CARTU BANK GROUP

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2014

CARTU BANK GROUP

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CARTU BANK GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2014, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation and accounting standards of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2014 were authorized for issue on May 5, 2015 by the Management Board of the Group.

On behalf of the Management Board:

Deputy General Director	**Chief Accountant**
Natalia Khaindrava	**Manana Nadiradze**
May 5, 2015	May 5, 2015
Tbilisi, Georgia	Tbilisi, Georgia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Cartu Bank:

Report on the consolidated financial statements

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Deloitte.

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

Emphasis of Matter

We draw attention to Note 5 to the consolidated financial statements which describes the restatement of corresponding figures for the year ended 31 December 2013. Our audit opinion is not qualified in that respect.

Deloitte & Touche

May 5, 2015
Tbilisi, Georgia

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Georgian Lari)

	Notes	2014	2013
Continuing operations			
Interest income	6, 30	64,618	69,362
Interest expense	6, 30	(15,331)	(10,579)
NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		49,287	58,783
(Provision)/recovery of provision for impairment losses on interest bearing assets	7, 30	(5,347)	39,218
NET INTEREST INCOME		43,940	98,001
Net (loss)/gain on financial assets at fair value through profit or loss	8	(3,062)	11,775
Net gain on foreign exchange operations	9	2,337	4,087
Fee and commission income	10, 30	4,877	3,903
Fee and commission expense	10	(3,231)	(3,514)
Recovery/(provision) for other operations	7	2,234	(3,627)
Other (expense)/income	11	(3,505)	715
NET NON-INTEREST (EXPENSE)/INCOME		(350)	13,339
OPERATING INCOME		43,590	111,340
OPERATING EXPENSES	12, 30	(19,538)	(26,737)
PROFIT BEFORE INCOME TAX		24,052	84,603
Income tax expense	13	(3,828)	(13,402)
NET PROFIT FOR THE YEAR		**20,224**	**71,201**
Attributable to:			
Owners of the parent		20,336	71,658
Non-controlling interest		(112)	(457)
		20,224	**71,201**

On behalf of the Management Board:

Deputy General Director
Natalia Khaindrava

May 5, 2015
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 5, 2015
Tbilisi, Georgia

The notes on pages 10-70 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Georgian Lari)

	Notes	2014	2013 *(restated)*
Net profit for the year		**20,224**	**71,201**
Items that may be reclassified subsequently to profit or loss:			
Net gain/(loss) resulting on revaluation of available-for-sale investments during the year		1,544	2,543
Income tax	13	(232)	(381)
Other comprehensive income after income tax		**1,312**	**2,162**
Attributable to:			
Owners of the parent		21,648	73,820
Non-controlling interest		(112)	(457)
		21,536	**73,363**

On behalf of the Management Board:

Deputy General Director
Natalia Khaindrava

May 5, 2015
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 5, 2015
Tbilisi, Georgia

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CARTU BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014
(in thousands of Georgian Lari)

	Notes	December 31, 2014	December 31, 2013 *(restated)*	January 1, 2013 *(restated)*
ASSETS:				
Cash and cash equivalents	14	83,636	77,424	73,140
Mandatory cash balance with the NBG	15	43,120	20,395	6,170
Financial assets at fair value through profit or loss	17	20,728	23,785	10,845
Due from financial institutions	16	4,892	10,572	6,320
Loans to customers	18, 30	543,035	396,297	262,148
Available-for-sale investments	19	8,441	6,898	4,686
Held to maturity Investments	20	10,768	5,946	-
Property and equipment	21	12,802	11,940	11,950
Current income tax asset		-	1,655	1,600
Deferred income tax assets	13	249	249	1,374
Other assets	22	34,841	39,100	36,470
TOTAL ASSETS		762,512	594,261	414,703
LIABILITIES AND EQUITY				
LIABILITIES:				
Deposits by banks	23	54	23,568	7,614
Deposits by customers	24, 30	319,687	176,786	66,623
Other borrowed funds	27	5,324	-	40,040
Other provisions	7, 30	702	397	328
Current income tax liability		930	-	-
Other liabilities	25	7,654	2,200	2,743
Deferred income tax liability	13	10,635	13,494	-
Subordinated debt	26, 30	135,402	100,976	120,013
Total liabilities		480,388	317,421	237,361
EQUITY:				
Equity attributable to owners of the parent:				
Share capital	28	114,430	114,430	92,850
Additional paid in capital		9,424	25,676	21,094
Available-for-sale reserve		7,124	5,812	3,650
Retained earnings		151,154	130,818	59,083
Total equity attributable to owners of the parent		282,132	276,736	176,677
Non-controlling interest		(8)	104	638
Total equity		282,124	276,840	177,315
TOTAL LIABILITIES AND EQUITY		762,512	594,261	414,676

On behalf of the Management Board:

Deputy General Director
Natalia Khaindrava

May 5, 2015
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 5, 2015
Tbilisi, Georgia

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CARTU BANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Georgian Lari)

	Notes	Share capital	Additional paid in capital	Available-for-sale reserve	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total Equity
January 1, 2013 *(restated)*		**92,850**	**21,094**	**3,650**	**59,083**	**176,677**	**638**	**177,315**
Profit for the period		-	-	-	71,658	71,658	(457)	71,201
Other comprehensive income for the year, net of income tax		-	-	2,162	-	2,162	-	2,162
Separation of a compound financial instrument on initial recognition	26	-	5,391	-	-	5,391	-	5,391
Income tax relating to compound financial instrument			(809)	-	-	(809)	-	(809)
Acquisition of non-controlling interest		-	-	-	77	77	(77)	-
Issue of shares	28	21,580	-	-	-	21,580	-	21,580
December 31, 2013 *(restated)*		**114,430**	**25,676**	**5,812**	**130,818**	**276,736**	**104**	**276,840**
Profit for the period		-	-	-	20,336	20,336	(112)	20,224
Other comprehensive income for the year, net of income tax		-	-	1,312	-	1,312	-	1,312
Loss on extinguishment of compound financial instrument	26	-	(19,120)	-	-	(19,120)	-	(19,120)
Income tax relating to loss on extinguishment of compound financial instrument		-	2,868	-	-	2,868	-	2,868
December 31, 2014		**114,430**	**9,424**	**7,124**	**151,154**	**282,132**	**(8)**	**282,124**

On behalf of the Management Board:

Deputy General Director
Natalia Khaindrava

May 5, 2015
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 5, 2015
Tbilisi, Georgia

The notes on pages 10-70 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Georgian Lari)

	Notes	2014	2013 *(restated)*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax:		24,051	84,603
Adjustments for:			
(Provision)/recovery of provision for impairment losses on interest bearing assets	7	5,347	(39,218)
Recovery of provisions/(provisions) for other operations	7	(2,234)	3,627
Net gain on foreign exchange operations	9	(2,666)	(1,173)
Depreciation and amortization expense	12	1,639	1,572
Change in interest accruals, net		(2,458)	17,104
Gain on disposal of repossessed assets and property and equipment		(633)	(841)
Loss on extinguishment of compound financial instrument	11	4,820	-
Net loss/(gain) on operations with financial assets at fair value through profit or loss	8	3,062	(11,775)
Cash inflow from operating activities before changes in operating assets and liabilities		30,928	53,899
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		(22,725)	(14,225)
Due from financial institutions		5,888	(4,250)
Loans to customers		(124,244)	(108,587)
Other assets		(3,947)	2,247
Increase/(decrease) in operating liabilities:			
Deposits by banks		(23,439)	16,071
Deposits by customers		124,246	108,742
Other liabilities		(502)	(544)
Cash (outflow)/ inflow from operating activities before taxation		(13,795)	53,353
Income tax paid		(1,232)	-
Net cash (outflow)/ inflow from operating activities		(15,027)	53,353
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment, and intangible assets		(1,779)	(1,721)
Proceeds from disposal of property and equipment and intangible assets		192	9
Proceeds from disposal of financial assets at fair value through profit or loss		(5)	(1,166)
Proceeds from disposal of repossessed assets		21,018	1,486
Purchase of repossessed assets		(3,901)	(8,559)
Purchase of held to maturity investments		(10,698)	(5,946)
Proceeds from disposal of held to maturity investments		5,952	-
Net cash inflow/(outflow) from investing activities		10,779	(15,897)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)
(in thousands of Georgian Lari)

	Notes	2014	2013 *(restated)*
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from other borrowed funds		5,311	-
Repayment of other borrowed funds		-	(40,039)
Proceeds from issue of share		-	21,580
Proceeds from subordinated debt		-	19,083
Repayment of subordinated debt		-	(38,120)
Net cash inflow/(outflow) from financing activities		5,311	(37,496)
Effect of exchange rate changes on the balance of cash held in foreign currencies		5,149	4,324
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,212	4,284
CASH AND CASH EQUIVALENTS, beginning of the year	14	77,424	73,140
CASH AND CASH EQUIVALENTS, end of the year	14	83,636	77,424

Interest paid and received by the Group during the year ended December 31, 2014 amounted to 17,058 GEL and 60,172 GEL, respectively.

Interest paid and received by the Group during the year ended December 31, 2013 amounted to GEL 7,204 and GEL 52,293, respectively.

On behalf of the Management Board:

Deputy General Director
Natalia Khaindrava

May 5, 2015
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 5, 2015
Tbilisi, Georgia

The notes on pages 10-70 form an integral part of these consolidated financial statements.

(in thousands of Georgian Lari)

1. ORGANISATION

Joint Stock Company Cartu Bank (the "Bank") is a joint-stock bank, which was incorporated in Georgia in 1996. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 229. The Bank's primary business consists of commercial activities, originating loans and guarantees, trading with securities, foreign currencies and taking deposits.

The registered office of the Bank is located on 39a Chavchavadze Avenue, Tbilisi, Georgia.

As at December 31, 2014 the Bank had five service centers operating in Tbilisi, and service centers in Gori, Telavi, Sachkhere Kutaisi and Batumi regions.

