PRIVATBANK GROUP (GEORGIA)

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor’s Report

31 December 2013

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position 1
Consolidated Statement of Profit or Loss and Other Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

1 Introduction 5
2 Operating Environment of the Group 5
3 Summary of Significant Accounting Policies 6
4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies 16
5 Adoption of New or Revised Standards and Interpretations 17
6 New Accounting Pronouncements 19
7 Cash and Cash Equivalents 22
8 Due from Other Banks 23
9 Loans and Advances to Customers 23
10 Finance Lease Receivables 27
11 Investment Securities Held to Maturity 28
12 Premises, Equipment and Intangible Assets 28
13 Other Financial and Insurance Assets 30
14 Other Assets 31
15 Non-Current Assets Held for Sale 32
16 Due to Other Banks 33
17 Customer Accounts 33
18 Provisions for Liabilities and Charges 34
19 Other Financial Liabilities 34
20 Other Liabilities 34
21 Subordinated Debt 34
22 Share Capital 35
23 Interest Income and Expense 36
24 Fee and Commission Income and Expense 36
25 Other Operating Income 37
26 Administrative and Other Operating Expenses 37
27 Income Taxes 37
28 Financial Risk Management 39
29 Management of Capital 50
30 Contingencies and Commitments 50
31 Derivative Financial Instruments 52
32 Fair Value of Financial Instruments 53
33 Presentation of Financial Instruments by Measurement Category 58
34 Related Party Transactions 58

Independent Auditor's Report

To the Shareholders and Board of Directors of PrivatBank Group

We have audited the accompanying consolidated financial statements of Joint Stock Company PrivatBank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement 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 the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw your attention to Note 2 to the consolidated financial statements. The operations of the Parent of the Group, and those of other entities in Ukraine, have been affected and may continue to be affected for the foreseeable future, by the continuing uncertainties in Ukraine. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

23 April 2014
Tbilisi, Georgia

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch; Address: #7 Bambis Rigi Street, Business Center Mantashevi, Tbilisi 0105, Georgia, T: +995 (32) 250 80 50, F:+995 (32) 250 80 60, www.pwc.com/ge

In thousands of Georgian Lari	Note	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	7	105,844	116,568
Mandatory cash balances with NBG		28,090	19,090
Due from other banks	8	19,853	756
Loans and advances to customers	9	286,291	205,958
Finance lease receivables	10	2,301	-
Investment securities held to maturity	11	8,893	-
Investment in joint venture		-	3,075
Deferred income tax asset	27	649	365
Premises, equipment and intangible assets	12	18,554	20,749
Other financial and insurance assets	13	10,294	11,426
Other assets	14	1,470	3,017
Non-current assets held for sale	15	1,331	-
Total assets		**483,570**	**381,004**
Liabilities			
Due to other banks	16	67,443	124,896
Customer accounts	17	292,805	174,123
Provisions for liabilities and charges	18	193	151
Other financial liabilities	19	6,157	4,986
Other liabilities	20	4,315	8,358
Deferred income tax liability	27	-	12
Subordinated debt	21	24,576	23,866
Total liabilities		**395,489**	**336,392**
EQUITY			
Share capital	22	109,231	92,620
Share premium		4,308	4,308
Additional paid-in capital	21	13,262	11,449
Revaluation reserve for premises		136	136
Accumulated deficit		(38,856)	(63,901)
Total equity		**88,081**	**44,612**
Total liabilities and equity		**483,570**	**381,004**

Approved for issue and signed on behalf of the Board of Directors on 23 April 2014.

Yuri Kandaurov
Chief Executive Officer

Vera Dzneladze
Chief Accountant

The notes set out on pages 5 to 59 form an integral part of these consolidated financial statements.

In thousands of Georgian Lari	Note	2013	2012
Interest income	23	67,298	86,414
Interest expense	23	(35,968)	(35,986)
Net interest income		**31,330**	**50,428**
Provision for loan impairment	9	592	(39,957)
Result from sale of credit card portfolio	9	24,190	-
Net interest income after provision for loan impairment		**56,112**	**10,471**
Fee and commission income	24	6,757	5,413
Fee and commission expense	24	(1,183)	(1,241)
Gains less losses from trading in foreign currencies		3,609	1,828
Foreign exchange translation (losses less gains)/gains less losses		(3,008)	64
Gains less losses/(Losses less gains) from financial derivatives		2,356	(3,840)
Impairment of other assets	13, 14	(1,119)	(1,855)
Other operating income	25	10,143	5,639
Administrative and other operating expenses	26	(47,274)	(42,212)
Share of result of joint venture		-	(807)
Loss from non-current assets held for sale	15	(1,744)	-
Profit/(loss) before tax		**24,649**	**(26,540)**
Income tax credit	27	396	1,768
Profit/(loss) for the year		**25,045**	**(24,772)**
Other comprehensive income for the year		-	-
Total comprehensive income/(loss) for the year		**25,045**	**(24,772)**

In thousands of Georgian Lari	Note	Share capital	Share premium	Additional paid-in capital	Revaluation reserve for premises	Accumulated deficit	Total
Balance at 31 December 2012		**92,620**	**4,308**	**10,016**	**136**	**(39,129)**	**67,951**
Loss for the year		-	-	-	-	(24,772)	(24,772)
Total comprehensive loss		-	-	-	-	(24,772)	**(24,772)**
Addition paid-in capital	21	-	-	1,686	-	-	1,686
Income tax recorded in equity	27	-	-	(253)	-	-	(253)
Balance at 31 December 2012		**92,620**	**4,308**	**11,449**	**136**	**(63,901)**	**44,612**
Profit for the year		-	-	-	-	25,045	25,045
Total comprehensive income		-	-	-	-	25,045	**25,045**
Addition paid-in capital	21	-	-	2,133	-	-	2,133
Income tax recorded in equity	27	-	-	(320)	-	-	(320)
Share issue	22	16,611	-	-	-	-	16,611
Balance at 31 December 2013		**109,231**	**4,308**	**13,262**	**136**	**(38,856)**	**88,081**

In thousands of Georgian Lari	Note	2013	2012
Cash flows from operating activities			
Interest received		65,392	87,473
Interest paid		(33,058)	(34,091)
Gain/(Losses) from financial derivatives		2,356	(3,840)
Fees and commissions received		6,757	5,413
Fees and commissions paid		(1,183)	(1,241)
Income received from trading in foreign currencies		3,610	1,828
Other operating income received		10,143	6,101
Staff costs paid		(20,005)	(18,330)
Administrative and other operating expenses paid		(22,398)	(21,224)
Income tax paid		(202)	(185)
Cash flows from operating activities before changes in operating assets and liabilities		**11,412**	**21,904**
Net increase in mandatory balances with NBG		(9,000)	(10,095)
Net (increase)/decrease in due from other banks		(18,493)	15,761
Net increase in loans and advances to customers		(82,675)	(5,553)
Sale of credit card portfolio	9	29,632	-
Net decrease in other financial assets		1,132	398
Net increase in other assets		(754)	(435)
Net decrease in due to other banks		(59,976)	(34,327)
Net increase in customer accounts		115,027	73,796
Net increase in other financial liabilities		398	2,341
Net (decrease)/increase in other liabilities		(4,470)	1,565
Net cash (used in)/from operating activities		**(29,179)**	**43,451**
Cash flows from investing activities			
Acquisition of Investment securities held to maturity		(8,851)	-
Acquisition of premises, equipment and intangible assets		(2,570)	(9,499)
Net cash used in investing activities		**(11,421)**	**(9,499)**
Cash flows from financing activities			
Issue of ordinary shares	22	16,611	-
Net cash from financing activities		**16,611**	**-**
Effect of exchange rate changes on cash and cash equivalents		**1,853**	**(380)**
Net (decrease)/increase in cash and cash equivalents		(10,724)	55,475
Cash and cash equivalents at the beginning of the year		116,568	61,093
Cash and cash equivalents at the end of the year	7	**105,844**	**116,568**

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 PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group" or "PrivatBank Group (Georgia)"). The Bank holds 100% ownership in its subsidiaries being "TAOGUARD" LTD, "Insurance Company TAO" LTD and "Praim Leasing" LTD (2012: 100% ownership in its subsidiaries being "TAOGUARD" LTD and "Insurance Company TAO" LTD), which are domiciled in Georgia. The Bank holds 50% ownership in its joint venture being "Wetzel Plaza" LTD (2012: 50%). "Insurance Company TAO" LTD provides insurance and reinsurance services. "TAOGUARD" LTD provides private security services. "Praim Leasing" LTD is a leasing company. "Wetzel Plaza" LTD rents out owned premises on operating lease basis.

In 1992 Bank Kavkasioni obtained a banking license from the National Bank of Georgia; In January 2005 the Bank's name changes to First Commercial Bank; In May 2006 - the Bank's name changes to TaoBank; On 25 September 2007 the Bank's name changes to TaoPrivatBank; On 17 December 2010 the Bank's name changes to PrivatBank. As of 31 December 2013 the Bank's immediate shareholders were PJSC Commercial Bank PrivatBank (the "Parent Bank") owning 68.31% (2012: 62.62%) of the Bank's shares, Unimain Holdings Limited owning 29.75% (2012: 32.38%) and the management of the Bank owning 1.94% (2012: 5%). The Parent Bank domiciled in Ukraine is the ultimate controlling party. As of 31 December 2013 the ultimate major shareholders of the Parent Bank were two Ukrainian citizens Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 31 December 2013 owned directly and indirectly respectively 46.33% (2012: 46.27%) and 46.66% (2012: 46.27%) of the outstanding shares and neither of which individually controlled the Parent Bank. The major shareholders of the Parent Bank do not have a contractual agreement on joint control of the Parent Bank.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") in 1992. As of 31 December 2013 the Bank has 111 service centres within Georgia (2012: 106 service centres).

