

BASISBANK GROUP

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2013

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INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To the Shareholders and Management of JSC BasisBank:

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on 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 about 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.

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

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

31 March 2014
Tbilisi, Georgia

JSC BasisBank Group
Consolidated Statement of Financial Position

<i>In thousands of Georgian Lari</i>	Note	31 December 2013	31 December 2012	1 January 2012
ASSETS				
Cash and cash equivalents	7	59,506	32,603	24,855
Mandatory cash balances with the NBG	8	21,805	12,943	9,569
Due from other banks	9	-	265	357
Loans and advances to customers	10	188,539	94,533	72,266
Investment securities available for sale	11	93,575	28,872	20,071
Investment properties	12	1,802	1,055	1,295
Intangible assets	13	668	199	231
Premises and equipment	13	15,925	14,882	15,370
Other financial assets	14	435	406	1,289
Other assets	15	9,148	14,954	13,001
TOTAL ASSETS		391,403	200,712	158,304
LIABILITIES				
Due to other banks	16	25	5,318	10,855
Customer accounts	17	231,364	116,063	98,211
Borrowings from banks and other financial institutions	18	30,189	19,867	17,659
Current income tax liability		1,281	-	-
Deferred income tax liability	27	1,506	1,025	1,005
Provisions for liabilities and charges	30	22	167	266
Other financial liabilities	19	1,789	284	1,521
Other liabilities	20	1,264	863	190
Subordinated debt	21	3,165	2,976	2,959
TOTAL LIABILITIES		270,605	146,563	132,666
EQUITY				
Share capital	22	15,941	9,079	5,912
Share premium	22	73,967	27,296	5,612
Retained earnings		27,222	14,671	11,276
Revaluation reserve for premises		2,638	2,361	2,361
Revaluation reserve for available-for-sale securities		1,030	492	227
Net assets attributable to the Bank's owners		120,798	53,899	25,388
Non-controlling interest		-	250	250
TOTAL EQUITY		120,798	54,149	25,638
TOTAL LIABILITIES AND EQUITY		391,403	200,712	158,304

Approved for issue and signed on 31 March 2014.


 David Tsaava
 General Director


 Lia Aslanikashvili
 Deputy General Director, Finances

JSC BasisBank Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Interest income	23	26,850	16,864
Interest expense	23	(8,397)	(7,716)
Net interest income		18,453	9,148
Provision for loan impairment		(1,284)	(890)
Net interest income after provision for loan impairment		17,169	8,258
Fee and commission income	24	2,733	2,774
Fee and commission expense	24	(1,605)	(1,520)
Losses less gains from financial derivatives		(937)	-
Gains less losses from trading in foreign currencies		2,383	1,791
Foreign exchange translation gains less losses / (losses less gains)		1,299	(32)
Release of provision for credit related commitments, net	30	144	98
Other operating income	25	4,661	985
Administrative and other operating expenses	26	(11,673)	(8,986)
Profit before tax		14,174	3,368
Income tax (expense)/credit	27	(1,623)	27
PROFIT FOR THE YEAR		12,551	3,395
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
<i>Available-for-sale investments:</i>			
- Gains less losses arising during the year	11	693	361
- Gains less losses reclassified to profit or loss upon disposal or impairment		(60)	(49)
Income tax recorded directly in other comprehensive income	27	(95)	(47)
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of premises and equipment	13	326	-
Income tax recorded directly in other comprehensive income	27	(49)	-
Other comprehensive income for the year		815	265
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,366	3,660
Profit is attributable to:			
- Owners of the Bank		12,551	3,395
- Non-controlling interest		-	-
Profit for the year		12,551	3,395
Total comprehensive income is attributable to:			
- Owners of the Bank		815	265
- Non-controlling interest		-	-
Total comprehensive income for the year		13,366	3,660

JSC BasisBank Group
Consolidated Statement of Changes in Equity

<i>In thousands of Georgian Lari</i>	Note	Attributable to the owners of the Bank					Total	Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings			
Balance at 31 December 2011		5,912	5,612	227	2,361	11,276	25,388	250	25,638
Profit for the year		-	-	-	-	3,395	3,395	-	3,395
Other comprehensive income		-	-	265	-	-	265	-	265
Total comprehensive income for 2012		-	-	265	-	3,395	3,660	-	3,660
Share issue	22	3,167	21,684	-	-	-	24,851	-	24,851
Balance at 31 December 2012		9,079	27,296	492	2,361	14,671	53,899	250	54,149
Profit for the year		-	-	-	-	12,551	12,551	-	12,551
Other comprehensive income		-	-	538	277	-	815	-	815
Total comprehensive income for 2013		-	-	538	277	12,551	13,366	-	13,366
Share issue	22	6,862	46,671	-	-	-	53,533	-	53,533
Disposal of subsidiaries		-	-	-	-	-	-	(250)	(250)
Balance at 31 December 2013		15,941	73,967	1,030	2,638	27,222	120,798	-	120,798

JSC BasisBank Group
Consolidated Statement of Cash Flows

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Cash flows from operating activities			
Interest received		24,937	13,998
Interest paid		(7,924)	(7,290)
Fees and commissions received		2,421	3,334
Fees and commissions paid		(746)	(1,718)
Income received from financial derivatives		11	-
Income received from trading in foreign currencies		2,383	1,791
Other operating income received		99	1,602
Staff costs paid		(6,158)	(5,547)
Administrative and other operating expenses paid		(3,192)	(2,582)
Cash flows from operating activities before changes in operating assets and liabilities		11,831	3,588
<i>Net (increase)/decrease in:</i>			
- due from other banks		(7,570)	(2,921)
- loans and advances to customers		(90,902)	(23,629)
- other financial assets		(147)	-
- other assets		348	(81)
<i>Net increase/(decrease) in:</i>			
- due to other banks		(5,381)	(5,510)
- customer accounts		109,124	17,003
- other financial liabilities		(158)	-
- other liabilities		(157)	(607)
Net cash from/(used in) operating activities		16,988	(12,157)
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(123,502)	(33,205)
Proceeds from disposal and redemption of investment securities available for sale	11	61,520	25,662
Acquisition of premises and equipment		(1,677)	(332)
Proceeds from disposal of premises and equipment		12	-
Acquisition/disposal of investment properties		(939)	-
Proceeds from disposal of foreclosed properties		11,450	230
Acquisition of intangible assets		(539)	-
Net cash used in investing activities		(53,675)	(7,645)
Cash flows from financing activities			
Proceeds from other borrowed funds		18,611	15,009
Repayment of other borrowed funds		(9,625)	(12,779)
Repayment of subordinated debt		-	(143)
Issue of ordinary shares	22	53,533	24,851
Net cash from financing activities		62,519	26,938
Effect of exchange rate changes on cash and cash equivalents		1,071	612
Net increase in cash and cash equivalents		26,903	7,748
Cash and cash equivalents at the beginning of the year		32,603	24,855
Cash and cash equivalents at the end of the year		59,506	32,603

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for JSC Basisbank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated in 1993 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As at 31 December 2013 and 2012 the majority of shares of the Group were owned by Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People’s Republic of China. Xinjiang Hualing Industry & Trade (Group) Co Ltd operates in the wholesale, international trade, livestock slaughter, logistic transportation, construction, hotel and tourism industries. The Group is ultimately controlled by a single individual, Mr. Mi Enhua.

As at 31 December 2013 and 2012 the Bank’s shareholders were:

Shareholders	% of ownership interest held as at 31 December	
	2013	2012
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.980%	93.488%
Mr. Zurab Tsikhistavi	5.166%	3.256%
European Bank for Reconstruction and Development (“EBRD”)	1.854%	3.256%

Principal activity. The Bank’s principal business activity are deposit taking and customer accounts maintenance, lending to corporate, SME and retail clients, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The Bank has operated under a full banking licence issued by the National Bank of Georgia (“NBG”) since 1993.

The Bank has 17 (2012: 17) branches and 281 employees at 31 December 2013 (2012: 257 employees).

Subsidiaries. These consolidated financial statements include the following principal subsidiaries:

Name	Country of incorporation	Principal activities	Ownership % at 31 December	
			2013	2012
Basis Asset Management LLC	Georgia	Asset management	-	100%
Basis Asset Management – Kobuleti LLC	Georgia	Asset management	-	100%
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
Paladi Imperial Partnership LLC	Georgia	Construction	-	75%

Registered address and place of business. The Bank’s registered address is #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise stated.

2 Operating Environment of the Group

The Group’s operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The consolidated financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Operating Environment of the Group (Continued)

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, at the non-controlling interest’s proportionate share of net assets of the acquiree.

The consideration transferred for the acquire is measured at the fair value of the assets given up, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group’s equity.

3 Summary of Significant Accounting Policies (Continued)

Disposals of subsidiaries. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 33.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured. Refer to Note 11.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

3 Summary of Significant Accounting Policies (Continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group’s counterparties held with the Group, such as loan interest income or principal collected by charging the customer’s current account or interest payments or disbursement of loans credited to the customer’s current account, which represents cash or cash equivalent from the customer’s perspective.

