,693**	**29,743**	**626,902**
Investment securities held to maturity	9	133,441	–	–	**133,441**
Total		**747,358**	**23,693**	**29,743**	**800,794**

(thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

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

As of 31 December 2014	*Notes*	*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	8					
Loans to retail clients with regular inflows		5,978	2,328	1,870	–	**10,176**
Consumer loans		5,200	1,860	1,577	–	**8,637**
Micro loans		562	222	193	–	**977**
Gold pawn loans		808	424	361	586	**2,179**
Corporate & SME		481	–	–	–	**481**
Residential mortgage loans		332	10	–	–	**342**
Total		**13,361**	**4,844**	**4,001**	**586**	**22,792**

As of 31 December 2013	*Notes*	*Less than 30 days 2013*	*31 to 60 days 2013*	*61 to 90 days 2013*	*More than 90 days 2013*	*Total 2013*
Loans to customers	8					
Loans to retail clients with regular inflows		4,551	2,380	807	–	**7,738**
Consumer loans		6,010	1,939	1,056	–	**9,005**
Micro loans		298	116	54	–	**468**
Gold pawn loans		781	199	79	151	**1,210**
Corporate & SME		851	539	69	3,500	**4,959**
Residential mortgage loans		95	190	28	–	**313**
Total		**12,586**	**5,363**	**2,093**	**3,651**	**23,693**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

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

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

	2014	*2013*
Loans to customers		
Loans to retail clients with regular inflows	3,247	87
Consumer loans	12,027	19,234
Micro loans	745	512
Corporate & SME loans	3,362	4,333
Residential mortgage loans	–	141
Total	**19,381**	**24,307**

(thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. The main consideration for the individual assessment include whether any payment of principal or interest are overdue by more than 90 days for all loans. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration historical losses on the portfolio and the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance. The impairment allowance is then reviewed by the management to ensure alignment with the Group's overall policy.

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

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

	2014				*2013*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	422,811	55,866	1,321	**479,998**	329,243	20,367	5,479	**355,089**
Amounts due from credit institutions	48,151	2,795	–	**50,946**	37,847	2,604	–	**40,451**
Loans to customers	692,110	–	–	**692,110**	600,080	–	–	**600,080**
Investment securities held to maturity	196,906	–	–	**196,906**	133,441	–	–	**133,441**
All other assets	152,335	5,533	529	**158,397**	163,151	1,402		**164,553**
	1,512,313	**64,194**	**1,850**	**1,578,357**	**1,263,762**	**24,373**	**5,479**	**1,293,614**
Liabilities								
Amounts due to credit institutions	6,037	–	–	**6,037**	2,342	–	–	**2,342**
Amounts due to customers	1,348,983	23,091	40,907	**1,412,981**	1,117,547	13,431	27,693	**1,158,671**
Subordinated debt	12,028	3,761	57	**15,846**	–	–	–	**–**
All other liabilities	18,836	–	–	**18,836**	18,493	–	–	**18,493**
	1,385,884	**26,852**	**40,964**	**1,453,700**	**1,138,382**	**13,431**	**27,693**	**1,179,506**
Net assets/(liabilities)	**126,429**	**37,342**	**(39,114)**	**124,657**	**125,380**	**10,942**	**(22,214)**	**114,108**

(thousands of Georgian lari)

22. Risk management (continued)

Liquidity risk and funding management

The tables below summarise the maturity profile of the Group's financial liabilities as of 31 December 2014 and as of 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As of 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	5,850	186	–	–	**6,036**
Amounts due to customers	1,001,947	358,058	103,949	2,075	**1,466,029**
Subordinated debt	558	1,673	23,751	1,340	**27,322**
Total undiscounted financial liabilities	**1,008,355**	**359,917**	**127,700**	**3,415**	**1,499,387**

As of 31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	2,168	174	–	–	**2,342**
Amounts due to customers	858,771	243,910	86,096	1,815	**1,190,592**
Subordinated debt	–	–	–	–	**–**
Total undiscounted financial liabilities	**860,939**	**244,084**	**86,096**	**1,815**	**1,192,934**

The table below shows the contractual expiry by maturity of the Group'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*
2014	44,429	3,916	13,511	6,359	**68,215**
2013	59,616	10,294	10,032	5,691	**85,633**

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

(thousands of Georgian lari)

22. Risk management (continued)

Market risk (continued)

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The Bank is exposed to interest rate risk in case of material drop in interest rates from competitors or rise in the cost of funds due to macro and bank specific events.

