CARTU BANK GROUP

Consolidated Financial Statements
for the Year Ended December 31, 2013

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, 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Closed Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2013, 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:

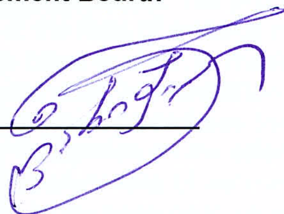
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient 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, 2013 were authorized for issue on April 29, 2014 by the Management Board of the Group.

On behalf of the Management Board:



General Director
Nodar Javakhishvili

April 29, 2014
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 29, 2014
Tbilisi, Georgia

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INDEPENDENT AUDITORS' 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, 2013, the consolidated statements of profit or loss and 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.

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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, 2013, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 29, 2014
Tbilisi, Georgia

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013

(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Interest income	5, 27	69,362	37,912
Interest expense	5, 27	(10,579)	(8,609)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		58,783	29,303
Recovery of provision for impairment losses on interest bearing assets	6, 27	39,218	2,907
NET INTEREST INCOME		98,001	32,210
Net gain/(loss) on financial assets at fair value through profit or loss	7	11,775	(1,085)
Net gain on foreign exchange operations	8	4,087	2,309
Fee and commission income	9, 27	3,903	3,286
Fee and commission expense	9	(3,514)	(2,456)
(Provision)/recovery of provision for guarantees and other operations	6	(3,627)	56
Other income/(expense)	10	715	(1,123)
NET NON-INTEREST INCOME		13,339	987
OPERATING INCOME		111,340	33,197
OPERATING EXPENSES	11, 27	(26,737)	(17,839)
PROFIT BEFORE INCOME TAX		84,603	15,358
Income tax expense	12	(13,402)	(2,338)
NET PROFIT FOR THE YEAR		**71,201**	**13,020**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**71,201**	**13,020**
Attributable to:			
Owners of the parent		71,658	13,820
Non-controlling interest		(457)	(800)
		71,201	**13,020**

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 29, 2014
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 29, 2014
Tbilisi, Georgia

The notes on pages 9-59 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	December 31, 2013	December 31, 2012
ASSETS:			
Cash and balances with the National Bank of Georgia	13	37,786	16,690
Financial assets at fair value through profit or loss	14	23,785	10,845
Due from banks	15	79,221	68,940
Loans to customers	16, 27	396,297	262,148
Investments available-for-sale		60	391
Investments held to maturity	17	5,946	-
Property and equipment	18	11,940	11,950
Current income tax assets		-	636
Deferred income tax assets	12	249	9,429
Other assets	19	39,100	36,470
TOTAL ASSETS		594,384	417,499
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits by banks	20	32,256	7,614
Customer accounts	21, 27	176,786	66,623
Other borrowed funds	24	-	40,040
Provisions	6, 27	397	328
Current income tax liability		356	-
Other liabilities	22	2,128	2,743
Deferred tax liability	12	3,176	-
Subordinated debt	23, 27	100,976	120,013
Total liabilities		316,075	237,361
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	25	114,430	92,850
Additional paid in capital		30,206	24,816
Retained earnings		133,569	61,834
Total equity attributable to owners of the parent		278,205	179,500
Non-controlling interest		104	638
Total equity		278,309	180,138
TOTAL LIABILITIES AND EQUITY		594,384	417,499

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 29, 2014
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 29, 2014
Tbilisi, Georgia

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CARTU BANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	Share capital	Additional paid in capital	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
January 1, 2012		81,196	24,816	48,014	154,026	1,438	155,464
Issue of share	25	11,654	-	-	11,654	-	11,654
Total comprehensive income for the year	23	-	-	13,820	13,820	(800)	13,020
December 31, 2012		**92,850**	**24,816**	**61,834**	**179,500**	**638**	**180,138**
Total comprehensive income for the year		-	-	71,658	71,658	(457)	71,201
Acquisition of non-controlling interest		-	-	77	77	(77)	-
Separation of a compound financial instrument on initial recognition	23	-	5,390	-	5,390	-	5,390
Issue of shares	25	21,580	-	-	21,580	-	21,580
December 31, 2013		**114,430**	**30,206**	**133,569**	**278,205**	**104**	**278,309**

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 29, 2014
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 29, 2014
Tbilisi, Georgia

The notes on pages 9-59 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax:		84,603	15,358
Adjustments for:			
Recovery of provision for impairment losses on interest bearing assets	6	(39,218)	(2,907)
Provision (Recovery of provision) for guarantees and other operations	6	3,627	(56)
Net gain on foreign exchange operations	8	(1,173)	(209)
Depreciation and amortization expense	11	1,572	1,527
Change in interest accruals, net		17,104	398
Gain on disposal of repossessed and fixed assets		(841)	(220)
Net (gain)/loss on operations with financial assets at fair value through profit or loss	7	(11,775)	1,085
Cash inflow from operating activities before changes in operating assets and liabilities		53,899	14,976
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank of Georgia	13	(14,225)	4,459
Due from banks		(4,250)	(6,069)
Loans to customers		(108,587)	(4,007)
Other assets		2,247	(2,504)
Increase/(decrease) in operating liabilities:			
Deposits by banks		24,759	(18,384)
Customer accounts		108,742	(10,559)
Other liabilities		(616)	1,945
Cash inflow(outflow) from operating activities before taxation		61,969	(20,143)
Income tax paid		-	-
Net cash inflow/(outflow) from operating activities		61,969	(20,143)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment, and intangible assets	18,19	(1,721)	(1,386)
Proceeds on disposal of property and equipment and intangible assets		9	196
Proceeds on investments at fair value through profit or loss		(1,166)	4,634
Proceeds from sale of repossessed assets		1,486	518
Purchase of repossessed assets		(8,890)	(3,453)
Purchase of investments available-for-sale		331	(69)
Proceeds on disposal of investments held to maturity		(5,946)	6,414
Net cash(outflow) / inflow from investing activities		(15,897)	6,854

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of share	25	21,580	11,654
Proceeds from subordinated debt	23	19,083	-
Repayment of subordinated debt	23	(38,120)	(6,956)
Repayment of other borrowed funds	24	(40,039)	-
Other borrowed funds	24	-	40,000
Net cash (outflow)/inflow from financing activities		(37,496)	44,698
Effect of exchange rate changes on the balance of cash held in foreign currencies		4,325	(1,779)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		8,576	31,409
CASH AND CASH EQUIVALENTS, beginning of the year	13	73,140	43,510
CASH AND CASH EQUIVALENTS, end of the year	13	86,041	73,140

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

Interest paid and received by the Group during the year ended December 31, 2012 amounted to GEL 9,103 thousand and GEL 28,455 thousand, respectively.