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

Name	Country of operation	Ownership interest (%) 2014	2013	Type of operation
Brokerage Company "Cartu Broker" LLC	Georgia	100.00%	100.00%	Brokerage
"CMC" JSC	Georgia	100.00%	100.00%	Real Estate Operations
"Insurance Company Cartu" LLC	Georgia	82.27%	82.27%	Insurance

Insurance Company Cartu LLC was formed as a limited liability company under the laws of Georgia on September 13, 2001. The company's principal activity is insurance, which is mainly health insurance.

As at December 31, 2014 and 2013 JSC Cartu Group owned 100% of the Bank's shares.

Ultimate individual shareholder having control over the operation of JSC Cartu Group is Uta Ivanishvili.

These consolidated financial statements were authorized for issue on May 5, 2015 by the Management Board of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

These consolidated financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its consolidated companies are registered in Georgia and maintain their accounting records in accordance with the Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non–current) is presented in Note 33.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Georgian Lari ("GEL"). The presentational currency of the consolidated financial statements of the Group is the GEL. All values are rounded to the nearest thousand GEL, except when otherwise indicated.

Offseting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and other comprehensive income and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Revenue recognition

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed.

All other commissions are recognized when services are provided.

Recognition of rental income

The Group's policy for recognition of income as a lessor is set out in the "Leases" section of this footnote.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities(other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the ‘other gains and losses’ and ‘interest income’ line item, respectively, in the consolidated statement of profit or loss.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Investments held to maturity are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of investments held to maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables (including due from financial institutions, loans to customers and other financial assets) that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost would be considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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.

Write off of loans and receivables

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Compound instruments

The components parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Derivative financial instruments

The Group enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains/(losses) on derivative financial instruments or as gain/(losses) from foreign currencies operations, depending on the nature of the instrument.

The Group does not apply hedge accounting.

Other financial liabilities

Other financial liabilities (including deposits by banks, deposits by customers, borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and , are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the National Bank of Georgia with original maturity of less or equal to 90 days and amounts due from financial institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Minimum reserve deposits with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. The Group views the repossessed assets as a form of settlement of amounts due under the defaulted loan and that it is an asset acquired and held for sale in the ordinary course of business. Repossessed assets are initially recognised at fair value and subsequent measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	2%-3%
Furniture and office fixtures	10%-20%
Computer and office equipment	10%-33%
Other	5%-20%
Intangible assets	10%

Freehold land is not depreciated.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss and other comprehensive income.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss and other comprehensive income when the asset is derecognized.

Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and consolidated statement of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, property and equipment, loans to customers and provisions, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with other assets and liabilities are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

Georgia also has various other taxes, which are assessed on the Group’s activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognized 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 recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(in thousands of Georgian Lari)

Foreign currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2014	December 31, 2013	January 1, 2013
GEL/1 US Dollar	1.8636	1.7363	1.6562
GEL/1 Euro	2.2656	2.3891	2.1845

Collateral

The Group obtains collateral in respect of customer liabilities where it is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity on the Group’s consolidated statement of financial position include Available-for-sale reserve which comprises changes in fair value of available-for-sale financial assets.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Financial assets held to maturity

The Group management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. As at December 31, 2014 and 2013 the carrying amounts of the financial assets held to maturity are GEL 10,768 and GEL 5,946, respectively. Details of these assets are set out in Note 20.

Derecgonition of financial instrument

The Group management has applied the "10% test" to determine whether the modified contractual cash flows on the subordinated debt (Refer to Note 26) are substantially different from the contractual cash flows of the original financial liability. When the difference between the present value of the original and new financial liability discounted at the original effective interest rate is above "10% range", modification of the terms is accounted for as an extinguishment. The existing financial instrument is derecognized and new financial instrument is recognized at fair value at the date of modification of the terms.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables 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, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. 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 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.

As at December 31, 2014 and 2013 the gross loans to customers totaled GEL 574,394 and GEL 431,732, respectively, and allowance for impairment losses amounted to GEL 31,359 and GEL 35,435, respectively.

Valuation of financial instruments

As described in Note 31, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 31 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property and equipment and intangible assets

As described above, the Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period. In determining the useful life of an asset, the management considers expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation/amortisation rates. During the financial year, the Group management has not changed useful lives of its property and equipment and intangible assets.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

In the current year, the following new and revised Standards and Interpretations have been adopted:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities;
- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting;
- IFRIC 21 Levies.

Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities.* The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

There is no effect of these amendments on the consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets.* The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*.

These amendments affect disclosures only which are presented in the Note 18.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*[1];
- Annual Improvements to IFRSs 2010-2012 Cycle[1];
- Annual Improvements to IFRSs 2011-2013 Cycle[1];
- Annual Improvements to IFRSs 2012-2014 Cycle[2];
- IFRS 14 *Regulatory Deferral Accounts*[2];
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*[2];
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*[2];
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*[2];
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*[2];
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2];
- IFRS 15 *Revenue from Contracts with Customers*[3];
- IFRS 9 *Financial Instruments*[4].

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Group does not anticipate that the application of these amendments will have a material impact of the Group's consolidated financial statements.

IFRS 9 *Financial Instruments.* IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the

liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation.* The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

Currently, the Group uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the consolidated financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle. The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are fist applied.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

(in thousands of Georgian Lari)

5. RECLASSIFICATIONS AND RESTATEMENTS

Reclassifications. Certain reclassifications have been made to the consolidated financial statements as at December 31, 2013 to conform to the presentation as at December 31, 2014. Management believes that current year presentation provides a better view of the consolidated financial position of the Group. Reclassifications did not have any effect on the consolidated statements of cash flows, profit or loss and other comprehensive income for the year ended December 31, 2013.

	As previously reported		Reclassification amount		As reclassified		Description
	January 1, 2013	December 31, 2013	January 1, 2013	December 31, 2013	January 1, 2013	December 31, 2013	
Cash and balances with the National Bank of Georgia	16,690	37,786	(16,690)	(37,786)	-	-	Cash and cash equivalents and mandatory cash balance with the NBG are separately disclosed on the face of the consolidated statement of financial position.
Cash and cash equivalents	-	-	73,140	86,040	73,140	86,040	
Mandatory cash balance with the NBG	-	-	6,170	20,395	6,170	20,395	Due from financial institutions balances with original maturity less than 90 days are reclassified to cash and cash equivalents.
Due from financial institutions	68,940	79,221	(62,620)	(68,649)	6,320	10,572	

Restatements. In 2014 the Group's management determined items that had not been appropriately reported in the consolidated financial statements for the year ended December 31, 2013. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," these consolidated financial statements have been restated as detailed in the following paragraph.

The effect of the adjustments made to the consolidated financial position as at December 31, 2013 and financial position as at January 1, 2013 is as follows:

	As previously reported and after reclassifications		Adjustment		As restated		Description
	January 1, 2013	December 31, 2013	January 1, 2013	December 31, 2013	January 1, 2013	December 31, 2013	
Cash and cash equivalents	73,140	86,040	-	(8,616)	73,140	77,424	(a)
Deposits by banks	7,614	32,256	-	(8,688)	7,614	23,568	(a)
Other liabilities	2,743	2,128	-	72	2,743	2,200	(a)
Available-for-sale investments	391	60	4,295	6,838	4,686	6,898	(b)
Available-for-sale reserve	-	-	3,650	5,812	3,650	5,812	(b)
Additional paid in capital	24,816	30,206	(3,722)	(4,530)	21,094	25,676	(c)
Deferred income tax liabilities	-	-	3,722	4,530	3,722	4,530	(c)
Current income tax asset	636	-	964	1,655	1,600	1,655	(d)

(in thousands of Georgian Lari)

Current income tax liability	-	356	-	(356)	-	-	(d)
Retained earnings	61,834	133,569	(2,751)	(2,751)	59,083	130,818	(e)
Deferred income tax assets	9,429	249	(8,082)	-	1,347	249	(e)
Deferred income tax liabilities	-	3,176	-	10,318	-	13,494	(e)

The effect of the adjustments made to the consolidated statement of other comprehensive income for the year ended December 31, 2013 is as follows:

	As previously reported	**Adjustment**	**As restated**	**Description**
Net gain/(loss) resulting on revaluation of available-for-sale financial assets during the year	-	2,543	2,543	(b)
Income tax expense	-	(381)	(381)	(b)

The effect of the adjustments made to the consolidated statement of cash flows for the year ended December 31, 2013 is as follows:

	As previously reported	**Adjustment**	**As restated**	**Description**
Net cash inflow from operating activities	61,969	(8,616)	53,353	(a)

a) To present swap transactions as a single derivative financial instrument.

b) The Group has restated prior year consolidated financial statements and accounted for its investments in Visa Inc. and MasterCard Inc. as available-for sale investments at fair value and gains, arising from changes in fair value recognised in available-for-sale reserve, net of associated deferred income tax expenses.

c) In prior years the Group did not recognize deferred tax liability on compound financial instrument's equity component where any gain on settlement of the liability would be taxable, and the tax base of the liability is always equal to the sum of liability and equity component. This error was adjusted by recognizing respective deferred tax liability by charging deferred tax directly in equity.

d) In prior years the Group included net gain on financial assets at fair value through profit or loss in the corporate income tax declaration. In the year 2014, the Group has concluded that fair value changes in equity investments are not taxable income and corrected its prior years corporate income tax declarations. To reflect adjustments in corporate income tax declarations the Group has restated its current income tax asset and current income tax liability.

e) Due to the restatements listed above and error in the deferred tax computation as at January 1, 2013 the Group adjusted deferred income tax assets, deferred income liabilities and retained earnings as at January 1, 2013, respectively. Restatements and error in the deferred tax computation did not have effect on income tax expense for the year ended December 31, 2013 recognised in profit or loss.