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 Group had significant exposure at 31 December on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the GEL, 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	*Appreciation/ (depreciation) of the exchange rate of GEL against the respective currency in % 2014*	*Effect on profit before tax 2014*	*Appreciation/ (depreciation) of the exchange rate of GEL against the respective currency in % 2013*	*Effect on profit before tax 2013*
USD	-7.33%	112	-4.80%	186
EUR	5.17%	(10)	-9.47%	(2)

Operational risk

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, or from external events, whether deliberate, accidental or natural occurrences. External events include, but are not limited to fraud, floods, fire, earthquakes and terrorist or hacker attacks. Credit or market events such as default or fluctuations in value do not fall in the scope of operational risk. Compliance risk is included under operational risk. Compliance risk is the potential that the Bank may incur regulatory sanctions, financial loss and/or reputational damage arising from its failure to comply with applicable laws, rules and regulations. The operational risk does not cover the reputational risk.

23. Fair value disclosures

Fair value measurement procedures

External Valuators are involved for valuation of significant assets, such as properties. Involvement of external Valuators is decided upon annually by the management after discussion with and approval by the Bank's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuators are normally rotated every three years. The management decides, after discussions with the Group's external Valuators, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the Group's external Valuators, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the management and the Group's external Valuators present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

(thousands of Georgian lari)

23. Fair value disclosures (continued)

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

At 31 December 2014	*Date of valuation*	*Fair value measurement using* (Level 1)	(Level 2)	(Level 3)	*Total*
Assets measured at fair value					
Foreign exchange forwards and swaps	31 December 2014	–	4,033	–	**4,033**
Investment properties	31 December 2014	–	–	5,017	**5,017**
Property and equipment – buildings	31 December 2014	–	–	74,530	**74,530**
		–	**4,033**	**79,547**	**83,580**
Assets for which fair values are disclosed					
Investment securities held to maturity	31 December 2014	–	–	200,552	**200,552**
		–	**–**	**200,552**	**200,552**

At 31 December 2013	*Date of valuation*	*Fair value measurement using* (Level 1)	(Level 2)	(Level 3)	*Total*
Assets measured at fair value					
Investment properties	31 December 2014	–	–	4,986	**4,986**
Property and equipment – buildings	31 December 2014	–	–	87,442	**87,442**
		–	**–**	**92,428**	**92,428**
Assets for which fair values are disclosed					
Investment securities held to maturity	31 December 2014	–	–	136,851	136,851
		–	**–**	**136,851**	**136,851**

There were no transfers among the levels of the fair value hierarchy in 2014 and 2013.

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

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried 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 2014	*Fair value 2014*	*Unrecognised gain/(loss) 2014*	*Carrying value 2013*	*Fair value 2013*	*Unrecognised gain/(loss) 2013*
Financial assets						
Investment securities held to maturity	196,906	200,552	3,646	133,441	136,851	3,410
Total unrecognised change in unrealised fair value			**3,646**			**3,410**

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.

(thousands of Georgian lari)

23. Fair value disclosures (continued)

Valuation techniques and assumptions (continued)

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.

Derivatives

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

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date, as such they fall under level 2 fair value hierarchy. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the NBG and credit institutions and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Investment properties and buildings

There are three main approaches to valuation of real property:

Market approach

Establishes limits on the market value for the real estate by examining the prices commonly paid for properties that compete with the subject property for buyers. Sales are investigated to ensure that the parties to the transaction were adequately motivated. Sale prices reflecting motivation other than that of a typical market participant, i.e. transactions of special purchasers who are willing to pay a premium for a particular property, should be eliminated. The method involves analysing units of comparison such as a price per square metre of gross building area. Adjustments are made to the sales/listing for differences in location, size, age and condition, financing and various other factors which may have any influence on the value.