3 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the NBG. Mandatory cash balances with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset’s recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and impairment losses, except of premises, which are stated at revalued amounts as described below.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset

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

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

3 Summary of Significant Accounting Policies (Continued)

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

	<u>Useful lives in years</u>
Premises	50
Office and computer equipment	5
Leasehold improvements	1 to 7
Motor vehicles	5
Other	10

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

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software and *licenses*. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Subordinated debt. Subordinated debt includes long-term non-derivative financial liability to a financial institution carried at amortised cost which ranks after other debts in case of liquidation and is included in Tier II capital of the Bank.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

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

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

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

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

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

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

3 Summary of Significant Accounting Policies (Continued)

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3 Summary of Significant Accounting Policies (Continued)

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBG, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation.

At 31 December 2013, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL1.7363 (2012: USD 1 = GEL 1.6567), EUR 1 = GEL 2.3891 (2012: EUR 1 = GEL 2.1825).

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

Staff costs and related contributions. Wages, salaries, insurance, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

3 Summary of Significant Accounting Policies (Continued)

Changes in presentation and correction of errors. Where necessary, corresponding figures have been adjusted to (a) conform to the presentation of the current year amounts or (b) correct prior-period errors.

The effect of reclassifications in the consolidated statement of financial position for presentation purposes and correction of errors was as follows on amounts at 31 December 2012:

<i>In thousands of Georgian Lari</i>	As originally presented	Reclassification	Correction of error	As reclassified at 31 December 2012
Cash and cash equivalents	12,985	19,618	-	32,603
Due from the NBG	18,301	(18,301)	-	-
Mandatory cash balances with the NBG	-	12,943	-	12,943
Due from other banks	14,525	(14,260)	-	265
Loans and advances to customers	94,525	8	-	94,533
Other financial assets	-	406	-	406
Other assets	10,400	5,698	(1,144)	14,954
Non-current assets held for sale	5,973	(5,973)	-	-
Borrowings from banks and other financial institutions	20,668	-	(801)	19,867
Provisions for liabilities and charges	-	167	-	167
Other financial liabilities	-	284	-	284
Other liabilities	1,175	(312)	-	863
Subordinated debt	3,319	-	(343)	2,976

The effect of reclassifications in the consolidated statement of profit or loss and other comprehensive income for 2012 for presentation purposes and correction of errors was as follows:

<i>In thousands of Georgian Lari</i>	As originally presented	Reclassification	Correction of error	As reclassified for 2012
Interest income	15,032	(10)	1,842	16,864
Interest expense	(7,619)	(97)	-	(7,716)
Provision for loan impairment	-	(890)	-	(890)
Fee and commission income	3,335	-	(561)	2,774
Fee and commission expense	(1,718)	198	-	(1,520)
Net foreign exchange income	1,759	(1,759)	-	-
Gains less losses from trading in foreign currencies	-	1,791	-	1,791
Foreign exchange translation gains less losses	-	(32)	-	(32)
Provision for credit related commitments	-	98	-	98
Impairment losses	(71)	71	-	-
Other operating income	1,592	674	(1,281)	985
Administrative and other operating expenses	(3,395)	(5,591)	-	(8,986)
Personnel expenses	(5,547)	5,547	-	-

The effect of reclassifications in the consolidated statement of cash flows for 2012 for presentation purposes and correction of errors was as follows:

<i>In thousands of Georgian Lari</i>	As originally presented	Reclassification	Correction of error	As reclassified for 2012
Cash and cash equivalents at the beginning of the year	21,854	3,001	-	24,855
Net cash used in operating activities	(18,600)	6,613	(170)	(12,157)
Net cash used in investing activities	(7,202)	(443)	-	(7,645)
Net cash from financing activities	26,940	(172)	170	26,938
Effect of exchange rate changes on cash and cash equivalents	612	-	-	612
Cash and cash equivalents at the end of the year	23,604	8,999	-	32,603

3 Summary of Significant Accounting Policies (Continued)

The effect of reclassifications for presentation purposes and correction of errors in the consolidated statement of financial position was as follows on amounts at 1 January 2012:

<i>In thousands of Georgian Lari</i>	As originally presented	Reclas-sification	Correction of error	As reclassified at 1 January 2012
Cash and cash equivalents	11,747	13,108	-	24,855
Due from the NBG	13,128	(13,128)	-	-
Mandatory cash balances with the NBG	-	9,569	-	9,569
Due from other banks	9,906	(9,549)	-	357
Loans and advances to customers	72,264	2	-	72,266
Other financial assets	-	1,289	-	1,289
Other assets	13,388	927	(1314)	13,001
Non-current assets held for sale	1,952	(1,952)	-	-
Due to other banks	5,353	5,502	-	10,855
Amounts payable under repurchase agreement	5,502	(5,502)	-	-
Borrowings from banks and other financial institutions	18,470	-	(811)	17,659
Provisions for liabilities and charges	-	266	-	266
Other financial liabilities	-	1,521	-	1,521
Other liabilities	1,711	(1,521)	-	190
Subordinated debt	3,462	-	(503)	2,959

Significant changes in presentation were due to the following:

- In 2013, the Bank changed its accounting policy for cash and cash equivalents and now includes in cash and cash equivalents placements with other banks with original maturity of less than three months. As a result of the change in policy, amounts due from other banks with original maturities of less than three months of GEL 14,260 thousand (2011: GEL 9,548 thousand) were reclassified as cash and cash equivalents.
- Amounts due from the NBG of GEL 5,358 thousand (2011: GEL 3,559 thousand) were reclassified as cash and cash equivalents for better presentation of cash and cash equivalents.
- Mandatory cash balances with the NBG in the amount of GEL 12,943 thousand (2011: GEL 9,569 thousand) were presented as a separate line item on the face of the statement of financial position as availability of these funds is restricted.
- Foreclosed properties previously presented as non-current assets held for sale in the amount of GEL 5,973 thousand (2011: GEL 1,952 thousand) were reclassified as other assets as a result of change in accounting policy.
- Reclassification of amounts payable under repurchase agreement as of 1 January 2012 of GEL 5,502 thousand to due to other banks for the better presentation of amounts due to other banks.
- Net foreign exchange income of GEL 1,759 thousand has been presented as two separate lines: gains less losses from trading in foreign currencies of GEL 1,791 thousand and foreign exchange translation losses less gains of GEL 32 thousand.
- Personnel expenses of GEL 5,547 thousand which previously were presented as a separate line item of the statement of profit and loss and other comprehensive income are now included in administrative and other operating expenses.
- Provision for loan impairment of GEL 890 thousand which was previously included in impairment losses is now presented as a separate line item of the statement of profit and loss and other comprehensive income.
- Recovery of provision for impairment of other assets of GEL 730 thousand which was previously included in impairment losses is now presented in other operating income.
- Other financial assets in the amount of GEL 406 thousand (2011: GEL 1,289 thousand) which previously were included in other assets are now presented as the separate disclosure of other financial assets on the face of the statement of financial position.
- Other financial liabilities in the amount of GEL 284 thousand (2011: GEL 1,521 thousand) which previously were included in other liabilities are now presented as a separate line item on the face of the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The following errors have been corrected:

- Unamortized balance of subordinated loan origination fees paid in the amount of GEL 343 thousand (2011: GEL 503 thousand) which previously were included in other assets are now presented in subordinated debt as they are part of amortised cost in accordance with IAS 39.
 - Unamortized balance of loan origination fees paid in the amount of GEL 801 thousand (2011: GEL 811 thousand) which previously were included in other assets are now presented in borrowings from banks and other financial institutions as they are part of amortised cost in accordance with IAS 39.
- Penalty for early repayments of loans of GEL 255 thousand and fines on loans in arrears in the amount of GEL 1,026 thousand which previously were included in other operating income are now presented in the interest income. Loan disbursement fee of GEL 561 thousand which previously were included in fee and commission income are now presented in the interest income.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. The following table provides information on amounts to be recovered or settled before and after twelve months after the reporting period.

	31 December 2013			31 December 2012		
	Amounts expected to be recovered or settled		Total	Amounts expected to be recovered or settled		Total
	Within 12 months after the reporting period	After 12 months after the reporting period		Within 12 months after the reporting period	After 12 months after the reporting period	
<i>In thousands of Georgian Lari</i>						
ASSETS						
Cash and cash equivalents	59,506	-	59,506	32,603	-	32,603
Mandatory cash balances with the NBG	21,805	-	21,805	12,943	-	12,943
Due from other banks	-	-	-	265	-	265
Loans and advances to customers	63,639	124,900	188,539	35,256	59,277	94,533
Investment securities available for sale	93,512	63	93,575	28,809	63	28,872
Investment properties	-	1,802	1,802	-	1,055	1,055
Intangible assets	-	668	668	-	199	199
Premises and equipment	-	15,925	15,925	-	14,882	14,882
Other financial assets	435	-	435	406	-	406
Other assets	1,886	7,262	9,148	6,811	8,143	14,954
TOTAL ASSETS	240,783	150,620	391,403	117,093	83,619	200,712
LIABILITIES						
Deposits and balances from banks	25	-	25	5,318	-	5,318
Customer accounts	223,078	8,286	231,364	111,627	4,436	116,063
Borrowings from banks and other financial institutions	21,088	9,101	30,189	9,731	10,136	19,867
Current income tax liability	1,281	-	1,281	-	-	-
Differed tax liability	-	1,506	1,506	-	1,025	1,025
Provisions for liabilities and charges	22	-	22	167	-	167
Other financial liabilities	1,789	-	1,789	284	-	284
Other liabilities	1,264	-	1,264	863	-	863
Subordinated debt	-	3,165	3,165	-	2,976	2,976
TOTAL LIABILITIES	248,547	22,058	270,605	127,990	18,573	146,563

Amendments of the consolidated financial statements after issue. The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of GEL 510 thousand (2012: GEL 420 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of GEL 256 thousand (2012: GEL 185 thousand), respectively.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 35.