(in thousands of Georgian Lari)

6. NET INTEREST INCOME

	2014	2013
Interest income comprises:		
Financial assets recorded at amortized cost:		
- impaired financial assets	61,981	67,362
- unimpaired financial assets	2,637	2,000
Total interest income	**64,618**	**69,362**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	61,981	68,502
Due from financial institutions	2,234	825
Held to maturity investments	403	35
Total interest income on financial assets recorded at amortized cost	64,618	69,362
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(15,331)	(10,579)
Total interest expense	**(15,331)**	**(10,579)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Deposits by customers	(7,696)	(6,392)
Subordinated debt	(7,265)	(3,834)
Deposits by banks	(216)	(353)
Other borrowed funds	(154)	-
Total interest expense on financial liabilities recorded at amortized cost	(15,331)	(10,579)
Net interest income before (provision)/ recovery of provision for impairment losses on interest bearing financial assets	**49,287**	**58,783**

(in thousands of Georgian Lari)

7. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
January 1, 2013	**18,697**
Recovery of provisions	(39,218)
Write-off of assets	(8,720)
Recovery of assets previously written off	64,676
December 31, 2013	**35,435**
Additional provisions recognised	5,347
Write-off of assets	(17,496)
Recovery of assets previously written off	8,073
December 31, 2014	**31,359**

The movements in allowance for impairment on other assets and other provisions were as follows:

	Repossessed assets	**Other financial assets**	**Other provisions**	**Provision for other operations**
January 1, 2013	**-**	**-**	**328**	**328**
Additional provisions recognized	3,558	-	69	3,627
Write-off assets	(29)	-	-	(29)
December 31, 2013	**3,529**	**-**	**397**	**3,926**
(Recovery of provisions)/additional provisions recognized	(2,572)	33	305	(2,234)
Write-off of assets	(957)	-	-	(957)
December 31, 2014	**-**	**33**	**702**	**735**

8. NET (LOSS)/GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	2014	**2013**
Net (loss)/gain on operations with financial assets initially recognized at fair value through profit and loss comprise:		
Realized gain on trading operations	72,647	51,439
Realized loss on trading operations	(75,709)	(39,664)
Total net (loss)/gain on operations with financial assets at fair value through profit or loss	**(3,062)**	**11,775**

(in thousands of Georgian Lari)

9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain/(loss) on foreign exchange operations comprises:

	2014	2013
Dealing, net	5,003	2,914
Translation differences, net	(2,666)	1,173
Total net gain on foreign exchange operations	**2,337**	**4,087**

10. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2014	2013
Fee and commission income:		
Plastic cards operations	2,401	2,124
Documentary operations	1,155	555
Settlements	900	790
Cash operations	368	341
Other	53	93
Total fee and commission income	**4,877**	**3,903**
Fee and commission expense:		
Plastic cards services	(2,448)	(2,268)
Letter of credit	(351)	(543)
Settlements	(271)	(236)
Documentary operations	(98)	(395)
Other	(63)	(72)
Total fee and commission expense	**(3,231)**	**(3,514)**

11. OTHER (EXPENSE)/INCOME

Other (expense)/income comprises:

	2014	2013
Net written premiums	2,033	11,727
Gain on disposal of property and repossessed assets	633	832
Change in provisions for reported but not settled claims	481	(236)
Fines and penalties received	319	165
Loss on extinguishment of compound financial instrument (Note 26)	(4,820)	-
Claims settled, net of reinsurance	(1,498)	(13,173)
Reinsurers' share of claims settled	(883)	(88)
Change in provisions for incurred but not reported claims	(100)	497
Other	330	991
Total other (expense)/ income	**(3,505)**	**715**

(in thousands of Georgian Lari)

12. OPERATING EXPENSES

Operating expenses comprise:

	2014	2013
Staff costs	8,999	8,824
Charity and sponsorship	2,701	9,737
Operating leases	1,336	1,741
Depreciation and amortization	1,639	1,572
Communication expenses	1,058	847
Security expenses	626	708
Professional services	595	271
Postal expenses	304	353
Taxes, other than income tax	223	245
Advertising expenses	214	147
Utilities	193	202
Property and equipment maintenance	136	282
Representative expenses	132	130
Business trip expenses	29	75
Training	25	37
Other expenses	1,328	1,566
Total operating expenses	**19,538**	**26,737**

13. INCOME TAXES

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Georgia, which differs from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences mostly relate to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.
The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under tax law in that jurisdiction.

Deferred income tax assets/(liabilities) on temporary differences as at December 31, 2014, 2013 and January 1, 2013 comprise:

	December 31, 2014	December 31, 2013 *(restated)*	January 1, 2013 *(restated)*
Loans to customers	(7,063)	(6,250)	(3,934)
Property and equipment	(1,493)	(1,257)	(1,550)
Financial assets at fair value through profit or loss	(1,501)	(2,000)	(100)
Available-for-sale investments	(1,257)	(1,025)	(644)
Intangible assets	210	269	340
Other assets	176	(220)	1
Subordinated debt	172	(3,611)	(3,126)
Other provisions	105	59	-
Other liabilities	260	261	420
Provisions for other assets	5	529	49

(in thousands of Georgian Lari)

Deferred income tax asset on temporary differences	928	1,118	810
Deferred income tax liability on temporary differences	(11,314)	(14,363)	(9,354)
Loss carry forward	-	-	9,891
Net deferred income tax asset	**249**	**249**	**1,347**
Net deferred income tax liability	**(10,635)**	**(13,494)**	**-**

Relationships between tax expenses and accounting profit for the years ended December 31, 2014 and 2013 are explained as follows:

	2014	**2013**
Profit before income tax	24,052	84,603
Tax at the statutory tax rate (15%)	3,608	12,690
Permanent differences	220	712
Income tax expense	**3,828**	**13,402**
Current income tax expense	4,051	-
Deferred income tax (benefit)/expense	(223)	13,402
Income tax expense	**3,828**	**13,402**

	2014	**2013**
As at January 1 – deferred income tax asset *(restated)*	**249**	**1,347**
As at January 1 – deferred income tax liability *(restated)*	**(13,494)**	**-**
Deferred income tax recognized directly in equity	2,868	(809)
Deferred income tax recognized in other comprehensive income	(232)	(381)
Deferred income tax expense/(benefit) recognized in profit or loss	223	(13,402)
As at December 31- deferred income tax assets	**249**	**249**
As at December 31- deferred income tax liabilities	**(10,635)**	**(13,494)**

14. CASH AND CASH EQUIVALENTS

	December 31, 2014	**December 31, 2013 *(restated)***	**January 1, 2013 *(restated)***
Cash	15,647	12,659	12,380
Balances with the NBG	6,807	5,532	628
Balances with banks with original maturities up to 90 days	61,182	59,233	60,132
Total cash and cash equivalents	**83,636**	**77,424**	**73,140**

15. MANDATORY CASH BALANCE WITH THE NBG

Mandatory cash balance with the NBG is minimum reserve deposits which are restricted balances of GEL 43,120, GEL 20,395 and GEL 6,170, respectively, as at December 31, 2014, 2013 and January 1, 2013. The Group is required to maintain minimum reserve deposits at the NBG at all times.

(in thousands of Georgian Lari)

16. DUE FROM FINANCIAL INSTITUTIONS

As at December 31, 2014, 2013 and January 1, 2013 included in balances due from financial institutions are guarantee deposits placed by the Group for its operations with plastic cards totaling GEL 1,863, GEL 1,389 and GEL 6,296, respectively.

As at December 31, 2014, 2013 and January 1, 2013 the Group had no balances due from financial institutions, with individual exposure exceeding 10% of the Group's equity.

As at December 31, 2014, 2013 and January 1, 2013 the maximum credit risk exposure on due from financial institutions amounted to GEL 4,892, GEL 10,572 and GEL 6,320, respectively.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2014	December 31, 2013
Financial assets held for trading:		
Equity securities	20,728	23,785
Total financial assets at fair value through profit or loss	**20,728**	**23,785**

The Group estimates changes in fair value due to credit risk, by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risks.

18. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2014	December 31, 2013
Originated loans to customers	561,677	423,357
Accrued interest	12,717	8,375
	574,394	431,732
Less allowance for impairment losses	(31,359)	(35,435)
Total loans to customers	**543,035**	**396,297**

Movements in the allowance for impairment losses for the years ended December 31, 2014 and 2013 are disclosed in Note 7.

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	December 31, 2014	December 31, 2013
Loans collateralized by pledge of real estate, equipment and inventories	504,219	372,382
Loans collateralized by pledge of cash	33,625	253
Unsecured loans	3,503	20,581
Other collateral	1,688	3,081
Total loans to customers	**543,035**	**396,297**

During the years ended December 31, 2014 and 2013 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at December 31, 2014 and 2013 such assets in amount of GEL 20,384 and GEL 33,379 (See Note 22), respectively, are included in other assets of the Group.

(in thousands of Georgian Lari)

The table below summarizes loans to customers analyzed by industries as at December 31, 2014:

	Gross loans to customers	Allowance for impairment losses	Net loans to customers	Allowance for impairment losses to gross loans
Analysis by sector:				
Individuals	53,597	(1,586)	52,011	2.96%
Trade and service	202,909	(5,698)	197,211	2.81%
Construction	149,616	(12,604)	137,012	8.42%
Manufacturing	96,153	(1,694)	94,459	1.76%
Agriculture	48,194	(8,698)	39,496	18.05%
Energy	2,040	(51)	1,989	2.50%
Transport and communication	2,915	(35)	2,880	1.20%
Other	18,970	(993)	17,977	5.23%
Total	**574,394**	**(31,359)**	**543,035**	**5.46%**

The table below summarizes loans to customers analyzed by industries as at December 31, 2013:

	Gross loans to customers	Allowance for impairment losses	Net loans to customers	Allowance for impairment losses to gross loans
Analysis by sector:				
Individuals	48,762	(1,847)	46,915	3.79%
Trade and service	134,740	(14,840)	119,900	11.01%
Construction	157,223	(13,636)	143,587	8.67%
Manufacturing	66,265	(4,500)	61,765	6.79%
Agriculture	8,044	(47)	7,997	0.58%
Energy	1,925	-	1,925	0.00%
Transport and communication	273	(2)	271	0.73%
Other	14,500	(563)	13,937	3.88%
Total	**431,732**	**(35,435)**	**396,297**	**8.21%**

Loans to individuals comprise the following products:

	December 31, 2014	December 31, 2013
Consumer loans	7,614	7,093
Mortgage loans	37,756	37,959
Other	8,227	3,710
	53,597	48,762
Less: allowance for impairment losses	(1,586)	(1,847)
Total loans to individuals	**52,011**	**46,915**

(in thousands of Georgian Lari)

Analysis by credit quality of loans to customers outstanding as at December 31, 2014 and 2013 was as follows:

As at December 31, 2014	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Neither past due nor renegotiated	349,743	(7,100)	342,643	2.03%
Renegotiated but not past due	49,837	(658)	49,179	1.32%
Overdue:				
up to 30 days	4,159	(61)	4,098	1.47%
31 to 60 days	4,063	(67)	3,996	1.65%
61 to 90 days	2,279	(26)	2,253	1.14%
91 to 180 days	7,476	(143)	7,333	1.91%
over 180 days	29,476	(675)	28,801	2.29%
Total collectively assessed loans	**447,033**	**(8,730)**	**438,303**	**1.95%**
Individually assessed				
Neither past due nor renegotiated	75,208	(13,826)	61,382	18.38%
Renegotiated but not past due	4,659	(1,103)	3,556	23.67%
Overdue:				
up to 30 days	17,823	(4,220)	13,603	23.68%
31 to 60 days	956	(41)	915	4.29%
61 to 90 days	2,321	(550)	1,771	23.70%
91 to 180 days	-	-	-	0.00%
over 180 days	26,394	(2,889)	23,505	10.95%
Total individually assessed loans	**127,361**	**(22,629)**	**104,732**	**17.77%**
Total loans to customers	**574,394**	**(31,359)**	**543,035**	**5.46%**

As at December 31, 2013	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Neither past due nor renegotiated	255,524	(5,470)	250,054	2.14%
Renegotiated but not past due	18,178	(1,217)	16,961	6.69%
Overdue:				
up to 30 days	2,985	(16)	2,969	0.54%
31 to 60 days	398	(6)	392	1.51%
61 to 90 days	498	(7)	491	1.41%
91 to 180 days	201	(3)	198	1.49%
over 180 days	726	(28)	698	3.86%
Total collectively assessed loans	**278,510**	**(6,747)**	**271,763**	**2.42%**
Individually assessed				
Neither past due nor renegotiated	22,490	(3,368)	19,122	14.98%
Renegotiated but not past due	78,243	(5,586)	72,657	7.14%
Overdue:				
up to 30 days	12,505	(11,068)	1,437	88.51%
31 to 60 days	-	-	-	0.00%
61 to 90 days	488	(22)	466	4.51%
91 to 180 days	556	(29)	527	5.22%
over 180 days	38,940	(8,615)	30,325	22.12%
Total individually assessed loans	**153,222**	**(28,688)**	**124,534**	**18.72%**
Total loans to customers	**431,732**	**(35,435)**	**396,297**	**8.21%**

(in thousands of Georgian Lari)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period.

The tables above show analysis of the loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. Details of credit risk assessment methodology are described in Note 33.

The table below summarizes an analysis of loans to customers by type of impairment:

	December 31, 2014			December 31, 2013		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value before allowance**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value before allowance**
Loans to customers individually determined to be impaired	127,361	(22,629)	104,732	150,357	(28,688)	121,669
Loans to customers collectively determined to be impaired	447,033	(8,730)	438,303	273,585	(6,747)	266,838
Unimpaired loans	-	-	-	7,790	-	7,790
Total	**574,394**	**(31,359)**	**543,035**	**431,732**	**(35,435)**	**396,297**

As at December 31, 2014 and 2013 the Group has exposure to five and four customer, totaling GEL 114,445 and GEL 83,773, respectively, which individually exceeds 5% of the Group's equity.

As at December 31, 2014 and 2013, 99% of loans are granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2014 and 2013 carrying value of loans to customers included loans totaling GEL 40,599 and GEL 49,884, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

19. AVAILABLE-FOR–SALE INVESTMENTS

Available-for-sale investments comprise:

	December 31, 2014	December 31, 2013 *(restated)*	January 1, 2013 *(restated)*
Visa Inc. – quoted	6,550	5,183	3,366
MasterCard Inc. – quoted	1,832	1,655	929
Other corporate shares – unquoted	59	60	391
Total available-for-sale investments	**8,441**	**6,898**	**4,686**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investments available for sale. Therefore, these investments are carried at cost of GEL 59, 60 and 391, respectively, as at December 31, 2014, 2013 and January 1, 2013. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

(in thousands of Georgian Lari)

As at December 31, 2014, 2013 and January 1, 2013 the Group has investments in Visa Inc. and MasterCard Inc. common stock C and common stock B shares which are easily convertible into common stock A shares of the respective investees.

20. HELD TO MATURITY INVESTMENTS

	December 31, 2014		December 31, 2013	
	Nominal annual interest rate	Amount	Nominal annual interest rate	Amount
Deposit certificates of the Ministry of Finance of Georgia	4.10% - 5.50%	10,899	3.85% - 4.00%	6,000
Less discount		(131)		(54)
Total held to maturity investments		**10,768**		**5,946**

21. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Buildings and other real estate	Furniture and fixtures	Computer and office equipment	Leasehold improvements and other	Construction in progress	Total
At cost						
January 1, 2013	**8,913**	**5,122**	**3,053**	**1,481**	**133**	**18,702**
Additions	-	243	203	68	987	1,501
Transfers	-	-	-	-	-	-
Disposals	-	(22)	(179)	(3)	(280)	(484)
December 31, 2013	**8,913**	**5,343**	**3,077**	**1,546**	**840**	**19,719**
Additions	918	164	422	122	922	2,548
Transfers	387	195	59	-	(641)	-
Disposals	(191)	(131)	(237)	-	(403)	(962)
December 31, 2014	**10,027**	**5,571**	**3,321**	**1,668**	**718**	**21,305**
Accumulated depreciation						
January 1, 2013	**922**	**3,098**	**1,908**	**824**	**-**	**6,752**
Depreciation charge	228	467	337	181	-	1,213
Eliminated on disposals	-	(22)	(162)	(2)	-	(186)
December 31, 2013	**1,150**	**3,543**	**2,083**	**1,003**	**-**	**7,779**
Depreciation charge	232	468	374	191	-	1,265
Eliminated on disposals	(191)	(114)	(236)	-	-	(541)
December 31, 2014	**1,191**	**3,897**	**2,221**	**1,194**	**-**	**8,503**
Net book value						
As at December 31, 2014	**8,836**	**1,674**	**1,100**	**474**	**718**	**12,802**
As at December 31, 2013	**7,763**	**1,800**	**994**	**543**	**840**	**11,940**

(in thousands of Georgian Lari)

As at December 31, 2014 and 2013 included in property and equipment were fully depreciated assets totaling GEL 2,314 and GEL 2,017, respectively.

22. OTHER ASSETS

Other assets comprise:

	December 31, 2014	December 31, 2013
Other financial assets:		
Accounts receivable	2,888	851
Insurance premium receivable	3,489	14
Claims for guarantees paid	2,323	-
	8,700	865
Less allowance for impairment losses	(33)	-
Total other financial assets	**8,667**	**865**
Other non-financial assets:		
Repossessed assets	20,384	33,379
Reinsurance receivable	2,270	8
Intangible Assets	2,107	2,245
Tax settlements, other than income tax	437	1,815
Inventory	65	454
Advances paid	875	285
Other	36	49
	26,174	38,235
Total other assets	**34,841**	**39,100**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2014 and 2013 are disclosed in Note 7.

Repossessed assets as at December 31, 2014 and 2013 include land and buildings in the amount of GEL 20,384 and GEL 33,379, respectively, which are measured lower of its carrying amount and fair value less cost to sell.

Intangible assets comprise:

	Intangible assets
At cost	
January 1, 2013	**3,526**
Additions	220
Disposals	(126)
December 31, 2013	**3,620**
Additions	236
December 31, 2014	**3,856**

(in thousands of Georgian Lari)

Accumulated amortization	
January 1, 2013	**1,142**
Charge for the year	359
Eliminated on disposals	(126)
December 31, 2013	**1,375**
Charge for the year	374
December 31, 2014	**1,749**
Net book value	
December 31, 2014	**2,107**
December 31, 2013	**2,245**

23. DEPOSITS BY BANKS

Deposits by banks comprise:

	December 31, 2014	December 31, 2013
Correspondent accounts of other banks	54	182
European Bank of Reconstruction and Development (the "EBRD")	-	2,550
Short-term deposits from banks	-	3,473
Short-term loans from other financial institutions	-	17,363
Total deposits by banks	**54**	**23,568**

As at December 31, 2014 and 2013 accrued interest expenses included in deposits by banks amounted to nil and GEL 77, respectively.

24. DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

	December 31, 2014	December 31, 2013
Time deposits	151,870	105,914
Repayable on demand	167,817	70,872
Total deposits by customers	**319,687**	**176,786**

As at December 31, 2014 and 2013 accrued interest expenses included in deposits by customers amounted to GEL 2,546 and GEL 1,927, respectively.

As at December 31, 2014 and 2013 deposits by customers totaling GEL 11,650 and GEL 6,082, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2014 and 2013 deposits by customers totaling GEL 171,287 and GEL 66,392 (54% and 38% of total deposits by customers), respectively, were for twelve and nine customers, respectively, which represents a significant concentration.

(in thousands of Georgian Lari)

	December 31, 2014	December 31, 2013
Analysis by economic sector/customer type:		
Individuals	92,317	71,025
Trade and Services	77,994	43,557
Transport and Communication	69,659	1,174
Agriculture	23,705	14,038
Construction	10,142	6,207
Manufacturing	2,429	3,648
Energy	274	70
Other	43,167	37,067
Total deposits by customers	**319,687**	**176,786**

25. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2014	December 31, 2013 *(restated)*	January 1, 2013
Other financial liabilities:			
Payables for reinsurance liabilities	2,474	11	-
Derivatives	208	73	-
Accounts payable	45	17	-
Total other financial liabilities	2,727	101	-
Other non-financial liabilities:			
Unearned premium	3,522	30	-
Provision for claims incurred but not yet reported	311	692	2,409
Taxes payable, other than income tax	236	2	6
Payables for insurance liabilities	1	643	101
Other	857	732	227
	4,927	2,099	2,743
Total other liabilities	**7,654**	**2,200**	**2,743**

26. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity date	Interest rate % 2014	Interest rate % 2013	December 31, 2014	December 31, 2013
Fin Service XXI	USD	31-Mar-26	6%	2%	56,628	38,027
Fin Service XXI	USD	31-Mar-26	6%	2%	18,886	12,413
Fin Service XXI	USD	15-Feb-23	6%	2%	18,869	12,322
					94,383	**62,762**
Inter Consulting Plus Ltd	USD	17-Oct-25	6%	5%	13,052	12,159
Inter Consulting Plus Ltd	USD	2-Oct-19	6%	5%	9,322	8,685
					22,374	**20,844**
Georgian Holding Ltd	USD	21-Jun-19	6%	5%	18,645	17,370
					18,645	**17,370**
Total subordinated debt					**135,402**	**100,976**

(in thousands of Georgian Lari)

As at December 31, 2014 and 2013 accrued interest expense included in subordinated debt amounted to GEL 78 and GEL 192, respectively.