In the analysis of the market value of appraised properties by the sales comparison (market data) approach, it is utilised the sales/listing measured to the best available, most recent and overall similar sales/listing available as of the report date.

Information on the comparable sales and listing is obtained from brokerage companies, agents and brokers, as well as public information, including commercial broker listings on websites and published data. Then such information is further confirmed with owners and/or principles or brokers involved in the listed transactions.

Cost approach

Establishes the value of the real estate by estimating the cost of acquiring the land and building a new property or renovating an old property for equivalent utilisation purposes with no undue cost due to delay. An estimate of entrepreneurial incentive or developer's profit/loss is commonly added to the land and construction costs. For mature properties, the cost approach is used to estimate the depreciation cost, including items of physical deterioration and functional obsolescence.

The main approach of the cost replacement method reflects the idea that one will not pay for the given property more than he/she would pay for the construction of that property.

(thousands of Georgian lari)

23. Fair value disclosures (continued)

Valuation techniques and assumptions (continued)

The cost approach involves the following steps:

- Estimate land value;
- Estimate reproduction or replacement cost of the improvements;
- Estimate accrued depreciation from all sources (physical deterioration, functional obsolescence, external and economic obsolescence);
- Deduct accrued depreciation from the reproduction or replacement cost to arrive at the depreciated improvement cost;
- Estimate equipment cost and deduct depreciation;
- Add the depreciated improvement cost to depreciated equipment cost and to the land value to arrive at a total property value indication.

Income capitalisation approach

The income generation methodology is based on the hypothetical incomes generated through the use of the property being valued. The estimation of the real estate market value is based on the capitalisation coefficient which is calculated based on the long-term rate of the alternative investment methodology.

Discount cash flow (DCF)

The fair value of completed investment properties is determined using a discounted cash flow (DCF). Based on the actual and projected market demand, types of goods/ services to be produced/provided, pricing policy and expected competitive environment in the market, the strategic financial projections for the business is developed. Using DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property.

In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Movements in level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of investment properties in Level 3 assets and liabilities which are recorded at fair value. For the reconciliation of property and equipment – buildings refer to Note 10:

	At 1 January 2014	*Total gain/(loss) recorded in profit or loss*	*Purchases*	*At 31 December 2014*
Assets				
Investment properties	4,986	(25)	56	**5,017**
	4,986	**(25)**	**56**	**5,017**

	At 1 January 2013	*Total gain/(loss) recorded in profit or loss*	*Purchases*	*At 31 December 2013*
Assets				
Investment properties	4,793	193	–	4,986
	4,793	**193**	**–**	**4,986**

(thousands of Georgian lari)

23. Fair value disclosures (continued)

Movements in level 3 assets and liabilities at fair value (continued)

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

As of 31 December 2014	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Land and buildings – head office	43,460	- Income Capitalisation Approach (DCF)	- 10% increase/decrease of rent price - 10% increase/decrease of Occupancy rate	(9.98%) up to 9.36%
Land and buildings	10,527	- Income Capitalisation Approach (DCF)	- 10% increase/decrease of rent price - 10% increase/decrease of Occupancy rate	(12.46%) up to 11.21%
Land and buildings	8,954	- Cost approach	- 10% increase/decrease of land price - 10% increase/decrease of Replacement cost	(8.37%) up to 8.71%
Land and buildings	10,979	- Market approach	- Price volatility adjustment: 10% increase/decrease of market prices	(8.59%) up to 9.87%
Investment properties – commercial building	1,954	- Market approach	- Price volatility adjustment: 10% increase/decrease of market prices	(11.21%) up to 9.07%
Investment properties – commercial building	414	- Cost approach	- 10% increase/decrease of land price - 10% increase/decrease of Replacement cost	(7.88%) up to 6.81%
Investment properties – commercial building	824	- Cost approach	- 10% increase/decrease of land price - 10% increase/decrease of Replacement cost	(9.87%) up to 8.05%
Investment properties – commercial building	1,746	- Market approach	- Price volatility/adjustment: 10% increase/decrease of market prices	(13.86%) up to 10.94%
Investment properties – commercial building	80	- Market approach	- Price volatility adjustment: 10% increase/decrease of market prices	(10.53%) up to 8.70%