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 29, 2014
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 29, 2014
Tbilisi, Georgia

The notes on pages 9-59 form an integral part of these consolidated financial statements.

1. ORGANISATION

Closed 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, 2013 the Bank have 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 banking group (the "Group"), which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Ownership interest (%)		Type of operation
		2013	2012	
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%	69.00%	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, 2013 and 2012 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 April 29, 2014 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") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The Company has breached financial covenants, but it does not cause liquidity problem as noted in Note 20. The management and shareholders have the intention to further develop the business of the Group in Georgia both in corporate and retail segments. The Group's management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), 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, and the measurement of repossessed assets at the lower of carrying amount and fair value less costs to sell as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 30.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Income and expense are not offset in the consolidated statement of profit or loss and other comprehensive income 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

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured 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 and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 intragroup assets and 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 other comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

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.
Interest earned on assets at fair value is classified within interest income.

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 and other comprehensive income 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 and other comprehensive income on expiry.

All other commissions are recognized when services are provided.

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.

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 and other comprehensive income.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (‘FVTPL’), investments ‘held to maturity’, ‘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 fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

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 recognized in profit or loss and other comprehensive income. The net gain or loss recognized in profit or loss and other comprehensive income 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 and other comprehensive income.

Investments held to maturity

Held to maturity investments 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.
Held to maturity investments 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, (b) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

The Group has investment in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets.

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 recognized in profit or loss and other comprehensive income are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

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

Loans and receivables

Trade receivables, loans, and other receivables 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 amortized cost using the effective interest method, less any impairment. Interest income is recognized 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, other than those at FVTPL, 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 financial asset have been affected.
For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is 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-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets 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 amortized cost, the amount of the impairment loss recognized 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. Changes in the carrying amount of the allowance account are recognized in profit or loss and other comprehensive income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss and other comprehensive income in the period.

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 and other comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss and other comprehensive income are not reversed through profit or loss and other comprehensive income. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss and other comprehensive income if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements 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 receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and receivables are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. 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 and other comprehensive income 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 recognize the financial asset and also recognizes a collateralized 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 and other comprehensive income.

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 recognizes 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 recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss and other comprehensive income. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized 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 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 recognized 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 ‘other financial liabilities’.

Other financial liabilities

Other financial liabilities (including depository instruments with National Bank of Georgia, deposits by banks and customers, other 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 amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized 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, if not designated as at FVTPL, 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 derecognizes 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.

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 credit 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 with the National Bank of Georgia, 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. Repossessed assets are 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses

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. Where 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.

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 recognized immediately in profit or loss and other comprehensive income, 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 recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss and other comprehensive income, 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.

Assets classified as held for sale

The Group classifies a non-current assets (or disposal group) as held for sale if its carrying amount will be recovered principally trough a sale of transaction rather than though continuing use. For this to be the case the non-current assets (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group) and its sale must be highly probable.

The sale qualifies are highly probable if the Group’s management is committed to a plan to sell the non-current assets (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current assets (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in

addition the sale should be expected to qualify for recognition as a complete sale within one year form the date of classification of the non-current assets (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for the any initial or subsequent write-down of the asset (or disposal group) to fair value less cost to sell if the events or changes in circumstance indicate that their carrying amount may be impaired.

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 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 recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises 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 recognized for taxable temporary differences associated property and equipment, due from banks, loans to customers, provisions, other assets and other liabilities 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 realized, 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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group management reviewed the Group’s investment property portfolios and concluded that none of the Group’s investment properties are held under a business model whose objective is to consume substantially all of the economic

benefits embodied in the investment properties over time, rather than through sale. Therefore, the Group management has determined that the 'sale' presumption set out in the amendments to IAS 12 (Income Taxes) is not rebutted. As a result, the Group has not recognized any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss and other comprehensive income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

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 and other comprehensive income.

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 recognized 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 recognized 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.

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, 2013	**December 31, 2012**
GEL/1 US Dollar	1.7363	1.6567
GEL/1 Euro	2.3891	2.1825

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.

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 have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. As at December 31, 2013 and 2012 the carrying amounts of the financial assets held to maturity are GEL 5,946 and GEL zero, respectively. Details of these assets are set out in Note 17.

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 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, 2013 and 2012 the gross loans to customers totaled GEL 431,732 thousand and GEL 280,845 thousand, respectively, and allowance for impairment losses amounted to GEL 35,435 thousand and GEL 18,697 thousand, respectively.

Valuation of financial instruments

As described in Note 28, 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 28 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Group management 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

Items of property and equipment are stated at historical cost less accumulated depreciation and less any accumulated impairment losses. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, the management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to GEL 249 thousand and 9,429 thousand as at December 31, 2013 and 2012, respectively.

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

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards. The standards IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance and IAS 27 (as

revised in 2011) are not applicable to the Group as they deal only with separate standalone financial statements.

The application of these standards has no impact on the financial statements.

Impact of the application of IFRS 10. IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

Amendments to IFRS 7 *Financial instruments: Disclosures.* The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

In the current year, the Group has not transferred any financial assets that would result in the application of the amendments that would resulted in more disclosures regarding the transfer of financial assets.

Amendments to IAS 1 *Presentation of financial statements (amended June 2011).* The Group has applied the amendments to IAS 1 titled *Presentation of Items of Other Comprehensive Income* in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income.

The impact of this amendment has been to analyse items within the consolidated statement of profit or loss and other comprehensive income between items that will not be reclassified subsequently to profit or loss and other comprehensive income and items that will be reclassified subsequently to profit or loss and other comprehensive income in accordance with the respective IFRS standard to which the item relates.

The application of the amendments to IAS 1 does not result in any impact on consolidated statement of profit or loss and other comprehensive of the Group.

IFRS 13 *Fair Value Measurement*. The Bank has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases, and measurements* that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in

the Standard in comparative information provided for periods before the initial application of the Standard. The application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012).