On March 31, 2011 and December 13, 2011 and February 15, 2013 the Group signed subordinated loan agreements with Fin Service-XXI LTD maturing on March 31, 2026 (disbursed in 2011) and February 15, 2023 (disbursed in 2013). According to the agreements the loan is convertible to equity at maturity. The interest is payable monthly/quarterly in arrears at a nominal annual interest rate was initially set to be 2 per cent. When the loans were taken, the prevailing market interest rate for similar loan without conversion options was 5 per cent for loans disbursed in 2011 and 6.4 per cent for one disbursed in 2013.

The convertible debts contained two components: liability and equity elements. The equity elements are presented under the heading of “additional paid in capital”. The effective interest rate of the liability components of on initial recognition were 5.05%; 5.26% and 6.34%, respectively.

On 31 July, 2014 the Group has amended loan agreements with Fin Service-XXI LTD by increasing loans initial nominal interest rates to 6%. The terms were deemed to be substantially different as the difference between the net present value of the remaining cash flows of existing liability components prior to modifications discounted at the original effective interest rate and the remaining cash flows under the new terms discounted at the modified interest rate is above 10%. Modification of terms is accounted for as an extinguishment. A loss on extinguishment equal to the difference between the consideration allocated to the liability component and the carrying value of the liability component is recorded in other (expense)/income (See Note 11) and difference between the previous carrying amount recognised in equity was accounted for as an adjustment within equity.

	GEL
Equity component as at January 1, 2013 *(restated)*	**21,094**
Separation of a compound financial instrument on initial recognition, net of income tax	4,582
Equity component as at December 31, 2013 *(restated)*	**25,676**
Transfer of additional paid in capital to retained earnings as a result of extinguishment of compound financial instrument, net of income tax	(16,252)
Equity component as at December 31, 2014	9,424
Liability component as at January 1, 2013	**45,431**
Proceeds from issue of compound financial instrument	16,574
Separation of a compound financial instrument on initial recognition	(5,391)
Interest charge calculated at an original effective interest rates	1,770
Less: interest paid	(1,109)
Foreign exchange differences	5,487
Liability component as at December 31, 2013	**62,762**
Interest charge calculated at an original effective interest rates before extinguishment	2,078
Interest charge calculated at an original effective interest rates after extinguishment	2,311
Less: interest paid	(3,480)
Loss on extinguishment recognised in profit or loss	4,820
Loss on extinguishment recognised directly in equity	19,120
Foreign exchange differences	6,772
Liability component as at December 31, 2014	**94,383**

(in thousands of Georgian Lari)

In the event of bankruptcy or liquidation of the Group, repayment of these debts is subordinate to the repayments of the Group's liabilities to all other creditors.

27. OTHER BORROWED FUNDS

	Currency	Maturity date	Interest rate %	December 31, 2014	December 31, 2013
Shmagi Kobakhidze	GEL	25/09/2015	6%	5,324	-
Total other borrowed funds				**5,324**	**-**

As at December 31, 2014 other borrowed funds included accrued interest in the amount of GEL 13.

28. SHARE CAPITAL

As at December 31, 2014 and 2013 share capital consisted of 114,430 and 114,430 ordinary shares with par value of GEL 1 each.

The Group's share capital comprises of the following number of shares:

	Share capital Pcs'000
Ordinary shares	
December 1, 2013	**92,850**
Issue of shares	21,580
December 31, 2013	**114,430**
Issue of shares	-
December 31, 2014	**114,430**

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities totaled GEL 702 and GEL 397 as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013 contingent liabilities comprise:

	December 31, 2014	December 31, 2013
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	26,412	23,282
Letters of credit and other transaction related contingent obligations	1,448	20,780
Commitments on loans and unused credit lines	25,480	8,579
Total contingent liabilities and credit commitments	**53,340**	**52,641**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2014 and 2013 such unused credit lines come to GEL 25,480 and GEL 8,579, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2014 and 2013.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2014 and 2013.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2015 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment – The Group's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Georgia and its economy in general.

Laws and regulations affecting businesses in Georgia continue to change rapidly. Tax, currency and customs legislation within Georgia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

In 2014, economies of the CIS countries experienced political and economic turmoil which significantly affected Georgian economy as well.

Currency exchange market was unstable and the Georgian Lari depreciated substantially against United States of Dollar.

(in thousands of Georgian Lari)

Economic situation in Georgia depends, to a large extent, upon success of the Georgian government's efforts and future condition of the Georgian economy and political developments in the CIS. Outcome of these efforts and developments is at this stage difficult to determine.

Pensions and retirement plans – Employees receive pension benefits from the Government of Georgia in accordance with the laws and regulations of the country. As at December 31, 2014 and 2013, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

30. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	December 31, 2014		**December 31, 2013**	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	31,305	574,394	34,962	431,732
- other related parties	31,071		34,538	
- Key management personnel	234		424	
Allowance for impairment losses on loans to customers	1,556	(31,359)	(1,107)	(35,435)
- other related parties	1,547		(1,103)	
- Key management personnel	10		(4)	
Deposits by customers	1,884	319,687	14,901	176,786
- other related parties	28		14,853	
- key management personnel	1,856		48	
Subordinated debt	135,402	135,402	100,976	100,976
- shareholders	135,402		100,976	
Letters of credit and other transaction related contingent obligations	1,448	1,448	8,197	20,780
- other related parties	1,448		8,197	
Guarantees issued and similar commitments	1,647	26,412	550	23,282
- other related parties	1,647		550	

The remuneration of directors and other members of key management were as follows:

	2014		**2013**	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	652	8,824	699	8,824

(in thousands of Georgian Lari)

Included in the consolidated statement of profit or loss for the years ended December 31, 2014 and 2013 are the following amounts which were recognized in transactions with related parties:

	2014		2013	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Interest income	5,690	64,618	7,622	69,362
- other related parties	5,676		7,580	
- Key management personnel	14		42	
Interest expense	85	(15,331)	118	(10,579)
- other related parties	85		118	
Fee and commission income	232	4,877	246	3,903
- other related parties	232		246	
Charity expenses	(2,701)	(2,701)	(9,737)	(9,737)
- other related parties	(2,701)		(9,737)	

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as 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 estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets and liabilities for which fair value approximates carrying value

Cash and cash equivalents – Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Mandatory reserve with the National Bank of Georgia – Mandatory reserve with the National Bank of Georgia is carried at amortized cost which approximates their fair value.

Due from financial institutions – Management of the Bank has concluded that carrying amount of due from financial institutions balances which are carried at amortized cost approximates their fair value.

Held to maturity investments - The fair values of held to maturity investments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments. Significant portion of held to maturity investments were purchased in the year 2014, therefore the management concluded that fair value approximates to carrying amount.

Deposits by banks – Deposit by banks include deposits placed by banks at the end of the year with original maturity less than 1 year and loro accounts. Therefore, management of the Bank has concluded that carrying amount of deposits by banks which are carried at amortized cost approximates their fair value.

Subordinated debt – Subordinated debts are initially recognised at market rates and subsequently measured at amortized costs. In the year 2014, subordinated debts loan agreements were renegotiated and interest rate re priced. Management of the Bank reviewed effective interest rates applied to subordinated debts and concluded that it approximates to market rate, therefore carrying value approximates fair value.

Other non-derivative financial assets and non-derivative financial liabilities – Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Loans to customers – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

Deposits by customers - For the short term maturity deposits it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity. Long term deposits by customers fair value was estimated based on expected future cash flows discounted at current interest rates for new instruments with similar risk and remaining maturity. Discounted rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument.

(in thousands of Georgian Lari)

	Fair Value Hierarchy	December 31, 2014		December 31, 2013		January 1, 2013	
		Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	3	543,035	589,027	396,297	429,477	262,148	261,071
Deposits by customers	3	319,687	320,043	176,786	176,797	66,623	66,574

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	December 31, 2014	December 31, 2013 *(restated)*	January 1, 2013 *(restated)*	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss (See Note 17)	20,728	23,785	10,845	Level 1	Quoted bid prices in an active market.	N/A	N/A
Available-for-sale quoted investments (See Note 19)	8,382	6,838	4,295	Level 1	Quoted bid prices in an active market.	N/A	N/A
Derivatives (See Note 25)	208	73	-	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A

(in thousands of Georgian Lari)

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The management and shareholder have the intention to further develop the Group and the Group's management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBG in supervising the Group.

Under the current capital requirements set by the NBG banks have to: (a) hold the minimum level of share capital of GEL 12,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets ("regulatory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%.
From June 2014, in addition to the above ratios, banks are also required to calculate capital adequacy in accordance with the regulation on capital adequacy requirements for commercial banks dated 28 October 2013 according which banks have to (a) maintain a ratio of common equity tier 1 capital to risk weighted assets at or above 7%, (b) maintain a ratio of tier 1 capital to risk weighted assets at or above 8.5%, (c) maintain a ratio of regulatory capital to risk weighted assets at or above 10.5%.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes based on reports prepared in accordance with the NBG requirements. Ratios are calculated based on Basel I requirements:

	2014	**2013**
Share capital	114,430	114,430
Reserve funds	5,938	5,938
Retained earnings	80,925	13,004
Less: intangible assets	(2,078)	(2,217)
Tier 1 capital	199,215	131,155
Profit for the period	35,345	67,921
Special funds		
General provisions (maximum 1.25% credit and market risk weighted assets)	8,184	4,697
Convertible subordinated loan	93,180	86,815
Subordinated debt (up to 50% of tier 1 capital)	35,408	38,199
Tier 2 capital (up to 100% tier 1 capital	172,117	131,155
Less: investments in subsidiaries	(8,123)	(7,972)
Total regulatory capital	**363,209**	**254,338**
Risk weighted assets	**835,738**	**648,236**
Tier 1 capital adequacy ratio	23.84%	20.23%
Total regulatory capital adequacy ratio	43.46%	39.24%

As at December 31, 2014 and 2013, the Bank included in the computation of total regulatory capital for capital adequacy purposes the convertible debt and subordinated debt received limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

As at December 31, 2014 and 2013, the Bank included in the computation of total regulatory capital for capital adequacy purposes the general provisions, limited to 1.25% of risk weighted assets.