As of 31 December 2013	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Property and equipment – buildings	87,442	- Market approach - Cost approach	- Price volatility adjustment - Replacement cost - Annual depreciation cost (Physical, Functional, Economic) - Land price volatility adjustment	(20%) up to 25%
Investment properties – commercial building	1,871	- Market approach	- Price volatility adjustment	(16%) up to 19%
Investment properties – commercial building	332	- Cost approach	- Replacement cost - Annual depreciation cost (Physical, Functional, Economic) - Land price volatility adjustment	(10%) up to 9%
Investment properties – commercial building	950	- Cost approach	- Replacement cost - Annual depreciation cost (Physical, Functional, Economic) - Land price volatility adjustment	(5%) up to 5%
Investment properties – commercial building	1,762	- Income Capitalisation Approach (DCF)	- Annual average vacancy rate - Rent per Sq.m - Annual Discount rate	(12%) up to 3%
Investment properties – commercial building	73	- Market approach	- Price volatility adjustment	(22%) up to 13%

(thousands of Georgian lari)

24. Maturity analysis of assets and liabilities

The table below shows an analysis of monetary assets and liabilities according to when they are expected to be recovered or settled.

	2014			*2013*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	479,998	–	**479,998**	355,089	–	**355,089**
Amounts due from credit institutions	50,946	–	**50,946**	40,451	–	**40,451**
Loans to customers	455,467	236,643	**692,110**	379,610	220,470	**600,080**
Investment securities held to maturity	76,550	120,356	**196,906**	80,495	52,946	**133,441**
Total	**1,062,961**	**356,999**	**1,419,960**	**855,645**	**273,416**	**1,129,061**
Amounts due to credit institutions	6,037	–	**6,037**	2,342	–	**2,342**
Amounts due to customers, of which:	893,272	519,709	**1,412,981**	682,766	475,905	**1,158,671**
Current accounts	402,537	441,236	**843,773**	347,515	403,184	**750,699**
Time deposits (including certificates of deposit)	490,735	78,473	**569,208**	335,251	72,721	**407,972**
Other liabilities	2	–	**2**	2	–	**2**
Total	**899,311**	**519,709**	**1,419,020**	**685,110**	**475,905**	**1,161,015**
Net	**163,650**	**(162,710)**	**940**	**170,535**	**(202,489)**	**(31,954)**

Customer deposits diversification by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long term and stable source of funding, and as a result they are allocated per expected time of the funds outflow in the gap analysis table on the basis of the statistical data accumulated by the Group during the previous periods and assumptions made regarding the "permanent" part of current account balances.

As of 31 December 2014, total Amounts due to customers amounted to GEL 1,412,981 (As of 31 December 2013: GEL 1,158,671), of which current accounts comprised GEL 843,773 (as of 31 December 2013: GEL 750,699). The Bank conducts the analysis of the stability of the current account balances for the period of the preceding two years on a daily basis. These balances have not fallen below GEL 441,236 (2013: GEL 403,184) for the respective periods of the preceding 24 months. As such, it is reasonable to present these funds in Amounts due to customers in more than one year maturity range in the above schedule. If the contractual maturities of Amounts due to customers were considered, the cumulative liquidity gap within one year as of 31 December 2014 would have been negative GEL 277,586 (31 December 2013: negative GEL 232,649).

As of 31 December 2014, the Bank had sufficient liquid collateral to additionally draw down GEL 187,061 (2013: GEL 126,770) from the NBG at immediate notice.

On 19 December 2014, Fitch Ratings affirmed the Bank's Long-Term Foreign Currency Issuer Default Rating (IDR) of 'B', Short-term IDR of 'B', Individual Rating of 'D/E', Support Rating of '4' and Support Rating Floor of 'B'. The Outlook for the Long-term IDR is Positive (In 2010 Fitch Ratings assigned the Bank a Long-Term Foreign Currency Issuer Default Rating (IDR) of 'B', Short-term IDR of 'B', Individual Rating of 'D/E', Support Rating of '4' and Support Rating Floor of 'B'. The Outlook for the Long-term IDR is Stable).

