JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2014
Together with Independent Auditors' Report

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Independent auditor's report

To the shareholders and Supervisory Board of JSC Bank of Georgia -

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

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Bank of Georgia and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year ended 31 December 2014 in accordance with International Financial Reporting Standards.

EY Georgia LLC

17 April 2015

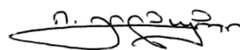
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Assets				
Cash and cash equivalents	7	709,861	1,049,069	750,517
Amounts due from credit institutions	8	418,502	347,261	396,559
Investment securities available-for-sale	9	769,712	519,623	463,960
Loans to customers	10	4,329,795	3,485,407	3,033,667
Finance lease receivables	11	38,519	45,606	71,686
Investments in associates		-	-	2,441
Investment properties	12	190,860	157,707	160,353
Property and equipment	13	588,513	470,669	430,877
Intangible assets		34,432	26,434	23,078
Goodwill	14	49,633	48,720	45,657
Current income tax assets		4,215	4,552	944
Deferred income tax assets		18,530	14,544	14,352
Prepayments		33,503	25,416	41,147
Other assets	16	351,226	329,226	221,042
Total assets		**7,537,301**	**6,524,234**	**5,656,280**
Liabilities				
Amounts due to customers	17	3,473,429	3,117,757	2,693,025
Amounts due to credit institutions	18	1,409,213	1,157,979	1,236,313
Debt securities issued	19	856,695	728,117	420,849
Current income tax liabilities		11,093	2,928	13,818
Deferred income tax liabilities		86,471	66,100	46,184
Provisions	20	4,732	481	683
Other liabilities	16	234,581	206,557	184,224
Total liabilities		**6,076,214**	**5,279,919**	**4,595,096**
Equity	21			
Share capital		36,513	36,513	36,513
Additional paid-in capital		611,238	570,185	561,706
Treasury shares		(1,522)	(2,428)	(3,041)
Other reserves		31,211	22,733	13,717
Retained earnings		728,839	563,407	408,538
Total equity attributable to shareholders of the Group		**1,406,279**	**1,190,410**	**1,017,433**
Non-controlling interests		54,808	53,905	43,751
Total equity		**1,461,087**	**1,244,315**	**1,061,184**
Total liabilities and equity		**7,537,301**	**6,524,234**	**5,656,280**

Signed and authorised for release on behalf of the Board of Directors:

Irakli Gilauri  Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

17 April 2015

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Interest income				
Loans to customers		539,983	522,847	509,339
Investment securities – available-for-sale		39,988	35,371	33,950
Amounts due from credit institutions		6,580	8,423	15,813
Finance lease receivables		8,369	7,466	8,701
		594,920	**574,107**	**567,803**
Interest expense				
Amounts due to customers		(133,865)	(159,028)	(202,484)
Amounts due to credit institutions		(62,560)	(65,161)	(63,483)
Debt securities issued		(54,435)	(35,424)	(16,009)
		(250,860)	**(259,613)**	**(281,976)**
Net interest income before net loss from interest rate swaps		**344,060**	**314,494**	**285,827**
Net loss from interest rate swaps		-	(398)	(1,710)
Net interest income		**344,060**	**314,096**	**284,117**
Fee and commission income		132,455	115,106	109,278
Fee and commission expense		(32,294)	(27,992)	(22,210)
Net fee and commission income	22	**100,161**	**87,114**	**87,068**
Net insurance premiums earned		95,850	129,993	91,176
Net insurance claims incurred		(66,421)	(84,660)	(57,038)
Net insurance revenue	23	**29,429**	**45,333**	**34,138**
Healthcare revenue		125,720	60,013	54,376
Cost of healthcare services		(78,836)	(37,644)	(31,030)
Net healthcare revenue	24	**46,884**	**22,369**	**23,346**
Net real estate revenue	25	15,782	5,898	7,467
Net gain from trading securities and investment securities available-for-sale		376	3,097	2,308
Net gain from revaluation of investment properties	12	1,909	9,788	-
Net gain (loss) from foreign currencies:				
– dealing		44,169	46,330	33,389
– translation differences		6,277	(2,318)	16,182
Other operating income		17,891	13,267	10,093
Other operating non-interest income		**86,404**	**76,062**	**69,439**
Revenue		**606,938**	**544,974**	**498,108**
Salaries and other employee benefits	26	(152,303)	(133,773)	(121,299)
General and administrative expenses	26	(70,830)	(57,916)	(65,686)
Depreciation and amortization		(28,207)	(26,572)	(28,606)
Other operating expenses		(3,751)	(2,366)	(2,221)
Operating expenses		**(255,091)**	**(220,627)**	**(217,812)**
Operating income before cost of credit risk		**351,847**	**324,347**	**280,296**

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2014

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Operating income before cost of credit risk		**351,847**	**324,347**	**280,296**
Impairment charge on loans to customers	10	(45,088)	(41,499)	(39,186)
Impairment charge on finance lease receivables	11	(476)	(2,809)	(495)
Impairment charge on other assets and provisions		(13,456)	(17,494)	(5,036)
Cost of credit risk		**(59,020)**	**(61,802)**	**(44,717)**
Net operating income before non-recurring items		**292,827**	**262,545**	**235,579**
Net non-recurring expense / loss	27	(11,017)	(12,833)	(19,634)
Profit before income tax expense		**281,810**	**249,712**	**215,945**
Income tax expense	15	(35,826)	(35,912)	(33,200)
Profit for the year		**245,984**	**213,800**	**182,745**
Attributable to:				
– shareholders of the Group		238,644	206,748	178,921
– non-controlling interests		7,340	7,052	3,824
		245,984	**213,800**	**182,745**
Earnings per share:	21			
– basic earnings per share		6.9044	6.0573	5.3986
– diluted earnings per share		6.9044	6.0573	5.3474

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Profit for the year		**245,984**	**213,800**	**182,745**
Other comprehensive income (loss)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
– Unrealized revaluation of available-for-sale securities		(4,079)	4,611	2,340
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		(83)	(2,858)	(2,075)
– Gain (loss) from currency translation differences		29,965	8,916	(288)
Income tax effect	15	(123)	(882)	(690)
Net other comprehensive income(loss) to be reclassified to profit or loss in subsequent periods		**25,680**	**9,787**	**(713)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	13	-	1,591	-
Income tax effect	15	-	(213)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**-**	**1,378**	**-**
Other comprehensive income (loss) for the year, net of tax		**25,680**	**11,165**	**(713)**
Total comprehensive income for the year		**271,664**	**224,965**	**182,032**
Attributable to:				
– shareholders of the Group		266,187	217,970	178,549
– non-controlling interests		5,477	6,995	3,483
		271,664	**224,965**	**182,032**

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**
Total comprehensive income	-	-	-	(46)	178,595	178,549	3,483	182,032
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(622)	622	-	-	-
Increase in share capital arising from share-based payments	-	30,750	532	-	-	31,282	-	31,282
Issue of share capital (Note 21)	3,635	70,313	-	-	-	73,948	-	73,948
Transactions costs recognised directly in equity	-	(3,325)	-	-	-	(3,325)	-	(3,325)
Dividends to shareholders of the Group (Note 21)	-	-	-	-	(25,267)	(25,267)	-	(25,267)
Dilution of interests in subsidiaries	-	-	-	15	-	15	128	143
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	-	-	-	(86)	-	(86)	749	663
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(22)	-	(22)	(682)	(704)
Sale of treasury shares	-	89	5	-	-	94	-	94
Purchase of treasury shares	-	(9,853)	(432)	-	-	(10,285)	-	(10,285)
31 December 2012	**36,513**	**561,706**	**(3,041)**	**13,717**	**408,538**	**1,017,433**	**43,751**	**1,061,184**
Total comprehensive income	-	-	-	10,801	207,169	217,970	6,995	224,965
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(1,797)	1,797	-	-	-
Increase in share capital arising from share-based payments	-	13,208	717	-	-	13,925	-	13,925
Dividends to shareholders of the Group (Note 21)	-	-	-	-	(54,097)	(54,097)	-	(54,097)
Dilution of interests in subsidiaries	-	-	-	-	-	-	150	150
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	-	-	-	12	-	12	2,958	2,970
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	51	51
Purchase of treasury shares	-	(4,729)	(104)	-	-	(4,833)	-	(4,833)
31 December 2013	**36,513**	**570,185**	**(2,428)**	**22,733**	**563,407**	**1,190,410**	**53,905**	**1,244,315**
Total comprehensive income	-	-	-	26,563	239,624	266,187	5,477	271,664
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(446)	446	-	-	-
Increase in share capital arising from share-based payments	-	18,573	534	-	-	19,107	-	19,107
Dividends to shareholders of the Group (Note 21)	-	-	-	-	(74,638)	(74,638)	-	(74,638)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(17,639)	-	(17,639)	(15,516)	(33,155)
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	10,942	10,942
Sale of treasury shares	-	27,525	469	-	-	27,994	-	27,994
Purchase of treasury shares	-	(5,045)	(97)	-	-	(5,142)	-	(5,142)
31 December 2014	**36,513**	**611,238**	**(1,522)**	**31,211**	**728,839**	**1,406,279**	**54,808**	**1,461,087**

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Cash flows from operating activities				
Interest received		588,977	559,604	553,090
Interest paid		(270,942)	(239,544)	(270,691)
Fees and commissions received		133,948	104,099	109,278
Fees and commissions paid		(32,508)	(27,993)	(22,210)
Insurance premiums received		95,859	126,640	79,007
Insurance claims paid		(66,385)	(88,161)	(55,197)
Healthcare revenue received		95,865	57,953	54,376
Cost of healthcare services paid		(70,308)	(33,661)	(31,030)
Net cash inflow from real estate		24,396	7,682	7,229
Net realised gains from trading securities		407	61	375
Net realised gains from investment securities available-for-sale		83	2,858	2,075
Net realised gains from foreign currencies		44,169	46,330	33,389
Recoveries of loans to customers previously written off	10	28,706	27,479	29,979
Other (expenses paid) income received		3,586	(21,675)	9,385
Salaries and other employee benefits paid		(128,289)	(108,334)	(109,383)
General and administrative and operating expenses paid		(61,112)	(60,468)	(67,970)
Cash flows from operating activities before changes in operating assets and liabilities		**386,452**	**352,870**	**321,702**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(71,320)	49,297	(99,925)
Loans to customers		(934,824)	(529,430)	(575,378)
Finance lease receivables		6,115	(6,777)	(9,262)
Prepayments and other assets		10,049	5,826	(59,301)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		243,020	(79,766)	425,748
Debt securities issued		128,364	283,908	335,419
Amounts due to customers		371,474	425,666	(52,871)
Other liabilities		7,387	(1,708)	(28,243)
Net cash flows from operating activities before income tax		**146,717**	**499,886**	**257,889**
Income tax paid		(15,990)	(29,834)	(3,282)
Net cash flows from operating activities		**130,727**	**470,052**	**254,607**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(22,177)	(7,810)	(9,008)
Purchase of investment securities available-for-sale		(255,710)	(48,033)	(43,347)
Proceeds from sale of investments in associates		300	-	170
Proceeds from sale of investment properties	12	7,383	10,748	15,622
Purchase of investment property	12	(49,348)	-	-
Proceeds from sale of property and equipment and intangible assets	13	2,648	5,317	-
Purchase of property and equipment and intangible assets		(80,459)	(70,592)	(60,880)
Net cash flows used in investing activities		**(397,363)**	**(110,370)**	**(97,443)**

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2014

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Cash flows (used in) from financing activities				
Dividends paid		(72,729)	(53,979)	(25,267)
Purchase of treasury shares		(5,142)	(4,833)	(10,285)
Sale of treasury shares		27,994	-	94
Proceeds from sale of non-controlling interest in existing subsidiary		-	-	663
Purchase of additional interests in existing subsidiaries, net of cash acquired		(28,972)	-	(704)
Net cash used in financing activities		**(78,849)**	**(58,812)**	**(35,499)**
Effect of exchange rates changes on cash and cash equivalents		6,277	(2,318)	121
Net increase in cash and cash equivalents		**(339,208)**	**298,552**	**121,786**
Cash and cash equivalents, beginning	7	**1,049,069**	**750,517**	**628,731**
Cash and cash equivalents, ending	7	**709,861**	**1,049,069**	**750,517**

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2014 the Bank has 219 operating outlets in all major cities of Georgia (31 December 2013: 202, 31 December 2012: 194). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Bank is the parent of a group of companies (the "Group") mainly incorporated in Georgia and Belarus. Primary business activities include providing banking, leasing, insurance, real estate, healthcare, brokerage and investment management services, to corporate and individual customers. The list of the companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

As at 31 December 2014, 31 December 2013 and 31 December 2012, Bank of Georgia Holdings Plc (the "BGH") was the only shareholder that owned more than 1% of the total outstanding shares of the Group.

Shareholder	***31 December 2014***	***31 December 2013***	***31 December 2012***
Bank of Georgia Holdings Plc	99.63%	99.62%	99.62%
Others	0.37%	0.38%	0.38%
Total	**100.00%**	**100.00%**	**100.00%**

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2014 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, derivative financial assets and liabilities, investment properties and revalued property and equipment. No interest income or expense arose in relation to financial assets or liabilities at fair value through profit or loss.