Capital ratios in accordance with the National Bank of Georgia requirements under the new regulation on capital adequacy are as following:

Common equity tier 1 capital	22.15%
Tier 1 capital	22.15%
Regulatory capital	35.59%

33. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to the following:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;

To enable and apply high-performance risk policies, the Group has established a risk management framework, whose main purpose is to protect the Group from unacceptable level of risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processed are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the service centre's risk-manager or the Risk Management Department. Daily risk management is performed by the Heads of Credit Departments and Service Centre's Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower, industry sector are approved by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored on a regular basis.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, some portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Credit risk assessment

To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS.

The Bank divides loan portfolio into individually significant and non-significant borrowers. Individually significant are borrowers which exposure exceeds 1% of Bank's total equity.

Individually significant borrowers are assessed individually using the specific methodology to determine future cash flows discounted at original effective interest rate. In case of absence of impairment signs, an individually assessed loan is provided for using the rate that is based on the collective assessment applied to the same borrower category.

Individual assessment methodology

Factors that the Bank considers in determining future cash flows include information about the borrowers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets and the fair value of collaterals (real estate and deposit).

The Bank assesses fair value of the collaterals and for provision estimation purposes determines liquidation value using different haircuts for different type of collaterals. Liquidation value further discounted by applying 0.20-0.25 and 0.5-1.0 discount factors to the real estate and movable property respectively.

Risk of defaulted exposure is reduced by discounted collateral liquidation value.

Methodology for collective assessment of portfolio

Collective assessment of portfolio was implemented using roll rates model. Portfolio was divided by industry segments. Observation period for each segment was taken as one year from December 2013. During the observation period by the state of end of months and with account of exposure of each loan, the one month migration matrixes were generated. In order to exclude portfolio growth effect, the loans disbursed from December 2013 was excluded from the statistics.

Based on migration matrix probability of default was calculated for each segment. Default was determined as 180 days overdue for corporate segments and 60/120 days for retail.

Loss given default is calculated per each segment. To incorporate expected recoveries, cash recoveries and collateral recoveries (adjusted by expenditures related to collateral realization) is calculated.

Maximum exposure of credit risk

The Group exposure to credit risk has increased significantly over the past year, following the general market development Nonetheless this growth of the exposure was not accompanied by deterioration of the performance indicators of the banks portfolio.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove value less, is represented by the contractual amounts of those instruments.

(in thousands of Georgian Lari)

	Maximum exposure		
	December 31, 2014	**December 31, 2013 *(restated)***	**January 1, 2013 *(restated)***
Due from financial institutions	4,892	10,572	6,320
Loans to customers	543,035	396,297	262,148
Held to maturity investments	10,768	5,946	-
Other financial assets	8,667	865	2,747
Guarantees issued and similar commitments	26,412	23,282	16,251
Commitments on loans and unused credit lines	26,928	29,358	4,614

Off–balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration

The Assets and Liabilities Committee (“ALCO”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

The geographical concentration of assets and liabilities is set out below:

	Georgia	**Other non-OECD countries**	**OECD countries**	**December 31, 2014 Total**
FINANCIAL ASSETS				
Cash and cash equivalent	72,751	10,720	165	83,636
Mandatory cash balance with the NBG	43,120	-	-	43,120
Financial assets at fair value through profit or loss	-	-	20,728	20,728
Due from financial institutions	693	-	4,199	4,892
Loans to customers	534,990	1,113	6,932	543,035
Available-for-sale investments	59	-	8,382	8,441
Held to maturity investments	10,768	-	-	10,768
Other financial assets	8,606	61	-	8,667
TOTAL FINANCIAL ASSETS	**670,987**	**11,894**	**40,406**	**723,287**
FINANCIAL LIABILITIES				
Deposits by banks	50	4	-	54
Deposits by customers	301,225	7,127	11,335	319,687
Other borrowed funds	5,324	-	-	5,324
Other financial liabilities	253	1,059	1,415	2,727
Subordinated debt	135,402	-	-	135,402
TOTAL FINANCIAL LIABILITIES	**442,254**	**8,190**	**12,750**	**463,194**
NET POSITION	**228,733**	**3,704**	**27,656**	

(in thousands of Georgian Lari)

	Georgia	Other non-OECD countries	OECD countries	December 31, 2013 Total *(restated)*
FINANCIAL ASSETS				
Cash and cash equivalents	49,480	5,993	21,951	77,424
Mandatory cash balance with the NBG	20,395	-	-	20,395
Financial assets at fair value through profit or loss	-	-	23,785	23,785
Due from financial institutions	986	-	9,586	10,572
Loans to customers	395,789	89	419	396,297
Available-for-sale investments	60	-	6,838	6,898
Held to maturity investments	5,946	-	-	5,946
Other financial assets	865	-	-	865
TOTAL FINANCIAL ASSETS	**473,521**	**6,082**	**62,579**	**542,182**
FINANCIAL LIABILITIES				
Deposits by banks	21,014	4	2,550	23,568
Deposits by customers	172,222	1,401	3,163	176,786
Other financial liabilities	90	11	-	101
Subordinated debt	100,976	-	-	100,976
TOTAL FINANCIAL LIABILITIES	**294,302**	**1,416**	**5,713**	**301,431**
NET POSITION	**179,219**	**4,666**	**56,866**	

	Georgia	Other non-OECD countries	OECD countries	January 1, 2013 Total *(restated)*
FINANCIAL ASSETS				
Cash and cash equivalents	71,801	463	876	73,140
Mandatory cash balance with the NBG	6,170	-	-	6,170
Financial assets at fair value through profit or loss	-	-	10,845	10,845
Due from financial institutions	26	-	6,294	6,320
Loans to customers	262,094	54	-	262,148
Available-for-sale investments	391	-	4,295	4,686
Other financial assets	2,715	32	-	2,747
TOTAL FINANCIAL ASSETS	**343,197**	**549**	**22,310**	**366,056**
FINANCIAL LIABILITIES				
Deposits by banks	85	3	7,526	7,614
Deposits by customers	53,515	3,026	10,082	66,623
Other borrowed funds	40,040	-	-	40,040
Subordinated debt	120,013	-	-	120,013
TOTAL FINANCIAL LIABILITIES	**213,653**	**3,029**	**17,608**	**234,290**
NET POSITION	**129,544**	**(2,480)**	**4,702**	

(in thousands of Georgian Lari)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, guarantees, vehicles and equipment;
- For retail lending, mortgages over residential properties, guarantees, vehicles and equipment.

During the year, the Group took possession of assets with a carrying value of GEL 8,890 at the statement of financial position date, which the Group is in the process of selling.

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 impairment losses.

At December 31, 2014 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to GEL 197,381. The collateral consists of real estate, vehicles, equipment inventory, deposit and others.

Credit quality by classes of financial assets

As at December 31, 2014:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total December 31, 2014
Cash and cash equivalents	83,636	-	-	-	83,636
Mandatory cash balance with the NBG	43,120	-	-	-	43,120
Financial assets at fair value through profit or loss	20,728	-	-	-	20,728
Due from financial institutions	4,892	-	-	-	4,892
Loans to customers	399,580	47,453	127,361	(31,359)	543,035
Available-for-sale investments	8,441	-	-	-	8,441
Held to maturity investments	10,768	-	-	-	10,768
Other financial assets	8,667	-	-	-	8,667

As at December 31, 2013:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total December 31, 2013 *(restated)*
Cash and cash equivalents	77,424	-	-	-	77,424
Mandatory cash balance with the NBG	20,395	-	-	-	20,395
Financial assets at fair value through profit or loss	23,785	-	-	-	23,785
Due from financial institutions	10,572	-	-	-	10,572
Loans to customers	273,702	4,808	153,222	(35,435)	396,297
Available-for-sale investments	6898	-	-	-	6,898
Held to maturity investments	5,946	-	-	-	5,946
Other financial assets	865	-	-	-	865

(in thousands of Georgian Lari)

As at January 1, 2013:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total January 1, 2013 *(restated)*
Cash and cash equivalents	73,140	-	-	-	73,140
Mandatory cash balance with the NBG	6,170	-	-	-	6,170
Financial assets at fair value through profit or loss	10,845	-	-	-	10,845
Due from financial institutions	6,320	-	-	-	6,320
Loans to customers	172,550	6,573	101,722	(18,697)	262,148
Available-for-sale investments	4686	-	-	-	4,686
Other financial assets	2,747	-	-	-	2,747

Credit quality by class of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December, 31 2014 and 2013 the balances with the NBG (including mandatory cash balance) amounted to GEL 49,927 and GEL 25,927, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level BB-.

The following table details credit ratings of financial assets held by the Group as at December 31, 2014:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2014
Cash and cash equivalents	-	5,543	4,501	49,336	6,807	17,449	83,636
Mandatory cash balance with the NBG	-	-	-	-	43,120	-	43,120
Financial assets at fair value through profit or loss	55	-	277	201	183	20,012	20,728
Due from financial institutions	-	-	4,168	-	641	83	4,892
Loans to customers	-	-	-	-	-	543,035	543,035
Available-for-sale investments	-	-	8,382	-	-	59	8,441
Held to maturity investments	-	-	-	-	10,768	-	10,768
Other financial assets	-	-	-	-	-	8,667	8,667

(in thousands of Georgian Lari)

As at December 31, 2013:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2013 *(restated)*
Cash and cash equivalents	-	4,225	1,766	10,086	27,454	33,893	77,424
Mandatory cash balance with the NBG	-	-	-	-	20,395	-	20,395
Financial assets at fair value through profit or loss	70	3	384	200	181	22,947	23,785
Due from financial institutions	-	-	9,587	265	-	720	10,572
Loans to customers	-	-	-	-	-	396,297	396,297
Available-for-sale investments	-	-	6,838	-	-	60	6,898
Held to maturity investments	-	-	-	-	5,946	-	5,946
Other financial assets	-	-	-	-	-	865	865

As at January 1, 2013:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at January 1, 2013 *(restated)*
Cash and cash equivalents	-	5	5,910	414	48,628	18,183	73,140
Mandatory cash balance with the NBG	-	-	-	-	6,170	-	6,170
Due from financial institutions	-	-	6,295	-	-	25	6,320
Financial assets at fair value through profit or loss	128	3	339	189	181	10,005	10,845
Loans to customers	-	-	-	-	-	262,148	262,148
Available-for-sale investments	-	-	-	-	-	4,686	4,686
Other financial assets	-	-	-	-	-	2,747	2,747

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties.