Valuation of own use premises. As at 31 December 2013 premises of the Group are stated at fair value based on reports prepared by independent valuator, LLC Georgian Valuation Company. The valuator used market approach to valuation. In determining the fair values of the premises, three market comparatives were identified. As comparatives were usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the premises.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

IFRS 10 “Consolidated Financial Statements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Group’s consolidated financial statements.

IFRS 11 “Joint Arrangements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Venturers”. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard did not have any material impact on the Group’s consolidated financial statements.

IFRS 12 “Disclosure of Interests in Other Entities” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard resulted in additional disclosures in these consolidated financial statements. The Standard did not have any material impact on the Group’s consolidated financial statements.

IFRS 13 “Fair Value Measurement” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 33.

IAS 27 “Separate Financial Statements” (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 “Consolidated Financial Statements”. The amended standard did not have any material impact on the Group’s consolidated financial statements.

IAS 28 “Investments in Associates and Joint Ventures” (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Standard did not have any material impact on the Group’s consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Amendments to IAS 1 “Presentation of Financial Statements” (issued in June 2011, effective for annual periods beginning on or after 1 July 2013) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19 “Employee Benefits” (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group reports accumulated amount of these remeasurements in retained earnings in equity. The amended standard did not have any material impact on the Group’s consolidated financial statements.

“Disclosures - Offsetting Financial Assets and Financial Liabilities” - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity’s consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 31.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group did not present explanatory notes to support the third balance sheet presented at the beginning of the comparative period as a result of the amendment to IAS 1.

“Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12” (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group’s consolidated financial statements other than application of the relief from disclosure of certain comparative information in the notes to the financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Other revised standards and interpretations: IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Group’s consolidated financial statements. Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans”, which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

IFRS 9, “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

“Offsetting Financial Assets and Financial Liabilities” - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

6 New Accounting Pronouncements (Continued)

“Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities” (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

IFRIC 21 – “Levies” (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 36 – “Recoverable amount disclosures for non-financial assets” (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 39 – “Novation of Derivatives and Continuation of Hedge Accounting” (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

6 New Accounting Pronouncements (Continued)

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The Group does not expect the amendment to have any impact on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

<i>In thousands of Georgian Lari</i>	2013	2012
Cash on hand	18,201	12,985
Cash balances with the NBG (other than mandatory reserve deposits)	5,854	5,359
Correspondent accounts and overnight placements with other banks	11,446	5,256
Placements with other banks with original maturities of less than three months	24,005	9,003
Total cash and cash equivalents	59,506	32,603

The credit quality of cash and cash equivalents balances may be summarised based on Fitch's Ratings as follows at 31 December 2013:

<i>In thousands of Georgian Lari</i>	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
<i>Neither past due nor impaired</i>				
- National Bank of Georgia	5,854	-	-	5,854
- A- to A+ rated	-	8,481	-	8,481
- Lower than A- rated	-	2,416	19,005	21,421
- Unrated	-	549	5,000	5,549
Total cash and cash equivalents, excluding cash on hand	5,854	11,446	24,005	41,305

As at 31 December 2013 unrated balances represent placements with 2 Georgian Banks with aggregate amount of GEL 5,098 thousand and 5 Non-OECD Banks with aggregate amount of GEL 451 thousand (2012: 2 Georgian Banks with aggregate amount of GEL 87 thousand and 2 Non-OECD Banks with aggregate amount of GEL 84 thousand).

The credit quality of cash and cash equivalents balances analysed based on Fitch Ratings at 31 December 2012, is as follows:

<i>In thousands of Georgian Lari</i>	Balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
<i>Neither past due nor impaired</i>				
- National Bank of Georgia	5,359	-	-	5,359
- A- to A+ rated	-	4,513	-	4,513
- Lower than A- rated	-	572	9,003	9,575
- Unrated	-	171	-	171
Total cash and cash equivalents, excluding cash on hand	5,359	5,256	9,003	19,618

At 31 December 2013 the Group had no counterparty banks (2012: none) with aggregated cash and cash equivalent balances above 10 % of total equity.

Interest rate analysis of cash and cash equivalents is disclosed in Note 28. Information on related party balances is disclosed in Note 35.

The cash balances with the NBG (other than mandatory reserve deposits) represent balances with the NBG related to settlement activity and were available for withdrawal at year end.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia (“NBG”) represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, whose availability is restricted and the amount of which depends on the level of funds attracted by the financial institutions.

In 2013, Fitch Ratings re-affirmed government of Georgia’s short-term sovereign credit rating of “B” and long-term credit rating of “BB-“.

9 Due from Other Banks

<i>In thousands of Georgian Lari</i>	2013	2012
Placements with other banks with original maturities of more than three months	-	265
Total due to from other banks	-	265

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represented neither past due nor impaired amounts at the end of 2012.

10 Loans and Advances to Customers

<i>In thousands of Georgian Lari</i>	2013	2012
Corporate loans	134,661	62,255
Consumer loans	14,223	11,046
Mortgage loans	39,495	20,278
Credit cards	5,259	5,154
Less: Provision for loan impairment	(5,099)	(4,200)
Total loans and advances to customers	188,539	94,533

Movements in the provision for loan impairment during 2013 are as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
Provision for loan impairment at 1 January 2013	2,797	394	800	209	4,200
Amounts written off during the year as uncollectible	(687)	(54)	(18)	(101)	(860)
Provision for impairment during the year*	1,263	12	384	100	1,759
Provision for loan impairment at 31 December 2013	3,373	352	1,166	208	5,099

*The provision for impairment during 2013 differs from the amount presented in profit or loss for the year due to recovery of GEL 475 thousand of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2012 is as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
Provision for loan impairment at 1 January 2012	2,421	393	417	249	3,480
Amounts written off during the year as uncollectible	(278)	(61)	(143)	(194)	(676)
Provision for impairment during the year*	654	62	526	154	1,396
Provision for loan impairment at 31 December 2012	2,797	394	800	209	4,200

*The provision for impairment during 2012 differs from the amount presented in profit or loss for the year due to GEL 506 thousand, recovery of amounts previously written off as uncollectible.

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of Georgian Lari</i>	2013		2012	
	Amount	%	Amount	%
Trade	39,294	20%	17,312	18%
Service	26,309	14%	10,922	11%
Hotels & Restaurants	11,490	6%	5,130	5%
Real estate Management	9,068	5%	4,003	4%
Agricultural	6,852	4%	1,112	1%
Individuals	58,977	29%	36,478	37%
Construction	8,929	5%	5,287	5%
Production & Manufacturing	12,227	6%	8,694	9%
Financial Institutions	3,708	2%	1,654	2%
Other	16,784	9%	8,141	8%
Total loans and advances to customers (before impairment)	193,638	100%	98,733	100%

At 31 December 2013 the Group had no borrower groups (2012: no borrower groups) with aggregated loan amounts above 10 % of total equity.

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2013 is as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
Unsecured loans	7,352	5,848	262	5,247	18,709
Loans collateralised by:					
- cash deposits	6,487	727	-	-	7,214
- real estate	113,939	7,116	39,205	4	160,264
- transport and equipment	3,497	529	28	-	4,054
- other assets	3,386	3	-	8	3,397
Total loans and advances to customers	134,661	14,223	39,495	5,259	193,638

Information about collateral at 31 December 2012 is as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
Unsecured loans	3,092	4,579	469	5,127	13,267
Loans collateralised by:					
- cash deposits	3,207	535	-	-	3,742
- real estate	51,288	5,355	19,786	22	76,451
- transport and equipment	2,387	575	23	5	2,990
- other assets	2,281	2	-	-	2,283
Total loans and advances to customers	62,255	11,046	20,278	5,154	98,733

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, transport and equipment, other assets. Other assets mainly include securities and inventory. Third party guarantees received in the amount of GEL 7,457 thousand (2012: GEL 6,586 thousand) were not considered in the above table.