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

Going concern

The Bank's Supervisory Board has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2. Basis of Preparation (continued)

Subsidiaries and associates

The consolidated financial statements as at 31 December 2014, 31 December 2013 and 31 December 2012 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	**31 December 2014**	**31 December 2013**	**31 December 2012**	**Country of incorporation**	**Industry**	**Date of incorporation**	**Date of acquisition**
JSC Galt & Taggart (Formerly known as JSC BG Capital (Georgia))	100.00%	100.00%	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Investments	3/7/2006	–
⇒ Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
⇒ BG Trading Limited	–	(b)	100.00%	Cyprus	Investments	26/3/2007	–
⇒ BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	Brokerage	19/2/2008	–
⇒ Brooksby Investments Limited	–	(c)	100.00%	Cyprus	Investments	4/3/2008	18/6/2008
⇒ JSC Belarusky Narodny Bank	79.99%	79.99%	79.99%	Belarus	Banking	16/4/1992	3/6/2008
⇒ BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
⇒ JSC Geohydro	85.00%	85.00%	–	Georgia	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	100.00%	100.00%	–	Georgia	Renewable Energy	6/12/2013	–
JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI) (a)	100.00%	100.00%	100.00%	Georgia	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	100.00%	100.00%	100.00%	Georgia	Various	22/6/2010	10/1/2011
⇒ Imedi L Dent, LLC	–	(d)	100.00%	Georgia	Medical services	17/1/2005	5/1/2012
JSC Medical Corporation EVEX	100.00%	–	–	Georgia	Healthcare	31/7/2014	–
⇒ JSC My Family Clinic	100.00%	51.00%	51.00%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (Formerly known as JSC Kutaisi St. Nicholas Surgery Hospital)	92.90%	81.00%	71.87%	Georgia	Medical services	3/11/2000	20/5/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	19/7/2010	10/1/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	100.00%	100.00%	100.00%	Georgia	Medical services	11/6/1998	29/11/2011
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	66.70%	66.70%	Georgia	Medical services	5/5/2003	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	100.00%	100.00%	100.00%	Georgia	Medical services	30/11/1999	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	66.70%	66.70%	Georgia	Medical services	15/10/2004	12/9/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	1/9/1999	12/9/2011
⇒ Martvili Multi profile Hospital, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	17/3/2000	12/9/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	16/3/2000	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	66.70%	66.70%	66.70%	Georgia	Medical services	29/9/1999	12/9/2011
⇒ Khobi Central Regional Hospital, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	13/7/2000	12/9/2011
⇒ EVEX Learning Center (formerly known as Kutaisi Training Centre, NPO)	100.00%	100.00%	–	Georgia	Education	20/12/2013	–
⇒ Unimed Achara, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	29/6/2010	5/1/2012
⇒ Unimedi Samtskhe, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	29/6/2010	5/1/2012
⇒ Unimedi Kakheti, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	29/6/2010	5/1/2012
⇒ LLC Caraps Medline	100.00%	100.00%	–	Georgia	Medical Service	26/8/1998	26/12/2013
⇒ LLC Medline +	(e)	100.00%	–	Georgia	Medical Service	13/12/2007	30/12/2013
⇒ Avante Hospital Management Group, LLC	100.00%	–	–	Georgia	Medical Service	5/8/2011	19/2/2014
⇒ M. Iashvili Children's Central Hospital, LLC	66.70%	–	–	Georgia	Medical Service	3/5/2011	19/2/2014
⇒ Children's New Hospital, LLC	75.00%	–	–	Georgia	Medical Service	18/7/2011	19/2/2014
⇒ New Life, LLC	100.00%	–	–	Georgia	Medical Service	21/9/1999	19/2/2014
⇒ Batumi Regional Healthcare Center for Mothers and Children, LLC	100.00%	–	–	Georgia	Medical Service	19/11/2004	19/2/2014
⇒ Sunstone Medical, LLC	100.00%	–	–	Georgia	Medical Service	9/11/2012	21/5/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	100.00%	–	–	Georgia	Medical Service	6/3/2000	19/2/2014
⇒ Traumatologist, LLC	100.00%	–	–	Georgia	Medical Service	20/7/2011	30/9/2014
⇒ Referral Centre of Pathology, LLC	100.00%	–	–	Georgia	Medical Service	29/12/2014	–
JSC Insurance Company Aldagi	100.00%	–	–	Georgia	Insurance	31/7/2014	–
⇒ Aliance, LLC	100.00%	100.00%	100.00%	Georgia	Various	3/1/2000	5/1/2012
⇒ Green Way, LLC	100.00%	100.00%	100.00%	Georgia	Various	9/8/2008	5/1/2012
⇒ Centromed, LLC	100.00%	100.00%	100.00%	Georgia	Medical services	9/7/2010	5/1/2012
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
JSC Express Technologies (formerly known as JSC Global Express)	100.00%	100.00%	100.00%	Georgia	Investments	29/10/2007	–
⇒ JSC Georgian Card	98.23%	56.20%	56.20%	Georgia	Card processing	17/1/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Electronic payment services	7/3/2006	–
⇒ LLC Didi Digomi Research Center (formerly known as MetroNet, LLC)	100.00%	100.00%	100.00%	Georgia	Communication services	23/4/2007	–
⇒ Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	Business servicing	10/5/2006	–
⇒ Express Technologies CEE, LLC	100.00%	–	–	Hungary	Other Financial Service Activities	5/3/2014	N/A

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2014	31 December 2013	31 December 2012	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Liberty Consumer	70.12%	67.51%	67.49%	Georgia	Investments	24/5/2006	–
⇒ JSC Teliani Valley	50.92%	50.88%	51.23%	Georgia	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	100.00%	100.00%	100.00%	Georgia	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	100.00%	100.00%	100.00%	Ukraine	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.00%	100.00%	100.00%	Georgia	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	70.00%	70.00%	70.00%	Georgia	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	100.00%	–	–	Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ JSC Intertour	99.94%	99.94%	99.94%	Georgia	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	100.00%	100.00%	100.00%	Georgia	Fitness centre	7/3/2006	–
JSC m2 Real Estate (formerly known as JSC SB Real Estate)	100.00%	100.00%	100.00%	Georgia	Real estate	27/9/2006	–
⇒ Tamarashvili 13, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	3/11/2011	–
⇒ m2 at Kazbegi, LLC	100.00%	100.00%	–	Georgia	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	100.00%	100.00%	–	Georgia	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	100.00%	100.00%	–	Georgia	Real estate	21/5/2013	–
JSC Galt and Taggart Holdings (Georgia)	100.00%	100.00%	100.00%	Georgia	Investment	4/11/2008	–
⇒ Caucasus Autohause, LLC	100.00%	100.00%	100.00%	Georgia	Real estate	29/3/2011	–
⇒ Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	100.00%	Georgia	Sport	10/1/2011	–
⇒ Teaching University of Georgian Bank, LLC	100.00%	100.00%	–	Georgia	Education	15/10/2013	–
⇒ JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	Registrar	29/5/2006	–
⇒ JSC m2	100.00%	–	–	Georgia	Real estate	12/2/2014	–
⇒ Optima ISANI, LLC	100.00%	–	–	Georgia	Real estate	25/7/2014	–
⇒ Land, LLC	100.00%	–	–	Georgia	Real estate	3/10/2014	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	Information Sharing and Market Research	9/2/2009	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	–	–	Turkey	Representative Office	25/12/2013	–
Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	–	–	Azerbaijan	Representative Office	28/12/2013	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	–	Georgia	Charitable activities	25/8/2008	–

Associates	Proportion of voting rights and ordinary share capital held 31 December 2014	31 December 2013	31 December 2012	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC N Tour	30.00%	30.00%	30.00%	Georgia	Travel services	11/1/2001	29/5/2008
JSC Hotels and Restaurants Management Group – m/Group	(f)	10.00%	10.00%	Georgia	Food retail	30/5/2005	29/5/2008
JSC iCall	27.00%	27.00%	27.00%	Georgia	Call center	22/3/2005	22/11/2006
Style +, LLC	32.50%	32.50%	32.50%	Georgia	Advertising	8/1/2005	8/7/2008

(a) On 31 July 2014 a new holding company - JSC Medical Corporation EVEX was created to hold the Group's healthcare subsidiaries. Also, the Group's insurance operations were split between two legal entities - the newly incorporated JSC Insurance Company Aldagi to operate the Group's property & casualty insurance business and the former JSC Insurance Company Aldagi BCI that was renamed to JSC Insurance Company Imedi L to operate the Group's health insurance business
(b) Merged to Galt and Taggart Holdings Limited LLC in 2013
(c) Liquidated in 2013
(d) No longer Group subsidiary due to sale in 2013
(e) Merged to LLC Caraps Medline in 2014
(f) No longer Group associate due to sale in 2014

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

No new or revised IFRS during the year had an impact on the Group's financial position or performance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

3. Summary of Selected Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

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

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

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. Summary of Selected Significant Accounting Policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

3. Summary of Selected Significant Accounting Policies (continued)

Measurement of financial instruments at initial recognition

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

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

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

Offsetting

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

Cash and cash equivalents

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from interest rate swaps and gains less losses from foreign currencies translation differences, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

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

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

3. Summary of Selected Significant Accounting Policies (continued)

Leases

i. Finance – Group as lessor

The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee

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

iii. Operating – Group as lessor

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

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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

Amounts due from credit institutions, loans to customers and finance lease receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 365 days. Retail mortgage loans are written off when overdue by more than 150 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

Available-for-sale financial assets

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

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

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

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for the modification of financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In cases where the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

3. Summary of Significant Accounting Policies (continued)

Financial guarantees

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented as net gains or losses from revaluation of investment properties.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3. Summary of Significant Accounting Policies (continued)

Property and equipment

Property and equipment, except for office buildings and service centers, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Office buildings and service centers are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

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

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

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset, including assets under construction, commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	Up to 100
Hospitals and clinics	Up to 100
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

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

Leasehold improvements are amortised over the life of the related leased asset.

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

3. Summary of Significant Accounting Policies (continued)

Insurance liabilities (continued)

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Provisions

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

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% - additionally paid by the Group. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. Respective pension benefit obligations are recorded within other liabilities, Note 16.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGH's shares) which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

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

Treasury shares

Where the Bank or its subsidiaries purchase BGH's or the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

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

Contingencies

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

Income and expense recognition

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

Interest and similar income and expense

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

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Dividend income

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

Insurance premium income

For property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Healthcare revenue

Healthcare revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on an accruals basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalent transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Revenue from sale of goods

Revenue from sale of goods comprises revenue from sale of developed real estate property and other finished goods.

Revenue from sale of developed real estate property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Non-recurring income and expenses

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Reclassifications

Due to the increased material size of real estate related revenues, a separate line was added to the income statement within other operating non-interest income with the sum of these revenues. The following reclassification was made to the years ended 31 December 2013 and 31 December 2012 income statements to conform to the year ended 31 December 2014 presentation requirements:

Year Ended	Caption Consolidated Income Statement:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2013	Revenue from sale of goods	42,252	(42,252)	–
31 December 2013	Cost of sales	(29,760)	29,760	–
31 December 2013	Net real estate revenue	–	5,898	5,898
31 December 2013	Other operating income	7,871	5,396	13,267
31 December 2013	Other operating expenses	(3,564)	1,198	(2,366)
31 December 2012	Revenue from sale of goods	41,533	(41,533)	–
31 December 2012	Cost of sales	(30,868)	30,868	–
31 December 2012	Net real estate revenue	–	7,467	7,467
31 December 2012	Other operating income	7,623	2,470	10,093
31 December 2012	Other operating expenses	(2,949)	728	(2,221)

Due to the increased number of different debt securities issued in 2014, a separate line was added to the statement of financial position with the aggregated amount of such instruments. Respective changes were made to the income statement, where a separate line was added with the total amount of interest expenses on such instruments. The following reclassifications were made to the years ended 31 December 2013 and 31 December 2012 income statements and 31 December 2013 and 31 December 2012 statements of financial position to conform to the 31 December 2014 presentation requirements:

Year Ended	Caption Consolidated Statement of Financial Position:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2013	Amounts due to credit institutions	1,886,096	(728,117)	1,157,979
31 December 2013	Debt securities issued	–	728,117	728,117
31 December 2012	Amounts due to credit institutions	1,657,162	(420,849)	1,236,313
31 December 2012	Debt securities issued	–	420,849	420,849

Year Ended	Caption Consolidated Income Statement:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2013	Interest expense on amounts due to credit institutions	(100,585)	35,424	(65,161)
31 December 2013	Interest expense on debt securities issued	–	(35,424)	(35,424)
31 December 2012	Interest expense on amounts due to credit institutions	(79,492)	16,009	(63,483)
31 December 2012	Interest expense on debt securities issued	–	(16,009)	(16,009)

3. Summary of Significant Accounting Policies (continued)

Reclassifications (continued)