Registered address and place of business. The registered address and place of business of the Bank is 114 Tsereteli Avenue, Tbilisi 0119, Georgia
Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise stated.

2 Operating Environment of the Group

a) Operating environment in Georgia

The Group's principal business activities are within Georgia. Georgia continues to display certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Georgia. In addition, the international sovereign debt crisis and stock market volatility may affect the ability of the Group to achieve the performance targets.

Management is unable to predict all developments which could have an impact on banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

2 Operating Environment of the Group (Continued)

b) Operating environment in Ukraine

As stated in Note 4, the Group is relying on continuous financial support of the Parent Bank, which primarily operates in Ukraine.

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. The political system of Ukraine experienced instability with a number of protests against the Government's actions in late 2013 and street violence in January - February 2014. Continuous political unrest led to volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian long and short-term sovereign debts have been downgraded by international rating agencies in January and February 2014 with negative outlooks. The central bank of Ukraine, among other measures, imposed certain restrictions on processing client payments by banks and on purchase of foreign currency on inter-bank market.

To stabilise the deteriorating political situation, the Parliament voted return of the 2004 Constitution and dismissed the President. On 26 February, the newly formed Parliament majority coalition appointed a Prime Minister and the Government. During January-March 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. The new Government called for immediate dialogue with the International Monetary Fund in order provide financing and avoid possible default.

The final resolution and the effects of the political and economic crisis in Ukraine are difficult to predict but they may have further severe effects on the Ukrainian economy and the Parent Bank's business.

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, including structured entities, 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 other than those acquired from parties under common control. 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.

3 Summary of Significant Accounting Policies (Continued)\

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, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, 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. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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.

Joint Ventures. Joint ventures are entities over which the Group has a contractual agreement whereby two or more parties undertake an economic activity that is a subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. Other post-acquisition changes in Group's share of net assets of an joint venture are recognised as follows: (i) the Group's share of profits or losses of joint ventures is recorded in the consolidated profit or loss for the year as share of result of joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of joint ventures are recognised in profit or loss within the share of result of joint ventures. However, when the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value 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 ongoing basis.

3 Summary of Significant Accounting Policies (Continued)

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 (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie 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 32.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 the 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 additional 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 cash balances with NBG (other than mandatory reserve deposits) and all interbank placements 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.

Mandatory reserve deposits with the NBG. Mandatory reserve deposits with the NBG are carried at amortised cost and represent non-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 Bank 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.

3 Summary of Significant Accounting Policies (Continued)

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. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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 the profit or loss for the year.

Insurance contracts – classification. The Group's subsidiary issues contracts that transfer insurance risks. Insurance contracts are those that transfer significant insurance risk. As a general guideline, the subsidiary defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

3 Summary of Significant Accounting Policies (Continued)

Insurance receivables. Insurance receivables are initially recognized at nominal value and represent the total amount of insurance premiums to be received from the policyholder over the term of the policy coverage. Insurance receivables are treated in accordance with IFRS 4, "Insurance contracts".

A provision for impairment of insurance receivables is established if there is objective evidence that the subsidiary will not be able to collect the premiums due according to the original terms of insurance policy. The amount of the provision is the difference between the carrying amount and estimated recoverable amount.

Premiums. Upon inception of the contract, the total premiums to be received over the term of the policy coverage are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. The reserve for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force at the reporting date, calculated on a time apportionment basis. The reserve for unearned premiums is included in other liabilities in these consolidated financial statements.

Claims paid. Insurance claims paid comprise claims and claims handling expenses for which funds were transferred to the claimants or service providers.

Insurance loss reserves. The estimation of the ultimate liability arising from claims made under insurance contracts involves judgement. Loss reserves represent the accumulation of estimates for incurred losses and includes RBNS and IBNR. RBNS is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Company during investigation of insurance cases to be settled after the reporting date. IBNR is established based on expected ultimate loss ratios.

Liability adequacy test. At each end of reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

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.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Premises, leasehold improvements and equipment, are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

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 included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as of the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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, leasehold improvements 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).

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

	Useful lives in years
Premises	50
Office and computer equipment	2-15
Furniture, fixtures and other equipment	4-10
Motor vehicles	10
Leasehold improvements	7

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 each reporting period.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other 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 four to ten years.

3 Summary of Significant Accounting Policies (Continued)

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 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.

Investments in leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases. The Company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at amortised cost less impairment

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

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 retirement of debt.

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

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to Parent Bank and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation.

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

3 Summary of Significant Accounting Policies (Continued)

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 from financial derivatives). The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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/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 and liabilities are netted only within the individual companies of the Group. 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.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares with discretionary dividends 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.

Additional capital. Additional capital is recorded when a capital contribution is made by the Bank's shareholders other than the share capital issue. Additional capital is reclassified to retained earnings on expiry of contracts that gave rise to additional capital.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

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 Georgian Lari.

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.

At 31 December 2013 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.7363 (2012: USD 1 = GEL 1.6567); EUR 1 = GEL 2.3891 (2012: EUR 1= GEL 2.1825).

Revenue recognition on security services. Revenue from rendering security services is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided on a monthly basis.

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, contributions, 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. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Changes in presentation. Where necessary corresponding figures as of 31 December 2013 have been adjusted to conform to the current year presentation. The Group decided to change presentation of classes of loans to customers to reflect the impact of renegotiation of loans. As of 31 December 2012 the effect of reclassifications for presentation purposes was as follows:

3 Summary of Significant Accounting Policies (Continued)

In thousands of Georgian Lari	**As originally presented**	**Reclassification**	**As reclassified**
Loans to individuals – cards	164,120	(5,252)	158,868
Loans to individuals – others	1,091	5,252	6,343

This reclassification had no impact on consolidated statement of financial position or any other primary statements.

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

4 Critical Accounting Estimates, and Judgments 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:

Going concern. The Group has accumulated loss as of 31 December 2013 amounting to GEL 38,856 thousand and it's total equity is less than share capital. Management prepared these consolidated financial statements on going concern basis. In making this judgement management primarily considered ability of the Parent Bank to continue providing financial support to the Group, including assessment of the Parent Bank's financial position.

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolios and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded 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 or finance lease receivables 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 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 15,639 thousand (2012: GEL 1,580 thousand).

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 34.

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 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 32.

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 amended standard did not have any material impact on the Group's consolidated financial statements.

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.

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

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 resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances. 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 amended standard did not have any material impact on the Group's consolidated financial statements.

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 amended standards did not have any material impact on the Group's consolidated financial statements.

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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

6 New Accounting Pronouncements (Continued)

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.

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 consolidated 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 consolidated financial statements.

Other revised standards and interpretations: IFRS 14, Regulatory Deferral Accounts will not have any impact on the Group's consolidated 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

In thousands of Georgian Lari	31 December 2013	31 December 2012
Cash on hand	54,506	29,808
Cash balances with the NBG (other than mandatory reserve deposits)	47,532	29,715
Correspondent accounts and overnight placements with other banks	3,806	57,045
Total cash and cash equivalents	**105,844**	**116,568**

Interest rate analysis of cash and cash equivalents is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

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

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
- Cash balances with Central Bank	47,532	-	**47,532**
- Aa3 rated	-	1	**1**
- A3 rated	-	40	**40**
- B1 rated	-	210	**210**
- Caa2 rated	-	2,730	**2,730**
- Unrated	-	825	**825**
Total cash and cash equivalents, excluding cash on hand	**47,532**	**3,806**	**51,338**

The credit quality of cash and cash equivalents balances at 31 December 2012 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
- Cash balances with Central Bank	29,715	-	**29,715**
- Aa3 rated	-	1,989	**1,989**
- A2 rated	-	92	**92**
- B1 rated	-	261	**261**
- Caa1 rated	-	54,414	**54,414**
- Unrated	-	289	**289**
Total cash and cash equivalents, excluding cash on hand	**29,715**	**57,045**	**86,760**

8 Due from Other Banks

In thousands of Georgian Lari	31 December 2013	31 December 2012
Short-term placements with the NBG	-	756
Short-term placements with other banks	17,849	-
Reverse sale and repurchase agreements	1,993	-
Guarantee deposits with other banks	11	-
Total due from other banks	**19,853**	**756**

Due from other banks have original maturity more than three months.

The credit quality of due from other banks balances may be summarised based on Moody's rating as follows at 31 December 2013:

In thousands of Georgian Lari	Short-term placements with other banks	Reverse sale and repurchase agreements	Guarantee deposits with other banks	Total
Neither past due nor impaired				
- B1 rated	17,248	1,993	-	**19,241**
- B2 rated	299	-	-	**299**
- Unrated	302	-	11	**313**
Total due from other banks	**17,849**	**1,993**	**11**	**19,853**

9 Loans and Advances to Customers

In thousands of Georgian Lari	31 December 2013	31 December 2012
Corporate loans	43,052	45,519
Mortgage loans	145	375
Loans to individuals – cards	208,081	158,868
Loans to individuals – consumer loans	37,703	22,456
Loans to individuals – auto	3,403	7,188
Loans to individuals – others	9,576	6,343
Loans to small and medium enterprises	927	2,534
Less: Provision for loan impairment	(16,596)	(37,325)
Total loans and advances to customers	**286,291**	**205,958**

On August 2013, the Group entered into an agreement with a non-resident company (the "Purchaser") to irrevocably sell its loan portfolio with the total gross value of GEL 42,333 thousand and net book value prior to the date of sale of GEL 5,442 thousand, which consisted of credit card loans with discount of 30% to gross value.