Renegotiated loans to customers

Loans to customers are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

<u>Carrying amount by class of financial assets whose terms have been renegotiated:</u>

The table below shows the carrying amount of renegotiated financial assets, by class:

Financial asset class	December 31, 2014	December 31, 2013
Loans to customers	89,413	103,117

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Liquidity risk

Liquidity risk management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Committee ("ALCO") controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.
The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;

(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Group will be liable to redeem the liability; and

(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.
An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

(in thousands of Georgian Lari)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
FINANCIAL ASSETS						
Cash and cash equivalents	56,022	-	-	-	-	56,022
Mandatory cash balance with the NBG	43,120	-	-	-	-	43,120
Due from financial institutions	-	-	250	-	-	250
Loans to customers	64,858	22,613	143,380	201,172	111,012	543,035
Held to maturity investments	1,495	3,944	4,852	477	-	10,768
Total interest bearing financial assets	**165,495**	**26,557**	**148,482**	**201,649**	**111,012**	**653,195**
Cash and cash equivalents	27,614	-	-	-	-	27,614
Financial assets at fair value through profit or loss	20,728	-	-	-	-	20,728
Due from financial institutions	474	814	-	1,864	1,490	4,642
Available-for-sale investments	-	-	-	8,441	-	8,441
Other financial assets	3,076	772	4,735	49	35	8,667
Total non-interest bearing financial assets	**51,892**	**1,586**	**4,735**	**10,354**	**1,525**	**70,092**
Total financial assets	**217,387**	**28,143**	**153,217**	**212,003**	**112,537**	**723,287**
FINANCIAL LIABILITIES						
Deposits by customers	42,361	24,625	107,054	159	278	174,477
Subordinated debt	78	-	-	27,954	107,370	135,402
Other borrowed funds	13	-	-	5,311	-	5,324
Total interest bearing financial liabilities	**42,452**	**24,625**	**107,054**	**33,424**	**107,648**	**315,203**
Deposits by banks	54	-	-	-	-	54
Deposits by customers	131,043	2,040	12,051	26	50	145,210
Other financial liabilities	255	1,181	1,291	-	-	2,727
Total non-interest bearing financial liabilities	**131,352**	**3,221**	**13,342**	**26**	**50**	**147,991**
Total financial liabilities	**173,804**	**27,846**	**120,396**	**33,450**	**107,698**	**463,194**
Interest sensitivity gap	123,043	1,932	41,428	168,225	3,364	
Cumulative interest sensitivity gap	**123,043**	**124,975**	**166,403**	**334,628**	**337,992**	
Liquidity gap	43,583	297	32,821	178,553	4,839	
Cumulative liquidity gap	**43,583**	**43,880**	**76,701**	**255,254**	**260,093**	

(in thousands of Georgian Lari)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2013 Total *(restated)*
FINANCIAL ASSETS						
Cash and cash equivalents	36,732	-	-	-	-	36,732
Mandatory cash balance with the NBG	20,395	-	-	-	-	20,395
Due from financial institutions	-	-	516	-	-	516
Loans to customers	43,982	8,300	83,284	175,008	85,723	396,297
Held to maturity investments	998	2,982	1,966	-	-	5,946
Total interest bearing financial assets	**102,107**	**11,282**	**85,766**	**175,008**	**85,723**	**459,886**
Cash and cash equivalents	40,692	-	-	-	-	40,692
Financial assets at fair value through profit or loss	23,785	-	-	-	-	23,785
Due from financial institutions	-	-	470	-	9,586	10,056
Available-for-sale investments	-	-	-	6,898	-	6,898
Other financial assets	228	-	540	-	97	865
Total non-interest bearing financial assets	**64,705**	**-**	**1,010**	**6,898**	**9,683**	**82,296**
Total financial assets	**166,812**	**11,282**	**86,776**	**181,906**	**95,406**	**542,182**
FINANCIAL LIABILITIES						
Deposits by banks	2,550	3,473	17,363	-	-	23,386
Deposits by customers	17,374	10,073	64,531	85	47	92,110
Subordinated debt	34	-	-	-	100,942	100,976
Total interest bearing financial liabilities	**19,958**	**13,546**	**81,894**	**85**	**100,989**	**216,472**
Deposits by banks	182	-	-	-	-	182
Deposits by customers	57,616	11,599	12,312	1,674	1,475	84,676
Other financial liabilities	101	-	-	-	-	101
Total non-interest bearing financial liabilities	**57,899**	**11,599**	**12,312**	**1,674**	**1,475**	**84,959**
Total financial liabilities	**77,857**	**25,145**	**94,206**	**1,759**	**102,464**	**301,431**
Interest sensitivity gap	82,149	(2,264)	3,872	174,923	(15,266)	
Cumulative interest sensitivity gap	**82,149**	**79,885**	**83,757**	**258,680**	**243,414**	
Liquidity gap	88,955	(13,863)	(7,430)	180,147	(7,058)	
Cumulative liquidity gap	**88,955**	**75,092**	**67,662**	**247,809**	**240,751**	

(in thousands of Georgian Lari)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	January 1, 2013 Total *(restated)*
FINANCIAL ASSETS						
Cash and cash equivalents	64,323	-	-	-	-	64,323
Mandatory cash balance with the NBG	6,170	-	-	-	-	6,170
Due from financial institutions	-	-	25	-	-	25
Loans to customers	29,525	9,813	31,722	102,416	88,672	262,148
Total interest bearing financial assets	**100,018**	**9,813**	**31,747**	**102,416**	**88,672**	**332,666**
Cash and cash equivalents	8,817	-	-	-	-	8,817
Financial assets at fair value through profit or loss	10,845	-	-	-	-	10,845
Due from financial institutions	-	-	-	4,970	1,325	6,295
Available-for-sale investments	-	-	-	4,686	-	4,686
Other financial assets	2,641	4	-	-	102	2,747
Total non-interest bearing financial assets	**22,303**	**4**	**-**	**9,656**	**1,427**	**33,390**
Total financial assets	**122,321**	**9,817**	**31,747**	**112,072**	**90,099**	**366,056**
FINANCIAL LIABILITIES						
Deposits by banks	7,529	-	-	-	-	7,529
Deposits by customers	4,940	1,655	13,846	3,550	16	24,007
Subordinated debt	65	-	-	57,982	61,966	120,013
Other borrowed funds	40	-	-	40,000	-	40,040
Total interest bearing financial liabilities	**12,574**	**1,655**	**13,846**	**101,532**	**61,982**	**191,589**
Deposits by banks	85	-	-	-	-	85
Deposits by customers	39,324	39	729	2,524	-	42,616
Total non-interest bearing financial liabilities	**39,409**	**39**	**729**	**2,524**	**-**	**42,701**
Total financial liabilities	**51,983**	**1,694**	**14,575**	**104,056**	**61,982**	**234,290**
Interest sensitivity gap	87,444	8,158	17,901	884	26,690	
Cumulative interest sensitivity gap	**87,444**	**95,602**	**113,503**	**114,387**	**141,077**	
Liquidity gap	70,338	8,123	17,172	8,016	28,117	
Cumulative liquidity gap	**70,338**	**78,461**	**95,633**	**103,649**	**131,766**	

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the consolidated statement of financial position under the effective interest rate method.

(in thousands of Georgian Lari)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
FINANCIAL ASSETS							
Cash and cash equivalents		56,022	-	-	-	-	56,022
Mandatory cash balance with the NBG		43,120	-	-	-	-	43,120
Due from financial institutions	3.24%	-	-	268	-	-	268
Loans to customers	12.02%	66,531	30,184	182,072	293,045	141,304	713,136
Held to maturity investments	4.35%	1,500	3,971	4,928	500	-	10,899
Total interest bearing financial assets		**167,173**	**34,155**	**187,268**	**293,545**	**141,304**	**823,445**
Cash and cash equivalents		27,614	-	-	-	-	27,614
Financial assets at fair value through profit or loss		20,728	-	-	-	-	20,728
Due from financial institutions		474	814	-	1,864	1,490	4,642
Available-for-sale investments		-	-	-	8,441	-	8,441
Other financial assets		3,076	772	4,735	49	35	8,667
Total non-interest bearing financial assets		**51,892**	**1,586**	**4,735**	**10,354**	**1,525**	**70,092**
TOTAL FINANCIAL ASSETS		**219,065**	**35,741**	**192,003**	**303,899**	**142,829**	**893,537**
FINANCIAL LIABILITIES							
Deposits by customers	4.85%	42,364	24,859	109,828	232	305	177,588
Subordinated Debt	6.00%	409	1,576	6,850	58,682	142,291	209,808
Other borrowed funds	6.00%	28	52	5,485			5,565
Total interest bearing financial liabilities		**42,801**	**26,487**	**122,163**	**58,914**	**142,596**	**392,961**
Deposits by banks		54	-	-	-	-	54
Deposits by customers		131,043	2,040	12,051	26	50	145,210
Other financial liabilities		255	1,181	1,291	-	-	2,727
Total non-interest bearing financial liabilities		**131,352**	**3,221**	**13,342**	**26**	**50**	**147,991**
TOTAL FINANCIAL LIABILITIES		**174,153**	**29,708**	**135,505**	**58,940**	**142,646**	**540,952**
Guarantees issued		2,767	4,487	9,527	9,631	-	26,412
Letters of credit		814	-	634	-	-	1,448
Unused credit line		3,409	693	6,949	5,923	8,506	25,480
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS		**181,143**	**34,888**	**152,615**	**74,494**	**151,152**	**594,292**