Deriving from the above mentioned reclassifications in the income statement and the statement of financial position the following reclassifications were made to the years ended 31 December 2013 and 31 December 2012 statements of cash flows, to conform to the year ended 31 December 2014 presentation requirements:

Year Ended	Caption Consolidated Statement of Cash Flows:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2013	Revenue received from sale of goods	75,591	(75,591)	–
31 December 2013	Cost of sales of goods	(72,759)	72,759	–
31 December 2013	Net cash inflow from real estate	–	7,682	7,682
31 December 2013	Other operating income received (expenses paid)	(23,037)	1,362	(21,675)
31 December 2013	Net (increase) decrease in operating assets from prepayments and other assets	12,038	(6,212)	5,826
31 December 2013	Net increase (decrease) in operating liabilities from amounts due to credit institutions	204,142	(283,908)	(79,766)
31 December 2013	Net increase (decrease) in operating liabilities from debt securities issued	–	283,908	283,908
31 December 2012	Revenue received from sale of goods	41,533	(41,533)	–
31 December 2012	Cost of sales of goods	(30,868)	30,868	–
31 December 2012	Net cash inflow from real estate	–	7,229	7,229
31 December 2012	Other operating income received (expenses paid)	5,949	3,436	9,385
31 December 2012	Net increase (decrease) in operating liabilities from amounts due to credit institutions	761,167	(335,419)	425,748
31 December 2012	Net increase (decrease) in operating liabilities from debt securities issued	–	335,419	335,419

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is US Dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2014, 31 December 2013 and 31 December 2012 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to UAH (10)*	*Lari to BYR (10,000)*
31 December 2014	2.8932	1.8636	2.2656	1.1818	1.5727
31 December 2013	2.8614	1.7363	2.3891	2.1723	1.8258
31 December 2012	2.6653	1.6567	2.1825	2.0727	1.9331

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Hyperinflation accounting

With effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank ("BNB") and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	529.3
2007	112.1	472.2
2008	113.3	416.7
2009	110.1	378.5
2010	109.9	344.4
2011	208.7	165.0
2012	121.8	135.5
2013	116.6	116.2
2014	116.2	100.0

All income and expenses, profits and losses are recalculated by applying the relevant adjustment factors. Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at the reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at the reporting date) are recalculated by applying the relevant index. The effect of inflation on BNB's net non-monetary position is included in the income statement in net non-recurring expenses.

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

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

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

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Annual improvements 2012-2014 Cycle

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

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

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

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

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

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the board of directors and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and office buildings and service centers included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

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

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

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

In order to exclude post 2008 Georgia – Russia war and global financial crisis extraordinary trends from the assessment of collective impairment of loans, the Bank amended its approach in 2012. Namely, the historical loss rates that are applied for collective impairment are now calculated based on three-year history of net losses (including reversals) as opposed to five-seven-year history of net losses under previous approach. The impact of this change on profit from continuing operations before income tax expense for the year ended 31 December 2012 is 20.1 million GEL.

On 1 January 2014 the Bank introduced a new loan loss provisioning methodology. Management considers this to be a change in significant accounting estimate. The new methodology is more granular than the previous methodology and introduces additional statistical analysis for determining the inputs. As at 1 January 2014 the Bank's allowance for loan impairment under the new methodology was KGEL 114,552, a difference of KGEL 3,843 as compared to the allowance for loan impairment if calculated based on the previous methodology (which represents less than 2.5% of the allowance). The allowance for loan impairment under the previous methodology would have been KGEL 118,395 as at 1 January 2014. After 1 January 2014 it was impracticable for management to continue to estimate the allowance for loan impairment under the old methodology.

5. Business Combinations

Avante Hospital Management Group LLC

On 20 February 2014 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of the Group, acquired 80% of shares in Avante Hospital Management Group LLC ("Acquiree"), a healthcare company operating in Georgia from individuals. Remaining 20% of the Avante Hospital Management Group was acquired on 5 March 2014 from individuals.

The fair values of identifiable assets and liabilities of acquiree as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	1,223
Accounts receivable[1]	6,361
Property and equipment	50,630
Intengible assets	7
Current income tax assets	156
Other assets	944
	59,321
Accounts payable	2,562
Amounts due to credit institutions	10,734
Current income tax liabilities	1,679
Deferred income tax liabilities	4,000
Accruals and deffered income	1,794
Other liabilities	1,914
	22,683
Total identifiable net assets	**36,638**
Non-controlling interest	10,857
Negative Goodwill arising on business combination[2]	(1,003)
Consideration given[3]	**24,778**

The net cash outflow on acquisition was as follows:

	2014
Cash paid	18,291
Cash acquired with the subsidiary	(1,223)
Net cash outflow	**17,068**

The Group decided to increase their presence and investment in Tbilisi healthcare market, by acquiring the given group, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 522,104 and GEL 213,379 of revenue and profit, respectively. In the same period, GEL 16,203 and GEL 8,594 of revenue and profit, respectively comes from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 628,235 and GEL 255,024 of revenue and profit respectively.

1. The fair value of the accounts receivables amounted to GEL 6,361. The gross amount of receivable is GEL 13,881. GEL 7,520 of the accounts receivable has been impaired;
2. Prior to acquisition, owners of Avante Group encountered certain financial difficulties which resulted in a lower acquisition cost causing a negative goodwill, recognized as gain;
3. Consideration comprised of GEL 24,778, which consists of GEL 18,291 cash payment and GEL 7,624 fair value of a holdback amount, less GEL 1,137 pre-existing payables to Avante Hospital Management Group LLC.

5. Business Combinations (continued)

Traumatology LLC

On 30 September 2014 JSC EVEX Medical Corporation ("Acquirer"), acquired from individuals 100% of the shares in Traumatology LLC ("Acquiree"), a healthcare company operating in Georgia.

The provisionally estimated fair values of identifiable assets and liabilities of acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Cash and cash equivalents	253
Accounts receivable[1]	1,272
Property and equipment	8,322
Current income tax assets	100
Other assets	137
	10,084
Accounts payable	650
Amounts due to credit institutions	1,975
Current income tax liabilities	13
Deferred income tax liabilities	929
Accruals and deffered income	806
Other liabilities	316
	4,689
Total identifiable net assets	**5,395**
Goodwill arising on business combination	913
Consideration given[2]	**6,308**

The net cash outflow on acquisition was as follows:

	2014
Cash paid	5,362
Cash acquired with the subsidiary	(253)
Net cash outflow	**5,109**

The Group decided to increase their presence and investment in Tbilisi healthcare market, by acquiring the given company, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 168,702 and GEL 66,477 of revenue and profit, respectively. In the same period, GEL 828 and GEL 400 of revenue and profit, respectively comes from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 616,085 and GEL 246,770 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy which is expected to be brought into the Group's operations. The whole amount of goodwill recognized is expected to be tax deductible.

Since Traumatology LLC was acquired close to the issue date, the Group had limited time to review, analyze and perform valuation of the respective net asset. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the issue date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3).

1. The fair value of the accounts receivables amounted to GEL 1,272. The gross amount of receivable is GEL 2,102. GEL 830 of the accounts receivable has been impaired;
2. Consideration comprised of GEL 6,308 which consists of GEL 5,362 cash payment and GEL 946 fair value of a holdback amount.

6. Segment Information

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

Retail Banking (excluding Retail Banking of BNB) - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses.

Corporate Banking (excluding Corporate Banking of BNB) - Principally providing loans and other credit facilities to high net worth individuals as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

Investment Management - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products.

Corporate Centre - Principally providing back office services to all operating segments of the Group as well as holding all principal investments in subsidiaries.

P&C Insurance - Principally providing wide-scale property & casualty insurance services to corporate clients and insured individuals.

GHG - Georgian Healthcare Group – providing wide-scale health insurance and healthcare services to corporate clients and individuals.

Affordable Housing - Comprising the Group's real estate subsidiaries, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Liberty Consumer - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these consolidated financial statements, Management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated financial statements.

Transactions between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2014, 2013 or 2012.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2014:

	Strategic				Synergistic			Non-Core			Intersegment	
	Corporate banking	Retail banking	Investment management	Corporate center	P&C	GHG	Affordable Housing	BNB	Liberty Consumer	Other	transactions and balances	Total
Net interest income (expense)	105,223	213,790	13,919	-	506	(12,815)	1,481	22,410	(890)	(1,702)	2,138	344,060
Net fees and commission income (expense)	24,810	58,867	8,760	-	312	(186)	-	9,443	(80)	-	(1,765)	100,161
Net insurance revenue	-	-	-	-	17,752	14,986	-	-	-	-	(3,309)	29,429
Net healthcare revenue	-	-	-	-	-	46,884	-	-	-	-	-	46,884
Real estate income	2,560	3,296	41	-	34	64	11,760	482	1	45	(2,501)	15,782
Net gains (losses) from foreign currencies	27,386	20,274	1,404	-	(2,085)	(1,511)	(895)	9,932	(675)	(3,384)	-	50,446
Other revenues	4,093	354	437	-	481	501	1,991	22	12,450	302	(455)	20,176
Revenue	**164,072**	**296,581**	**24,561**	**-**	**17,000**	**47,923**	**14,337**	**42,289**	**10,806**	**(4,739)**	**(5,892)**	**606,938**
Operating expenses	(49,060)	(128,972)	(10,837)	-	(9,402)	(29,555)	(5,468)	(18,390)	(7,669)	(1,630)	5,892	(255,091)
Operating income (expense) before cost of credit risk	**115,012**	**167,609**	**13,724**	**-**	**7,598**	**18,368**	**8,869**	**23,899**	**3,137**	**(6,369)**	**-**	**351,847**
Cost of credit risk	(41,176)	(9,226)	47	-	(601)	(2,872)	(82)	(4,187)	(350)	-	(573)	(59,020)
Net operating income (loss) before non-recurring items	**73,836**	**158,383**	**13,771**	**-**	**6,997**	**15,496**	**8,787**	**19,712**	**2,787**	**(6,369)**	**(573)**	**292,827**
Net non-recurring (expense/loss) income/gain	(2,672)	(5,795)	(295)	-	-	505	18	(3,073)	297	(2)	-	(11,017)
Profit (Loss) before income tax (expense) benefit	**71,164**	**152,588**	**13,476**	**-**	**6,997**	**16,001**	**8,805**	**16,639**	**3,084**	**(6,371)**	**(573)**	**281,810**
Income tax (expense) benefit	(9,528)	(19,325)	(2,011)	3,509	(1,083)	(1,346)	(1,022)	(4,471)	(1,115)	566	-	(35,826)
Profit (Loss) for the year	**61,636**	**133,263**	**11,465**	**3,509**	**5,914**	**14,655**	**7,783**	**12,168**	**1,969**	**(5,805)**	**(573)**	**245,984**
Assets and liabilities												
Total assets	3,329,853	3,225,230	39,426	-	86,746	409,945	236,179	403,764	41,632	29,723	(265,197)	7,537,301
Total liabilities	2,412,767	2,316,680	842,300	-	58,695	237,565	112,407	319,308	18,907	23,640	(266,055)	6,076,214
Other segment information												
Property and equipment	2,629	19,540	3,894	-	1,477	38,503	368	2,101	1,761	313	-	70,586
Intangible assets	1,121	6,503	130	-	232	1,519	27	304	30	7	-	9,873
Capital expenditure	**3,750**	**26,043**	**4,024**	**-**	**1,709**	**40,022**	**395**	**2,405**	**1,791**	**320**	**-**	**80,459**
Depreciation	(3,174)	(17,094)	(368)	-	(382)	(7,852)	(295)	(1,218)	(1,098)	(4)	-	(31,485)
Amortization	(639)	(3,385)	(44)	-	(188)	(205)	(37)	(100)	(20)	-	-	(4,618)
Impairment	(4,259)	(3,315)	(138)	-	-	-	-	-	-	-	-	(7,712)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2013:

	Strategic			*Synergistic*			*Non-Core*			*Intersegment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Investment management*	*P&C*	*GHG*	*Affordable Housing*	*BNB*	*Liberty Consumer*	*Other*		
Net interest income (expense)	103,967	191,851	8,692	(177)	(9,681)	2,011	18,565	(629)	(2,869)	2,366	314,096
Net fees and commission income (expense)	27,318	54,025	1,238	248	(242)	(27)	6,350	(45)	1	(1,752)	87,114
Net insurance revenue	-	-	-	20,785	27,248	-	-	-	-	(2,700)	45,333
Net healthcare revenue	-	-	-	-	22,369	-	-	-	-	-	22,369
Real estate income	2,884	1,928	13	36	723	2,537	(149)	8	103	(2,185)	5,898
Net gains (losses) from foreign currencies	24,774	16,308	1,371	101	(4,697)	123	5,875	(270)	427	-	44,012
Other revenues	3,087	2,609	261	509	746	7,968	22	11,273	1,337	(1,660)	26,152
Revenue	**162,030**	**266,721**	**11,575**	**21,502**	**36,466**	**12,612**	**30,663**	**10,337**	**(1,001)**	**(5,931)**	**544,974**
Operating expenses	(43,833)	(119,963)	(7,261)	(8,049)	(20,577)	(2,893)	(15,201)	(6,614)	(2,167)	5,931	(220,627)
Operating income before cost of credit risk	**118,197**	**146,758**	**4,314**	**13,453**	**15,889**	**9,719**	**15,462**	**3,723**	**(3,168)**	**-**	**324,347**
Cost of credit risk	(31,054)	(29,172)	10	(272)	(747)	55	(563)	-	(1)	(58)	(61,802)
Net operating income (loss) before non-recurring items	**87,143**	**117,586**	**4,324**	**13,181**	**15,142**	**9,774**	**14,899**	**3,723**	**(3,169)**	**(58)**	**262,545**
Net non-recurring expense/loss	(2,690)	(2,200)	(2,507)	-	(1)	(824)	(399)	(3,803)	(409)	-	(12,833)
Profit (Loss) before income tax (expense) benefit	**84,453**	**115,386**	**1,817**	**13,181**	**15,141**	**8,950**	**14,500**	**(80)**	**(3,578)**	**(58)**	**249,712**
Income tax (expense) benefit	(11,164)	(14,468)	(1,366)	(2,100)	(2,049)	(1,142)	(3,514)	(623)	514	-	(35,912)
Profit (Loss) for the year	**73,289**	**100,918**	**451**	**11,081**	**13,092**	**7,808**	**10,986**	**(703)**	**(3,064)**	**(58)**	**213,800**
Assets and liabilities											
Total assets	3,085,647	2,689,011	30,749	70,477	275,197	135,993	326,465	41,498	30,599	(161,402)	6,524,234
Total liabilities	2,344,860	1,830,958	683,569	50,576	176,118	59,021	254,451	18,926	24,277	(162,837)	5,279,919
Other segment information											
Property and equipment	2,853	20,921	302	503	35,136	463	466	1,422	136	-	62,202
Intangible assets	972	5,665	78	522	832	47	249	11	13	-	8,389
Capital expenditure	**3,825**	**26,586**	**380**	**1,025**	**35,968**	**510**	**715**	**1,433**	**149**	**-**	**70,591**
Depreciation	(2,945)	(16,086)	(312)	(373)	(5,646)	(73)	(1,523)	(1,034)	(50)	-	(28,042)
Amortization	(514)	(3,007)	(41)	(179)	(228)	(2)	(106)	(1)	(2)	-	(4,080)
(Impairment) Reversal	(713)	(641)	(5)	-	-	-	1,295	(1,107)	-	-	(1,171)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2012:

	Strategic				*Synergistic*			*Non-Core*			*Intersegment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*P&C*	*GHG*	*Affordable Housing*	*BNB*	*Liberty Consumer*	*Other*		
Net interest income (expense)	92,276	174,360	13,134	-	(258)	(4,398)	147	12,074	(578)	(2,640)	-	284,117
Net fees and commission income (expense)	28,701	53,563	980	-	112	(220)	196	3,809	(61)	(12)	-	87,068
Net insurance revenue	-	-	-	-	11,935	24,148	-	-	-	-	(1,945)	34,138
Net healthcare revenue	-	-	-	-	-	23,346	-	-	-	-	-	23,346
Real estate income	1,679	2,112	36	-	38	552	4,267	55	15	357	(1,644)	7,467
Net gains (losses) from foreign currencies	29,819	14,985	622	-	54	(907)	(145)	5,306	(154)	(9)	-	49,571
Other revenues	1,966	900	267	-	614	(170)	111	13	7,933	1,272	(505)	12,401
Revenue	**154,441**	**245,920**	**15,039**	**-**	**12,495**	**42,351**	**4,576**	**21,257**	**7,155**	**(1,032)**	**(4,094)**	**498,108**
Operating expenses	(50,972)	(108,688)	(5,117)	-	(7,250)	(27,879)	(2,381)	(10,327)	(5,936)	(4,130)	4,868	(217,812)
Operating income before cost of credit risk	**103,469**	**137,232**	**9,922**	**-**	**5,245**	**14,472**	**2,195**	**10,930**	**1,219**	**(5,162)**	**774**	**280,296**
Cost of credit risk	(29,490)	(12,482)	727	-	(738)	(1,566)	(219)	(1,306)	(136)	-	493	(44,717)
Net operating income (loss) before non-recurring items	**73,979**	**124,750**	**10,649**	**-**	**4,507**	**12,906**	**1,976**	**9,624**	**1,083**	**(5,162)**	**1,267**	**235,579**
Net non-recurring (expense/loss) income/gain	(8,415)	(6,828)	(305)	-	-	440	282	(443)	(4,365)	-	-	(19,634)
Profit (Loss) before income tax (expense) benefit	**65,564**	**117,922**	**10,344**	**-**	**4,507**	**13,346**	**2,258**	**9,181**	**(3,282)**	**(5,162)**	**1,267**	**215,945**
Income tax (expense) benefit	(9,936)	(16,392)	(1,434)	-	(665)	(1,645)	(307)	(2,367)	(889)	435	-	(33,200)
Profit (Loss) for the year	**55,628**	**101,530**	**8,910**	**-**	**3,842**	**11,701**	**1,951**	**6,814**	**(4,171)**	**(4,727)**	**1,267**	**182,745**
Assets and liabilities												
Total assets	2,570,925	2,476,623	64,208	6,368	72,418	253,559	105,899	185,859	37,924	36,340	(153,843)	5,656,280
Total liabilities	1,974,163	1,708,617	615,791	1,354	63,533	169,802	42,838	139,356	12,114	22,865	(155,337)	4,595,096
Other segment information												
Property and equipment	5,886	20,593	635	-	1,344	28,006	203	340	1,616	1,563	-	60,186
Intangible assets	906	3,678	53	-	106	485	20	186	266	1	-	5,701
Capital expenditure	**6,792**	**24,271**	**688**	**-**	**1,450**	**28,491**	**223**	**526**	**1,882**	**1,564**	**-**	**65,887**
Depreciation	(4,160)	(14,412)	(331)	-	(314)	(3,727)	(121)	(910)	(940)	(112)	-	(25,027)
Amortization	(667)	(2,643)	(43)	-	(19)	(82)	-	(116)	(6)	(3)	-	(3,579)
(Impairment) Reversal	-	(15)	-	-	-	-	-	-	(939)	-	-	(954)
Investments in associates	-	-	-	-	-	-	-	-	2,441	-	-	2,441
Share of loss of associates	-	-	-	-	-	-	-	-	(149)	-	-	(149)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2014	*2013*	*2012*
Cash on hand	393,315	384,410	302,956
Current accounts with central banks, excluding obligatory reserves	152,647	132,219	111,998
Current accounts with other credit institutions	137,960	352,845	192,176
Time deposits with credit institutions with maturity of up to 90 days	25,939	179,595	143,387
Cash and cash equivalents	**709,861**	**1,049,069**	**750,517**

As at 31 December 2014 GEL 136,387 (2013: GEL 481,137, 2012: GEL 273,637) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.30% interest per annum on these deposits (2013: up to 6.92%, 2012: up to 5.25%).

8. Amounts Due from Credit Institutions

	2014	*2013*	*2012*
Obligatory reserves with central banks	382,963	330,319	323,099
Time deposits with maturity of more than 90 days	34,053	9,623	67,284
Inter-bank loan receivables	1,486	7,319	6,176
Amounts due from credit institutions	**418,502**	**347,261**	**396,559**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned nil interest on obligatory reserves with NBG for the years ended 31 December 2014 and 31 December 2013, up to 0.25% annual interest for the year ended 31 December 2012.

As at 31 December 2014 inter-bank loan receivables include GEL 1,486 (2013: GEL 4,685, 2012: GEL 4,448) placed with non-OECD banks.

9. Investment Securities Available-for-Sale

	2014	*2013*	*2012*
Georgian ministry of Finance treasury bonds*	459,400	391,486	188,967
Georgian ministry of Finance treasury bills**	169,796	63,606	9,648
Certificates of deposit of central banks***	92,547	59,265	259,402
Other debt instruments****	46,557	-	-
Corporate shares	1,412	5,266	5,943
Investment securities available-for-sale	**769,712**	**519,623**	**463,960**

**** GEL 341,681 was pledged for short-term loans from the National Bank of Georgia (2013: GEL 200,065, 2012: GEL 106,637).***
***** GEL 60,889 was pledged for short-term loans from the National Bank of Georgia (2013: GEL 19,773, 2012: GEL 7,663).***
****** No certificates of deposit of central banks were pledged for short-term loans from the National Bank of Georgia (2013: GEL 30,328, 2012: GEL 215,603).***
******* GEL 25,069 was pledged for short-term loans from the National Bank of Georgia.***

Other debt instruments as at 31 December 2014 comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 25,069, USD denominated treasury bonds issued by the Ministry of Finance of Azerbaijan of GEL 5,615, and USD and Azerbaijani Manat denominated corporate bonds of GEL 15,873.

(Thousands of Georgian Lari)

10. Loans to Customers

	2014	2013	2012
Commercial loans	2,201,890	1,870,765	1,677,624
Consumer loans	801,474	660,220	591,968
Micro and SME loans	772,283	566,273	400,553
Residential mortgage loans	604,143	447,063	398,114
Gold – pawn loans	53,785	61,871	75,445
Loans to customers, gross	**4,433,575**	**3,606,192**	**3,143,704**
Less – Allowance for loan impairment	(103,780)	(120,785)	(110,037)
Loans to customers, net	**4,329,795**	**3,485,407**	**3,033,667**

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2014	Consumer loans 2014	Residential mortgage loans 2014	Micro and SME loans 2014	Total 2014
At 1 January	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Charge (reversal)	34,617	14,147	(2,280)	(1,396)	45,088
Recoveries	3,104	14,730	5,661	5,211	28,706
Write-offs	(41,894)	(22,556)	(2,777)	(4,748)	(71,975)
Accrued interest on written-off loans	(13,581)	(3,341)	(704)	(348)	(17,974)
Currency translation differences	(310)	(104)	-	(436)	(850)
At 31 December	**72,885**	**23,648**	**2,993**	**4,254**	**103,780**
Individual impairment	63,816	1,403	2,525	3,637	71,381
Collective impairment	9,069	22,245	468	617	32,399
	72,885	**23,648**	**2,993**	**4,254**	**103,780**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**243,825**	**1,924**	**7,944**	**10,594**	**264,287**

	Commercial loans 2013	Consumer loans 2013	Residential mortgage loans 2013	Micro and SME loans 2013	Total 2013
At 1 January	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Charge (reversal)	13,671	27,550	(5,388)	5,666	41,499
Recoveries	4,693	14,363	4,958	3,465	27,479
Write-offs	(4,404)	(35,866)	(4,974)	(4,707)	(49,951)
Accrued interest on written-off loans	(1,153)	(5,509)	(1,216)	(344)	(8,222)
Currency translation differences	(56)	(15)	-	14	(57)
At 31 December	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Individual impairment	76,009	8,221	2,861	4,708	91,799
Collective impairment	14,940	12,551	232	1,263	28,986
	90,949	**20,772**	**3,093**	**5,971**	**120,785**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**144,020**	**14,817**	**6,792**	**10,925**	**176,554**

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2012	Consumer loans 2012	Residential mortgage loans 2012	Micro and SME loans 2012	Total 2012
At 1 January	**70,106**	**28,997**	**10,027**	**5,567**	**114,697**
Charge (reversal)	27,420	13,054	(1,142)	(146)	39,186
Recoveries	7,589	11,064	7,814	3,512	29,979
Write-offs	(25,174)	(30,196)	(5,720)	(6,475)	(67,565)
Accrued interest on written-off loans	(1,901)	(2,662)	(1,266)	(581)	(6,410)
Currency translation differences	158	(8)	-	-	150
At 31 December	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Individual impairment	66,566	11,230	3,499	1,877	83,172
Collective impairment	11,632	9,019	6,214	-	26,865
	78,198	**20,249**	**9,713**	**1,877**	**110,037**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**152,268**	**23,683**	**10,719**	**5,620**	**192,290**

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2014 comprised GEL 17,021 (2013: GEL 18,170, 2012: GEL 13,844).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Concentration of loans to customers

As at 31 December 2014, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 711,647 accounting for 16% of the gross loan portfolio of the Group (2013: GEL 610,916 and 17% respectively, 2012: GEL 544,466 and 17% respectively). An allowance of GEL 4,034 (2013: GEL 22,740, 2012: GEL 20,702) was established against these loans.