25. Related party disclosures

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

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

(thousands of Georgian lari)

25. Related party disclosures (continued)

The outstanding balances at the period end of and related income and expense arising from related party transactions are as follows:

	2014				*2013*			
	Parent	***Entities with significant influence over the Group***	***Entities under common control***	***Key management personnel***	***Parent***	***Entities with significant influence over the Group***	***Entities under common control***	***Key management personnel***
Loans outstanding at 1 January, gross	**–**	**–**	**–**	**147**	**–**	**–**	**–**	**258**
Loans issued during the year	–	–	279	289	–	–	–	208
Loan repayments during the year	–	–	279	(115)	–	–	–	(319)
Loans outstanding at 31 December, gross	**–**	**–**	**–**	**321**	**–**	**–**	**–**	**147**
Less: allowance for impairment at 31 December	–	–	–	6	–	–	–	3
Loans outstanding at 31 December, net	**–**	**–**	**–**	**315**	**–**	**–**	**–**	**144**
Interest income on loans	–	–	3	40	–	–	–	22
Impairment (reversal)/ charge for loans	–	–	–	3	–	–	–	(2)

	2014				*2013*			
	Parent	***Entities with significant influence over the Group***	***Entities under common control***	***Key management personnel***	***Parent***	***Entities with significant influence over the Group***	***Entities under common control***	***Key management personnel***
Deposits at 1 January	**620**	**–**	587	**360**	**–**	**–**	**–**	**1,718**
Deposits received during the year	545	–	240	1,876	620	–	587	654
Deposits repaid during the year	(1,165)	–	–	(302)	–	–	–	(2,012)
Deposits at 31 December	**–**	**–**	**827**	**1,934**	**620**	**–**	**587**	**360**
Current accounts at 31 December	117	9	1,506	1,631	48	9	1,089	2,175
Interest expense on deposits and current accounts	126	-	224	213	17	-	90	209
Commitments and guarantees issued	–	–	830	–	–	–	850	–
Fee and commission income	–	–	338	5	–	–	292	5
Other operating expenses	–	–	825	178	36	–	478	180

Entities under common control comprises of organizations in which shareholders of the Group exercise control which represent related parties to the Group.

(thousands of Georgian lari)

25. Related party disclosures (continued)

The number of key personnel at 31 December 2014 was 11 (2013: 11) and their compensation comprised the following:

	2014	*2013*
Salaries, bonuses and other short term benefits	5,219	3,618
Retention bonus paid in cash for purchase of the convertible preferred shares	1,164	1,164
Total key personnel compensation	**6,383**	**4,782**

26. Capital adequacy

The Bank is regulated by the NBG. As such, the Bank submits to the NBG monthly reports of its financial position and operation (the "Monthly Supervision Report"), which, *inter alia*, contains the Bank's Tier 1 and Total Capital Adequacy Ratios, calculated in accordance with the methodology required by the NBG. The capital adequacy calculation methodology adopted by the NBG differs in certain material respects from the BIS (Basel I) framework, but has historically been more stringent, due, *inter alia*, to the higher market-risk weighting of the assets.

The Bank maintains an actively managed capital base to cover risks inherent in the business and aims at further enhancing its capital base. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG and the ratios established by the Basel Capital Accord 1988 in supervising the Group.

NBG capital adequacy ratio

The NBG requires banks by its Decree № 9 approved on 30 September 2008 (the "Old Regulation") to maintain the minimum capital adequacy ratio of 12.0% of the risk-weighted assets (RWA), as well as the minimum core capital (Tier 1 capital) adequacy ratio of 8.0% of the RWA, computed based on the Bank's stand-alone financial statements, prepared in accordance with the NBG requirements. As of 31 December 2014 and 31 December 2013, the Bank's capital adequacy ratios under the Old Regulation were as follows:

	2014	*2013*
Core capital	106,958	72,691
Supplementary capital	37,157	48,895
Less: deductions from capital	(1,458)	(1,458)
Total capital	**142,657**	**120,128**
Risk-weighted assets	**942,867**	**888,121**
Tier 1 capital adequacy ratio	11.34%	8.18%
Capital adequacy ratio	15.13%	13.53%