The resulting compensation received was equal to GEL 29,632 thousand.

The net gain on sale recognised in profit or loss amounted to GEL 24,190 thousand.

The agreement terms were negotiated with the buyer by the Parent Bank.

Part of corporate loans are collateralised by deposits totalling GEL 21,974 thousand, refer to Note 17. The remaining corporate loans are collateralized by real estate with fair value exceeding loans amortised cost.

9 Loans and Advances to Customers (Continued)

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

In thousands of Georgian Lari	Corpo-rate loans	Mortgage loans	Loans to indivi-duals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to indivi-duals others	Loans to small and medium enterprises	Total
Provision for loan impairment at 1 January 2013	**214**	**1**	**1,190**	**1,034**	**28,906**	**5,336**	**644**	**37,325**
Provision/(recovery of provision) for impairment during the year	21	2	(8)	1,971	4,121	(2,402)	125	**3,830**
Amounts written off during the year as uncollectible	(178)	-	(715)	(1,870)	(21,050)	(116)	(630)	**(24,559)**
Provision for loan impairment at 31 December 2013	**57**	**3**	**467**	**1,135**	**11,977**	**2,818**	**139**	**16,596**

The provision for impairment during 2013 differs from the amount presented in profit or loss for the year due to GEL 4,422 thousand, recovery 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.

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

In thousands of Georgian Lari	Corpo-rate loans	Mortgage loans	Loans to indivi-duals auto	Loans to individuals consumer loans	Loans to indivi-duals cards	Loans to indivi-duals others	Loans to small and medium enterprises	Total
Provision for loan impairment at 1 January 2012	**175**	**258**	**1,382**	**1,493**	**12,883**	**122**	**1,311**	**17,624**
Provision/(recovery of provision) for impairment during the year	39	(257)	368	2,649	39,012	353	2,199	**44,363**
Amounts written off during the year as uncollectible			(560)	(3,108)	(17,737)	(391)	(2,866)	**(24,662)**
Provision for loan impairment at 31 December 2012	**214**	**1**	**1,190**	**1,034**	**28,906**	**5,336**	**644**	**37,325**

The provision for impairment during 2012 differs from the amount presented in profit or loss for the year due to GEL 4,406 thousand, recovery 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.

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

	31 December 2013		31 December 2012	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	258,908	85%	195,230	80%
Trade	34,499	11%	35,276	14%
Retail	927	1%	2,534	1%
Transport, storage and communication	-	0%	199	0%
Other	8,553	3%	10,044	4%
Total loans and advances to customers (before impairment)	**302,887**	**100%**	**243,283**	**100%**

At 31 December 2013 the total aggregate amount of loans to top 10 borrowers (2012: 10 borrowers) of the Group amounted to GEL 34,397 thousand (2012: GEL 34,234 thousand) or 11% of the gross loan portfolio (2012: 14%).

9 Loans and Advances to Customers (Continued)

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

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Loans to individuals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to individuals others	Loans to small and medium enterprises	Total
Neither past due nor impaired								
1 to 5,000	118	-	604	34,330	182,859	4,151	12	**222,074**
5,000 to 15,000	239	7	816	-	819	1,346	16	**3,243**
15,000 to 100,000	571	67	67	-	260	364	153	**1,482**
100,000 to 200,000	478	-	-	-	-	112	-	**590**
200,000 to 400,000	3,811	-	-	-	-	348	-	**4,159**
400,000 to 1,000,000	4,382	-	-	-	-	-	-	**4,382**
1,000,000 to 2,000,000	4,667	-	-	-	-	-	-	**4,667**
2,000,000 to 3,500,000	7,408	-	-	-	-	-	-	**7,408**
3,500,000 to 5,300,000	10,376	-	-	-	-	-	-	**10,376**
Total neither past due nor impaired	**32,050**	**74**	**1,487**	**34,330**	**183,938**	**6,321**	**181**	**258,381**
Past due but not impaired								
- less than 30 days overdue	1,989	-	216	1,536	10,031	383	67	**14,222**
- 30 to 90 days overdue	5,395	-	267	853	4,267	291	43	**11,116**
Total past due but not impaired	**7,384**	**-**	**483**	**2,389**	**14,298**	**674**	**110**	**25,338**
Loans individually and collectively determined to be impaired (gross)								
- 90 to 180 days overdue	3,036	16	162	797	4,293	532	41	**8,877**
- 180 to 360 days overdue	500	21	269	182	5,101	1,886	178	**8,137**
- over 360 days overdue	82	34	1,003	4	451	163	417	**2,154**
Total individually and collectively impaired loans (gross)	**3,618**	**71**	**1,434**	**983**	**9,845**	**2,581**	**636**	**19,168**
Less impairment provisions	**(57)**	**(3)**	**(467)**	**(1,135)**	**(11,977)**	**(2,818)**	**(139)**	**(16,596)**
Total loans and advances to customers	**42,995**	**142**	**2,937**	**36,568**	**196,104**	**6,758**	**788**	**286,291**

At 31 December 2013, interest accrual on individually impaired loans was GEL 2,751 thousand (2012: GEL 6,192 thousand).

9 Loans and Advances to Customers (Continued)

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

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Loans to individuals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to individuals others	Loans to small and medium enterprises	Total
Neither past due nor impaired								
1 to 5,000	148	8	1,485	20,207	115,992	5,465	19	**143,324**
5,000 to 15,000	174	19	2,005	-	815	434	82	**3,529**
15,000 to 100,000	762	146	374	-	179	93	256	**1,810**
100,000 to 200,000	2,233	-	-	-	-	-	-	**2,233**
200,000 to 400,000	3,117	-	-	-	-	-	-	**3,117**
400,000 to 1,000,000	5,061	-	-	-	-	-	-	**5,061**
1,000,000 to 2,000,000	7,284	-	-	-	-	-	-	**7,284**
2,000,000 to 3,100,000	4,893	-	-	-	-	-	-	**4,893**
3,100,000 to 5,300,000	19,540	-	-	-	-	-	-	**19,540**
Total neither past due nor impaired	**43,212**	**173**	**3,864**	**20,207**	**116,986**	**5,992**	**357**	**190,791**
Past due but not impaired								
- less than 30 days overdue	668	35	550	848	10,597	65	59	**12,822**
- 30 to 90 days overdue	859	134	374	552	5,423	33	15	**7,390**
Total past due but not impaired	**1,527**	**169**	**924**	**1,400**	**16,020**	**98**	**74**	**20,212**
Loans individually and collectively determined to be impaired (gross)								
- 90 to 180 days overdue	40	-	479	603	7,311	71	150	**8,654**
- 180 to 360 days overdue	171	-	918	245	18,251	35	682	**20,302**
- over 360 days overdue	569	33	1,003	1	300	147	1,271	**3,324**
Total individually and collectively impaired loans (gross)	**780**	**33**	**2,400**	**849**	**25,862**	**253**	**2,103**	**32,280**
Less impairment provisions	**(214)**	**(1)**	**(1,190)**	**(1,034)**	**(34,158)**	**(84)**	**(644)**	**(37,325)**
Total loans and advances to customers	**45,305**	**374**	**5,998**	**21,422**	**124,710**	**6,259**	**1,890**	**205,958**

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 reporting date. 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 and collectively impaired loans as a result of this policy and the portfolio impairment methodology.

9 Loans and Advances to Customers (Continued)

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	
In thousands of Georgian Lari	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	41,367	140,437	1,628	309
Mortgage loans	110	501	32	-
Loans to individuals – consumer loans	28,154	45,326	8,414	8,284
Loans to individuals – auto	2,561	7,304	375	151
Loans to individuals – cards	-	-	196,104	-
Loans to individuals – others	1,004	2,275	5,754	46
Loans to small and medium enterprises	768	10,176	20	19

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Georgian Lari	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	45,139	95,603	166	24
Mortgage loans	341	1,653	33	-
Loans to individuals – consumer loans	19,220	36,199	2,202	2,089
Loans to individuals – auto	5,772	18,978	226	-
Loans to individuals – cards	-	-	124,710	-
Loans to individuals – others	152	801	6,107	2
Loans to small and medium enterprises	1,879	44,343	11	-

Interest rate analysis of loans and advances to customers is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

10 Finance Lease Receivables

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Finance lease receivables - auto	2,301	-
Total finance lease	**2,301**	**-**

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Gross investment in finance leases, receivable:		
Less than 1 year	1,177	-
From 1 to 5 years	2,081	-
Unearned future finance income on finance leases	(957)	
Net investment in finance lease	**2,301**	**-**

11 Finance Lease Receivables (Continued)

In thousands of Georgian Lari	31 December 2013	31 December 2012
Net investment in finance leases, receivable		
Less than 1 year	780	-
From 1 to 5 years	1,521	-
Net investment in finance leases	**2,301**	-

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Finance lease receivables	2,301	3,146	-	-

11 Investment Securities Held to Maturity

In thousands of Georgian Lari	31 December 2013	31 December 2012
Georgian government bonds	8,893	-
Total investment securities held to maturity	**8,893**	**-**

The movement in investment securities held to maturity is as follows:

In thousands of Georgian Lari	Note	31 December 2013	31 December 2012
Gross amount at 1 January		**-**	-
Additions		8,893	-
Gross amount at 31 December		**8,893**	**-**

The debt securities are not collateralized. They have maturity till March 2014 and interest rate of 4%.