As at 31 December 2014, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,094,084 accounting for 25% of the gross loan portfolio of the Group (2013: GEL 912,106 and 25% respectively, 2012: GEL 791,529 and 25% respectively). An allowance of GEL 18,324 (2013: GEL 9,345, 2012: GEL 7,118) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2014, 31 December 2013 and 31 December 2012 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2014	*2013*	*2012*
Individuals	1,831,479	1,411,958	1,233,614
Manufacturing	719,003	659,527	407,315
Trade	647,858	560,389	434,956
Real estate *	408,142	382,956	447,850
Hospitality	166,214	106,997	164,006
Transport & Communication	151,715	148,849	89,413
Electricity, gas and water supply	124,772	63,378	46,373
Construction	114,891	132,477	121,883
Financial intermediation	109,201	14,758	6,976
Other	160,300	124,903	191,318
Loans to customers, gross	**4,433,575**	**3,606,192**	**3,143,704**
Less – allowance for loan impairment	(103,780)	(120,785)	(110,037)
Loans to customers, net	**4,329,795**	**3,485,407**	**3,033,667**

**** Operations with real estate, rent and services rendered to consumers.***

Loans have been extended to the following types of customers:

	2014	*2013*	*2012*
Private companies	2,552,152	2,089,290	1,796,116
Individuals	1,831,479	1,411,958	1,233,614
State-owned entities	49,944	104,944	113,974
Loans to customers, gross	**4,433,575**	**3,606,192**	**3,143,704**
Less – allowance for loan impairment	(103,780)	(120,785)	(110,037)
Loans to customers, net	**4,329,795**	**3,485,407**	**3,033,667**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2014, 31 December 2013 and 31 December 2012:

	2014			*2013*			*2012*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2014	*2014*	*2014*	*2013*	*2013*	*2013*	*2012*	*2012*	*2012*
At 1 January	**91,799**	**28,986**	**120,785**	**83,172**	**26,865**	**110,037**	**76,170**	**38,527**	**114,697**
Charge for the year	34,088	11,000	45,088	19,395	22,104	41,499	27,606	11,580	39,186
Recoveries	12,897	15,809	28,706	10,828	16,651	27,479	21,296	8,683	29,979
Write-offs	(51,774)	(20,201)	(71,975)	(17,269)	(32,682)	(49,951)	(38,200)	(29,365)	(67,565)
Interest accrued on impaired loans to customers	(14,846)	(3,128)	(17,974)	(4,273)	(3,949)	(8,222)	(3,853)	(2,557)	(6,410)
Currency translation differences	(783)	(67)	(850)	(54)	(3)	(57)	153	(3)	150
At 31 December	**71,381**	**32,399**	**103,780**	**91,799**	**28,986**	**120,785**	**83,172**	**26,865**	**110,037**

(Thousands of Georgian Lari)

11. Finance Lease Receivables

	2014	2013	2012
Minimum lease payments receivable	47,047	56,124	88,416
Less – Unearned finance lease income	(7,799)	(9,875)	(16,223)
	39,248	**46,249**	**72,193**
Less – Allowance for impairment	(729)	(643)	(507)
Finance lease receivables, net	**38,519**	**45,606**	**71,686**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2014, the concentration of investment in the five largest lease receivables comprised GEL 10,160 or 26% of total finance lease receivables (2013: GEL 5,766 or 12%, 2012: GEL 44,641 or 62%) and finance income received from it for the year ended 31 December 2014 comprised GEL 909 or 11% of total finance income from lease (2013: GEL 429 or 6%, 2012: GEL 3,588 or 41%).

Future minimum lease payments to be received after 31 December 2014, 31 December 2013 and 31 December 2012 are as follows:

	2014	2013	2012
Within 1 year	29,901	35,472	25,425
From 1 to 5 years	17,146	18,880	50,982
More than 5 years	-	1,772	12,009
Minimum lease payment receivables	**47,047**	**56,124**	**88,416**

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2014	Finance lease receivables 2013	Finance lease receivables 2012
At 1 January	**643**	**507**	**440**
Charge	476	2,809	495
Amounts written-off	(435)	(2,639)	(428)
Currency translation differences	45	(34)	-
At 31 December	**729**	**643**	**507**
Individual impairment	243	100	102
Collective impairment	486	543	405
	729	**643**	**507**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,487**	**870**	**1,008**

(Thousands of Georgian Lari)

12. Investment Properties

	2014	*2013*	*2012*
At 1 January	**157,707**	**160,353**	**101,686**
Additions*	58,449	20,051	62,138
Disposals	(7,383)	(10,748)	(15,622)
Net gains from revaluation of investment property	1,909	9,788	-
Hyperinflation effect	394	-	-
Transfers from (to) property and equipment and other assets**	(31,025)	(21,737)	12,151
Currency translation differences	10,809	-	-
At 31 December	**190,860**	**157,707**	**160,353**

**** GEL 49,348 paid in 2014 for acquisition of properties by the Group's Real Estate business for development. The remaining additions of 2014 and full additions of 2013 and 2012 comprise foreclosed properties, no cash transactions were involved.***
***** Comprised of GEL 6,389 transfer to property and equipment (2013 and 2012: transfers from property and equipment GEL 4,979 and GEL 12,151 respectively), GEL 25,132 transfer to other assets - inventories (2013: 14,089, 2012: GEL nil) and GEL 496 transfer from finance lease receivables (2013: transfer to finance lease receivable GEL 12,627 and 2012: nil).***

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2013. As at 31 December 2014 the Group analyzed market prices for its investment properties and concluded that the market price of investment properties was not materially different from their carrying value. Refer to Note 30 for details on fair value measurements of investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2014 were as follows:

	Land & buildings	*Hospitals & clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Additions	1,417	26,478	8,492	21,020	2,665	3,258	7,256	70,586
Business combination, Note 5	2	51,839	588	6,076	306	-	141	58,952
Disposals	(45)	(38)	(623)	(1,084)	(1,089)	(2,675)	(93)	(5,647)
Transfers	5,040	268	(1,856)	3,005	(1,150)	1,139	(6,446)	-
Transfers from investment properties	6,389	-	-	-	-	-	-	6,389
Transfers from (to) other assets	478	-	(216)	(511)	-	-	(61)	(310)
Effect of hyperinflation	3,225	-	228	438	52	67	58	4,068
Currency translation differences	4,230	-	3,748	303	54	191	(198)	8,328
31 December 2014	**230,375**	**207,038**	**140,130**	**130,810**	**7,566**	**12,751**	**9,599**	**738,269**
Accumulated impairment								
31 December 2013	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Effect of hyperinflation	187	-	7	19	3	-	-	216
Currency translation differences	(177)	-	4	(8)	4	9	9	(159)
31 December 2014	**3,621**	**-**	**51**	**120**	**13**	**9**	**9**	**3,823**
Accumulated depreciation								
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**-**	**121,468**
Depreciation charge	3,009	1,141	12,471	11,828	1,187	1,849	-	31,485
Effect of hyperinflation	134	-	102	238	38	66	-	578
Currency translation differences	(261)	-	(1,333)	(1,129)	(233)	(298)	-	(3,254)
Transfers (to) from other assets	(352)	-	(499)	(494)	-	-	-	(1,345)
Disposals	124	(21)	(653)	545	(1,286)	(1,708)	-	(2,999)
31 December 2014	**3,207**	**2,646**	**75,530**	**55,402**	**4,023**	**5,125**	**-**	**145,933**
Net book value:								
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**
31 December 2014	**223,547**	**204,392**	**64,549**	**75,288**	**3,530**	**7,617**	**9,590**	**588,513**

13. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2013 were as follows:

	Land & buildings	*Hospitals & Clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Additions	684	12,833	13,760	21,405	1,453	1,378	10,689	62,202
Business combination, Note 5	1	4,889	345	162	-	526	82	6,005
Disposals	(1,645)	(425)	(207)	(2,306)	(4,514)	(434)	(4)	(9,535)
Transfers	6,088	32,622	1,123	112	-	1,335	(41,280)	-
Transfers from (to) investment properties	(7,300)	-	-	40	-	-	2,055	(5,205)
Transfers to other assets	-	-	(316)	(1,187)	-	-	-	(1,503)
Revaluation	(5,620)	-	-	(289)	-	-	106	(5,803)
Effect of hyperinflation	2,864	-	207	376	48	61	72	3,628
Currency translation differences	4,385	-	1,871	519	125	66	(45)	6,921
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Accumulated impairment								
31 December 2012	**2,189**	**-**	**36**	**99**	**6**	**-**	**-**	**2,330**
Impairment charge	1,171	-	-	-	-	-	-	1,171
Effect of hyperinflation	364	-	6	16	1	-	-	387
Currency translation differences	(113)	-	(2)	(6)	(1)	-	-	(122)
31 December 2013	**3,611**	**-**	**40**	**109**	**6**	**-**	**-**	**3,766**
Accumulated depreciation								
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**-**	**105,986**
Depreciation charge	3,010	1,032	11,162	9,913	1,328	1,597	-	28,042
Effect of hyperinflation	364	-	6	16	1	-	-	387
Currency translation differences	(239)	-	44	81	21	32	-	(61)
Transfers to investment properties	(226)	-	-	-	-	-	-	(226)
Transfers from (to) other assets	-	-	(86)	(962)	-	-	-	(1,048)
Revaluation	(7,047)	-	-	(347)	-	-	-	(7,394)
Disposals	-	(14)	(90)	(557)	(3,419)	(138)	-	(4,218)
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**-**	**121,468**
Net book value:								
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**

The movements in property and equipment during the year ended 31 December 2012 were as follows:

	Land & buildings	*Hospitals & Clinics*	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount								
31 December 2011	**192,865**	**40,441**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Additions	4,518	2,836	8,756	16,458	3,230	306	24,082	60,186
Business combination	6,228	30,131	-	3,302	-	-	15,799	55,460
Disposals	(2,123)	(103)	(2,272)	(448)	(2,105)	(1,266)	-	(8,317)
Disposals through sale of subsidiaries	-	-	(6)	-	(46)	-	-	(52)
Transfers	8,327	5,266	-	-	-	864	(14,457)	-
Transfers to investment properties	(1,520)	-	-	-	-	-	(10,631)	(12,151)
Transfers from (to) other assets	9	1	(14)	6,636	4	-	1,785	8,421
Effect of hyperinflation	3,086	-	210	347	48	60	76	3,827
Currency translation differences	(1,208)	-	(1,272)	(223)	(33)	(78)	(81)	(2,895)
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Accumulated impairment								
31 December 2011	**2,626**	**-**	**37**	**106**	**6**	**-**	**-**	**2,775**
Impairment charge	-	-	14	59	-	-	-	73
Disposals through sale of subsidiaries	-	-	(15)	(7)	-	-	-	(22)
Effect of hyperinflation	-	-	-	123	-	-	-	123
Currency translation differences	(437)	-	-	(182)	-	-	-	(619)
31 December 2012	**2,189**	**-**	**36**	**99**	**6**	**-**	**-**	**2,330**
Accumulated depreciation								
31 December 2011	**1,720**	**26**	**43,476**	**28,913**	**6,464**	**3,230**	**-**	**83,829**
Depreciation charge	2,545	481	11,288	7,536	1,768	1,409	-	25,027
Effect of hyperinflation	450	-	8	22	1	-	-	481
Currency translation differences	(25)	-	19	71	9	52	-	126
Transfers to other assets	-	-	(8)	(122)	-	-	-	(130)
Disposals	1	1	(373)	(150)	(1,834)	(966)	-	(3,321)
Disposals through sale of subsidiaries	-	-	(4)	-	(22)	-	-	(26)
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**-**	**105,986**
Net book value:								
31 December 2011	**188,519**	**40,415**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**

13. Property and Equipment (continued)

(Thousands of Georgian Lari)

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2013. As at 31 December 2014 the Group analyzed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value. Refer to Note 30 for details on fair value measurements of the Group's premises.

If the office buildings and service centers had been measured using the cost model, the carrying amounts of the office buildings and service centers as at 31 December 2014, 31 December 2013 and 31 December 2012 would have been as follows:

	2014	*2013*	*2012*
Cost	166,839	146,104	141,023
Accumulated depreciation and impairment	(16,896)	(14,023)	(10,888)
Net carrying amount	**149,943**	**132,081**	**130,135**

14. Goodwill

Movements in goodwill during the years ended 31 December 2014, 31 December 2013 and 31 December 2012, were as follows:

	2014	*2013*	*2012*
Cost			
1 January	**77,170**	**74,107**	**74,645**
Business combinations, Note 5	913	3,063	482
Disposals through sale of subsidiaries	-	-	(1,020)
At 31 December	**78,083**	**77,170**	**74,107**
Accumulated impairment			
1 January	**28,450**	**28,450**	**28,450**
Impairment charge	-	-	655
Disposals through sale of subsidiaries	-	-	(655)
At 31 December	**28,450**	**28,450**	**28,450**
Net book value:			
1 January	**48,720**	**45,657**	**46,195**
At 31 December	**49,633**	**48,720**	**45,657**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to five individual cash-generating units, which are also reportable segments, for impairment testing: Corporate banking, Retail banking, P&C Insurance, Health Insurance, Healthcare and Liberty Consumer.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2014	*2013*	*2012*
P&C Insurance	16,139	16,139	16,139
Retail banking	12,433	12,433	12,433
Corporate banking	9,965	9,965	9,965
Healthcare	4,195	3,282	220
Health Insurance	3,462	3,462	3,462
Liberty Consumer	3,439	3,439	3,438
Total	**49,633**	**48,720**	**45,657**

(Thousands of Georgian Lari)

14. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating units.