On 28 October 2013, the NBG approved (by its Decree № 100/04) the revised methodology (the "New Regulation") to calculate regulatory capital and RWA with minimum total regulatory capital ratio of 10.5% of the RWA, minimum Tier 1 capital ratio of 8.5% of the RWA and Common Equity Tier 1 ratio of 7.0% of the RWA, computed based on the Bank's stand-alone financial statements, prepared in accordance with the NBG requirements. The New Regulation largely follows the Basel II/III framework. During the transitional period, banks are required to report their capital adequacy ratios under both the Old Regulation and the New Regulation. As of 31 December 2014 and 31 December 2013, the Bank's capital adequacy ratios under the New Regulation were as follows:

	2014	*2013*
Common Equity Tier 1 capital	115,784	102,793
Additional Tier 1 capital	6,139	5,179
Tier 1 capital	121,923	107,972
Tier 2 capital	17,155	10,058
Total regulatory capital	**139,078**	**118,030**
Total risk weighted exposures	**1,024,043**	**950,819**
Common Equity Tier 1 capital ratio	11.31%	10.81%
Tier 1 capital ratio	11.91%	11.36%
Total regulatory capital ratio	13.58%	12.41%

(thousands of Georgian lari)

26. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2014 and 31 December 2013, were as follows:

	2014	*2013*
Tier 1 capital	116,202	93,827
Tier 2 capital	32,059	29,915
Total capital	**148,261**	**123,742**
Risk-weighted assets	**870,978**	**783,891**
Tier 1 capital adequacy ratio	13.34%	11.97%
Total capital adequacy ratio	17.02%	15.79%

27. Events after the reporting period

Litigation

In December 2008, then shareholders of the Bank – Irina Jincharadze, Elena Kovalenko, Giorgi Goguadze, Tamar Marshania, Gaioz Marshania, Ana Gerbyak (nee Agureeva) and Stark Road Resource Limited sold 1,403,223,900 ordinary shares of the Bank (then representing a 89.24% equity interest in the Bank) to EuroOil LLP under the share purchase agreement dated 29 December, 2008 (as amended on 29 December 2008) (hereinafter the "SPA"). The aggregate cash and non-cash consideration received by the selling shareholders equaled to GEL 36,478 amounting to 2.76 times the IFRS audited equity book value of the Bank as of 31 December 2008. In September 2009, Eurooil LLP sold 1,434,047,026 ordinary shares of the Bank (then representing a 91.22% equity interest in the Bank) to Liberty Holding Georgia LLC.

On 31 October 2013, several of the former shareholders of the Bank - Irina Jincharadze, Elena Kovalenko and Tamar Marshania (hereinafter the "Original Claimants") - filed a claim at the Tbilisi City Court against the respondents Eurooil LLP, the Bank, Liberty Holding Georgia LLC, JSC Liberty Capital and Liberty Investments Holding BV (hereinafter the "Respondents"). In their claims the Original Claimants allege that they were coerced to sell their respective shares to Eurooil LLP and that EuroOil LLP and the Respondents had been related and/or acted in concert, and thus seek partial annulment of the SPA. The Original Claimants had sold 801,454,200 ordinary shares of the Bank for the aggregate consideration of GEL 23,782. In conjunction with the claim, the Original Claimants requested injunctive relief in the form of an encumbrance over 51% of the Bank's ordinary shares held by Liberty Holding Georgia LLC and nine units of real estate property owned by JSC Liberty Bank. On 1 November, 2013, the Tbilisi City Court partially satisfied the Original Claimants' application for an injunction and encumbered 50.97% of the ordinary shares of the Bank held by Liberty Holding Georgia LLC.