The disclosure above represents the lower of the gross value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>Neither past due nor impaired (gross)</i>					
- Large borrowers with credit history over two years	28,423	-	-	-	28,423
- Large new borrowers	32,479	-	-	-	32,479
- Loans to medium size entities	32,155	-	-	-	32,155
- Loans to small entities	3,316	-	-	-	3,316
- Loans to individuals with credit limit over GEL 100 thousand	19,519	1,635	16,735	173	38,062
- Loans to individuals with credit limit below GEL 100 thousand	4,303	10,781	20,529	4,873	40,486
Total neither past due nor impaired	120,195	12,416	37,264	5,046	174,921
<i>Past due but not impaired (gross)</i>					
- less than 30 days overdue	914	428	334	-	1,676
- 30 to 90 days overdue	160	25	-	-	185
- 91 to 180 days overdue	250	145	-	1	396
- 181 to 360 days overdue	103	-	-	-	103
Total past due but not impaired	1,427	598	334	1	2,360
<i>Loans individually determined to be impaired (gross)</i>					
- not overdue	9,845	538	750	70	11,203
- less than 30 days overdue	409	372	264	47	1,092
- 30 to 90 days overdue	802	131	263	46	1,242
- 91 to 180 days overdue	1,332	103	209	25	1,669
- 181 to 360 days overdue	472	41	329	22	864
- over 360 days overdue	179	24	82	2	287
Total individually impaired loans (gross)	13,039	1,209	1,897	212	16,357
Less impairment provisions	(3,373)	(352)	(1,166)	(208)	(5,099)
Total loans and advances to customers	131,288	13,871	38,329	5,051	188,539

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>Neither past due nor impaired (gross)</i>					
- Large borrowers with credit history over two years	11,617	-	-	-	11,617
- Large new borrowers	8,633	-	-	-	8,633
- Loans to medium size entities	20,280	-	-	-	20,280
- Loans to small entities	429	-	-	-	429
- Loans to individuals with credit limit over GEL 100 thousand	7,649	1,255	7,552	100	16,556
- Loans to individuals with credit limit below GEL 100 thousand	3,684	8,193	10,473	4,882	27,232
Total neither past due nor impaired	52,292	9,448	18,025	4,982	84,747
<i>Past due but not impaired(gross)</i>					
- less than 30 days overdue	1,728	513	240	-	2,481
- 30 to 90 days overdue	153	4	-	-	157
- 91 to 180 days overdue	-	26	-	-	26
Total past due but not impaired	1,881	543	240	-	2,664
<i>Loans individually determined to be impaired (gross)</i>					
- not overdue	5,414	348	941	84	6,787
- less than 30 days overdue	1,171	173	271	60	1,675
- 30 to 90 days overdue	502	441	465	16	1,424
- 91 to 180 days overdue	500	47	187	3	737
- 181 to 360 days overdue	397	43	76	9	525
- over 360 days overdue	98	3	73	-	174
Total individually impaired loans (gross)	8,082	1,055	2,013	172	11,322
Less impairment provisions	(2,797)	(394)	(800)	(209)	(4,200)
Total loans and advances to customers	59,458	10,652	19,478	4,945	94,533

In the above table, groups of related borrowers with aggregate credit exposure of more than USD 1 million are classified as “large borrowers”. Groups of borrowers with total exposure between USD 30 thousand and USD 1 million are classified as “medium size entities”. Other borrowers fall into the category of “small entities”.

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group’s policy is to classify each loan as ‘neither past due nor impaired’ until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

10 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral at 31 December 2013:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
<i>In thousands of Georgian Lari</i>				
Corporate loans	122,668	419,162	11,993	7,828
Consumer loans	8,263	34,150	5,960	111
Mortgage loans	38,985	110,526	510	285
Credit cards	12	13	5,247	-
Total	169,928	563,851	23,710	8,224

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
<i>In thousands of Georgian Lari</i>				
Corporate loans	54,607	197,657	7,648	4,492
Consumer loans	6,156	24,593	4,890	307
Mortgage loans	19,586	57,566	692	293
Credit cards	26	29	5,128	-
Total	80,375	279,845	18,358	5,092

For the loans with carrying amount more than GEL 100 thousand the Group updates valuations at least once a year. Where there are indications that the carrying value of the loan might exceed fair value of collateral, the management discretionally obtains valuations for collateral for the affected properties.

Refer to Note 33 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 28. Information on related party balances is disclosed in Note 35.

11 Investment Securities Available for Sale

<i>In thousands of Georgian Lari</i>	2013	2012
Georgian government treasury bonds	31,294	10,379
Georgian government treasury bills	16,634	2,985
NBG certificates of deposit	45,584	15,445
Total debt securities	93,512	28,809
Corporate shares (not quoted)	63	63
Total investment securities available for sale	93,575	28,872

The movements in investment securities available for sale are as follows:

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Carrying amount at 1 January		28,809	20,019
Fair value gains less losses		693	361
Gains less losses reclassified to profit or loss upon disposal or impairment		(60)	(49)
Interest income accrued	23	3,531	1,649
Interest income received		(1,443)	(714)
Purchases		123,502	33,205
Redemption at maturity		(61,520)	(25,662)
Carrying amount at 31 December		93,512	28,809

Investment securities available for sale include equity securities with a carrying value of GEL 63 thousand (2012: GEL 63 thousand) which are not publicly traded. Therefore they are carried at cost. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

Interest rate analysis of investment securities available for sale is disclosed in Note 28. Information on related party debt investment securities available for sale is disclosed in Note 35.

12 Investment Properties

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Carrying amount at 1 January		1,055	1,295
Additions		939	53
Disposals		(55)	(293)
Impairment	26	(137)	-
Carrying amount at 31 December		1,802	1,055

As of 31 December 2013, the fair value of investment properties was GEL 1,912 thousand (2012: GEL 1,067 thousand). The fair value of the Group's investment properties was determined by the Bank's internal appraisers, who hold a recognized and relevant professional qualification. In determining the fair values of investment properties, three market comparatives were identified for each property. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property.

13 Premises, Equipment and Intangible Assets

<i>In thousands of Georgian Lari</i>	Note	Premises	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost/valuation at 1 January 2012		14,343	5,417	-	19,760	435	20,195
Accumulated depreciation		221	4,169	-	4,390	204	4,594
Carrying amount at 1 January 2012		14,122	1,248	-	15,370	231	15,601
Additions		-	296	19	315	12	327
Disposals		-	(82)	-	(82)	(1)	(83)
Re-instatement of fully depreciated equipment		-	315	-	315	-	315
Depreciation							
Depreciation charge	26	279	516	-	795	43	838
Re-instatement of fully depreciated equipment		-	315	-	315	-	315
Disposals		-	(74)	-	(74)	-	(74)
Carrying amount at 31 December 2012		13,843	1,020	19	14,882	199	15,081
Cost/valuation at 31 December 2012		14,343	5,946	19	20,308	446	20,754
Accumulated depreciation		500	4,926	-	5,426	247	5,673
Carrying amount at 31 December 2012		13,843	1,020	19	14,882	199	15,081
Additions		-	1,401	288	1,689	540	2,229
Transfers		159	-	(159)	-	-	-
Disposals		-	(428)	-	(428)	-	(428)
Revaluation loss	26	(144)	-	-	(144)	-	(144)
Reversal of accumulated depreciation upon revaluation		(781)	-	-	(781)	-	(781)
Revaluation		326	-	-	326	-	326
Depreciation							
Depreciation charge	26	281	535	-	816	71	887
Reversal of accumulated depreciation upon revaluation		(781)	-	-	(781)	-	(781)
Disposals		-	(416)	-	(416)	-	(416)
Carrying amount at 31 December 2013		13,903	1,874	148	15,925	668	16,593
Cost/valuation at 31 December 2013		13,903	6,919	148	20,970	986	21,956
Accumulated depreciation		-	5,045	-	5,045	318	5,363
Carrying amount at 31 December 2013		13,903	1,874	148	15,925	668	16,593

13 Premises, Equipment and Intangible Assets (Continued)

Construction in progress primarily consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

Premises have been revalued as at 31 December 2013. The valuation was carried out by an independent valuator, Georgian Valuation Company LLC, which holds recognised and relevant professional qualifications and has recent experience in the valuation of assets in similar locations and in a similar category. Refer to Note 4.

At 31 December 2013, the carrying amount of premises would have been GEL 10,794 thousand (2012: GEL 11,382 thousand) had the assets been carried at cost less depreciation.

14 Other Financial Assets

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Receivables for credit card services and money transfers		-	269
Receivables for sale of repossessed property		414	-
Other receivables		145	137
Less: Provision for impairment	26	(124)	-
Total other financial assets		435	406

As at 31 December 2013 a provision against receivables from the sale of repossessed property for GEL 414 thousand was created as purchaser failed to repay. The same property is held by the Bank as collateral. Other receivables are current and not impaired.

Refer to Note 33 for the disclosure of the fair value of each class of other financial assets.

15 Other Assets

<i>In thousands of Georgian Lari</i>	2013	2012
Repossessed collateral	7,719	13,516
VAT paid	933	897
Litigation prepayments	251	306
Prepayments for services	94	50
Fixed asset prepayments	57	69
Withholding taxes paid	1	11
Other	93	105
Total other assets	9,148	14,954

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

16 Due to Other Banks

<i>In thousands of Georgian Lari</i>	2013	2012
Correspondent accounts and overnight placements of other banks	25	15
Short-term placements of other banks	-	5,303
Total due to other banks	25	5,318

Refer to Note 33 for the disclosure of the fair value of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 28.