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Bank are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

New and revised IFRSs in issue but not yet effective

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

IFRS 9 *Financial Instruments*
Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*[2]
Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*[1]
Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities1*
[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

IFRS 9 *Financial Instruments.* IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a 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 at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. 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 and other comprehensive income.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss and other comprehensive income, 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 other comprehensive income would create or enlarge an accounting mismatch in profit or loss and other comprehensive income. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss and other comprehensive income. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss and other comprehensive income.

The management of the Group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale financial assets will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss and other comprehensive income). 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 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 realisation and settlement’.

The management of the Bank does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Bank's financial statements as the Bank does not have any financial assets and financial liabilities that qualify for offset.

5. NET INTEREST INCOME

	Year ended December 31, 2013	Year ended December 31, 2012
Interest income comprises:		
Financial assets recorded at amortized cost:		
- impaired financial assets	67,362	36,003
- unimpaired financial assets	2,000	1,909
Total interest income	**69,362**	**37,912**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	68,502	36,960
Due from banks	825	791
Interest on investments held to maturity	35	161
Total interest income on financial assets recorded at amortized cost	69,362	**37,912**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(10,579)	(8,609)
Total interest expense	**(10,579)**	**(8,609)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Subordinated debt	(3,834)	(5,671)
Customer accounts	(6,392)	(1,555)
Deposits by banks	(353)	(943)
Other borrowed funds	-	(440)
Total interest expense on financial liabilities recorded at amortized cost	(10,579)	(8,609)
Net interest income before (provision)/ recovery of provision for impairment losses on interest bearing financial assets	**58,783**	**29,303**

6. 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, 2012	**132,747**
Additional provisions recognized	(2,907)
Write-off of assets	(111,143)
December 31, 2012	**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**

The movements in other provisions were as follows:

	Other assets	Guarantees	Total
January 1, 2012	-	384	384
Recovery of provisions	-	(56)	(56)
December 31, 2012	-	328	328
Additional provisions recognized	3,559	69	3,627
Recovery of provisions	(29)	-	(29)
December 31, 2013	3,530	397	3,927

7. NET GAIN/LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Year ended December 31, 2013	Year ended December 31, 2012
Net gain/(loss) on operations with financial assets initially recognized at fair value through profit and loss comprise:		
Realized gain on trading operations	51,439	23,406
Realized loss on trading operations	(39,664)	(24,491)
Total net gain/(loss) on operations with financial assets at fair value through profit or loss	**11,775**	**(1,085)**

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

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

	Year ended December 31, 2013	Year ended December 31, 2012
Dealing, net	2,914	2,100
Translation differences, net	1,173	209
Total net gain on foreign exchange operations	**4,087**	**2,309**

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2013	Year ended December 31, 2012
Fee and commission income:		
Plastic cards operations	2,124	1,791
Settlements	790	716
Documentary operations	555	543
Cash operations	341	218
Foreign exchange operations	-	1
Other	93	17
Total fee and commission income	**3,903**	**3,286**
Fee and commission expense:		
Plastic cards services	(2,268)	(1,786)
Documentary operations	(395)	(395)
Settlements	(236)	(196)
Letter of credit	(543)	(26)
Cash operations	-	(12)
Other	(72)	(41)
Total fee and commission expense	**(3,514)**	**(2,456)**

10. OTHER INCOME

Other income comprises:

	Year ended December 31, 2013	Year ended December 31, 2012
Insurance premiums	(1,380)	(2,036)
Gain from realization of repossessed assets	834	5
Fines and penalties received	165	18
Legal income	-	73
Other	1,096	817
Total other income/(expense)	**715**	**(1,123)**

11. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2013	Year ended December 31, 2012
Charity and sponsorship	9,737	26
Staff costs	8,824	9,208
Operating leases	1,741	1,641
Depreciation and amortization	1,572	1,518
Communication expenses	847	868
Security expenses	708	670
Postal expenses	353	343
Property and equipment maintenance	282	85
Professional services	271	361
Taxes, other than income tax	245	160
Utilities	202	213
Advertising expenses	147	311
Representative expenses	130	87
Business trip expenses	75	53
Training	37	13
Other expenses	1,566	2,282
Total operating expenses	**26,737**	**17,839**

Charity and sponsorship expenses represent payments made to registered charity organisations with the amount of GEL 9,737 thousand and GEL 26 thousand in 2013 and 2012, respectively.

12. 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 as at December 31, 2013 and 2012 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

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.

Temporary differences as at December 31, 2013 and 2012 comprise:

	December 31, 2013	December 31, 2012
Loans to customers	(3,370)	(255)
Property and equipment	(843)	(840)
Insurance reserves	(335)	50
Other assets	(82)	(84)
Other liabilities	(2)	(2)
Provisions for other assets	756	89
Subordinated debt	366	42
Net deferred tax liability at the statutory tax rate (15%)	(3,510)	(1,000)
Loss carry forward	583	10,429
Net deferred tax (liability)/asset	**(2,927)**	**9,429**

Relationships between tax expenses and accounting profit for the years ended December 31, 2013 and 2012 are explained as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Profit before income tax	85,078	15,358
Tax at the statutory tax rate (15%)	12,762	2,304
Change in deferred tax asset not recognized	382	-
Permanent differences	258	34
Income tax expense	**13,402**	**2,338**
Current income tax expense	1,048	-
Deferred tax expense recognized in the current year	12,356	2,338
Income tax expense	**13,402**	**2,338**

Deferred income tax asset	**2013**	**2012**
As at January 1 – deferred tax assets	**9,429**	**11,767**
Change in deferred income tax balances recognized in consolidated profit	(12,356)	(2,338)
As at December 31- deferred tax (liabilities)/assets	**(2,927)**	**9,429**

13. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA (THE “NBG”)

	December 31, 2013	December 31, 2012
Cash	12,659	12,380
Balances with the NBG	25,127	4,310
Total cash and balances with the NBG	**37,786**	**16,690**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 20,395 thousand and GEL 6,170 thousand, respectively, as at

December 31, 2013 and 2012. The Group is required to maintain minimum reserve deposits at the NBG at all times.

Cash and cash equivalents for the purposes of the consolidated statement of cash flows comprise the following:

	December 31, 2013	December 31, 2012
Cash and balances with the NBG	37,786	16,690
Due from banks	68,650	62,620
	106,436	79,310
Less minimum reserve deposits with the NBG	(20,395)	(6,170)
Total cash and cash equivalents	**86,041**	**73,140**

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2013	December 31, 2012
Financial assets held for trading:		
Equity securities	23,785	10,845
Total financial assets at fair value through profit or loss	**23,785**	**10,845**

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.