The following rates were used by the Group for corporate banking and retail banking:

	Corporate Banking			Retail Banking		
	2014, %	2013, %	2012, %	2014, %	2013, %	2012, %
Discount rate	6.20%	8.50%	8.50%	6.50%	8.50%	8.50%

The following rates were used by the Group for P&C Insurance and Health Insurance:

	P&C Insurance			Health Insurance		
	2014, %	2013, %	2012, %	2014, %	2013, %	2012, %
Discount rate	10.9%	13.3%	13.3%	11.3%	14.5%	14.5%

The following rates were used by the Group for Healthcare and Liberty Consumer:

	Healthcare			Liberty Consumer		
	2014, %	2013, %	2012, %	2014, %	2013, %	2012, %
Discount rate	10.5%	14.5%	14.5%	9.0%	14.5%	14.5%

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using WACC.

For the Healthcare CGU the following additional assumptions were made over the first two-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

For the Retail and Corporate banking CGUs the following additional assumptions were made:

- Stable, business as usual growth of loans and deposits;
- No material changes in cost / income structure or ratio;
- Stable, business as usual growth of trade finance and other documentary businesses;
- Further expansion of the express banking businesses bringing more stable margins to retail banking.

Sensitivity to changes in assumptions

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount CGUs will not result in an impairment of goodwill.

(Thousands of Georgian Lari)

15. Taxation

The corporate income tax (expense) benefit comprises:

	2014	*2013*	*2012*
Current income expense	(24,493)	(17,283)	(23,469)
Deferred income tax expense	(11,333)	(18,629)	(9,731)
Income tax expense	**(35,826)**	**(35,912)**	**(33,200)**
Deferred income tax (expense) benefit in other comprehensive income (loss)	**(123)**	**(1,095)**	**(690)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2014, 2013 and 2012 was as follows:

	2014	*2013*	*2012*
Currency translation differences	(123)	(883)	654
Net losses on investment securities available-for-sale	-	1	(1,344)
Revaluation of buildings	-	(213)	-
Income tax (expense) benefit in other comprehensive income	**(123)**	**(1,095)**	**(690)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 26.5% (2013: from 15% to 24%, 2012: from 15% to 23%).

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2014, 31 December 2013 and 31 December 2012 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2014	*2013*	*2012*
Profit before income tax expense	**281,810**	**249,712**	**215,945**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(42,272)**	**(37,457)**	**(32,392)**
Tax at the domestic rates applicable to profits in each country	186	(447)	(1,417)
Change in unrecognised deferred tax assets	6,100	-	-
Correction of prior year declarations	(298)	2,402	-
Effect of changes in tax rate	(502)	-	-
Non-deductible expenses	-	(525)	-
Other	960	115	609
Income tax expense	**(35,826)**	**(35,912)**	**(33,200)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2014, 31 December 2013 and 31 December 2012 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				Origination and reversal of temporary differences			Origination and reversal of temporary differences			
	2011	In the income statement	In other comprehensive income	Disposal of subsidiary	2012	In the income statement	In other comprehensive income	2013	In the income statement	Business combination	In other comprehensive income	2014
Tax effect of deductible temporary differences:												
Amounts due to credit institutions	1,264	(1,209)	-	-	55	1,125	-	1,180	(175)	-	-	1,005
Investment securities: available-for-sale	737	(749)	19	-	7	1,188	1	1,196	(1)	-	-	1,195
Investment properties	-	-	-	-	-	2,479	-	2,479	-	-	(1,499)	980
Insurance premiums receivables	1,697	(373)	-	-	1,324	(438)	-	886	624	-	-	1,510
Allowances for impairment and provisions for other losses	1,342	(283)	-	-	1,059	(604)	-	455	(257)	-	-	198
Tax losses carried forward	12,332	(2,417)	(746)	(24)	9,145	(974)	620	8,791	2,650	-	855	12,296
Property and equipment	2,178	(1,238)	(7)	-	933	9	-	942	(6)	-	-	936
Other assets and liabilities	3,687	(629)	(302)	(26)	2,730	439	-	3,169	751	-	(51)	3,869
Deferred tax assets	**23,237**	**(6,898)**	**(1,036)**	**(50)**	**15,253**	**3,224**	**621**	**19,098**	**3,586**	**-**	**(695)**	**21,989**
Tax effect of taxable temporary differences:												
Amounts due to credit institutions	1,734	(1,662)	-	-	72	28	(48)	52	(5)	-	(3)	44
Amounts due to customers	510	(510)	-	-	-	1,325	-	1,325	-	-	-	1,325
Loans to customers	9,022	(14)	-	-	9,008	12,831	-	21,839	8,562	-	(165)	30,236
Other insurance liabilities & pension fund obligations	404	446	-	-	850	106	-	956	426	-	-	1,382
Property and equipment	26,163	3,309	310	-	29,782	1,650	1,179	32,611	4,473	4,929	(330)	41,683
Investment properties	615	(152)	(2)	-	461	1,711	(2,170)	2	69	-	(7)	64
Intangible assets	4,316	571	-	-	4,887	688	-	5,575	965	-	(8)	6,532
Other assets and liabilities	1,863	845	(654)	(29)	2,025	3,514	2,755	8,294	429	-	(59)	8,664
Deferred tax liabilities	**44,627**	**2,833**	**(346)**	**(29)**	**47,085**	**21,853**	**1,716**	**70,654**	**14,919**	**4,929**	**(572)**	**89,930**
Net deferred tax liabilities	**(21,390)**	**(9,731)**	**(690)**	**(21)**	**(31,832)**	**(18,629)**	**(1,095)**	**(51,556)**	**(11,333)**	**(4,929)**	**(123)**	**(67,941)**

16. Other Assets and Other Liabilities

Other assets comprise:

	2014	*2013*	*2012*
Inventory	101,807	88,209	44,380
Accounts receivable	60,674	32,474	25,559
Foreclosed assets *	49,090	43,924	900
Derivative financial assets	45,733	39,431	36,784
Insurance premiums receivable	36,028	64,988	68,947
Reinsurance assets	11,289	9,471	8,279
Operating tax assets	10,473	15,515	9,883
Assets purchased for finance lease purposes	6,841	3,649	1,654
Receivables from money transfers	4,080	4,054	4,619
Settlements on operations	2,869	10,461	10,931
Trading securities owned	1,034	1,149	971
Operating lease receivables	474	489	547
Receivables from sale of assets	214	692	872
Receivables from documentary operations	43	14,562	2,990
Other	30,850	18,447	18,101
	361,499	**347,515**	**235,417**
Less – Allowance for impairment of other assets	(10,273)	(18,289)	(14,375)
Other assets	**351,226**	**329,226**	**221,042**

**** Foreclosed assets represent movable repossessed assets. The increase in 2013 is attributable to premature termination of one large finance lease receivable that in 2012 made up 62% of total finance lease receivables, Note 11.***

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities (continued)

Inventories mainly comprises GEL 48,316 affordable housing apartments under construction (2013: GEL 65,019, 2012: GEL 32,458), GEL 7,000 medical supplies held by the healthcare segment (2013: GEL 4,622, 2012: GEL 5,698) and GEL 11,448 of winery business related materials and finished goods (2013: GEL 8,183, 2012: GEL 5,618).

Other liabilities comprise:

	2014	*2013*	*2012*
Deferred income and other accruals *	82,824	61,173	31,975
Insurance contracts liabilities	46,586	73,719	79,839
Accruals for employee compensation	25,685	20,830	14,093
Accounts payable	15,658	10,979	13,556
Amounts payable for share acquisitions **	13,694	-	-
Pension benefit obligations	11,201	9,540	8,758
Creditors	10,436	7,855	9,911
Derivative financial liabilities	7,505	1,513	4,867
Other insurance liabilities	7,395	7,360	10,861
Other taxes payable	4,258	1,826	1,930
Dividends payable	2,419	511	393
Other	6,920	11,251	8,041
Other liabilities	**234,581**	**206,557**	**184,224**

**** Deferred income and other accruals as at 31 December 2014 is primarily made up of deferred income on sale of developed real estate properties of the Group's real estate subsidiaries – GEL 67,957 or 82.0% (2013: GEL 53,639 or 87.7%, 2012: GEL 23,432 or 73.3%).***
***** Amounts payable for share acquisitions comprise GEL 13,694 payable for healthcare business acquisitions.***

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2014		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	49,648	247	1,242
Forwards and Swaps – foreign	494,206	45,486	6,263
Total derivative assets / liabilities	**543,854**	**45,733**	**7,505**

	2013			*2012*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Forwards and Swaps – foreign	97,566	-	1,453	148,137	-	4,783
Foreign exchange contracts						
Forwards and Swaps – domestic	66,640	332	50	41,693	542	-
Forwards and Swaps – foreign	100,465	39,076	10	120,493	35,976	84
Equity / Commodity contracts						
Call options – foreign	1,166	23	-	3,313	266	-
Total derivative assets / liabilities	**265,837**	**39,431**	**1,513**	**313,636**	**36,784**	**4,867**

(Thousands of Georgian Lari)

17. Amounts Due to Customers

The amounts due to customers include the following:

	2014	*2013*	*2012*
Time deposits	1,914,366	1,593,196	1,325,544
Current accounts	1,534,053	1,514,038	1,297,367
Promissory notes issued	25,010	10,523	70,114
Amounts due to customers	**3,473,429**	**3,117,757**	**2,693,025**
Held as security against letters of credit and guarantees (Note20)	**53,393**	**53,903**	**31,439**

As at 31 December 2014, 31 December 2013 and 31 December 2012, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 1 month (2013: 12 months, 2012: 3 months).

At 31 December 2014, amounts due to customers of GEL 533,673 (15%) were due to the 10 largest customers (2013: GEL 436,694 (14%), 2012: GEL 462,815 (17%).

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

	2014	*2013*	*2012*
Individuals	1,868,762	1,511,452	1,262,178
Private enterprises	1,419,659	1,435,925	1,276,438
State and state-owned entities	185,008	170,380	154,409
Amounts due to customers	**3,473,429**	**3,117,757**	**2,693,025**

The breakdown of customer accounts by industry sector is as follows:

	2014	*2013*	*2012*
Individuals	1,868,762	1,511,452	1,262,178
Real estate *	463,950	420,208	323,244
Trade	277,792	360,378	281,013
Construction	220,234	241,271	151,826
Transport & Communication	173,591	143,681	154,202
Government services	128,046	50,481	52,097
Financial intermediation	110,759	69,239	126,859
Manufacturing	107,813	85,673	102,239
Hospitality	33,503	35,049	26,578
Electricity, gas and water supply	21,275	78,537	79,178
Other	67,704	121,788	133,611
Amounts due to customers	**3,473,429**	**3,117,757**	**2,693,025**

**** Operations with real estate, rent and services rendered to consumers.***

18. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2014	*2013*	*2012*
Borrowings from international credit institutions	574,240	504,943	596,700
Short-term loans from the National Bank of Georgia	400,772	250,138	310,178
Time deposits and inter-bank loans	261,550	221,267	113,222
Correspondent accounts	32,606	12,921	7,969
Subtotal	**1,269,168**	**989,269**	**1,028,069**
Non-convertible subordinated debt	140,045	168,710	208,244
Amounts due to credit institutions	**1,409,213**	**1,157,979**	**1,236,313**

(Thousands of Georgian Lari)

18. Amounts Due to Credit Institutions (continued)

During the years ended 31 December 2014, 31 December 2013 and 31 December 2012 the Group received short-term funds from Georgian banks in different currencies.

During the year ended 31 December 2014 the Group paid up to 6.77% on USD borrowings from international credit institutions (2013: up to 6.23%, 2012: up to 9.65%). During the year ended 31 December 2014 the Group paid up to 10.40% on USD subordinated debt (2013: up to 11.33% and 2012: up to 11.65%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2014, 31 December 2013 and 31 December 2012 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

19. Debt Securities Issued

Debt securities issued comprise:

	2014	*2013*	*2012*
Eurobonds	779,445	728,117	420,849
Georgian local bonds	46,217	-	-
Certificates of deposit	31,033	-	-
Debt securities issued	**856,695**	**728,117**	**420,849**

In September 2014, the Group's leasing subsidiary Georgian Leasing Company LLC completed the issuance of 3-year local bonds of USD 10 million (GEL 18 million). The bonds were issued at par with a coupon rate of annual 8.75% payable semi-annually with 5% withholding tax applying to individuals.

In April 2014 and June 2014, the Group's real estate subsidiary JSC m2 completed the issuances of 1-year local bonds of USD 5 million (GEL 9 million) and USD 10 million (GEL 18 million) respectively. The bonds were issued at par with 9.5% and 8.42% respectively payable upon maturity with 5% withholding tax applying to individuals.

In January 2014, the Bank issued USD 3 million (GEL 5 million) and EUR 4.2 million (GEL 10 million) certificates of deposit with a fixed 5.25% semi-annual coupon. The certificates of deposit were issued pursuant to the applicable regulations of International Securities Market Advisory Group ("ISMAG") and with regard to any registration, filing or similar requirement of the international clearing systems Euroclear and Clearstream. Certificates of Deposit may be freely resold or otherwise assigned to any third party without prior notification of the Bank.