17 Customer Accounts

<i>In thousands of Georgian Lari</i>	2013	2012
State and public organisations		
- Current/settlement accounts	17,281	7,740
- Term deposits	18,689	165
Other legal entities		
- Current/settlement accounts	101,023	33,060
- Term deposits	38,889	24,543
Individuals		
- Current/demand accounts	33,820	30,580
- Term deposits	21,662	19,975
Total customer accounts	231,364	116,063

State and public organisations include state-owned profit-orientated businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Georgian Lari</i>	2013		2012	
	Amount	%	Amount	%
State Deposits	9,221	4%	1,596	1%
Construction	74,398	32%	18,859	16%
Trade	36,987	16%	19,456	17%
Production/Manufacturing	12,944	6%	4,582	4%
Energy	11,060	5%	2,063	2%
Education	9,465	4%	5,306	5%
Financial Institutions	9,199	4%	7,256	6%
Transportation or Communication	9,051	4%	2,325	2%
Agriculture	711	0%	568	0%
Other	2,846	1%	3,497	3%
Individuals	55,482	24%	50,555	44%
Total customer accounts	231,364	100%	116,063	100%

At 31 December 2013, the Group had two customers (2012: one customer) with balances above 10 % of total equity. The aggregate balance of these customers was GEL 48,342 thousand (2012: GEL 10,315 thousand).

Refer to Note 33 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 28. Information on related party balances is disclosed in Note 35.

18 Other Borrowed Funds

<i>In thousands of Georgian Lari</i>	2013	2012
Loans from World Business Capital	10,003	10,750
Loans from Black Sea Trade and Development Bank	17,602	1,461
Loans from European Bank for Reconstruction and Development (“EBRD”)	1,912	6,808
Loan from Ministry of Finance	600	764
Other	72	84
Total other borrowed funds	30,189	19,867

As at 31 December 2013 the Group was in breach of two covenant requirements under revolving credit facility agreement with the EBRD:

- According to existing agreement, the Bank shall at all times maintain a ratio of 20 largest exposures to gross loans of not more than 25% (as at 31 December 2013 the ratio was 34%).
- The Bank shall at all times maintain ratio of negative liquidity gap of not more than minus 30% (of assets within respective time band) within each of the following maturity bands: less than 30 days, up to 90 days, up to 180 days, up to 360 days, over 360 days. As of 31 December 2013, the ratio was - 34% in less than 30 days time band. (When calculating the liquidity gap, all assets and liabilities are distributed according to their contractual maturities and carrying values, off-balance sheet commitments are not taken into account.)

The bank negotiated waiver for both financial covenants but the waiver was obtained subsequent to 31 December 2013. Therefore, as at 31 December 2013 the funds received under revolving credit facility with EBRD have been classified as on-demand.

As at 31 December 2013 loans from World Business Capital were secured by loans to customers with the carrying value of GEL 18,512 thousand (2011: GEL 18,740 thousand).

Refer to Note 33 for disclosure of the fair value of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 28. Information on related party balances is disclosed in Note 35.

19 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Debit and credit card payables		258	-
Other derivative financial instruments	32	948	-
Other accrued liabilities		583	284
Total other financial liabilities		1,789	284

Other financial derivatives are the currency swap contracts. Refer to Note 33 for disclosure of the fair value of other financial liabilities.

20 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	2013	2012
Taxes payable other than on income	375	549
Accrued employee benefit costs	822	216
Other	67	98
Total other liabilities	1,264	863

21 Subordinated Debt

Subordinated debt of GEL 3,165 thousand (2012: GEL 2,976 thousand) carries an interest rate of three months LIBOR +5% p.a. and matures in 2021. The debt ranks after all other creditors in the case of liquidation.

Refer to Note 33 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 28. Information on related party balances is disclosed in Note 35.

22 Share Capital

<i>In thousands of Georgian Lari except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2012	6,700	5,912	5,612	11,524
New shares issued	2,379	3,167	21,684	24,851
At 31 December 2012	9,079	9,079	27,296	36,375
New shares issued	6,862	6,862	46,671	53,533
At 31 December 2013	15,941	15,941	73,967	89,908

The total authorised and issued number of ordinary shares is 15,941 thousand shares (2012: 9,079 thousand shares), with a par value of GEL 1 per share (2012: GEL 1 per share). All issued ordinary shares are fully paid.

Share premium represents the excess of contributions received over the nominal value of shares issued, which is GEL 73,967 thousand at 31 December 2013, (2012: GEL 27,296 thousand).

In accordance with Georgian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with NBS accounting rules.

23 Interest Income and Expense

<i>In thousands of Georgian Lari</i>	2013	2012
Interest income		
Loans and advances to customers	22,400	14,657
Debt investment securities available for sale	3,531	1,649
Due from other banks and mandatory balances held with the NBG	919	558
Total interest income	26,850	16,864
Interest expense		
Term deposits of legal entities	3,036	2,473
Term deposits of individuals	2,321	2,570
Current/settlement accounts	1,322	938
Borrowings from banks and other financial institutions and subordinated loans	1,651	1,310
Due to other banks	61	208
Repurchase agreements	6	217
Total interest expense	8,397	7,716
Net interest income	18,453	9,148

24 Fee and Commission Income and Expense

<i>In thousands of Georgian Lari</i>	2013	2012
Fee and commission income		
- Plastic card fees	871	822
- Settlement transactions	723	642
- Cash transactions	409	387
- Fees related to guarantees	327	394
- Distant banking fees	123	125
- Other	280	404
Total fee and commission income	2,733	2,774
Fee and commission expense		
<i>Fee and commission expense not relating to financial instruments at fair value through profit or loss</i>		
- Plastic card system fees	423	519
- Communication and Computer Centre Service fees	436	399
-Settlement transactions	228	211
- Commissions for credit lines	167	82
-Cash Collection & Transaction fees	163	143
-Expenses Related to Guarantees	97	94
-Other	91	72
Total fee and commission expense	1,605	1,520
Net fee and commission income	1,128	1,254

25 Other Operating Income

<i>In thousands of Georgian Lari</i>	2013	2012
Gains less losses on disposal of repossessed property	3,448	76
Reversal of impairment of repossessed property	1,065	730
Rental income	128	146
Fines and penalties	20	33
Total other operating income	4,661	985

Investment properties rental income as at December 2013 amounted to GEL 44 thousand (2012: GEL 34 thousand).

26 Administrative and Other Operating Expenses

<i>In thousands of Georgian Lari</i>	Note	2013	2012
Employee compensation		6,764	5,547
Depreciation and amortisation	13	887	838
Professional services		634	574
Advertising and marketing		621	190
Security		408	422
Occupancy		477	323
Communications and information services		174	165
Taxes other than on income		171	168
Office supplies		149	104
Loss on revaluation of premises	13	144	-
Impairment of investment properties	12	137	-
Impairment of other financial assets	14	261	19
Repairs and maintenance		78	37
Insurance		70	63
Travel and training		65	42
Other		633	494
Total administrative and other operating expenses		11,673	8,986

Direct operating expenses for investment properties that generate rental income amounted to GEL 10 thousand (2012: GEL 50 thousand) and consisted of costs of utilities, maintenance and taxes. Direct operating expenses for investment properties that did not generate rental income amounted to GEL 1 thousand (2012: nil).

27 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit or loss for the year comprises the following:

<i>In thousands of Georgian Lari</i>	2013	2012
Current tax	(1,286)	-
Deferred tax	(337)	27
Income tax (expense)/credit for the year	(1,623)	27

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's income is 15% (2012: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2012: 15%). A reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Georgian Lari</i>	2013	2012
Profit before tax	14,174	3,368
Theoretical tax charge at statutory rate (2013: 15%; 2012: 15%)	(2,126)	(505)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (NBG's securities and deposits)	560	294
- Other income which is exempt from taxation	-	291
- Imputed benefits	(16)	(49)
- Non-deductible expenses	(41)	(4)
Income tax (expense)/credit for the year	(1,623)	27

(c) Tax loss carry forwards

As at 31 December 2013, the Group had no unrecognised potential deferred tax assets in respect of unused tax loss carry forwards (2012: GEL 75 thousand).

27 Income Taxes (Continued)

(d) Deferred taxes in respect of subsidiaries, joint ventures and associates

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 5 thousand (2012: nil) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

(f) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 15% (2012: 15%).

<i>In thousands of Georgian Lari</i>	1 January 2013	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(1,742)	(81)	(49)	(1,872)
Loan impairment provision	-	(116)	-	(116)
Guarantee impairment provision	-	(14)	-	(14)
Fair valuation of other securities at fair value through profit or loss	(87)	-	(95)	(182)
Accruals	70	149	-	219
Tax loss carry forwards	75	(75)	-	-
Other	659	(200)	-	459
Net deferred tax liability	(1,025)	(337)	(144)	(1,506)

In the context of the Group's current structure and Georgian legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

<i>In thousands of Georgian Lari</i>	1 January 2012	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2012
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(1,956)	214	-	(1,742)
Fair valuation of other securities at fair value through profit or loss	(40)	-	(47)	(87)
Accruals	58	12	-	70
Tax loss carry forwards	316	(241)	-	75
Other	617	42	-	659
Net deferred tax asset/(liability)	(1,005)	27	(47)	(1,025)

28 Financial Risk Management

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

The objective of the risk management function is to create a stable and reliable banking institution, given volatility of financial markets, uncertainty of macro-economic situation. The Risk management function is organized from top management (Supervisory Board, Management Board, Audit Committee) down to operational divisions' level.