12 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Premises	Office and computer equipment	Fixtures and fittings	Vehicles	Lease-hold improve-ments	Total premises and equipment	Computer software licences	Total
Cost at 1 January 2012	2,464	15,393	7,467	612	2,649	**28,585**	549	**29,134**
Accumulated depreciation at 1 January 2012	(59)	(8,752)	(4,130)	(161)	(639)	**(13,741)**	(324)	**(14,065)**
Carrying amount at 1 January 2012	**2,405**	**6,641**	**3,337**	**451**	**2,010**	**14,844**	**225**	**15,069**
Additions	390	360	7,582	183	1,173	**9,688**	-	**9,688**
Disposals - at cost	(19)	(27)	(165)	(148)	(450)	**(809)**	-	**(809)**
Disposals - accumulated depreciation	-	21	137	62	400	**620**	-	**620**
Depreciation charge	(66)	(390)	(2,009)	(48)	(1,245)	**(3,758)**	(61)	**(3,819)**
Cost at 31 December 2012	2,835	15,726	14,884	647	3,372	**37,464**	549	**38,013**
Accumulated depreciation at 31 December 2012	(125)	(9,121)	(6,002)	(147)	(1,484)	**(16,879)**	(385)	**(17,264)**
Carrying amount at 31 December 2012	**2,710**	**6,605**	**8,882**	**500**	**1,888**	**20,585**	**164**	**20,749**
Additions	126	237	1,489	555	559	**2,966**	1	**2,967**
Disposals - at cost	(192)	(7)	(949)	(98)	(725)	**(1,971)**	-	**(1,971)**
Disposals - accumulated depreciation	4	2	875	81	674	**1,636**	-	**1,636**
Depreciation charge	(61)	(704)	(2,652)	(210)	(1,140)	**(4,767)**	(60)	**(4,827)**
Cost at 31 December 2013	2,769	15,956	15,424	1,104	3,206	**38,459**	550	**39,009**
Accumulated depreciation at 31 December 2013	(182)	(9,823)	(7,779)	(276)	(1,950)	**(20,010)**	(445)	**(20,455)**
Carrying amount at 31 December 2013	**2,587**	**6,133**	**7,645**	**828**	**1,256**	**18,449**	**105**	**18,554**

The management considers that the fair value of the buildings has not changed significantly in 2013 and 2012 therefore no revaluation has been performed as at 31 December 2012 and 31 December 2013.

The monitoring of market was carried out by an independent Ukrainian firm of valuers, PB-Consulting, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category. The basis used for the appraisal was market value. Fair values were estimated using appropriate valuation techniques. Valuation is based on observable market prices in an active market.

13 Other Financial and Insurance Assets

In thousands of Georgian Lari	Note	31 December 2013	31 December 2012
Insurance receivables		2,974	4,631
Restricted cash		4,129	3,698
Receivables on credit card services		1,814	2,984
Financial derivatives	29	2,196	14
Accrued income receivables		60	60
Investment securities available for sale		54	54
Other receivables		2,890	2,686
Less: Provision for impairment		(3,823)	(2,701)
Total other financial and insurance assets		**10,294**	**11,426**

Restricted cash represents mandatory placement for service accounts. The Group does not have the right to use these funds for the purposes of funding its own activities.

Movements in the provision for impairment of other financial and insurance assets during 2013 are as follows:

In thousands of Georgian Lari	Insurance Receivables	Receivables on credit card services	Other receivables	Total
Provision for impairment at 1 January 2013	**314**	**7**	**2,380**	**2,701**
Provision for impairment during the year	818	28	276	**1,122**
Provision for impairment at 31 December 2013	**1,132**	**35**	**2,656**	**3,823**

Movements in the provision for impairment of other financial and insurance assets during 2012 are as follows:

In thousands of Georgian Lari	Insurance Receivables	Receivables on credit card services	Other receivables	Total
Provision for impairment at 1 January 2012	**314**	**134**	**384**	**832**
(Recovery of)/provision for impairment during the year	-	(127)	1,996	**1,869**
Provision for impairment at 31 December 2012	**314**	**7**	**2,380**	**2,701**

The Group holds investment securities available for sale which is not subject of credit quality.

13 Other Financial and Insurance Assets (Continued)

Analysis by credit quality of other financial and insurance assets outstanding at 31 December 2013 is as follows:

In thousands of Georgian Lari	**Insurance receivables**	**Restricted cash**	**Receivables on credit card services**	**Financial derivatives**	**Accrued income receivables**	**Other receivables**	**Total**
-Neither past due nor impaired							
Rated(Aa3, A2)	-	4,129	-	-	-	-	4,129
Unrated	-		-	2,196	60	26	2,282
Total neither past due nor impaired	-	**4,129**	**-**	**2,196**	**60**	**26**	**6,411**
Collectively impaired	2,974	-	1,814	-	-	2,864	7,652
Total	**2,974**	**4,129**	**1,814**	**2,196**	**60**	**2,890**	**14,063**
Less impairment provision	(1,132)	-	(35)	-	-	(2,656)	**(3,823)**
Total other financial and insurance assets	**1,842**	**4,129**	**1,779**	**2,196**	**60**	**234**	**10,240**

Analysis by credit quality of other financial and insurance assets outstanding at 31 December 2012 is as follows:

In thousands of Georgian Lari	**Insurance receivables**	**Restricted cash**	**Receivables on credit card services**	**Financial derivatives**	**Accrued income receivables**	**Other receivables**	**Total**
-Neither past due nor impaired							
Rated(Aa3, A2)	-	3,698	-	-	-	-	3,698
Unrated	-	-	-	14	60	-	74
Total neither past due nor impaired	**-**	**3,698**	**-**	**14**	**60**	**-**	**3,772**
Collectively impaired	4,631	-	2,984	-	-	2,686	**10,301**
Total	**4,631**	**3,698**	**2,984**	**14**	**60**	**2,686**	**14,073**
Less impairment provision	(314)	-	(7)	-	-	(2,380)	**(2,701)**
Total other financial and insurance assets	**4,317**	**3,698**	**2,977**	**14**	**60**	**306**	**11,372**

14 Other Assets

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Receivable from insurance regress claims	2,451	2,458
Other tax prepayment	560	608
Repossessed assets	342	615
Prepayments for services	275	572
Prepayments for premises and equipment	241	774
Inventory	-	323
Other	68	137
Less: Provision for impairment	(2,467)	(2,470)
Total other assets	**1,470**	**3,017**

14 Other Assets (Continued)

Repossessed assets represent real estate acquired by the Group in settlement of overdue loans.

All of the above assets are expected to be recovered more than twelve months after the year-end except for prepayments for services of GEL 275 thousand (2012: GEL 572 thousand).

Movements in the provision for impairment of other assets during 2013 are as follows:

In thousands of Georgian Lari	Insurance receivable from regress and other	Prepayments for services	Total
Provision for impairment at 1 January 2013	2,464	6	**2,470**
Reversal of provision for impairment during the year	(3)	-	**(3)**
Provision for impairment at 31 December 2013	**2,461**	**6**	**2,467**

Movements in the provision for impairment of other assets during 2012 are as follows:

In thousands of Georgian Lari	Insurance receivable from regress and other	Prepayments for services	Total
Provision for impairment at 1 January 2012	2,396	88	**2,484**
Provision charge/(reversal of provision) for impairment during the year	68	(82)	**(14)**
Provision for impairment at 31 December 2012	**2,464**	**6**	**2,470**

15 Non-Current Assets Held for Sale

In November 2013 management approved a plan to sell assets of Wetzel Plaza. The Group is actively marketing these assets and expects the sale to complete by June 2014.

Major classes of non-current assets classified as held for sale (or disposal groups) are as follows:

In thousands of Georgian Lari	31 December 2013	31 December 2012
Assets of a disposal group held for sale:		
Cash and cash equivalents	-	42
Due from other banks	42	54
Current income tax prepayment	228	228
Deferred income tax asset	255	-
Intangible assets	8	-
Premises and equipment	2,396	4,176
Total non-current assets (or disposal groups) held for sale	**2,930**	**4,500**

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In thousands of Georgian Lari	31 December 2013	31 December 2012
Due to other banks	1,500	1,142
Other borrowed funds	-	209
Deferred income tax liability	-	12
Other Liabilities	99	60
Total liabilities directly associated with disposal groups held for sale	**1,599**	**1,423**

Loss from non-current asset held for sale totalling GEL 1,744 thousand is mainly represented by impairment of premises and equipment.

16 Due to Other Banks

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Short-term placements of other banks	61,089	65,644
Long-term loans from other banks	5,273	58,309
Long-term loan from Parent Bank	597	855
Correspondent accounts and overnight placements of other banks	484	88
Total due to other banks	**67,443**	**124,896**

At 31 December 2013 the Group had outstanding aggregate balance due to one bank of GEL 61,089 thousand (2012: GEL 54,897 thousand) or 91% (2012: 47%) of total due to other bank balances. Refer to Note 34.

At 31 December 2013 the estimated fair value of due to other banks was GEL 67,443 thousand (2012: GEL 124,896 thousand). Refer to Note 32. Information on related party balances is disclosed in Note 34.