15. DUE FROM BANKS

Due from banks comprise:

	December 31, 2013	December 31, 2012
Time deposits	50,719	64,337
Correspondent accounts	28,502	4,603
Total due from banks	**79,221**	**68,940**

Included in due from banks is accrued interest in the amount of GEL 18 thousand and GEL 2 thousand as at December 31, 2013 and 2012, respectively.

As at December 31, 2013 and 2012 the Group had no balances due from banks, respectively, with individual exposure exceeding 10% of the Group's equity.

As at December 31, 2013 and 2012 included in balances due from banks are guarantee deposits placed by the Group for its operations with plastic cards totaling GEL 1,389 thousand and GEL 6,296 thousand, respectively.

As at December 31, 2013 and 2012 the maximum credit risk exposure on due from banks amounted to GEL 79,221 thousand and GEL 68,940 thousand, respectively.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2013	December 31, 2012
Originated loans to customers	423,358	258,815
Accrued interest	8,374	22,030
	431,732	280,845
Less allowance for impairment losses	(35,435)	(18,697)
Total loans to customers	**396,297**	**262,148**

Movements in the allowance for impairment losses for the years ended December 31, 2013 and 2012 are disclosed in Note 6.

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

	December 31, 2013	December 31, 2012
Loans collateralized by pledge of real estate, equipment and inventories	372,382	250,399
Loans collateralized by pledge of cash	253	170
Other collateral	3,081	8,542
Unsecured loans	20,581	3,037
Total loans to customers	**396,297**	**262,148**

	December 31, 2013	December 31, 2012
Analysis by sector:		
Construction	143,589	88,760
Trade and services	128,149	95,606
Manufacturing	52,394	32,795
Individuals	46,916	43,966
Agriculture	8,867	270
Transport and communication	479	256
Energy	1,925	189
Other	13,978	306
Total loans to customers	**396,297**	**262,148**

During the years ended December 31, 2013 and 2012 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at December 31, 2013 and 2012 such assets in amount of GEL 33,379 thousand and GEL 28,230 thousand (note 19), respectively, are included in other assets of the Group.

Loans to individuals comprise the following products:

	December 31, 2013	December 31, 2012
Consumer loans	7,094	29,353
Mortgage loans	37,959	11,628
Other	3,710	2,985
	48,763	43,966
Less: allowance for impairment losses	(1,847)	(1,120)
Total loans to individuals	**46,916**	**42,846**

As at December 31, 2013 and 2012 allowance for impairment losses to individuals amounted to GEL 1,847 thousand and GEL 1,120 thousand, respectively.

Analysis by credit quality of loans to customers outstanding as at December 31, 2013 and 2012 was as follows:

As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	270,700	6,687	264,013	2%
Overdue:				
up to 30 days	1,062	16	1,046	2%
31 to 60 days	398	6	392	2%
61 to 90 days	498	7	491	1%
91 to 180 days	201	3	198	1%
over 180 days	726	28	698	4%
Total collectively assessed loans	**273,585**	**6,747**	**266,838**	**2%**
Individually assessed				
Not past due	100,733	8,954	91,779	9%
Overdue:				
up to 30 days	12,505	11,068	1,437	89%
31 to 60 days	-	-	-	0%
61 to 90 days	488	22	466	5%
91 to 180 days	556	29	527	5%
over 180 days	36,075	8,615	27,460	24%
Total individually assessed loans	**150,357**	**28,688**	**121,669**	**19%**
Total loans to customers	**423,942**	**35,435**	**388,507**	**8%**

As at December 31, 2012	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	160,626	1,092	159,534	1%
Overdue:				
up to 30 days	4,387	5	4,382	0%
31 to 60 days	536	5	531	1%
61 to 90 days	-	-	-	0%
91 to 180 days	2	-	2	0%
over 180 days	2,828	5	2,823	0%
Total collectively assessed loans	**168,379**	**1,107**	**167,272**	1%
Individually assessed				
Not past due	33,449	6,502	26,947	19%
Overdue:				
up to 30 days	159	46	113	29%
31 to 60 days	2,271	272	1,999	12%
61 to 90 days	176	16	160	9%
91 to 180 days	8,640	751	7,889	9%
over 180 days	57,027	10,003	47,024	18%
Total individually assessed loans	**101,722**	**17,590**	**84,132**	17%
Total loans to customers	270,101	18,697	251,404	7%

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

	31-Dec-13			31-Dec-12		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	150,357	28,688	121,669	101,722	17,590	84,132
Loans to customers collectively determined to be impaired	273,585	6,747	266,838	168,379	1,107	167,272
Unimpaired loans	7,790	-	7,790	10,744	-	10,744
Total	**431,732**	**35,435**	**396,296**	**280,845**	**18,697**	**262,148**

As at December 31, 2013 and 2012 the Group granted loans to two customers, totaling GEL 31,841 thousand and GEL 25,422 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2013 and 2012 a maximum credit risk exposure on loans to customers amounted to GEL 396,297 thousand and GEL 262,148 thousand, respectively.

As at December 31, 2013 and 2012 99% and 100% of loans were granted to companies operating in Georgia, which represents a significant geographical concentration.

17. INVESTMENTS HELD TO MATURITY

	December 31, 2013		December 31, 2012	
	Nominal annual interest rate	Amount	Nominal annual interest rate	Amount
Deposit certificates of the Ministry of Finance of Georgia	3.85% - 4.00%	6,000		-
Less discount		(54)		-
Total investments held to maturity		**5,946**		**-**

18. 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, 2012	**8,913**	**5,064**	**2,952**	**1,612**	**175**	**18,716**
Additions	-	108	254	11	4	377
Transfers	-	-	-	-	-	-
Disposals	-	(50)	(153)	(142)	(46)	(391)
December 31, 2012	**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**
Accumulated depreciation						
January 1, 2012	**693**	**2,629**	**1,716**	**717**	**-**	**5,755**
Depreciation charge	229	518	341	176	-	1,264
Eliminated on disposals	-	(49)	(149)	(69)	-	(267)
December 31, 2012	**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**
Net book value						
As at December 31, 2013	**7,763**	**1,800**	**994**	**543**	**840**	**11,940**
As at December 31, 2012	**7,991**	**2,024**	**1,145**	**657**	**133**	**11,950**

As at December 31, 2013 and 2012 included in property and equipment were fully depreciated assets totaling GEL 2,017 thousand and GEL 1,557 thousand, respectively.