The Risk Management policies approved by the Supervisory Board of the Bank covers main type of risks, assigns responsibility for the management of specific risks, set the requirements for internal control frameworks. The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks, approving the group risk appetite and reviewing risk profile, approving and controlling the adequacy and effectiveness of the risk management framework.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

Credit risk both at portfolio and transactional levels is managed by a system of Credit Committees. Market and liquidity risks are managed by the Asset and Liability Management Committee ("ALCO").

In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment (refer to Note 30). The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk by product and industry sector are reviewed on a needs basis. Compliance with the limits is monitored on a monthly basis. Also, for exposures in excess of GEL 300 thousand, the Group monitors compliance with the limits prior to the disbursement of the loan or issue of credit related commitment or performance guarantee.

28 Financial Risk Management (Continued)

The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The senior credit committee reviews and approves limits above GEL 300 thousand. It is also responsible for issuing guidance to lower level credit committees;
- The middle credit committee reviews and approves limits above GEL 100 thousand
- The junior credit committees review and approve credit limits above GEL 20 thousand
- Retail approval group– approves loans below GEL 20 thousand.

The Committees are responsible to consider all applications within the limits set forth above: applications concerning bank loans, guarantees, overdrafts and assess their suitability, volume, purpose, loan issuance-repayment terms and schedule.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Credit Department. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Respective Credit Committee reviews the loan/credit application on the basis of submission by the Credit Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee. For credit applications which are above GEL 30 thousand, risk management department prepares conclusion before the application is submitted to Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed either by the Group's specialists or, in case of large or riskier collaterals, by independent appraisal companies, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Loans Department through the use of scoring models and application data verification procedures.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Senior Credit Committee with regard to credit concentration and market risks.

In order to monitor credit risk exposures, regular reports are produced by the Risk Management Department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to Senior Credit committee on a monthly basis and reviewed by the Supervisory Board on a quarterly basis. The Group does not use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.

The Bank's Risk Management Department reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 10.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to one single borrower and single borrowers' group, related party concentrations, large borrowers' group concentrations (top 20 and top 40 borrowers concentration to gross loans), sector concentrations. Refer to Note 10.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

28 Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. The management believes that the Group is not exposed to market risk arising from equity products. Consequently, market risk exposure for the Group is limited to (a) currency and (b) interest rate risks. Management sets limits on the value of risk that may be accepted. Compliance with the limits related to interest rate risk are monitored on a monthly basis. Compliance with open currency position limits is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insofar as such change may adversely affect the Bank revenues, equity, liquidity and creditworthiness. The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a consolidated on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital. However, ALCO introduces intra-day and overnight open currency position limits in aggregate and for individual currencies, within which the Bank may operate. Such limits are reviewed by ALCO from time to time to respond to market conditions. Bank's internal limits are significantly lower than the limits set by NBG and amount to GEL 2 million (or 1,75% of regulatory capital)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Georgian Lari</i>	At 31 December 2013				At 31 December 2012			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	215,262	(111,042)	25,389	129,609	106,211	(45,639)	-	60,572
US Dollars	169,551	(143,312)	(26,337)	(98)	89,102	(87,425)	-	1,677
Euros	14,304	(14,313)	-	(9)	13,044	(12,979)	-	65
CHF	19	(11)	-	8	26	(22)	-	4
Pound Sterling	182	(133)	-	49	157	(114)	-	43
Russian Roubles	1	(3)	-	(2)	7	(1)	-	6
RMB	8	-	-	8	1	-	-	1
Total	399,327	(268,814)	(948)	129,565	208,548	(146,180)	-	62,368

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 32. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

28 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied to principal foreign currencies at the end of the reporting period relative to Georgian Lari, with all other variables held constant:

<i>In thousands of GEL</i>	At 31 December 2013		At 31 December 2012	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 20% (2012: strengthening by 20%)	(20)	-	335	-
USD weakening by 20% (2012: weakening by 20%)	20	-	(335)	-
EUR strengthening by 20% (2012: strengthening by 20%)	(2)	-	13	-
EUR weakening by 20% (2012: weakening by 20%)	2	-	(13)	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. The Group's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to principal currency risk during the year, with all other variables held constant:

<i>In thousands of GEL</i>	At 31 December 2013		At 31 December 2012	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 20% (2012: strengthening by 20%)	159	-	39	-
USD weakening by 20% (2012: weakening by 20%)	(159)	-	(39)	-
EUR strengthening by 20% (2012: strengthening by 20%)	-	-	(1)	-
EUR weakening by 20% (2012: weakening by 20%)	-	-	1	-

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2013						
Total financial assets	182,575	25,356	30,966	124,900	63	363,860
Total financial liabilities	157,639	44,128	44,169	20,596	-	266,532
Net interest sensitivity gap at 31 December 2013	24,936	(18,772)	(13,203)	104,304	63	97,328
31 December 2012						
Total financial assets	78,458	16,147	15,677	59,277	63	169,622
Total financial liabilities	80,823	22,880	23,215	17,590	-	144,508
Net interest sensitivity gap at 31 December 2012	(2,365)	(6,733)	(7,538)	41,687	63	25,114

28 Financial Risk Management (Continued)

Most of interest bearing assets and liabilities are placed at fixed rates, part of borrowings are based on floating interest rates. At 31 December 2013, if interest rates at that date had been 200 basis points lower (2012: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 239 thousand (2012: GEL 523 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of equity would have been GEL 1,791 thousand (2012: GEL 800 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 200 basis points higher (2012: 200 basis points higher), with all other variables held constant, profit would have been GEL 1,089 thousand (2012: GEL 962 thousand) lower, mainly as a result of [change in fair value financial assets](#) and higher interest expense on variable interest liabilities. Other components of equity would have been GEL 816 thousand (2012: GEL 279 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarises weighted average interest rates at the respective reporting date based on reports reviewed by key management personnel for principal currencies. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

<i>In % p.a.</i>	2013			2012		
	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	-	-	-	-	-	-
Mandatory cash balances with the NBG	1,9%	-	0,2%	1,2%	-	0,4%
Due from other banks	3.6%	0.0%	0.0%	4.3%	-	0.2%
Loans and advances to customers	12.4%	12.7%	15.0%	16.8%	14.9%	15.8%
Debt investment securities available for sale	5.5%	-	-	8.1%	-	-
Other financial assets	-	-	-	-	-	-
Liabilities						
Due to other banks	-	-	-	4.9%	2.8%	0.1%
Customer accounts	2.8%	4.2%	3.1%	4.6%	6.7%	3.9%
- current and settlement accounts	2.3%	1.8%	0.6%	4.1%	3.4%	1.1%
- term deposits	6.4%	6.1%	6.8%	8.1%	9.3%	8.3%
Other financial liabilities	2.0%	-	-	-	-	-
Borrowings from banks and other financial institutions	-	5.4%	-	-	5.4%	-
Subordinated debt	-	5.3%	-	-	5.3%	-

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency or that no interest was accrued on such assets or liabilities.

28 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2013 is set out below:

<i>In thousands of Georgian Lari</i>	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	50,819	21	8,615	51	59,506
Mandatory cash balances with NBG	21,805	-	-	-	21,805
Loans and advances to customers	188,531	8	-	-	188,539
Investment securities available for sale	93,575	-	-	-	93,575
Other financial assets	435	-	-	-	435
Total financial assets	355,165	29	8,615	51	363,860
Financial liabilities					
Due to other banks	25	-	-	-	25
Customer accounts	153,584	77,780	-	-	231,364
Borrowings from banks and other financial institutions	672	-	29,517	-	30,189
Subordinated debt	-	-	3,165	-	3,165
Other financial liabilities	1,789	-	-	-	1,789
Total financial liabilities	156,070	77,780	32,682	-	266,532
Net position in on-balance sheet financial instruments	199,095	(77,751)	(24,067)	51	97, 328
Credit related commitments and performance guarantees	24,322	41	-	-	24,363

28 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2012 is set out below:

<i>In thousands of Georgian Lari</i>	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	27,746	2	4,755	100	32,603
Mandatory cash balances with NBG	12,943	-	-	-	12,943
Due from other banks	265	-	-	-	265
Loans and advances to customers	94,529	4	-	-	94,533
Investment securities available for sale	28,872	-	-	-	28,872
Other financial assets	406	-	-	-	406
Total financial assets	164,761	6	4,755	100	169,622
Financial liabilities					
Due to other banks	5,314	-	-	4	5,318
Customer accounts	98,814	17,249	-	-	116,063
Borrowings from banks and other financial institutions	847	-	19,020	-	19,867
Subordinated debt	-	-	2,976	-	2,976
Other financial liabilities	284	-	-	-	284
Total financial liabilities	105,259	17,249	21,996	4	144,508
Net position in on-balance sheet financial instruments	59,502	(17,243)	(17,241)	96	25,114
Credit related commitments and performance guarantees	21,094	506	-	-	21,600

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with counterparties outstanding to/from companies ultimately controlled by the entities located in China are allocated to the caption "China". Cash on hand have been allocated based on the country in which they are physically held.