On 6 November 2013, the Bank completed the issuance of its USD 150 million (GEL 251 million) 7.75% notes due 2017, consolidated and forming a single series with the USD 250 million 7.75% notes due 2017 issued on 5 July 2012. The Regulation S / Rule 144A senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 105.249% of their principal amount. J.P. Morgan Securities plc and Merrill Lynch International acted as Joint Lead Managers for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The Notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and have been admitted to trading on the London Stock Exchange's Regulated Market.

On 5 July 2012 the Bank completed the issuance of its USD 250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S / Rule 144A 5-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of principal amount. Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd. and Merrill Lynch International acted as Joint Lead Managers and Bookrunners for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and have been admitted to trading on the London Stock Exchange's Regulated Market.

(Thousands of Georgian Lari)

20. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As at 31 December 2014, 31 December 2013 and 31 December 2012 the Group's financial commitments and contingencies comprised the following:

	2014	*2013*	*2012*
Credit-related commitments			
Guarantees issued	465,527	478,247	502,511
Undrawn loan facilities	144,634	147,273	140,003
Letters of credit	95,669	55,608	100,023
	705,830	**681,128**	**742,537**
Operating lease commitments			
Not later than 1 year	12,382	7,978	5,666
Later than 1 year but not later than 5 years	21,943	12,844	11,722
Later than 5 years	3,178	1,693	2,172
	37,503	**22,515**	**19,560**
Capital expenditure commitments	**10,035**	**11,463**	**3,069**
Less – Cash held as security against letters of credit and guarantees (Note 17)	(53,393)	(53,903)	(31,439)
Less – Provisions	(4,732)	(481)	(683)
Financial commitments and contingencies, net	**695,243**	**660,722**	**733,044**

As at 31 December 2014 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 9,810 and software and other intangible assets of GEL 225. As at 31 December 2013 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 8,796 and software and other intangible assets of GEL 2,667. As at 31 December 2012 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121.

21. Equity

Share capital

As at 31 December 2014, authorized common capital comprised 43,308,125 issued share capital comprised 36,512,553 common shares, of which 36,512,553 were fully paid (31 December 2013: 36,512,553 issued share capital, of which 36,512,553 were fully paid, 31 December 2012: 36,512,553 issued share capital, of which 36,512,553 were fully paid). Each share has a nominal value of one (1) Georgian Lari (31 December 2013: one (1) Georgian Lari, 31 December 2012: one (1) Georgian Lari). Shares issued and outstanding as at 31 December 2014 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2011	**32,877,547**	**32,878**
Issue of share capital*	3,635,006	3,635
31 December 2012	**36,512,553**	**36,513**
31 December 2013	**36,512,553**	**36,513**
31 December 2014	**36,512,553**	**36,513**

**** Conversion of USD 49,903 convertible borrowings by EBRD and IFC into the Bank's 3,635,006 shares.***

(Thousands of Georgian Lari)

21. Equity (continued)

Share capital (continued)

On 24 February 2012 EBRD and IFC utilized the convertibility feature and converted USD 49,903 of their loans to the Bank into the Bank's shares (Note 18). Total number of ordinary shares issued under this transaction comprised 3,635,006.

Treasury shares

Treasury shares are held by the Group solely for the employee's future share-based compensation purposes.

The number of treasury shares held by the Group as at 31 December 2014 comprised 1,522,254 (31 December 2013: 2,427,560, 31 December 2012: 3,040,337).

Treasury shares of GEL 1,522 as at 31 December 2014 comprise the Group's shares owned by the Group (31 December 2013: GEL 2,428, 31 December 2012: GEL 3,041).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 10 April 2014, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2014 dividends comprising Georgian Lari 2.0 per share. Payment of the total GEL 74,638 interim dividends was received by shareholders on 6 May 2014.

On 5 April 2013, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2013 dividends comprising Georgian Lari 1.5 per share. Payment of the total GEL 54,097 interim dividends was received by shareholders on 7 May 2013.

On 24 May 2012, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2012 dividends comprising Georgian Lari 0.7 per share, based on 2011 audited financial result. Payment of the total GEL 25,267 interim dividends was received by shareholders on 25 June 2012.

Nature and purpose of other reserves

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

Unrealised gains (losses) on investment securities available-for-sale
This reserve records fair value changes on investments available-for-sale.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements in other reserves during the years ended 31 December 2014, 31 December 2013 and 31 December 2012 are presented in the statements of other comprehensive income.

(Thousands of Georgian Lari)

21. Equity (continued)

Earnings per share

	2014	2013	2012
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	238,644	206,748	178,921
Weighted average number of ordinary shares outstanding during the year	34,564,182	34,132,297	33,142,027
Basic earnings per share	6.9044	6.0573	5.3985
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	-	-	1,116
Number of dilutive potential ordinary shares	-	-	526,381
Diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	238,644	206,748	180,037
Weighted average number of diluted ordinary shares outstanding during the year	34,564,182	34,132,297	33,668,408
Diluted earnings per share	6.9044	6.0573	5.3474

During the year ended 31 December 2012 dilutive potential ordinary shares were accounted for by convertible loans granted by EBRD and IFC.

On 24 February 2012 the Bank converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Bank. Their conversion decreased earnings per share from continuing operations. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group.

22. Net Fee and Commission Income

	2014	2013	2012
Settlements operations	87,096	76,541	69,208
Guarantees and letters of credit	21,504	23,780	26,846
Cash operations	9,664	9,049	8,826
Brokerage service fees	7,669	804	911
Currency conversion operations	3,204	2,652	1,802
Advisory	-	272	-
Other	3,318	2,008	1,685
Fee and commission income	**132,455**	**115,106**	**109,278**
Settlements operations	(21,730)	(18,893)	(14,841)
Guarantees and letters of credit	(4,004)	(3,968)	(4,046)
Cash operations	(3,782)	(2,705)	(1,510)
Insurance brokerage service fees	(353)	(656)	(722)
Currency conversion operations	(185)	(95)	(73)
Other	(2,240)	(1,675)	(1,018)
Fee and commission expense	**(32,294)**	**(27,992)**	**(22,210)**
Net fee and commission income	**100,161**	**87,114**	**87,068**

(Thousands of Georgian Lari)

23. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 comprised:

	2014	*2013*	*2012*
Life insurance contracts premium written	5,381	3,610	4,069
General insurance contracts premium written	81,691	135,635	113,810
Total premiums written	**87,072**	**139,245**	**117,879**
Gross change in life provision	70	881	(98)
Gross change in general insurance contracts unearned premium provision	26,621	2,913	(14,931)
Total gross premiums earned on insurance contracts	**113,763**	**143,039**	**102,850**
Reinsurers' share of life insurance contracts premium written	(53)	(505)	(658)
Reinsurers' share of general insurance contracts premium written	(18,328)	(14,660)	(8,925)
Reinsurers' share of change in life provision	(32)	5	(65)
Reinsurers' share of change in general insurance contracts unearned premium provision	500	2,114	(2,026)
Total reinsurers' share of gross earned premiums on insurance contracts	**(17,913)**	**(13,046)**	**(11,674)**
Net insurance premiums earned	**95,850**	**129,993**	**91,176**
Life insurance claims paid	(1,364)	(954)	(539)
General insurance claims paid	(68,827)	(86,425)	(60,323)
Total insurance claims paid	**(70,191)**	**(87,379)**	**(60,862)**
Reinsurers' share of life insurance claims paid	120	441	84
Reinsurers' share of general insurance claims paid	1,858	1,036	1,282
Gross change in total reserves for claims	443	2,325	1,742
Reinsurers' share of change in total reserves for claims	1,349	(1,083)	716
Net insurance claims incurred	**(66,421)**	**(84,660)**	**(57,038)**
Net insurance revenue	**29,429**	**45,333**	**34,138**

24. Net Healthcare Revenue

	2014	*2013*	*2012*
Revenue from government programmes	78,967	19,810	13,184
Revenue from free flow (non-insured retail individuals)	33,854	17,677	21,133
Revenue from insurance companies	11,562	22,418	16,937
Other revenue from medical services	1,337	108	3,122
Healthcare revenue	**125,720**	**60,013**	**54,376**
Direct salary expenses	(39,022)	(20,182)	(21,980)
Direct materials	(17,304)	(13,569)	(6,799)
Expenses on medical service providers	(12,042)	(1,885)	(2,081)
Other direct expenses	(10,468)	(2,008)	(170)
Cost of healthcare services	**(78,836)**	**(37,644)**	**(31,030)**
Net healthcare revenue	**46,884**	**22,369**	**23,346**

(Thousands of Georgian Lari)

25. Net Real Estate Revenue

	2014	2013	2012
Revenue from affordable housing	56,993	7,151	12,044
Income from operating lease	4,163	3,168	2,987
Gain from sale of real estate properties	1,842	2,706	2,272
Real estate revenue	**62,998**	**13,025**	**17,303**
Cost of affordable housing properties	(46,810)	(5,929)	(9,108)
Loss on real estate property sale	(406)	(1,198)	(728)
Net real estate revenue	**15,782**	**5,898**	**7,467**

26. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2014	2013	2012
Salaries and bonuses	(149,385)	(131,466)	(119,789)
Social security costs	(2,918)	(2,307)	(1,510)
Salaries and other employee benefits	**(152,303)**	**(133,773)**	**(121,299)**

The average number of staff employed by the Group for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 comprised:

	2014	2013	2012
The Bank	3,622	3,686	3,523
Insurance companies**	597	589	459
BNB	433	362	290
Other	840	807	750
Average number of staff employed excluding healthcare*	**5,492**	**5,444**	**5,022**
Healthcare companies***	7,242	6,046	4,288
Average total number of staff employed	**12,734**	**11,490**	**9,310**

**** Salary expenses on staff employed in the healthcare segment are included in cost of healthcare services.***
***** JSC Insurance Company Imedi L and JSC Insurance Company Aldagi.***
****** JSC Medical Corporation EVEX and its subsidiaries.***

Salaries and bonuses include GEL 27,193, GEL 18,702 and GEL 17,122 of the Equity Compensation Plan costs for the years ended 31 December 2014, 31 December 2013 and 31 December 2012, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 28 and 32).

	2014	2013	2012
Occupancy and rent	(11,007)	(9,457)	(9,457)
Marketing and advertising	(10,887)	(9,416)	(9,603)
Repairs and maintenance	(9,065)	(7,483)	(11,164)
Legal and other professional services	(7,860)	(6,420)	(8,975)
Office supplies	(6,192)	(6,085)	(8,344)
Communication	(5,106)	(4,745)	(4,593)
Operating taxes	(5,069)	(4,565)	(4,824)
Corporate hospitality and entertainment	(4,139)	(3,233)	(2,669)
Security	(2,577)	(2,149)	(1,964)
Personnel training and recruitment	(1,697)	(1,212)	(854)
Travel expenses	(1,596)	(1,435)	(1,403)
Insurance	(414)	(474)	(397)
Banking services	(47)	(197)	(62)
Penalties	(55)	(75)	(318)
Other	(5,119)	(970)	(1,059)
General and administrative expenses	**(70,830)**	**(57,916)**	**(65,686)**

(Thousands of Georgian Lari)

27. Net Non-recurring Expenses

	2014	2013	2012
Negative goodwill on business combination	1,003	-	-
Gain from building transferred to healthcare segment from the Government	524	-	-
Gain from penalties on unfulfilled obligations by contractors	-	201	149
Other non-recurring income/gain	277	515	694
Total non-recurring income/gain	**1,804**	**716**	**843**
Impairment of investment securities available-for-sale	(3,837)	-	(2,078)
Loss from Belarus Hyperinflation	(3,073)	(1,694)	(443)
Loss from early repayments of borrowings from international credit institutions	(2,503)	-	-
Charity expenses	(210)	(240)	-
Impairment of receivabled from sale of BG Bank	-	(3,100)	(3,903)
Impairment of investment in associate	-	(2,441)	-
Impairment of property and equipment, and intangible assets	-	(1,171)	(299)
Management leave compensation expense	-	(577)	(786)
Loss from damaged physical assets	-	(531)	-
Unforseen loss on Affordable Housing pilot project	-	(389)	-
Premium listing related expenses	-	-	(6,191)
Write-off of prepayments for an intangible asset	-	-	(2,432)
Impairment of goodwill	-	-	(655)
Other	(3,198)	(3,406)	(3,690)
Total non-recurring expense/loss	**(12,821)**	**(13,549)**	**(20,477)**
Net non-recurring expense/loss	**(11,017)**	**(12,833)**	**(19,634)**

28. Share-based Payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

In February 2014 the Bank's Supervisory Board resolved to award 135,500 ordinary shares of BGH to the members of the Management Board and 88,775 ordinary shares of BGH to the Group's 27 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 27 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was Georgian Lari 67.90 per share.

In February 2013 the Bank's Supervisory Board resolved to award 200,000 ordinary shares of BGH to the members of the Management Board and 137,850 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was Georgian Lari 35.56 per share.

In March 2012 the Bank's Supervisory Board resolved to award 220,000 ordinary shares of BGH to the members of the Management Board and 199,358 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was Georgian Lari 26.07 per share.