17 Customer Accounts

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
State and public organisations		
- Current/settlement accounts	4,651	3,856
- Term deposits	84	12
Other legal entities		
- Current/settlement accounts	60,139	62,287
- Term deposits	98,180	18,854
Individuals		
- Current/demand accounts	14,153	9,642
- Term deposits	115,598	79,472
Total customer accounts	**292,805**	**174,123**

Economic sector concentrations within customer accounts are as follows:

	31 December 2013		**31 December 2012**	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	129,751	44%	89,114	51%
Services	77,062	26%	65,503	38%
Agriculture	35,168	12%	1,029	1%
Trade	34,039	11%	1,840	1%
Manufacturing	9,681	3%	12,292	7%
Transport and communication	173	0%	332	0%
Other	6,931	2%	4,013	2%
Total customer accounts	**292,805**	100%	**174,123**	100%

At 31 December 2013 the Group had 2 customers (2012: 1 customer) with balances above GEL 30,000 thousand (2012: GEL 50,000 thousand). The aggregate balance of these customers was GEL 64,970 thousand (2012: GEL 51,366 thousand) or 22% (2012: 29%) of total customer accounts.

As of 31 December 2013 the Group maintained customer deposit balances of GEL 21,974 thousand (2012: GEL 26,200 thousand) which were blocked by the Group as collateral for loans granted by the Group, refer to Note 9.

Interest rate analysis of customer accounts is disclosed in Note 28. Fair value is disclosed in Note 32. Information on related party balances is disclosed in Note 34.

18 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of Georgian Lari	**Potential legal liabilities**	**Guarantees**	**Total**
Carrying amount at 1 January 2012	**-**	**222**	**222**
Unused amounts reversed	-	(71)	**(71)**
Carrying amount at 31 December 2012	**-**	**151**	**151**
Accrued provisions	49	-	**49**
Unused amounts reversed		(7)	**(7)**
Carrying amount at 31 December 2013	**49**	**144**	**193**

Provisions were created for losses incurred on financial guarantees on portfolio basis.

19 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Settlement on money transfer operations	4,165	3,894
Insurance loss reserves	1,803	962
Debit or credit card payables	132	76
Other accrued liabilities	57	54
Total other financial liabilities	**6,157**	**4,986**

20 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Reserve for unearned premiums	2,113	6,648
Accrued employee benefit costs	2,110	1,710
Other	92	-
Total other liabilities	**4,315**	**8,358**

21 Subordinated Debt

Subordinated debt outstanding at 31 December 2013 is as follows:

In thousands of Georgian Lari	**Currency**	**Due**	**Amount**
Loan 1	USD	31-Jan-18	2,521
Loan 2	USD	31-Jan-18	9,452
Loan 3	USD	31-Jan-18	12,603
Total			**24,576**

21 Subordinated Debt (Continued)

Subordinated debt outstanding at 31 December 2012 is as follows:

In thousands of Georgian Lari	Currency	Due	Amount
Loan 1	USD	31-Dec-18	2,447
Loan 2	USD	31-Dec-18	9,179
Loan 3	USD	31-Dec-18	12,240
Total			**23,866**

Subordinated debt represents long term borrowing agreements with Parent Bank, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments.

In 2008 the Group received loans from its Parent Bank with annual interest rate 13%.

On 25 December 2009 contractual interest rates on subordinated loans were renegotiated and reduced to 3% p.a., effective retrospectively starting with the date of issue. As the renegotiated contractual interest rate on the subordinated loans was lower than market interest rate, fair value adjustment has been recorded by application of the market rate of 12% effective at the loan restructuring date. The fair value gain on restructuring in the amount of GEL 11,783 thousand net of tax was recognised as additional paid-in capital.

In January 2012 the subordinated debt had maturity date extended from December 2015 to January 2018 without change of contractual interest rate and new financial instrument was recognised at fair value. The fair value gain on restructuring in the amount of GEL 1,684 thousand net of tax was recognised as additional paid-in capital. Market rate of 10% was determined at loan restructuring date.

In January 2013 contractual interest rates on subordinated loans were further renegotiated and reduced to 1.5% p.a., the renegotiated contractual interest rate on the subordinated loans was lower than market interest rate, fair value adjustment has been recorded by application of the market rate of 10% effective at the loan restructuring date. The fair value gain on restructuring in the amount GEL 2,133 thousand net of tax was recognised as additional paid-in capital.

Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

22 Share Capital

In thousands of Georgian Lari except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2012	**926,200**	**92,620**	**4,308**	**96,928**
At 31 December 2012	**926,200**	**92,620**	**4,308**	**96,928**
New shares issued	166,110	16,611	-	**16,611**
At 31 December 2013	**1,092,310**	**109,231**	**4,308**	**113,539**

The total authorised number of ordinary shares is 1,092,310 shares (2012: 926,200 shares) with a par value of GEL 100 per share (2012: GEL 100 per share). All issued ordinary shares are fully paid.

In December 2013 the Bank issued an additional 166,110 ordinary shares with nominal amount of GEL 100 per share.

Each ordinary share carries one vote.

23 Interest Income and Expense

In thousands of Georgian Lari	31 December 2013	31 December 2012
Interest income		
Loans and advances to individuals	56,467	75,170
Loans and advances to legal entities	9,126	5,547
Due from other banks	1,482	5,697
Lease income	176	-
Investment securities held to maturity	47	-
Total interest income	**67,298**	**86,414**
Interest expense		
Term deposits of individuals	10,536	7,629
Current/settlement accounts	9,859	9,795
Due to other banks	8,144	13,332
Term deposits of legal entities	5,126	1,847
Subordinated debt	2,226	3,383
Finance lease	77	-
Total interest expense	**35,968**	**35,986**
Net interest income	**31,330**	**50,428**

Interest income includes GEL 2,751 thousand (2012: GEL 6,192 thousand) interest income, recognised on impaired loans to customers.

24 Fee and Commission Income and Expense

In thousands of Georgian Lari	31 December 2013	31 December 2012
Fee and commission income		
- Cash transactions and collection	3,100	209
- Settlement transactions	2,939	4,185
- Guarantees issued	297	420
- Other	421	599
Total fee and commission income	**6,757**	**5,413**
Fee and commission expense		
- Settlement transactions	793	225
- Cash transactions	183	76
- Other	207	940
Total fee and commission expense	**1,183**	**1,241**
Net fee and commission income	**5,574**	**4,172**

25 Other Operating Income

In thousands of Georgian Lari	31 December 2013	31 December 2012
Net insurance premiums earned	8,327	4,459
Income from security services	1,188	709
Income from regress	35	12
Other	593	459
Total other operating income	**10,143**	**5,639**

Insurance premiums represents the Group's subsidiary's income which is involved in insurance business. Income from security services relates to the Group's subsidiary's income which provides private security services.

26 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	31 December 2013	31 December 2012
Staff costs		19,901	18,203
Operating lease expense for premises		5,869	6,431
Net insurance claims incurred		5,808	5,622
Depreciation of premises and equipment	11	4,767	3,758
Office costs		2,062	480
Utilities and office supplies		1,638	1,667
Communications and information services		1,458	1,480
Advertising and marketing services		719	1,306
Professional services		556	430
Other insurance expenses		525	584
Security services		323	336
Taxes other than on income		236	48
Travel expenses		209	313
Amortisation of software	11	60	61
Other		3,143	1,493
Total administrative and other operating expenses		**47,274**	**42,212**

27 Income Taxes

Income tax expense comprises the following:

In thousands of Georgian Lari	31 December 2013	31 December 2012
Current tax charge	220	59
Deferred tax credit	(616)	(1,827)
Income tax credit for the year	**(396)**	**(1,768)**

27 Income Taxes (Continued)

The income tax rate applicable to the majority of the Group's income in 2013 is 15% (2012: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	31 December 2013	31 December 2012
Profit/(Loss) before tax	24,649	(26,540)
Theoretical tax charge/(credit) at statutory rate	3,697	(3,981)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	253	102
- Non-taxable income	-	(365)
Imputed taxable income on waived accrued interest income that was previously impaired	228	244
Unrecognised tax loss carry forwards	-	2,232
Utilisation of previously unrecognised tax loss carry forwards	(4,574)	-
Income tax credit for the year	**(396)**	**(1,768)**

The Group utilised accumulated loss of previous years in the amount of GEL 30,493 thousand.

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%).

In thousands of Georgian Lari	31 December 2012	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax profit/loss carry forwards				
Cash and cash equivalents	-	8	-	8
Premises and equipment	(232)	488	-	256
Loan impairment provision	96	29	-	125
Investment in joint venture	155	392	-	547
Customer accounts	34	(21)	-	13
Subordinated debt	(253)	-	(320)	(573)
Other financial and Insurance assets	287	242	-	529
Other financial liabilities	11	(391)		(380)
Other liabilities	255	(131)	-	124
Net deferred tax asset	**353**	**616**	**(320)**	**649**
Recognised net deferred tax asset	**365**	**604**	**(320)**	**649**
Recognised net deferred tax liability	**(12)**	**12**	**-**	**-**

27 Income Taxes (Continued)

In the context of the Group's current structure and Georgian tax 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.

In thousands of Georgian Lari	31 December 2011	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2012
Tax effect of deductible/(taxable) temporary differences and tax profit/loss carry forwards				
Cash and cash equivalents	7	(7)	-	-
Premises and equipment	(609)	377	-	(232)
Loan impairment provision	(1,147)	1,243	-	96
Investment in joint venture	150	5	-	155
Customer accounts	7	27	-	34
Subordinated debt	(98)	98	(253)	(253)
Other financial and Insurance assets	265	22	-	287
Other financial liabilities	12	(1)	-	11
Other liabilities	192	63	-	255
Net deferred tax liability	**(1,221)**	**1,827**	**(253)**	**353**
Recognised net deferred tax asset	**324**	**41**	**-**	**365**
Recognised net deferred tax liability	**(1,545)**	**1,786**	**(253)**	**(12)**

28 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, insurance risk, 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 to minimise operational and legal risks.