19. OTHER ASSETS

Other assets comprise:

	December 31, 2013	December 31, 2012
Other financial assets:		
Accounts receivable	851	2,747
Total other financial assets	**851**	**2,747**
Other non-financial assets:		
Repossessed assets, net of provision	33,379	28,230
Intangible assets	2,245	2,384
Tax settlements, other than income tax	1,815	1,947
Inventory	454	454
Advances paid	285	269
Other	71	439
Total other assets	**39,100**	**36,470**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2013 and 2012 are disclosed in Note 6.

Repossessed assets as at December 31, 2013 and 2012 include land and buildings in the amount of GEL 33,379 thousand and GEL 28,230 thousand, respectively, which are measured lower of its carrying amount and fair value less cost to sell. The repossessed assets added during the year have been valued by independent appraiser as at December 31, 2013. On the other hand for the assets already existed independent appraiser has prepared report showing that market prices haven't changed during two subsequent years. The direct sales comparison method was used for the estimation of their fair value.

Intangible Assets

	Intangible assets
At cost	
January 1, 2012	**2,553**
Additions	1,009
Disposals	(36)
December 31, 2012	**3,526**
Additions	220
Disposals	(126)
December 31, 2013	**3,620**
Accumulated amortization	
January 1, 2012	**924**
Charge for the year	254
Eliminated on disposals	(36)
December 31, 2012	**1,142**
Charge for the year	359
Eliminated on disposals	(126)
December 31, 2013	**1,375**
Net book value	
December 31, 2013	**2,245**
December 31, 2012	**2,384**

20. DEPOSITS BY BANKS

Deposits by banks comprise:

	December 31, 2013	December 31, 2012
Correspondent accounts of other banks	182	87
European Bank of Reconstruction and Development (the “EBRD”)	2,550	7,527
Deposits from Banks	12,161	-
Loans from Other financial institutions	17,363	-
Total deposits by banks	**32,256**	**7,614**

As at December 31, 2013 and 2012 accrued interest expenses included in deposits by banks amounted to GEL 77 thousand and GEL 194 thousand, respectively.

The Group is obligated to comply with financial covenants in relation to certain deposits by banks disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. During the year ended December 31, 2013 the Group has breached the following ratios set by the EBRD – single related party exposure, open credit exposure and 20 largest exposures. According to IAS 1 “Presentation of Financial Statements” the management classified borrowed fund EBRD as current liabilities and in Note 30 presented in up to 1 month maturity category for liquidity risk management disclosure purposes.

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2013	December 31, 2012
Time deposits	105,914	24,939
Repayable on demand	70,872	41,684
Total customer accounts	**176,786**	**66,623**

As at December 31, 2013 and 2012 accrued interest expenses included in customer accounts amounted to GEL 1,927 thousand and GEL 507 thousand, respectively.

As at December 31, 2013 and 2012 customer accounts totaling GEL 6,082 thousand and GEL 84 thousand, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2013 and 2012 customer accounts totaling GEL 66,392 thousand and GEL 18,471 thousand (38% and 28% of total customer accounts), respectively, were for ten and nine customers, respectively, which represents a significant concentration.

	December 31, 2013	December 31, 2012
Analysis by economic sector/customer type:		
Individuals	71,025	42,575
Trade and services	43,557	12,675
Agriculture	14,038	171
Construction	6,207	964
Manufacturing	3,648	1,125
Transport and communication	1,174	243
Energy	70	97
Other	37,067	8,773
Total customer accounts	**176,786**	**66,623**

22. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2013	December 31, 2012
Other financial liabilities:		
Accounts payable	18	-
Total other financial liabilities	18	-
Other non-financial liabilities:		
Insurance reserves	723	2,409
Payables for insurance claims	643	101
Taxes payable, other than income tax	2	6
Other	742	227
Total other liabilities	**2,128**	**2,743**

23. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity date	Interest rate %	December 31, 2013	December 31, 2012
FinService-XXI LTD	USD	31-Mar-26	2%	38,027	34,167
FinService-XXI LTD	USD	31-Mar-26	2%	12,413	11,264
FinService-XXI LTD	USD	15-Feb-23	2%	12,322	-
FinService-XXI LTD	USD	28-Dec-21	5%	-	4,972
FinService-XXI LTD	USD	22-Jun-14	5%	-	16,574
				62,762	**66,977**
Inter Consulting Plus LTD	USD	17-Oct-25	5%	12,159	11,602
Inter Consulting Plus LTD	USD	2-Oct-19	5%	8,685	8,286
Inter Consulting Plus LTD	USD	22-Jun-14	5%	-	16,574
				20,844	**36,462**
Georgian Holding LTD	USD	22-Jun-19	5%	17,370	16,574
				17,370	**16,574**
Total subordinated debt				**100,976**	**120,013**

As at December 31, 2013 and 2012 accrued interest expense included in subordinated debt amounted to GEL 2,353 thousand and GEL 193 thousand, respectively.

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

On March 31, 2011 and December 13, 2011 and February 15, 2013 the Group signed subordinated loan agreements with Finservice- 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 contain 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.

	GEL
Proceeds of issue	84,598
Liability component at the date of issue	(58,208)
Equity component	26,390
Liability component at the date of issue	58,208
Interest charge calculated at an effective interest rates of 5.05; 5.26 and 3.67	7,827
Less Interest paid	(3,273)
Liability component as at December 31, 2013	**62,762**

24. OTHER BORROWINGS

	Currency	**Maturity date**	**Interest rate %**	**31-Dec-13**	**31-Dec-12**
Recorded at amortized cost:					
Loan form individual	GEL	19/10/2015	3%	-	40,000
Accrued Interest	GEL			-	40
Total Other Borrowings				**-**	**40,040**

On October 19, 2012 the former ultimate beneficial shareholder of the Bank Bidzina Ivanishvili issued loan to the bank in the amount of GEL 80 million with interest rate of 3% and maturity of October, 19, 2015. The principal amount has been gradually repaid till the end of the year and as at December 31, 2012 the balance totaled GEL 40 million. On February 1, 2013 the loan was fully repaid.