28 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Georgia, which is defined as average ratio of liquid assets to liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis. The average liquidity ratio was 70% at 31 December 2013 (2012: 42%). ALCO sets internal limits for liquidity in all major currency positions. The required level of liquidity is calculated on the basis of quick liquidity ratio which is used to determine the minimum level of required liquidity for on-demand liabilities and is calculated on 30 days VAR analysis on look back period of 2 years. The ratio is reviewed every six months by ALCO.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The table below shows liabilities at 31 December 2013 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial and performance guarantees. Such undiscounted cash flows differ from the amounts included in the statement of financial position because the amounts in the statement of financial position are based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2013 is as follows:

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	59,506	-	-	-	-	59,506
Mandatory cash balances with the NBG	21,805	-	-	-	-	21,805
Loans and advances to customers	7,317	25,356	30,966	82,270	42,630	188,539
Investment securities available for sale	93,512	-	-	-	63	93,575
Gross-settled currency derivatives	5,049	-	20,340	-	-	25,389
Other financial assets	435	-	-	-	-	435
Total	187,624	25,356	51,306	82,270	42,693	389,249
Liabilities						
Due to other banks	25	-	-	-	-	25
Customer accounts – individuals	35,670	10,540	6,315	3,654	1,448	57,627
Customer accounts – other	123,332	28,857	20,945	2,923	1,083	177,140
Borrowings from banks and other financial institutions	2,001	2,497	18,235	9,426	-	32,159
Subordinated debt	-	-	-	-	4,794	4,794
Gross-settled currency derivatives	5,234	-	21,103	-	-	26,337
Other financial liabilities	359	482	-	-	-	841
Financial guarantees issued	51	1,960	266	785	-	3,062
Performance guarantees issued	63	481	1,029	635	-	2,208
Undrawn credit line commitments	19,092	-	-	-	-	19,092
Total potential future payments for financial obligations	185,827	44,817	67,893	17,423	7,325	323,285
Liquidity gap arising from financial instruments	1,797	(19,461)	(16,587)	64,847	35,368	65,964

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2012 is as follows:

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	32,603	-	-	-	-	32,603
Mandatory cash balances with the NBG	12,943	-	-	-	-	12,943
Due from other banks	-	-	265	-	-	265
Loans and advances to customers	3,697	16,147	15,412	45,527	13,750	94,533
Investment securities available for sale	28,809	-	-	-	63	28,872
Other financial assets	406	-	-	-	-	406
Total	78,458	16,147	15,677	45,527	13,813	169,622
Liabilities						
Due to other banks	5,318	-	-	-	-	5,318
Customer accounts – individuals	32,929	9,890	6,903	2,207	570	52,499
Customer accounts – other	42,483	7,637	12,624	2,658	-	65,402
Borrowings from banks and other financial institutions	-	4,089	6,800	11,104	84	22,077
Subordinated debt	-	-	-	-	4,748	4,748
Other financial liabilities	115	169	-	-	-	284
Financial guarantees issued	1,589	1,143	283	1,354	-	4,369
Performance guarantees issued	230	972	85	2,689	-	3,976
Undrawn credit line commitments	13,255	-	-	-	-	13,255
Total potential future payments for financial obligations	95,919	23,900	26,695	20,012	5,402	171,928
Liquidity gap arising from financial instruments	(17,461)	(7,753)	(11,018)	25,515	8,411	(2,306)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Georgian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest fully or partially.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28 Financial Risk Management (Continued)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2013						
Financial assets	187,624	25,356	51,306	82,270	42,693	389,249
Financial liabilities	56,838	52,551	78,332	99,541	5,607	292,869
Financial and performance guarantees	23	-	-	-	-	23
Undrawn credit related commitments	4,704	-	-	-	-	4,704
Net liquidity gap based on expected maturities	126,059	(27,195)	(27,026)	(17,271)	37,086	91,653
Cumulative liquidity gap based on expected maturities	126,059	98,864	71,838	54,567	91,653	
At 31 December 2012						
Financial assets	78,458	16,147	15,677	45,527	13,813	169,622
Financial liabilities	32,314	26,000	28,331	54,131	3,732	144,508
Financial and performance guarantees	167	-	-	-	-	167
Undrawn credit related commitments	4,170	-	-	-	-	4,170
Net liquidity gap based on expected maturities	41,807	(9,853)	(12,654)	(8,604)	10,081	20,777
Cumulative liquidity gap based on expected maturities	41,807	31,954	19,300	10,696	20,777	

The entire portfolio of available for sale securities is classified within demand and less than one month based on management's assessment of the portfolio's realisability. Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

29 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum stated in borrowing agreements. The amount of capital that the Group managed as of 31 December 2013 was 120,798 thousand (2012: GEL 54,149 thousand). The Group and the Bank have complied with all externally imposed capital requirements throughout 2013 and 2012.

The NBG sets and monitors capital requirements for the Bank. Under the current capital requirements set by the NBG, banks have to maintain a ratio of Tier I capital and Regulatory Capital to risk weighted assets above the prescribed minimum levels. Regulatory capital is based on the Bank's reports prepared under NBG accounting rules and amounts GEL 114,181 thousand (2012: GEL 44,352 thousand). As at 31 December 2013, these minimum levels set by NBG were 8% for Tier I capital and 12% for regulatory capital (2012: 8% and 12%, respectively). Compliance with capital adequacy ratios set by the NBG is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Deputy of General Director in charge of Finance Division.

Compliance with borrowing covenants is monitored on a monthly basis.

Other objectives of capital management are evaluated annually.

<i>In thousands of Georgian Lari</i>	2013	2012
Primary capital		
Share capital	15,941	9,079
Share premium	73,967	27,296
Retained earnings according to the NBG regulations	12,451	11,207
Deductions (Intangible Assets)	(668)	(200)
Total primary capital	101,691	47,382
Secondary capital		
Current year profit according to NBG regulations	10,697	1,251
General reserve	3,517	1,731
Subordinated borrowings	3,473	3,313
Total secondary capital	17,687	6,295
Deductions (Investments in subsidiary companies)	(5,197)	(9,325)
Total regulatory capital	114,181	44,352
Risk weighted assets, combining credit, market and operational risks	353,224	190,228
Tier I ratio	28.8%	24.9%
Regulatory capital ratio	32.3%	23.3%

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these consolidated financial statements.

Tax contingencies. Georgian tax legislation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Group consults with qualified external tax advisors on a regular basis.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Georgian Lari</i>	2013	2012
Not later than 1 year	131	114
Later than 1 year and not later than 5 years	-	-
Total operating lease commitments	131	114

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2013 and 31 December 2012, except of two covenants requirement under credit agreements with EBRD which were breached as of 31 December 2013 (2012: none). The waivers received for breaches were dated subsequent to 31 December 2013. Consequently, as at 31 December 2013 the borrowings from EBRD with a carrying value of GEL 1,912 thousand were classified as on demand.

The Bank is subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The Group complied with this loan covenant. The composition of the Group's capital calculated in accordance with the Basel Accord is as follows:

30 Contingencies and Commitments (Continued)

<i>In thousands of Georgian Lari</i>	2013	2012
Tier 1 capital		
Share capital	89,908	36,375
Retained earnings and Disclosed reserves	27,222	14,671
Non-controlling interest	-	250
Total tier 1 capital	117,130	51,296
Tier 2 capital		
Revaluation reserves	3,668	2,853
General reserve	2,601	1,737
Subordinated debt (included in tier 2 capital)	3,473	3,313
Total tier 2 capital	9,742	7,903
Total capital	126,872	59,199

General reserve included in Tier 2 is defined as lower of (a) IFRS provisions created on loans without signs of impairment and (b) 2% of loans without impairment trigger event.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

30 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

<i>In thousands of Georgian Lari</i>	2013	2012
Financial guarantees issued	3,062	4,369
Performance guarantees issued	2,208	3,976
Undrawn credit line commitments	19,092	13,193
Letters of credit	-	62
Less: Provision for credit related commitments and performance guarantees	(22)	(167)
Total credit related commitments and performance guarantees, net of provision	24,340	21,433

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments and performance guarantees are denominated in currencies as follows:

<i>In thousands of Georgian Lari</i>	2013	2012
Georgian Lari	12,600	9,137
US Dollars	9,611	10,598
Euro	2,086	1,791
Other	65	74
Total	24,362	21,600

The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

<i>In thousands of Georgian Lari</i>	2013	2012
Construction	1,028	1,090
Service	893	2,394
Other	287	492
Total guaranteed amounts	2,208	3,976

Movements in provisions for performance guarantees and credit-related commitments are as follows:

<i>In thousands of Georgian Lari</i>	2013	2012
Carrying amount at 1 January	167	265
Initial recognition of provision for issued financial guarantees	72	152
Unused amounts of provision reversed	(140)	(214)
Initial recognition of provision for issued performance guarantees	21	85
Unused amounts of provision reversed	(98)	(121)
Carrying amount at 31 December	22	167

30 Contingencies and Commitments (Continued)

Assets pledged and restricted. At 31 December 2013, no due from other banks balances were pledged as collateral for letters of credit and international payment cards transactions (2012: GEL 265 thousand). In addition, mandatory cash balances with the NBG of GEL 21,804 thousand (2012: GEL 12,942 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 8. As at 31 December 2013, loans and advances to customers with carrying value of GEL 18,512 thousand (2011: GEL 18,740 thousand) were pledged as collateral against the borrowings from World Business Capital.