Risk Management Bodies. Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee"). Other bodies responsible for risk management within the Group include the Treasury, the Financial Risk Management Department and Risk Control Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Credit Committee. The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Heads of the Business, the Head of the Finance and Risk Management Department and the Head of the Treasury Department, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy.

Treasury. Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial and Risk Management Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

The Financial and Risk Management Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBG, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBG and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial and Risk Management Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

28 Financial Risk Management (Continued)

Risk Control Department analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, reviews the lending authority limits of branch and sub-branch heads, analyses lending policies of the branches and sub-branches and provides the Credit Committee with suggestions for improving its policies. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBG as well as the Group's internal guidelines (including, among others, transaction limits and balance sheet structural limits for branches and sub-branches).

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.

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.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. The formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers, or group of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans. The Group has collateral policy based on a thorough review and assessment of the value of collateral.

A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as of the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

Credit Committee on a monthly basis reviews the effectiveness of the credit policies for each business division and analyses information on the levels of non-performing loans.

A review of the lending and deposit-taking policy of each branch is presented to the Credit Committee twice per month. The following information on the Bank's branch loan portfolio is considered by the Credit Committee:

- information on the major risks taken (being the ten largest exposures in the portfolio);
- information on the ten largest problem loans.

28 Financial Risk Management (Continued)

Loan Approval Procedure. The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBG regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral. The Group sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of service centres are set twice per year by the Financial and Risk Department in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or sub-branch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or sub-branch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Group's credit procedures. Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The 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.

Loan Monitoring. The Group's IT systems allow the Management monitoring loans' performance on-line. The Group reassesses the credit risk on each loan on an on-going basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in currency and interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which 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 Group is exposed to effects of fluctuation in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments. The main element in the Group's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Group uses every effort to match its assets and liabilities by currency.

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.

28 Financial Risk Management (Continued)

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

In thousands of Georgian Lari	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	338,746	(181,325)	(85,328)	72,093	190,618	(122,650)	(43,080)	24,888
US Dollars	103,656	(192,991)	87,524	(1,811)	151,445	(193,929)	43,094	610
Euros	16,332	(16,557)	-	(225)	11,099	(11,184)	-	(85)
Russian Roubles	489	(100)	-	389	489	(100)	-	389
Ukrainian Hryvnia	52	-	-	52	52	-	-	52
Other	95	(8)	-	87	95	(8)	-	87
Total	**459,370**	**(390,981)**	**2,196**	**70,585**	**353,798**	**(327,871)**	**14**	**25,941**

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

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the reporting date relative to the functional currency of the respective Group entities, with all other variables held constant:

In thousands of Georgian Lari	At 31 December 2013 **Impact on profit or loss**	At 31 December 2012 **Impact on profit or loss**
US Dollar strengthening by 10%	(154)	52
US Dollar weakening by 10%	154	(52)
Euro strengthening by 5%	(10)	(4)
Euro weakening by 5%	10	4
Russian Rouble strengthening by 5%	17	17
Russian Rouble weakening by 5%	(17)	(17)
Ukrainian Hryvnia strengthening by 5%	2	2
Ukrainian Hryvnia weakening by 5%	(2)	(2)
Other strengthening by 5%	4	4
Other weakening by 5%	(4)	(4)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

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 daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on grouping assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity.

28 Financial Risk Management (Continued)

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. The Group has no financial assets or liabilities bearing floating interest rate.

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
31 December 2013						
Total financial assets	192,942	43,048	133,807	91,506	263	**461,566**
Total financial liabilities	121,947	41,992	196,515	30,527	-	**390,981**
Net interest sensitivity gap at 31 December 2013	**70,995**	**1,056**	**(62,708)**	**60,979**	**263**	**70,585**
31 December 2012						
Total financial assets	173,401	28,266	71,273	80,497	54	**353,491**
Total financial liabilities	103,693	76,896	54,303	92,979	-	**327,871**
Net interest sensitivity gap at 31 December 2012	**69,708**	**(48,630)**	**16,970**	**(12,482)**	**54**	**25,620**

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	At 31 December 2013			At 31 December 2012		
In % p.a.	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.07	0.0
Due from other banks	3.08	-	-	-	-	-
Loans and advances to customers						
- Corporate loans	13.19	13.80	-	12.00	13.73	12.50
- Mortgage loans	18.72	14.16	15.78	18.72	14.16	15.78
- Loans to individuals – cards	28.66	26.59	26.02	36.00	23.13	35.62
- Loans to individuals – consumer loans	27.65	-	-	20.40	-	-
- Loans to individuals – auto	-	15.46	-	-	18.00	-
- Loans to individuals – others	15.31	13.94	12.08	24.00	12.50	-
- Loans to small and medium enterprises	17.23	11.77	0.00	15.00	23.00	16.00
Liabilities						
Due to other banks	8.73	12.63	-	-	7.08	-
Customer accounts						
- term deposits	11.08	8.82	8.08	14.71	9.86	9.90
Subordinated loan	-	1.50	-	-	3.00	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

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:

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	102,322	155	3,367	**105,844**
Mandatory cash balances with NBG	28,090	-	-	**28,090**
Due from other banks	19,853	-	-	**19,853**
Loans and advances to customers	243,900	-	42,391	**286,291**
Finance lease receivables	2,301	-	-	**2,301**
Investment securities held to maturity	8,893	-	-	**8,893**
Other financial assets	6,404	3,890	-	**10,294**
Total financial assets	**411,763**	**4,045**	**45,758**	**461,566**
Liabilities				
Due to other banks	5,272	-	62,171	**67,443**
Customer accounts	274,638	-	18,167	**292,805**
Subordinated debt	-	-	24,576	**24,576**
Other financial liabilities	5,573	-	584	**6,157**
Total financial liabilities	**285,483**	**-**	**105,498**	**390,981**
Net position in on-balance sheet financial instruments	**126,280**	**4,045**	**(59,740)**	**70,585**
Credit related commitments	**14,787**	**-**	**-**	**14,787**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Balances with Georgian counterparties actually outstanding to/from offshore companies of these Georgian counterparties are allocated to the caption "Georgia".

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

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	61,874	172	54,522	**116,568**
Mandatory cash balances with NBG	19,090	-	-	**19,090**
Due from other banks	756	-	-	**756**
Loans and advances to customers	172,635	-	33,323	**205,958**
Other financial assets	7,566	3,553	-	**11,119**
Total financial assets	**261,921**	**3,725**	**87,845**	**353,491**
Liabilities				
Due to other banks	68,530	54,897	1,469	**124,896**
Customer accounts	164,661	-	9,462	**174,123**
Subordinated debt	-	-	23,866	**23,866**
Other financial liabilities	4,973	-	13	**4,986**
Total financial liabilities	**238,164**	**54,897**	**34,810**	**327,871**
Net position in on-balance sheet financial instruments	**23,757**	**(51,172)**	**53,035**	**25,620**
Credit related commitments	**19,947**	**-**	**-**	**19,947**

28 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Management Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirement of NBG. The limit is defined by NBG for average liquidity ratio calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months. The ratio was 38.83% at 31 December 2013 (2012: 40.29%), above the prudential minimum limit (30%) set by NBG.

The Group's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Group's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Group's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

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 trading 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 the reporting dates by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount disclosed in consolidated statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. 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 liabilities at 31 December 2013 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities					
Due to other banks	1,743	1,251	68,411	611	**72,016**
Customer accounts	111,639	44,590	140,404	6,343	**302,976**
Subordinated debt	93	162	725	33,347	**34,327**
Other financial liabilities	6,287	-	-	-	**6,287**
Gross settled swaps					
- outflows	13,664	13,999	57,665	-	**85,328**
Financial guarantees	775	1,157	888	4,109	**6,929**
Other credit related commitments	32	5,720	6,794	-	**12,546**
Total potential future payments for financial obligations	**134,233**	**66,879**	**274,887**	**44,410**	**520,409**

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

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities					
Due to other banks	12,049	55,986	5,645	62,930	**136,610**
Customer accounts	89,124	23,388	57,996	11,321	**181,829**
Subordinated debt	93	162	725	33,347	**34,327**
Other financial liabilities	5,061	-	-	-	**5,061**
Gross settled swaps					
- outflows	53,958	-	48,913	-	**102,871**
Financial guarantees	222	464	2,682	4,034	**7,402**
Other credit related commitments	32	5,720	6,794	-	**12,546**
Total potential future payments for financial obligations	**160,539**	**85,720**	**122,755**	**111,632**	**480,646**

Payments in respect of gross settled swaps will be accompanied by related cash inflows as disclosed in Note 31.