(in thousands of Georgian Lari)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2013 Total *(restated)*
FINANCIAL ASSETS							
Cash and cash equivalents		36,732	-	-	-	-	36,732
Mandatory cash balance with the NBG		20,395	-	-	-	-	20,395
Due from financial institutions	3.06%	-	-	535	-	-	535
Loans to customers	12.60%	45,404	15,060	117,359	273,673	121,445	572,941
Held to maturity investments	3.94%	1,000	3,007	1,993	-	-	6,000
Total interest bearing financial assets		**103,531**	**18,067**	**119,887**	**273,673**	**121,445**	**636,603**
Cash and cash equivalents		40,692	-	-	-	-	40,692
Financial assets at fair value through profit or loss		23,785	-	-	-	-	23,785
Due from financial institutions		-	-	470	-	9,586	10,056
Available-for-sale investments		-	-	-	6,898	-	6,898
Other financial assets		228	-	540	-	97	865
Total non-interest bearing financial assets		**64,705**	**-**	**1,010**	**6,898**	**9,683**	**82,296**
TOTAL FINANCIAL ASSETS		**168,236**	**18,067**	**120,897**	**280,571**	**131,128**	**718,899**
FINANCIAL LIABILITIES							
Deposits by banks	5.69%	2,717	3,728	18,149	-	-	24,594
Deposits by customers	5.92%	17,365	10,281	67,023	108	71	94,848
Subordinated debt	2.92%	137	763	2,747	14,595	141,700	159,942
Total interest bearing financial liabilities		**20,219**	**14,772**	**87,919**	**14,703**	**141,771**	**279,384**
Deposits by banks		182	-	-	-	-	182
Deposits by customers		57,616	11,599	12,312	1,674	1,475	84,676
Other financial liabilities		101	-	-	-	-	101
Total non-interest bearing financial liabilities		**57,899**	**11,599**	**12,312**	**1,674**	**1,475**	**84,959**
TOTAL FINANCIAL LIABILITIES		**78,118**	**26,371**	**100,231**	**16,377**	**143,246**	**364,343**
Guarantees issued		16	11,716	9,951	1,599	-	23,282
Letters of credit		9,736	760	10,284	-	-	20,780
Unused credit line		2,792	202	1,697	2,568	1,320	8,579
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS		**90,662**	**39,049**	**122,163**	**20,544**	**144,566**	**416,984**

(in thousands of Georgian Lari)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	January 1, 2013 Total *(restated)*
FINANCIAL ASSETS							
Cash and cash equivalents		64,323	-	-	-	-	64,323
Mandatory cash balance with the NBG		6,170	-	-	-	-	6,170
Due from financial institutions	3.98%	-	-	25	-	-	25
Loans to customers	12.54%	29,834	10,121	34,374	153,788	203,898	432,015
Total interest bearing financial assets		**100,327**	**10,121**	**34,399**	**153,788**	**203,898**	**502,533**
Cash and cash equivalents		8,817	-	-	-	-	8,817
Due from financial institutions		-	-	-	4,970	1,325	6,295
Financial assets at fair value through profit or loss		10,845	-	-	-	-	10,845
Available-for-sale investments		-	-	-	4,686	-	4,686
Other financial assets		2,641	4	-	-	102	2,747
Total non-interest bearing financial assets		**22,303**	**4**	**-**	**9,656**	**1,427**	**33,390**
TOTAL FINANCIAL ASSETS		**122,630**	**10,125**	**34,399**	**163,444**	**205,325**	**535,923**
FINANCIAL LIABILITIES							
Deposits by banks	6.41%	7,529	-	-	-	-	7,529
Deposits by customers	7.64%	4,972	1,687	14,551	4,635	26	25,871
Subordinated Debt	3.59%	66	-	-	66,308	110,171	176,545
Other borrowed funds	3.00%	40	-	-	44,800	-	44,840
Total interest bearing financial liabilities		**12,607**	**1,687**	**14,551**	**115,743**	**110,197**	**254,785**
Deposits by banks		85	-	-	-	-	85
Deposits by customers		39,324	39	729	2,524	-	42,616
Total non-interest bearing financial liabilities		**39,409**	**39**	**729**	**2,524**	**-**	**42,701**
TOTAL FINANCIAL LIABILITIES		**52,016**	**1,726**	**15,280**	**118,267**	**110,197**	**297,486**
Guarantees issued		200	2,606	8,265	5,180	-	16,251
Letters of credit		620	25	1,972	4,702	-	7,319
Unused credit line		1,706	44	2,022	556	286	4,614
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS		**54,542**	**4,401**	**27,539**	**128,705**	**110,483**	**325,670**

(in thousands of Georgian Lari)

Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as the Group borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALCO also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact of interest rate 2 basis points changes on profit before tax and equity based on financial assets and liabilities values as at December 31, 2014; and 2013 were as following:

	December 31, 2014		**December 31, 2013**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Net impact on profit before tax	6,760	(6,760)	4,868	(4,868)
Net impact on equity	5,746	(5,746)	4,138	(4,138)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the National Bank of Georgia.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

(in thousands of Georgian Lari)

	GEL	**USD** USD 1 = GEL1.8636	**EUR** EUR 1 = GEL 2.2656	**Other currency**	**December 31, 2014 Total**
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and cash equivalents	65,798	10,375	6,880	583	83,636
Mandatory cash balance with the NBG	-	40,809	2,311	-	43,120
Financial assets at fair value through profit or loss	-	20,645	-	83	20,728
Due from financial institutions	692	3,386	814	-	4,892
Loans to customers	194,319	340,153	8,563	-	543,035
Available-for-sale investments	60	8,381	-	-	8,441
Held to maturity investments	10,768	-	-	-	10,768
Other financial assets	6,018	2,582	67	-	8,667
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**277,655**	**426,331**	**18,635**	**666**	**723,287**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Deposits by banks	26	28	-	-	54
Deposits by customers	52,502	251,059	15,802	324	319,687
Other borrowed funds	5,324	-	-	-	5,324
Other financial liabilities	45	2,474	-	-	2,519
Subordinated debt	-	135,402	-	-	135,402
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**57,897**	**388,963**	**15,802**	**324**	**462,986**
OPEN BALANCE SHEET POSITION	**219,758**	**37,368**	**2,833**	**342**	
Derivative financial instruments:					
Gross settled:					
- currency swaps	10,686	(10,894)	-	-	
OPEN POSITION	**230,444**	**26,474**	**2,833**	**342**	

(in thousands of Georgian Lari)

	GEL	USD USD 1 = GEL1.7363	EUR EUR 1 = GEL 2.3891	Other currency	December 31, 2013 Total *(restated)*
FINANCIAL ASSETS					
Cash and cash equivalents	44,545	28,413	4,233	233	77,424
Mandatory cash balance with the NBG	-	16,223	4,172	-	20,395
Financial assets at fair value through profit or loss	-	23,590	-	195	23,785
Due from financial institutions	986	1,389	8,197	-	10,572
Loans to customers	146,610	245,563	4,124	-	396,297
Available-for-sale investments	60	6,838	-	-	6,898
Held to maturity investments	5,946	-	-	-	5,946
Other financial assets	778	26	61	-	865
TOTAL FINANCIAL ASSETS	**198,925**	**322,042**	**20,787**	**428**	**542,182**
FINANCIAL LIABILITIES					
Deposits by banks	1	23,567	-	-	23,568
Deposits by customers	46,261	104,891	25,179	455	176,786
Other financial liabilities	18	10	-	-	28
Subordinated debt	-	100,976	-	-	100,976
TOTAL FINANCIAL LIABILITIES	**46,280**	**229,444**	**25,179**	**455**	**301,358**
OPEN BALANCE SHEET POSITION	**152,645**	**92,598**	**(4,392)**	**(27)**	
Derivative financial instruments:					
Gross settled:					
- currency swaps	8,615	(8,688)	-	-	
OPEN POSITION	**161,260**	**83,910**	**(4,392)**	**(27)**	

	GEL	USD USD 1 = GEL1.6567	EUR EUR 1 = GEL 2.1825	Other currency	January 1, 2013 Total *(restated)*
FINANCIAL ASSETS					
Cash and cash equivalents	67,528	4,212	889	511	73,140
Mandatory cash balance with the NBG	-	5,247	923	-	6,170
Due from financial institutions	25	6,295	-	-	6,320
Financial assets at fair value through profit or loss	-	10,686	-	159	10,845
Loans to customers	90,988	165,967	5,193	-	262,148
Available-for-sale investments	4,686	-	-	-	4,686
Other financial assets	2,561	98	88	-	2,747
TOTAL FINANCIAL ASSETS	**165,788**	**192,505**	**7,093**	**670**	**366,056**
FINANCIAL LIABILITIES					
Deposits by banks	54	7,560	-	-	7,614
Deposits by customers	27,327	6,411	32,743	142	66,623
Other borrowed funds	40,040	-	-	-	40,040
Subordinated debt	-	120,013	-	-	120,013
TOTAL FINANCIAL LIABILITIES	**67,421**	**133,984**	**32,743**	**142**	**234,290**
OPEN BALANCE SHEET POSITION	**98,367**	**58,521**	**(25,650)**	**528**	

(in thousands of Georgian Lari)

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the USD against the GEL. 30% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 30% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2014; 2013 and January 1, 2013:

	December 31, 2014		December 31, 2013 *(restated)*		January 1, 2013 *(restated)*	
	GEL/USD +30%	GEL/USD -30%	GEL/USD +30%	GEL/USD -30%	GEL/USD +30%	GEL/USD -30%
Impact on profit or loss before tax	11,148	(11,148)	27,757	(27,757)	17,556	(17,556)
Impact on equity	9,476	(9,476)	23,593	(23,593)	14,923	(14,923)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

34. SUBSEQUENT EVENTS

Subsequent to the year end Georgian Lari has continued to depreciate against US Dollar. As at May 5, 2015, official exchange rate equaled to 2.3221 Georgian Lari per 1 US Dollar.