31 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
<i>In thousands of Georgian Lari</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Due from other banks						
- Short-term placements with other banks with original maturities of more than three months	25,389	25,389	-	-	-	-
- Receivable for credit and debit card services	181	181	-	-	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	25,570	25,570	-	-	-	-
LIABILITIES						
-Short-term placements from other banks with original maturities of more than three months	26,337	25,389	948	-	-	948
- Payable for credit and debit card services	439	181	258	-	-	258
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	26,776	25,570	1,206	-	-	1,206

Amounts offset primarily represent deposits placed with other banks and deposits received from banks under currency swap arrangement (2012: no such transactions).

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

32 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

	Notes	2013	
		Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Georgian Lari</i>			
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of			
- GEL receivable on settlement (+)		25,389	-
- USD payable on settlement (-)		-	(26,337)
Net fair value of foreign exchange forwards and swaps	19	-	(948)

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

33 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

<i>In thousands of Georgian Lari</i>	31 December 2013				31 December 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
<i>Investment securities available for sale</i>								
Georgian government treasury bonds	-	31,294	-	31,294	-	10,379	-	10,379
Georgian government treasury bills	-	16,634	-	16,634	-	2,985	-	2,985
NBG deposit Certificate	-	45,584	-	45,584	-	15,445	-	15,445
NON-FINANCIAL ASSETS								
- Premises	-	13,903	-	13,903	-	13,843	-	13,843
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS								
		107,415		107,415		42,652		42,652
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
<i>Other financial liabilities</i>								
- Other derivative financial instruments	-	948	-	948	-	-	-	-
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS								
	-	948	-	948	-	-	-	-

33 Fair Value of Financial Instruments (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements is as follows:

<i>In thousands of Georgian Lari</i>	Fair value at 31 December		Valuation technique	Inputs used
	2013	2012		
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
<i>Investment securities available for sale</i>				
Georgian government treasury bonds	31,294	10,379	Discounted cash flows ("DCF") DCF	Government bonds yield curve
Georgian government treasury bills	16,634	2,985		DCF
NBG deposit Certificate	45,584	15,445	DCF	Government bonds yield curve
NON-FINANCIAL ASSETS				
- Premises	13,903	13,843	Market comparable assets	Comparable prices from less active market
<hr/>				
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	107,415	42,652		
<hr/>				
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
<i>Other financial liabilities</i>				
- Other derivative financial instruments	948	-	DCF	Official exchange rate, observable yield curve
<hr/>				
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	948	-		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2013 (2012: none).

33 Fair Value of Financial Instruments (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2013				31 December 2012			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<i>In thousands of Georgian Lari</i>								
ASSETS								
Cash and cash equivalents								
- Cash on hand	18,201	-	-	18,201	12,985	-	-	12,985
- Cash balances with the NBG	5,854	-	-	5,854	5,359	-	-	5,359
-Correspondent accounts and overnight placements	11,446	-	-	11,446	5,256	-	-	5,256
- Placements with other banks	-	24,005	-	24,005	-	9,003	-	9,003
Mandatory balances with the NBG	-	21,804	-	21,805	-	12,943	-	12,943
Due from other banks	-	-	-	-	-	265	-	265
Loans and advances to customers								
- Corporate loans	-	-	126,220	131,288	-	-	66,837	59,458
- Consumer loans	-	-	13,732	13,871	-	-	12,602	10,652
- Mortgage loans	-	-	44,599	38,330	-	-	21,145	19,479
- Credit cards	-	-	5,051	5,050	-	-	4,954	4,944
Other financial assets	-	435	-	435	-	406	-	406
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	1,912	-	1,802	-	1,067	-	1,055
TOTAL	35,501	48,156	189,602	272,087	23,600	23,684	105,538	141,805

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2013				31 December 2012			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<i>In thousands of Georgian Lari</i>								
FINANCIAL LIABILITIES								
Due to other banks	-	25	-	25	-	5,318	-	5,318
Customer accounts								
- Current/settlement accounts of state and public organisations	-	17,281	-	17,281	-	7,740	-	7,740
- Term deposits of state and public organisations	-	-	19,293	18,689	-	-	166	165
- Current/settlement accounts of other legal entities	-	101,023	-	101,023	-	33,060	-	33,060
- Term deposits of other legal entities	-	-	39,579	38,889	-	-	25,615	24,543
- Current/demand accounts of individuals	-	33,820	-	33,820	-	30,580	-	30,580
- Term deposits of individuals	-	-	22,432	21,662	-	-	20,665	19,975
Borrowings from banks and other financial institutions								
- Borrowings from International Financial institutions	-	29,517	-	29,517	-	19,019	-	19,019
- Borrowings from government	-	672	-	672	-	848	-	848
Other financial liabilities	-	1,789	-	1,789	-	284	-	284
Subordinated debt	-	3,165	-	3,165	-	2,976	-	2,976
TOTAL	-	187,292	81,304	266,532	-	99,825	46,446	144,508

33 Fair Value of Financial Instruments (Continued)

The fair values of financial instruments in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of investment properties was estimated using market comparatives (refer to Note 12).

Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2013 (2012: none).

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement" classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. All of the Group's financial assets fall in the loans and receivables category except financial derivatives and investment securities available for sale. All of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category. Investment securities available for sale belong to available-for-sale measurement category.

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Included in Supervisory Board and the Management Board categories below are close family members of the officers sitting on these Boards.

At 31 December 2013, the outstanding balances with related parties were as follows:

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Gross amount of loans and advances to customers (contractual interest rate: 6 - 24%)	-	108	316	189
Impairment provisions for loans and advances to customers	-	-	(5)	-
Customer accounts (contractual interest rate: 0 – 12.25%)	17	662	783	29,178
Borrowings from banks and other financial institutions (contractual interest rate: (4.32-4.81%))	1,912	-	-	-

The income and expense items with related parties for 2013 were as follows:

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Interest income	-	5	3	3
Interest expense	(13)	(55)	(36)	(898)
(Provision charge)/Recovery of loan impairment	-	-	(4)	3
Gains less losses from trading in foreign currencies	(36)	(75)	(8)	(1,079)
Foreign exchange translation gains less losses	-	1	1	123
Fee and commission income	-	1	1	33
Fee and commission expense	(1)	-	-	-
Recovery of provision for credit related commitments	-	-	-	10
Administrative and other operating expenses	-	-	(33)	-

35 Related Party Transactions (Continued)

At 31 December 2013, other rights and obligations with related parties were as follows:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Performance Guarantees issued by the Group at the year end	17	-	-	-
Undrawn credit line commitments	-	142	67	36

Aggregate amounts lent to and repaid by related parties during 2013 were:

<i>In thousands of Georgian Lari</i>	Supervisory Board	Management Board	Companies under common control
Amounts lent to related parties during the year	483	992	402
Amounts repaid by related parties during the year	(358)	(362)	(320)

At 31 December 2012, the outstanding balances with related parties were as follows:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 6 - 24%)	-	27	69	-
Impairment provisions for loans and advances to customers	-	(1)	(1)	-
Customer accounts (contractual interest rate: 0 – 12.25%)	-	248	448	2,193
Borrowings from banks and other financial institutions (contractual interest rate: (4.32-4.81%))	1,461	-	-	-

The income and expense items with related parties for 2012 were as follows:

<i>In thousands of Georgian Lari</i>	Shareholders	Supervisory Board	Management Board	Companies under common control
Interest income	-	10	3	-
Interest expense	(172)	(21)	(29)	(143)
Provision for loan impairment	-	6	-	-
(Losses) less gains from trading in foreign currencies	-	(19)	2	(250)
Foreign exchange translation gains less losses	-	-	-	87
Fee and commission income	-	1	2	17
Fee and commission expense	(8)	-	-	-
Provision for credit related commitments	-	-	-	(10)
Administrative and other operating expenses	-	-	(1)	-

35 Related Party Transactions (Continued)

At 31 December 2012, other rights and obligations with related parties were as follows:

<i>In thousands of Georgian Lari</i>	Supervisory Board	Management Board	Companies under common control
Performance Guarantees	-	-	480
Financial guarantees	-	-	17
Other contingent obligations	139	52	-

Aggregate amounts lent to and repaid by related parties during 2012 were:

<i>In thousands of Georgian Lari</i>	Supervisory Board	Management Board
Amounts lent to related parties during the year	551	437
Amounts repaid by related parties during the year	(393)	(280)

Compensation for the members of the Supervisory Board is presented below:

<i>In thousands of Georgian Lari</i>	2013		2012	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	346	-	152	-
Total	346	-	152	-

Compensation for the members of the **Management** Board is presented below:

<i>In thousands of Georgian Lari</i>	2013		2012	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	486	-	381	-
- Short-term bonuses	847	550	173	122
Total	1,333	550	554	122

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.