25. SHARE CAPITAL

As at December 31, 2013 and 2012 share capital consisted of 114,430 and 92,850 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, 2012	**81,196**
Issue of shares	11,654
December 31, 2012	**92,850**
Issue of shares	21,580
December 31, 2013	**114,430**

26. 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 396 thousand and GEL 328 thousand as at December 31, 2013 and 2012, respectively.

As at December 31, 2013 and 2012 contingent liabilities comprise:

	December 31, 2013	December 31, 2012
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	23,282	16,251
Letters of credit and other transaction related contingent obligations	20,780	7,319
Commitments on loans and unused credit lines	8,579	4,614
Total contingent liabilities and credit commitments	**52,641**	**28,184**

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, 2013 and 2012 such unused credit lines come to GEL 8,579 thousand and GEL 4,614 thousand, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2013 and 2012.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2013 and 2012.

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.

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.

The global financial turmoil that has negatively affected Georgia's financial and capital markets in 2009 and 2010 has receded and Georgia's economy returned to growth in 2011 and 2012. However,

significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Georgia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

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, 2013 and 2012, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

27. 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, 2013		December 31, 2012	
	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	34,962	431,732	55,035	280,845
- other related parties	34,538		55,035	
- Key Management Personnel	424		-	
Allowance for impairment losses on loans to customers	(1,107)	(35,435)	(163)	(18,697)
- other related parties	(1,103)		(163)	
- Key Management Personnel	(4)		-	
Customer accounts	14,901	176,786	16,410	66,623
- other related parties	14,853		16,410	
- key management personnel	48		-	
Other borrowings	-	-	40,040	40,040
- other related parties	-		40,040	
Subordinated debt	100,976	100,976	120,013	120,013
- shareholders	100,976		120,013	
Letters of credit and other transaction related contingent obligations	8,197	20,780	645	7,319
- other related parties	8,197		620	
- shareholders	-		25	
Guarantees issued and similar commitments	550	23,282	-	16,251
- other related parties	550		-	

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

	December 31, 2013		December 31, 2012	
	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	699	8,824	723	9,208

Included in the consolidated statement of profit or loss and other comprehensive income for the years ended December 31, 2013 and 2012 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2013		Year ended December 31, 2012	
	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	7,622	69,362	3,164	37,912
- other related parties	7,580		3,164	
- Key Management Personnel	42		-	
Interest expense	118	(10,579)	(578)	(8,609)
- other related parties	118		(578)	
Fee and commission income	246	3,903	233	3,286
- shareholders	-		17	
- other related parties	246		216	
Charity expenses	(9,737)	(9,737)	(26)	(26)
- other related parties	(9,737)		(26)	

28. 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.

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosures” and IAS 39 “Financial Instruments: Recognition and Measurement”. 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.

Cash and balances with the National Bank of Georgia – Cash and balances with the National Bank of Georgia are carried at amortized cost which approximates their current fair value.

Due from banks – Due from banks are carried at amortized cost which approximates their current fair value.

Loans and receivables carried at amortized cost – 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.

Investments held to maturity – 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.

Available-for-sale investments

Available-for-sale investments are valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Liabilities carried at amortized cost – The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected future cash flows discounted at current interest rates for new instruments with similar credit 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. For the liabilities carried at amortized cost and issued at variable rates management believes that carrying rate may be assumed to be fair value.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Group is presented below:

	December 31, 2013		**December 31, 2012**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the NBG	37,786	37,786	16,690	16,690
Financial assets at fair value through profit or loss	23,785	23,785	10,845	10,845
Due from banks	79,221	79,221	68,940	68,925
Loans to customers	396,297	429,477	262,148	261,071
Investments available-for-sale	60	60	391	391
Investments held to maturity	5,946	5,946	-	-
Other financial assets	851	851	2,747	2,747
Deposits by banks	32,256	32,256	7,614	7,614
Customer accounts	176,786	176,797	66,623	66,574
Other financial liabilities	18	18	-	-
Subordinated debt	100,976	98,127	120,013	120,013
Other borrowed funds	-	-	40,040	40,040

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group 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 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.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 23, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2012.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

	Year ended December 31, 2013	**Year ended December 31, 2012**
Movement in tier 1 capital:		
At January 1	180,138	155,464
Total comprehensive income	71,657	13,820
Issue of share	21,580	11,654
Additional paid in capital	5,390	-
Non-controlling interest	(457)	(800)
At December 31	**278,308**	**180,138**

	Year ended December 31, 2013	**Year ended December 31, 2012**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	114,430	92,850
Additional paid in capital	30,206	24,816
Retained earnings	133,569	61,834
Non-controlling interest	104	638
Total qualifying tier 1 capital	278,309	180,138
Subordinated debt (restricted to 50% of Tier 1 capital)	100,976	90,069
Less investments to companies engaged in financial activities	(430)	(320)
Total regulatory capital	**378,855**	**269,887**
Capital ratios:		
Tier 1 capital	20.23%	41.73%
Total capital	39.24%	57.22%

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

As at December 31, 2013 and 2012, the Group included in the computation of Total Capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

30. 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:

- Credit risk
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from 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.

Maximum exposure of credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

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 valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	
	December 31, 2013	**December 31, 2012**
Financial assets at fair value through profit or loss	23,785	10,845
Due from banks	79,221	68,940
Loans to customers	396,297	262,148
Investments available-for-sale	60	391
Investments held to maturity	5,946	-
Other financial assets	851	2,747
Guarantees issued and similar commitments	23,282	16,251
Commitments on loans and unused credit lines	8,579	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, 2013 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	37,786	-	-	37,786
Financial assets at fair value through profit or loss	-	-	23,785	23,785
Due from banks	41,691	21,950	15,580	79,221
Loans to customers	395,789	89	419	396,297
Investments available-for-sale	60	-	-	60
Investments held to maturity	5,946	-	-	5,946
Other financial assets	851	-	-	851
TOTAL FINANCIAL ASSETS	**482,123**	**22,039**	**39,784**	**543,946**
FINANCIAL LIABILITIES				
Deposits by banks	29,702	4	2,550	32,256
Customer accounts	172,222	1,401	3,163	176,786
Other financial liabilities	18	-	-	18
Subordinated debt	100,976	-	-	100,976
TOTAL FINANCIAL LIABILITIES	**302,918**	**1,405**	**5,713**	**310,036**
NET POSITION	**179,205**	**20,634**	**34,071**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2012 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	16,690	-	-	16,690
Financial assets at fair value through profit or loss	-	-	10,845	10,845
Due from banks	61,111	439	7,390	68,940
Loans to customers	262,094	54	-	262,148
Investments available-for-sale	391	-	-	391
Other financial assets	2,715	32	-	2,747
TOTAL FINANCIAL ASSETS	343,001	525	18,235	361,761
FINANCIAL LIABILITIES				
Deposits by banks	84	3	7,527	7,614
Customer accounts	53,514	3,026	10,083	66,623
Other financial liabilities	-	-	-	-
Other borrowed funds	40,040	-	-	40,040
Subordinated debt	120,013	-	-	120,013
TOTAL FINANCIAL LIABILITIES	213,651	3,029	17,610	234,290
NET POSITION	**129,350**	**(2,504)**	**625**	

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 thousand 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.