On 21 November 2013, one other former shareholder Ana Gerbyak (the Original Claimants and Ana Gerbyak hereafter jointly referred to as the "Former Shareholders") filed a claim at the Tbilisi City Court against the same Respondents requesting partial annulment and avoidance of the SPA pursuant to which she had sold 113,373,100 ordinary shares of the Bank (representing at that time a 7.21% equity interest in the Bank) to Eurooil LLP. As injunctive relief, Ana Gerbyak requested the encumbrance of 7.21% of the Bank's ordinary shares held by Liberty Holding Georgia LLC. On 25 November 2013, the Tbilisi City Court satisfied the injunction application of Ana Gerbyak and encumbered 7.21% of shares of the Bank held by Liberty Holding Georgia LLC. As a result, 3,201,321,628 ordinary shares of the Bank owned by Liberty Holding Georgia LLC, equivalent to the IFRS ordinary equity book value of GEL 68,956 as of 31 December 2014 (63,377 as of 31 December 2013) and currently representing a 58.18% ordinary equity interest in the Bank, were encumbered by the Tbilisi City Court pending the outcome of the litigation. In 2009-2014, the Bank's ordinary equity has increased by GEL 109,294, as a result of the cumulative net income of GEL 52,157 and the issuance of new ordinary shares, purchased by certain Respondents as well as minority investors for the aggregate consideration of GEL 69,974. Thus, management believes that the injunctive relief has been greatly inequitable; even though the sale of 914,827,300 ordinary shares, with the then book value of GEL 8,606 has been disputed, 3,201,321,628 ordinary shares with the book value of GEL 68,956 (as of 31 December 2014), have been encumbered.

(thousands of Georgian lari)

27. Events after the reporting period (continued)

Litigation (continued)

The Tbilisi City Court subsequently joined the claims filed by the Original Claimants and Ana Gerbyak and the case in currently pending as one.

The Respondents successfully appealed the Tbilisi City Court's injunctive relief decisions on the cases initiated by the Former Shareholders and in March 2014 the Tbilisi City Court reversed its decisions encumbering the ordinary shares of the Bank. Following the counter appeal of the Former Shareholders, in July 2014 the Tbilisi Court of Appeals returned the case back to the Tbilisi City Court for further consideration retaining the encumbrance on the shares.

The Tbilisi City Court reconsidered the issue of the encumbrance and once again partially satisfied the claims by the Respondents and ruled on 28 November 2014 that the Former Shareholders shall provide an undertaking in the amount of US$ 1,983 in cash in the designated escrow account within seven calendar days from the date of the ruling. The Original Claimants failed to provide the requested cash undertaking and, on 12 December 2014, the Tbilisi City Court issued a ruling, ordering the removal of the encumbrance on the ordinary shares. On 19 December 2014, the Former Shareholders appealed this ruling and on 20 March 2015, Tbilisi Court of Appeal issued a resolution and returned the case back to the Tbilisi City Court for the reconsideration and determination of certain factual aspects on the case. 3,201,321,628 ordinary shares of the Bank continue to be encumbered.

All of the above procedural steps concerned interim relief on the encumbrance of the ordinary shares and consideration on the merits is only expected to take place subsequent to the completion of the encumbrance hearings.

Management of the Bank strongly believes that the aforementioned lawsuit is frivolous and opportunistic in nature and wholly without merit and anticipates that, provided the court deliberations are objective, the litigation will end in favour of the Respondents.

Subordinated loan contracts

Subsequent to 31 December 2014 by the report issuance date, the Bank sold GEL 20,995 of the SLCs of which the qualified amount for the inclusion in the Tier 2 capital comprised GEL 16,663. As of the report issuance date, the Bank had GEL 23,147 of the SLCs qualifying for the inclusion in the Tier 2 capital.

Capital adequacy

On 15 January 2015, the Bank has received letter from the NBG (the "NBG Letter") which instructed that the Bank needs to attain the CAR of 18.0% (under the Old Regulation) by the end of April 2015. Even though the Supervisory Board and the Management disagree with the NBG and fail to see the need of maintaining such a high CAR, the Bank has been using its best commercial efforts to comply with this requirement. In addition, the NBG Letter contained certain lending restrictions and other requirements that the Bank has to fulfil by certain deadlines. As of the report issuance date, the Bank was in compliance with such additional requirements set by the NBG.

Management believes that the Bank will be able to maintain CAR level of 18.0% as prescribed by the NBG Letter.