28 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors remaining contractual maturities, which may be summarised as follows at 31 December 2013:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	105,844	-	-	-	-	**105,844**
Mandatory cash balances with NBG	28,090	-	-	-	-	**28,090**
Due from other banks	19,556	-	298	-	-	**19,854**
Loans and advances to customers	28,529	37,084	131,462	89,216	-	**286,291**
Finance lease receivables	-	-	11	2,290	-	**2,301**
Investment securities held to maturity	2,929	5,964	-	-	-	**8,893**
Other financial assets	8,205	-	2,035	-	54	**10,294**
Total financial assets	**193,153**	**43,048**	**133,806**	**91,506**	**54**	**461,567**
Liabilities						
Due to other banks	5,757	-	61,089	597	-	**67,443**
Customer accounts	110,082	41,943	135,426	5,354	-	**292,805**
Subordinated debt	50	95	441	2,342	21,648	**24,576**
Other financial liabilities	6,157	-	-	-	-	**6,157**
Financial guarantees	6,929	-	-	-	-	**6,929**
Other credit related commitments	32	5,720	6,794	-	-	**12,546**
Total potential future payments for financial obligations	**129,007**	**47,758**	**203,750**	**8,293**	**21,648**	**410,456**
Net liquidity (gap)/surplus at 31 December 2013	**64,146**	**(4,710)**	**(69,944)**	**83,213**	**(21,594)**	**51,111**
Cumulative liquidity (gap)/surplus at 31 December 2013	**64,146**	**59,436**	**(10,508)**	**72,705**	**51,111**	

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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment 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 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 analysis by remaining contractual maturities may be summarised as follows at 31 December 2012:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	116,568	-	-	-	-	**116,568**
Mandatory cash balances with NBG	19,090	-	-	-	-	**19,090**
Due from other banks	491	-	265	-	-	**756**
Loans and advances to customers	31,380	28,266	65,815	80,497	-	**205,958**
Other financial assets	6,179	-	5,193	-	54	**11,426**
Total financial assets	**173,708**	**28,266**	**71,273**	**80,497**	**54**	**353,798**
Liabilities						
Due to other banks	10,529	54,897	295	59,175	-	**124,896**
Customer accounts	88,252	21,925	54,008	9,938	-	**174,123**
Subordinated debt	50	95	441	2,342	20,938	**23,866**
Other financial liabilities	4,912	-	-	-	74	**4,986**
Financial guarantees	7,402	-	-	-	-	**7,402**
Other credit related commitments	32	5,720	6,794	-	-	**12,546**
Total potential future payments for financial obligations	**111,177**	**82,637**	**61,538**	**71,455**	**21,012**	**347,819**
Net liquidity (gap)/surplus at 31 December 2012	**62,531**	**(54,371)**	**9,735**	**9,042**	**(20,958)**	**5,979**
Cumulative liquidity (gap)/surplus at 31 December 2012	**62,531**	**8,160**	**17,895**	**26,937**	**5,979**	

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable for each individual insurance contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Group manages insurance risk by means of established internal procedures which include:

- Establishment of underwriting procedures intended for underwriting department to monitor loss performance of the insurance portfolios by lines of business;
- Monitoring by the management of assets and liabilities to try to match the pattern of expected claim payments with the dates of maturity of assets;
- Diversification over several classes of insurance business.

28 Financial Risk Management (Continued)

Estimation of insurance loss reserves

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. IBNR provisions are calculated as 2% of written premiums on health insurance and 5% of written premiums on other types of insurance.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract. Mostly claims are settled within a short period of time, which historically has not exceeded 3 months from the end of the contract term. There are several variables that affect the amount and timing of cash flows from insurance contracts. These mainly relate to the inherent risks of the activities carried out by both corporate and individual contract holders and the risk management procedures they adopted. The compensation paid on insurance contracts in the Group's portfolio primarily consists of monetary awards granted for:

- Insurance of financial risks and bank guarantee;
- health insurance;
- life insurance;
- motor insurance - physical damage to motor vehicles;
- physical damage to property (for property insurance covers); and
- other insurance - personal accident and physical damage suffered by the third parties (caused by the vehicle owners).

In case of claims for financial risks and bank guarantee the Group pays lump-sum that is calculated as the financial loss suffered by default of the debtor to settle obligations to the insured party.

Claims on health insurance policies are lump-sum payments to clinics and pharmacy shops based on the bills provided for services rendered or medicine sold to insured party.

Claims in case of life insurance policies are lump-sum payments to the beneficiary.

In cases of physical damage to motor vehicles the amount of claim payable by the Group is usually equal to the cost of repairs of the damage to a car.

In cases of physical damage to property the amount of claim payable by the Group is usually equal to the cost of repairs of the damaged property.

In case of personal accident the amount of claim payable by the Group is usually rehabilitation expenses that the injured party will incur as a result of the accident.

Diversification

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

All insurance risks disclosed are concentrated in Georgia.

29 Management of Capital

The Group's objectives when managing capital is to comply with the capital requirements set by the NBG. Compliance with capital adequacy ratios set by the National Bank Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Chief Accountant and subsequently submitted to the NBG.

Under the current capital requirements set by the National Bank of Georgia the Bank has to: (a) hold the minimum level of share capital of GEL 12,000 thousand (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 18 (general requirements to banks in Georgia is 12% but NBG set different rate for the Bank due to significant portion of unsecured loans) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of Georgian Lari	**31 December 2013**	**31 December 2012**
Tier 1 capital		
Share capital	109,231	92,620
Share premium	4,308	4,308
Reserves	213	213
Accumulated Deficit	(58,193)	(44,213)
Less: Intangible assets	(77)	(130)
Less: Reserves related to revaluation of Fixed Assets	(1,916)	(1,916)
Total qualifying Tier 1 capital	**53,566**	**50,882**
Tier 2 capital		
Current year profit (loss)	27,246	(14,240)
Revaluation reserves	186	186
Additional capital	4,590	3,916
Subordinated debt	26,783	25,441
Total qualifying Tier 2 capital (limited to 100% of Tier One capital)	**53,566**	**15,303**
Less: Investment in associates	**(8,748)**	**(7,618)**
Total regulatory capital	**98,384**	**58,567**
Risk-weighted assets:		
On-balance sheet	329,774	273,457
Off-balance sheet	9,013	10,961
Total risk-weighted assets	**338,787**	**284,418**
Tier 1 capital ratio (%)	**15.81%**	**17.89%**
Supervisory Capital (%)	**29.04%**	**20.59%**

The Bank complied with NBG capital requirement ratios during 2013 and 2012.

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 and both internal professional advice, the Bank's 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.

Non-compliance with the NBG regulations. The Bank is subject to certain statutory regulations set by the NBG related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Bank including penalties imposed by the NBG. The Bank was not in breach of any capital requirement regulations as of 31 December 2013 and 2012. However, one indicator (ratio of unsecured loans) was breached as at the end of 2013. The non-compliance with such indicators may lead to serious sanctions by the NBG. During 2013 and up to the report issue date no penalties and fines or other adverse actions were imposed by NBG.

30 Contingencies and Commitments (Continued)

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods proceeding the period of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2013 no provision for potential tax liabilities has been recorded.

On 18 December 2013, the instruction on assessment of international controlled operations was approved by the Minister of Finance of Georgia. The instruction provides an implementation guide for transfer pricing rules and principles (together referred to as "TP legislation") introduced by new the Tax Code of Georgia effective from 1 January 2011.

The TP legislations appear to be technically elaborate and aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) and it provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with some related parties and unrelated parties), if the transaction price is not arm's length.

Management believes that it has implemented internal controls to be in compliance with the TP legislation. Given that the practice of implementation of the Georgian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

Capital ***expenditure commitments.*** At 31 December 2013, the Group does not have material contractual capital expenditure commitments.

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 borrowing.

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 and adequate collateral. 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. Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	**Notes**	**31 December 2013**	**31 December 2012**
Guarantees issued		6,660	7,552
Import letters of credit		412	-
Unused credit lines		7,859	12,546
Less: Provision for credit related commitments	16	(144)	(151)
Total credit related commitments, net of provision		**14,787**	**19,947**

30 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

In thousands of Georgian Lari	31 December 2013	31 December 2012
Georgian Lari	3,284	2,844
US Dollars	11,486	16,253
Euros	17	15
Swiss Franc	-	835
Total	**14,787**	**19,947**

Assets pledged and restricted. The Group does not have assets pledged as collateral.

Mandatory reserve balances with NBG in the amount of GEL 28,090 thousand (2012: GEL 19,090 thousand) represent mandatory reserve assets which are not available to finance the Group's day to day operations. Also the Group had restricted cash of GEL 4,129 thousand (2012: GEL 3,698 thousand) placed as cover for cards transactions. The Group does not have the right to use these funds for the purposes of funding its own activities.

31 Derivative Financial Instruments

Foreign exchange and other 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.