Credit quality by classes of financial assets

As at December 31, 2013:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total
Balances with the NBG	25,127	-	-	-	25,127
Due from banks	79,221	-	-	-	79,221
Loans to customers	275,655	5,720	150,357	(35,435)	396,297
Investments available-for-sale	60	-	-	-	60
Investments held to maturity	5,946	-	-	-	5,946
Other financial assets	851	-	-	-	851

As at December 31, 2012:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	(Impairment allowance)	Total
Balances with the NBG	4,310	-	-	-	4,310
Due from banks	68,940	-	-	-	68,940
Loans to customers	172,550	6,573	101,722	(18,697)	262,148
Investments available-for-sale	391	-	-	-	391
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, 2013 and 2012 the balances with the NBG amounted to GEL 25,127 thousand and GEL 4,310 thousand, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level <BBB.

The following table details credit ratings of financial assets held by the Group as at December 31, 2012 and 2012:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2013
Balances with the NBG	-	-	-	-	25,127	-	25,127
Financial assets at fair value through profit or loss	-	-	-	-	-	23,785	23,785
Due from banks	-	4,225	11,352	7,597	21,928	34,119	79,221
Loans to customers	-	-	-	-	-	396,297	396,297
Investments available-for-sale	-	-	-	-	-	60	60
Investments held to maturity	-	-	-	-	5,946	-	5,946
Other financial assets	-	-	-	-	-	851	851

As at December 31, 2012:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at December 31, 2012
Balances with the NBG	-	-	-	-	4,310	-	4,310
Financial assets at fair value through profit or loss	-	-	-	-	-	10,845	10,845
Due from banks	-	5	7,235	374	57,046	4,280	68,940
Loans to customers	-	-	-	-	-	262,148	262,148
Investments available-for-sale	-	-	-	-	-	391	391
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.

The credit rating of the Georgia according to the international rating agencies corresponded to investment level BB-.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess borrowers. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria Banks: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided.

The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

The scoring assessment based on the borrower’s parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower.

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.

Carrying amount by class of financial assets whose terms have been renegotiated:

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

Financial asset class	December 31, 2013	December 31, 2012
Loans to customers	45,873	67,159

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.

	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
FINANCIAL ASSETS						
Balances with NBG	25,127					25,127
Due from banks	40,617	-	515	-	-	41,132
Loans to customers	43,982	8,300	83,284	175,008	85,723	396,297
Investments held to maturity	998	2,982	1,966	-	-	5,946
Total interest bearing financial assets	**110,724**	**11,282**	**85,765**	**175,008**	**85,723**	**468,502**
Cash and balances with the NBG	12,659	-	-	-	-	12,659
Financial assets at fair value through profit or loss	23,785	-	-	-	-	23,785
Due from banks	28,503	-	-	-	9,586	38,089
Investments available-for-sale	-	-	-	60	-	60
Other financial assets	213	-	540	-	98	851
Total financial assets	**175,884**	**11,282**	**86,305**	**175,068**	**95,407**	**543,946**
FINANCIAL LIABILITIES						
Deposits by banks	11,238	3,473	17,363	-	-	32,074
Customer accounts	17,374	10,073	64,531	85	47	92,110
Subordinated debt	34	-	-	-	100,942	100,976
Total interest bearing financial liabilities	**28,646**	**13,546**	**81,894**	**85**	**100,989**	**225,160**
Deposits by banks	182	-	-	-	-	182
Customer accounts	57,615	11,599	12,312	1,674	1,476	84,676
Total financial liabilities	**86,443**	**25,145**	**94,206**	**1,759**	**102,465**	**310,018**
Interest sensitivity gap	82,078	(2,264)	3,871	174,923	(15,266)	
Cumulative interest sensitivity gap	**82,078**	**79,814**	**83,685**	**258,608**	**243,342**	
Liquidity gap	89,441	(13,863)	(7,901)	173,309	(7,058)	
Cumulative liquidity gap	**89,441**	**75,578**	**67,677**	**240,986**	**233,928**	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2012 Total
FINANCIAL ASSETS						
Balances with NBG	6,798	-	-	-	-	6,798
Due from banks	57,500	516	-	-	-	58,016
Loans to customers	29,525	9,813	31,722	102,416	88,672	262,148
Total interest bearing financial assets	**93,823**	**10,329**	**31,722**	**102,416**	**88,672**	**326,962**
Cash and balances with the NBG	9,892	-	-	-	-	9,892
Financial assets at fair value through profit or loss	10,845	-	-	-	-	10,845
Due from banks	4,628	6,296	-	-	-	10,924
Investments available-for-sale	-	-	-	391	-	391
Other financial assets	2,641	4	-	-	102	2,747
Total financial assets	**121,829**	**16,629**	**31,722**	**102,807**	**88,774**	**361,761**
FINANCIAL LIABILITIES						
Deposits by banks	7,529	-	-	-	-	7,529
Customer accounts	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
Customer accounts	39,324	39	729	2,524	-	42,616
Total financial liabilities	**51,983**	**1,694**	**14,575**	**104,056**	**61,982**	**234,290**
Interest sensitivity gap	81,249	8,674	17,876	884	26,690	
Cumulative interest sensitivity gap	**81,249**	**89,923**	**107,799**	**108,683**	**135,373**	
Liquidity gap	69,846	14,935	17,147	(1,249)	26,792	
Cumulative liquidity gap	**69,846**	**84,781**	**101,928**	**100,679**	**127,471**	

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.

	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
FINANCIAL ASSETS							
Due from banks	2.89%	40,640	7	535	-	-	41,182
Loans to customers	12.60%	45,404	15,060	117,359	273,673	121,445	572,941
Investments held to maturity	3.94%	1,000	3,007	1,993	-	-	6,000
Total interest bearing financial assets		**87,044**	**18,074**	**119,887**	**273,673**	**121,445**	**620,123**
Cash and balances with the NBG		12,659	-	-	-	-	37,785
Financial assets at fair value through profit or loss		23,785	-	-	-	-	23,785
Due from banks		28,502	-	-	-	9,586	38,557
Investments available-for-sale		-	-	-	60	-	60
Other financial assets		213	-	540	-	98	851
TOTAL FINANCIAL ASSETS		**152,203**	**18,074**	**120,427**	**273,733**	**131,129**	**695,566**
FINANCIAL LIABILITIES							
Deposits by banks	5.60%	11,411	3,728	18,148	-	-	33,287
Customer accounts	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		**28,913**	**14,772**	**87,918**	**14,703**	**141,771**	**288,077**
Deposits by banks		182	-	-	-	-	182
Customer accounts		57,615	10,566	16,461	-	39	84,681
TOTAL FINANCIAL LIABILITIES		**86,710**	**25,338**	**104,379**	**14,703**	**141,810**	**372,940**

	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, 2012 Total
FINANCIAL ASSETS							
Balances with NBG	5.90%	6,831	-	-	-	-	6,831
Due from banks	3.98%	57,691	525	-	-	-	58,216
Loans to customers	12.54%	29,834	10,121	34,374	153,788	203,898	432,015
Total interest bearing financial assets		**94,356**	**10,373**	**34,647**	**153,788**	**203,898**	**497,062**
Cash and balances with the NBG		9,892	-	-	-	-	9,892
Financial assets at fair value through profit or loss		10,845	-	-	-	-	10,845
Due from banks		4,628	6,296	-	-	-	10,924
Investments available-for-sale		-	-	-	391	-	391
Other financial assets		2,641	4	-	-	102	2,747
TOTAL FINANCIAL ASSETS		**122,362**	**16,673**	**34,647**	**159,179**	**204,500**	**531,861**
FINANCIAL LIABILITIES							
Deposits by banks	6.41%	7,529	-	-	-	-	7,529
Customer accounts	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
Customer accounts		39,324	39	729	2,524	-	42,616
TOTAL FINANCIAL LIABILITIES		**52,016**	**1,726**	**15,280**	**118,267**	**110,197**	**297,486**

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed.

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.

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 on profit before tax based on asset values as at December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Financial assets:				
Due from banks	823	(823)	1,160	(1,160)
Loans to customers	7,926	(7,926)	5,243	(5,243)
Investments held to maturity	119	(119)	-	-
Financial liabilities:				
Deposits by banks	(641)	641	(151)	151
Customer accounts	(1,842)	1,842	(480)	480
Subordinated debt	(2,020)	2,020	(2,400)	2,400
Net impact on profit before tax	**4,365**	**(4,365)**	**3,372**	**(3,372)**

Impact on equity:

	December 31, 2013		December 31, 2012	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Financial assets:				
Due from banks	699	(699)	986	(986)
Loans to customers	6,737	(6,737)	4,457	(4,457)
Investments held to maturity	101	(101)	-	-
Financial liabilities:				
Deposits by banks	(545)	545	(128)	128
Customer accounts	(1,566)	1,566	(408)	408
Subordinated debt	(1,717)	1,717	(2,040)	2,040
Net impact on equity	**3,709**	**(3,709)**	**2,867**	**(2,867)**

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:

	GEL	USD USD 1 = GEL1.7363	EUR EUR 1 = GEL 2.3891	Other currency	December 31, 2013 Total
FINANCIAL ASSETS					
Cash and balances with the NBG	12,532	18,647	6,441	166	37,786
Financial assets at fair value through profit or loss	-	23,590	-	195	23,785
Due from banks	41,616	27,379	10,160	66	79,221
Loans to customers	146,611	245,562	4,124	-	396,297
Investments available-for-sale	60	-	-	-	60
Investments held to maturity	5,946	-	-	-	5,946
Other financial assets	764	26	61	-	851
TOTAL FINANCIAL ASSETS	207,529	315,204	20,786	427	543,946
FINANCIAL LIABILITIES					
Deposits by banks	1	32,255	-	-	32,256
Customer accounts	46,261	104,891	25,179	455	176,786
Other financial liabilities	18	-	-	-	18
Subordinated debt	-	100,976	-	-	100,976
TOTAL FINANCIAL LIABILITIES	46,280	238,122	25,179	455	310,036
OPEN BALANCE SHEET POSITION	**161,249**	**77,082**	**(4,393)**	**(28)**	

	GEL	USD USD 1 = GEL1.6567	EUR EUR 1 = GEL 2.1825	Other currency	December 31, 2012 Total
FINANCIAL ASSETS					
Cash and balances with the NBG	6,441	8,269	1,690	290	16,690
Financial assets at fair value through profit or loss	-	10,686	-	159	10,845
Due from banks	61,112	7,484	123	221	68,940
Loans to customers	90,988	165,967	5,193	-	262,148
Investments available-for-sale	391	-	-	-	391
Other financial assets	2,561	98	88	-	2,747
TOTAL FINANCIAL ASSETS	161,493	192,504	7,253	511	361,761
FINANCIAL LIABILITIES					
Deposits by banks	54	7,560	-	-	7,614
Customer accounts	27,327	6,411	32,743	142	66,623
Other financial liabilities	-	-	-	-	-
Subordinated debt	-	120,013	-	-	120,013
TOTAL FINANCIAL LIABILITIES	27,381	133,984	32,743	142	194,250
OPEN BALANCE SHEET POSITION	**134,112**	**58,520**	**(25,490)**	**369**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in the USD against the GEL. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents 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 5% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2013 and 2012:

	December 31, 2013		**December 31, 2012**	
	GEL/USD +5%	**GEL/USD -5%**	**GEL/USD +5%**	**GEL/USD -5%**
Impact on profit or loss before tax	3,854	(3,854)	2,926	(2,926)
Impact on equity	3,276	(3,276)	2,487	(2,487)

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.

31. SUBSEQUENT EVENTS

The bank has obtained documentary approvals for some amounts due from customers that make the exposures probable for recovery. Management of the bank considers that as a result of above event the Bank will manage to recover GEL 7,836 thousand subsequent to issue of audit report for 2013.