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

	2013		2012	
In thousands of Georgian Lari	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps: fair values, at the end of the reporting period date, of				
- USD receivable on settlement (+)	87,524	-	43,094	-
- GEL payable on settlement (-)	(85,328)	-	(43,080)	-
Net fair value of foreign exchange swaps	**2,196**	**-**	**14**	**-**

32 Fair Value Measurements

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:

	31 December 2013		31 December 2012	
In thousands of Georgian Lari	**Level 2**	**Level 3**	**Level 2**	**Level 3**
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Financial derivatives included in other financial assets	2,196	-	14	-
NON-FINANCIAL ASSETS				
- Premises	-	2,587	-	2,710
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**2,196**	**2,587**	**14**	**2,710**

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

	31 December 2013	31 December 2012	Valuation technique	Inputs used
In thousands of Georgian Lari				
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS	**Level 2**	**Level 2**		
Financial derivatives included in other financial assets	2,196	14	Swap model using present value calculations	Observable yield curves
NON-FINANCIAL ASSETS	**Level 3**	**Level 3**		
- Premises	2,587	2,710	Market comparable assets	Comparable prices from less active markets
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**4,783**	**2,724**		

32 Fair Value Measurements (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 at 31 December 2013 are as follows:

In thousands of Georgian Lari	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents and mandatory reserves	**54,506**	**51,338**	**-**	**105,844**
Cash on hand	54,506	-	-	54,506
Cash balances with Central Bank	-	47,532	-	47,532
Correspondent accounts and overnight placements with other banks	-	3,806	-	3,806
Due from other banks	**-**	**19,853**	**-**	**19,853**
Short-term placements with other banks	-	17,849	-	17,849
Reverse sale and repurchase agreements	-	1,993	-	1,993
Guarantee deposits with other banks	-	11	-	11
Loans and advances to customers	**-**	**-**	**284,323**	**286,291**
Corporate loans	-	-	40,809	42,995
Loans to individuals - cards	-	-	196,104	196,104
Loans to individuals - mortgage	-	-	90	142
Loans to individuals - auto	-	-	2,739	2,936
Loans to individuals - consumer	-	-	37,378	36,568
Loans to individuals - other	-	-	6,635	6,758
Loans to small and medium enterprises (SME)	-	-	568	788
Other financial assets	**-**	**5,968**	**2,130**	**8,098**
Insurance receivables	-	-	1,842	1,842
Restricted cash	-	4,129	-	4,129
Receivables on credit card services	-	1,779	-	1,779
Investment securities available for sale	-	-	54	54
Accrued income receivables	-	60	-	60
Other receivables	-	-	234	234
Total financial assets carried at amortised cost	**54,506**	**77,159**	**286,453**	**420,086**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. 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.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. 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).

32 Fair Value Measurements (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value at 31 December 2012 are as follows:

	31 December 2012			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents and mandatory reserves	**29,808**	**86,760**	**-**	**116,568**
Cash on hand	29,808	-	-	29,808
Cash balances with Central Bank	-	29,715	-	29,715
Correspondent accounts and overnight placements with other banks	-	57,045	-	57,045
Due from other banks	**-**	**756**	**-**	**756**
Short-term placements with the NBG	-	756	-	756
Loans and advances to customers	**-**	**-**	**202,745**	**205,958**
Corporate loans	-	-	44,162	45,305
Loans to individuals - cards	-	-	129,963	129,962
Loans to individuals - mortgage	-	-	176	374
Loans to individuals - auto	-	-	5,034	5,998
Loans to individuals - consumer	-	-	21,184	21,422
Loans to individuals - other	-	-	956	1,007
Loans to small and medium enterprises (SME)	-	-	1,270	1,890
Other financial assets	**-**	**6,735**	**4,677**	**11,412**
Insurance receivables	-	-	4,317	4,317
Restricted cash	-	3,698	-	3,698
Receivables on credit card services	-	2,977	-	2,977
Investment securities available for sale	-	-	54	54
Accrued income receivables	-	60	-	60
Other receivables	-	-	306	306
Total financial assets carried at amortised cost	**29,808**	**94,251**	**207,422**	**334,694**

32 Fair Value Measurements (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value at 31 December 2013 are as follows:

	31 December 2013		
In thousands of Georgian Lari	**Level 2**	**Level 3**	**Carrying value**
Financial liabilities			
Due to other banks and other financing institutions	**67,443**	**-**	**67,443**
Short-term placements of other banks	61,089	-	61,089
Long-term loan from other banks	5,273		5,273
Long-term loan from Parent Bank	597	-	597
Correspondent accounts and overnight placements of other banks	484		484
Customer accounts	**78,943**	**213,862**	**292,805**
Term deposits of state and public organisations	-	84	84
Current/settlement accounts of of state and public organisations	4,651	-	4,651
Term deposits of individuals	-	115,598	115,598
Current/demand accounts of individuals	14,153	-	14,153
Current/settlement accounts of legal entities	60,139	-	60,139
Term deposits of legal entities	-	98,180	98,180
Other financial liabilities	**4,354**	**1,803**	**6,157**
Settlement on money transfer operations	4,165		4,165
Insurance loss reserves	-	1,803	1,803
Debit or credit card payables	132	-	132
Other accrued liabilities	57	-	57
Subordinated debt	**24,576**	**-**	**24,576**
Subordinated debt	24,576	-	24,576
Total financial liabilities carried at amortised cost	**175,316**	**215,665**	**390,981**

32 Fair Value Measurements (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value at 31 December 2012 are as follows:

	31 December 2012		
In thousands of Georgian Lari	**Level 2**	**Level 3**	**Carrying value**
Financial liabilities			
Due to other banks and other financing institutions	**124,896**	**-**	**124,896**
Short-term placements of other banks	65,644	-	65,644
Long-term loan from other banks	58,309		58,309
Long-term loan from Parent Bank	855	-	855
Correspondent accounts and overnight placements of other banks	88		88
Customer accounts	**75,785**	**98,338**	**174,123**
Term deposits of state and public organisations	-	12	12
Current/settlement accounts of of state and public organisations	3,856	-	3,856
Term deposits of individuals	-	79,472	79,472
Current/demand accounts of individuals	9,642	-	9,642
Current/settlement accounts of legal entities	62,287	-	62,287
Term deposits of legal entities	-	18,854	18,854
Other financial liabilities	**4,024**	**962**	**4,986**
Settlement on money transfer operations	3,894	-	3,894
Insurance loss reserves	-	962	962
Debit or credit card payables	76	-	76
Other accrued liabilities	54	-	54
Subordinated debt	**23,866**	**-**	**23,866**
Subordinated debt	23,866	-	23,866
Total financial liabilities carried at amortised cost	**228,571**	**99,300**	**327,871**

The fair values 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.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. 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.

33 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 subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of financial assets with measurement categories as of 31 December 2013 and 31 December 2012:

	31 December 2013					31 December 2012			
In thousands of Georgian Lari	**Loans and receiv-ables**	**Availabl e-for-sale assets**	**Assets desig-nated at FVTPL**	**Held to maturi ty**	**Total**	**Loans and receivabl es**	**Available-for-sale assets**	**Assets desig-nated at FVTPL**	**Total**
Cash and cash equivalents	105,844	-	-	-	105,844	116,568	-	-	116,568
Mandatory cash balances with NBG	28,090	-	-	-	28,090	19,090	-	-	19,090
Due from other banks	19,853	-	-	-	19,853	756	-	-	756
Loans and advances to customers	286,291	-	-	-	286,291	205,958	-	-	205,958
Investment securities available for sale	-	54	-	-	54	-	54	-	54
Investment securities held to maturity	-	-		8,893	8,893	-	-	-	-
Finance lease receivables	2,301	-	-	-	2,301	-	-	-	-
Other Financial Assets	8,044	-	-	-	8,044	11,358	-	-	11,358
Financial Derivatives	-	-	2,196	-	2,196	-	-	14	14
Total financial assets	**450,423**	**54**	**2,196**	**8,893**	**461,566**	**353,730**	**54**	**14**	**353,798**

As at 31 December 2013 and 2012 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

34 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 key management personnel are General Director and two Deputy Directors.

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

In thousands of Georgian Lari	**Parent bank**	**Companies under control of major shareholders**	**Key management**
Cash and cash equivalents (contractual interest rate: 0%)	2,731	15	-
Loans and advances to customer (contractual interest rate: 3%)	-	1	23
Subordinated debt (contractual interest rate: 1,5%)	24,576	-	-
Customer accounts (contractual interest rate: 0 - 13%)	-	3,066	631
Due to other banks (contractual interest rate: 3 - 13%)	318	61,256	-

At 31 December 2013 the Group's loan taken from non-OECD bank with the carrying value of GEL 61,089 thousand, with annual interest rate 11,5%-13%.

34 Related Party Transactions (Continued)

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

In thousands of Georgian Lari	**Parent bank**	**Companies under control of major shareholders**	**Key management**
Cash and cash equivalents (contractual interest rate: 0%)	53,608	122	-
Loans and advances to customer (contractual interest rate: 3%)	-	6	64
Subordinated debt (contractual interest rate: 3%)	23,866	-	-
Customer accounts (contractual interest rate: 0 - 13%)	-	41	757
Due to other banks (contractual interest rate: 3 - 13%)	11	57,695	-

At 31 December 2012 the Parent Bank pledged guarantee deposit against the Group's loan taken from OECD bank with the carrying value of GEL 54,671 thousand, at 31 December 2013 it was nil.

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

In thousands of Georgian Lari	**Parent bank**	**Companies under control of major shareholders**	**Key management**
Interest income	-	197	-
Interest expense	(2,226)	(7,283)	(3)
Fee and commission income	-	(79)	-

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

In thousands of Georgian Lari	**Parent bank**	**Companies under control of major shareholders**
Interest income	955	237
Interest expense	(1,302)	(4,921)

Key management compensation is presented below:

In thousands of Georgian Lari	**31 December 2013 Expense**	**31 December 2012 Expense**
Short-term benefits:		
- Salaries and bonuses	689	824
Total	689	824

As disclosed in Note 9, during 2013 the Group recognised net gain of GEL 24,190 thousand on sale of credit card loans. The agreement terms were negotiated with the buyer by the Parent Bank.

In December 2011 Unimain Holdings Limited sold 5% of the Bank's shares to the key management of the Bank. The price for the sale of shares was determined based on the net assets value of the Bank. At the same time Unimain Holdings Limited entered into agreements with the same members of management to repurchase these shares, with the repurchase price linked to the net assets value of the Bank. As such, additional remuneration available to key management of the Bank is linked to growth in the net assets value of the Bank. Based on the terms of the agreements the shares are blocked and there is no possibility for the managers to retain the shares or otherwise receive any benefits from them, as the agreements and restriction on shares will be in force until the shares are sold back to the original shareholder.