Additionally, in February 2013 CEO of the Bank and the deputies signed new three-year fixed contingent share-based compensation agreements with the Bank for the total of 840,000 ordinary shares of BGH. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was Georgian Lari 35.45.

(Thousands of Georgian Lari)

28. Share-based Payments (continued)

The Bank grants share compensation to its mid-management employees too. In February 2014, in February 2013 and in March 2012, the Supervisory Board of the Bank resolved to award 42,745, 68,850 and 42,600 ordinary shares to its mid-management employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 24 February 2014, 15 February 2013 and 6 March 2012 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 24 February 2014, 15 February 2013 and 6 March 2012 were Georgian Lari 67.90, 35.56 and 26.07 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 67.90 per share in year ended 31 December 2014 (31 December 2013: Georgian Lari 35.48 per share, 31 December 2012: Georgian Lari 26.07).

The Group's total share-based payment expenses for the year ended 31 December 2014 comprised GEL 27,193 (31 December 2013: GEL 18,702, 31 December 2012: GEL 17,122) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Below is the summary of the share-based payments related data:

	2014	*2013*	*2012*
Total number of equity instruments awarded*	267,020	1,246,700	461,958
– Among them, to top management and board of directors	*135,500*	*300,000*	*34,000*
Weighted average value at grant date, per share (GEL in full amount)	67.90	35.48	26.07
Value at grant date, total (GEL)	**18,132**	**44,238**	**12,044**
Total expense recognised during the year (GEL)	**(27,193)**	**(18,702)**	**(17,122)**

**** 2013 award includes fixed contingent share-based compensation of 840,000 ordinary shares per new employment agreements of CEO and deputies, signed in February 2013 for the subsequent consecutive 3 year period;***

29. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Audit Committee

The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Introduction (continued)

Risk Committee

The Risk Committee was established in 2014. It has the responsibility to ensure that the Group's risk appetite and exposure are addressed as part of strategy and advise the Board on the appropriateness of this risk strategy and appetite; oversee and advise the Board on the current and emerging risk exposures of the Group; oversee and monitor the implementation of the risk strategy by senior management to address the risk exposures of the Group; review the effectiveness of the Group's risk management framework and internal control systems (other than internal financial control systems which is the responsibility of the BGH Audit Committee); assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group; ensure that risk is properly considered in setting the Group's remuneration policy; oversee the communication regarding risk management through entire management structure; review and approve the Group's risk management policy.

Management Board
The Management Board has the responsibility to monitor and manage entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

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

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Introduction (continued)

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

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

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

31 December 2014	Notes	Neither past due nor impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Amounts due from credit institutions	8	418,502	-	-	-	418,502
Debt investment securities available-for-sale	9	768,300	-	-	-	768,300
Loans to customers:	10					
Commercial loans		1,656,170	138,115	159,074	248,531	2,201,890
Consumer loans		739,767	22,293	1,541	37,873	801,474
Micro and SME loans		663,388	83,413	7,799	17,683	772,283
Residential mortgage loans		570,879	16,565	2,009	14,690	604,143
Gold – pawn loans		53,785	-	-	-	53,785
		3,683,989	**260,386**	**170,423**	**318,777**	**4,433,575**
Finance lease receivables	11	19,437	4,684	2,150	12,977	39,248
Total		**4,890,228**	**265,070**	**172,573**	**331,754**	**5,659,625**

31 December 2013	Notes	Neither past due nor impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Amounts due from credit institutions	8	347,261	-	-	-	347,261
Debt investment securities available-for-sale	9	514,357	-	-	-	514,357
Loans to customers:	10					
Commercial loans		1,477,733	114,248	110,791	167,993	1,870,765
Consumer loans		607,344	19,849	1,475	31,552	660,220
Micro and SME loans		486,536	63,501	4,198	12,038	566,273
Residential mortgage loans		411,291	21,359	2,303	12,110	447,063
Gold – pawn loans		61,871	-	-	-	61,871
		3,044,775	**218,957**	**118,767**	**223,693**	**3,606,192**
Finance lease receivables	11	30,325	4,020	1,918	9,986	46,249
Total		**3,936,718**	**222,977**	**120,685**	**233,679**	**4,514,059**

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

31 December 2012	Notes	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard grade	Neither past due nor impaired – Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	396,559	-	-	-	396,559
Debt investment securities available-for-sale	9	458,017	-	-	-	458,017
Loans to customers:	10					
Commercial loans		1,372,889	62,048	73,681	169,006	1,677,624
Consumer loans		530,333	18,945	1,181	41,509	591,968
Micro and SME loans		376,940	14,789	1,842	6,982	400,553
Residential mortgage loans		358,742	18,692	3,305	17,375	398,114
Gold – pawn loans		75,445	–	–	–	75,445
		2,714,349	114,474	80,009	234,872	3,143,704
Finance lease receivables	11	19,153	1,770	440	50,830	72,193
Total		3,588,078	116,244	80,449	285,702	4,070,473

Past due loans to customers, analyzed by age below, include those that are past due by not more than a few days. These loans are not impaired.

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

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;

A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

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

31 December 2014	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	19,266	4,758	2,703	9,222	35,949
Micro and SME loans	2,926	3,307	259	598	7,090
Residential mortgage loans	3,822	788	304	1,832	6,746
Commercial loans	2,673	528	342	1,162	4,705
Finance lease receivables	1,977	9,154	156	203	11,490
Total	30,664	18,535	3,764	13,017	65,980

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

31 December 2013	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Commercial loans	9,118	2,422	847	11,584	23,971
Consumer loans	16,735	-	-	1	16,736
Residential mortgage loans	4,201	547	288	283	5,319
Micro and SME loans	843	18	200	52	1,113
Finance lease receivables	5,839	3,081	88	108	9,116
Total	**36,736**	**6,068**	**1,423**	**12,028**	**56,255**

31 December 2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	17,803	13	5	5	17,826
Commercial loans	634	1,534	7,891	6,679	16,738
Residential mortgage loans	3,453	1,605	650	948	6,656
Micro and SME loans	1,099	-	-	263	1,362
Finance lease receivables	4,144	535	44,850	293	49,822
Total	**27,133**	**3,687**	**53,396**	**8,188**	**92,404**

See Notes 10 and 11 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables, respectively.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 118,131, GEL 123,975 and GEL 82,524 as at 31 December 2014, 31 December 2013 and 31 December 2012, respectively.

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

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

	2014	2013	2012
Loans to customers:			
Commercial loans	115,155	44,559	86,910
Micro and SME loans	8,734	5,147	2,754
Residential mortgage loans	3,446	9,418	7,312
Consumer loans	617	1,031	1,573
Finance lease receivables	4,957	1,533	1,170
Total	**132,909**	**61,688**	**99,719**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by certain number of days as prescribed per the Group methodology, or history of the debt service is deteriorated by certain percentage, as defined per the Group methodology, or any other defined event of default is identified. Impairment for all such loans is assessed individually, rather than through a collective impairment assessment model of the Group.

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on the product. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

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

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

	2014			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	475,747	136,387	97,727	709,861
Amounts due from credit institutions	394,196	1,686	22,620	418,502
Investment securities available-for-sale	726,880	25,069	17,763	769,712
Loans to customers	4,068,261	7,609	253,925	4,329,795
Finance lease receivables	26,491	-	12,028	38,519
All other assets	1,204,659	10,069	56,184	1,270,912
	6,896,234	**180,820**	**460,247**	**7,537,301**
Liabilities:				
Amounts due to customers	2,163,558	650,584	659,287	3,473,429
Amounts due to credit institutions	582,905	770,838	55,470	1,409,213
Debt securities issued	46,216	810,479	-	856,695
All other liabilities	321,641	3,373	11,863	336,877
	3,114,320	**2,235,274**	**726,620**	**6,076,214**
Net balance sheet position	**3,781,914**	**(2,054,454)**	**(266,373)**	**1,461,087**

(Thousands of Georgian Lari)

29. Risk Management (continued)

Credit risk (continued)

	2013				2012			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	480,652	481,137	87,280	1,049,069	430,523	273,637	46,357	750,517
Amounts due from credit institutions	293,163	3,638	50,460	347,261	340,177	23,659	32,723	396,559
Investment securities available-for-sale	515,774	-	3,849	519,623	460,102	-	3,858	463,960
Loans to customers	3,287,532	8,098	189,777	3,485,407	2,908,489	13,033	112,145	3,033,667
Finance lease receivables	36,075	-	9,531	45,606	66,487	-	5,199	71,686
All other assets	996,260	4,556	76,452	1,077,268	810,823	16,085	112,983	939,891
	5,609,456	497,429	417,349	6,524,234	5,016,601	326,414	313,265	5,656,280
Liabilities:								
Amounts due to customers	2,165,915	243,697	708,145	3,117,757	1,854,152	265,838	573,035	2,693,025
Amounts due to credit institutions	359,374	705,177	93,428	1,157,979	393,345	760,140	82,828	1,236,313
Debt securities issued	-	728,117	-	728,117	-	420,849	-	420,849
All other liabilities	259,285	7,189	9,592	276,066	227,776	9,377	7,756	244,909
	2,784,574	1,684,180	811,165	5,279,919	2,475,273	1,456,204	663,619	4,595,096
Net balance sheet position	2,824,882	(1,186,751)	(393,816)	1,244,315	2,541,328	(1,129,790)	(350,354)	1,061,184

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December 2014, 31 December 2013 and 31 December 2012 these ratios were as follows:

	2014, %	2013, %	2012, %
Average liquidity ratio	39.3%	42.3%	40.0%
Maximum liquidity ratio	46.8%	48.1%	49.1%
Minimum liquidity ratio	31.7%	35.5%	31.1%

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

29. Risk Management (continued)

Liquidity risk and funding management (continued)

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

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

Financial liabilities As at 31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	979,345	2,076,523	461,975	22,098	3,539,941
Amounts due to credit institutions	616,480	225,911	535,643	189,493	1,567,527
Debt securities issued	45,941	73,767	879,653	-	999,361
Other liabilities	36,846	37,004	17,422	-	91,272
Total undiscounted financial liabilities	**1,678,612**	**2,413,205**	**1,894,693**	**211,591**	**6,198,101**

Financial liabilities As at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	828,963	2,061,435	476,370	32,099	3,398,867
Amounts due to credit institutions	437,600	207,191	539,324	141,842	1,325,957
Debt securities issued	27,822	26,913	855,086	-	909,821
Other liabilities	20,625	70,713	14,242	3	105,583
Total undiscounted financial liabilities	**1,315,010**	**2,366,252**	**1,885,022**	**173,944**	**5,740,228**

Financial liabilities As at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	1,759,707	638,935	371,691	33,548	2,803,881
Amounts due to credit institutions	449,947	205,584	571,841	177,950	1,405,322
Debt securities issued	15,429	15,876	536,710	-	568,015
Other liabilities	27,565	76,982	9,356	-	113,903
Total undiscounted financial liabilities	**2,252,648**	**937,377**	**1,489,598**	**211,498**	**4,891,121**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2014	320,945	257,065	162,858	12,500	753,368
31 December 2013	272,385	244,987	181,044	16,690	715,106
31 December 2012	337,465	177,907	236,948	12,846	765,166

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

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

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 17).

(Thousands of Georgian Lari)

29. Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2014. During the year ended 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	Increase in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of other comprehensive income 2014
GEL	0.07%	198	-
EUR	0.01%	(6)	-
USD	0.01%	84	-

Currency	Decrease in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of other comprehensive income 2014
GEL	0.07%	(198)	-
EUR	0.01%	6	-
USD	0.01%	(84)	-

Currency	Increase in basis points 2013	Sensitivity of net interest income 2013	Sensitivity of other comprehensive income 2013
GEL	0.14%	34	-
USD	0.01%	29	-

Currency	Decrease in basis points 2013	Sensitivity of net interest income 2013	Sensitivity of other comprehensive income 2013
GEL	0.14%	(34)	-
USD	0.01%	(29)	-

Currency	Increase in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of other comprehensive income 2012
GEL	0.17%	(40)	-
USD	0.01%	(49)	-

Currency	Decrease in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of other comprehensive income 2012
GEL	0.17%	40	-
USD	0.01%	49	-

(Thousands of Georgian Lari)

29. Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2014 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the last month. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2014, year ended 31 December 2013 and year ended 31 December 2012, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	Expected change in currency rate in %	Effect on profit before tax	Expected change in currency rate in %	Effect on profit before tax	Expected change in currency rate in %	Effect on profit before tax
	To 2014		To 2013		To 2012	
EUR	14.3%	11	1.9%	(7)	2.6%	(2,079)
GBP	22.9%	(6)	2.1%	(0)	1.8%	(19)
USD	23.4%	(4,745)	0.8%	(1)	0.8%	(2,331)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group calculates effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on profit and equity of the Group for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 is as follows:

	Effect on net interest income
2014	(16,744)
2013	(5,944)
2012	(3,971)

Operational risk

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

(Thousands of Georgian Lari)

29. Risk Management (continued)

Operating environment

Most of the Group's business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

30. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2014	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	190,860	190,860
Land	-	-	*92,285*	*92,285*
Residential properties	-	-	*31,632*	*31,632*
Non-residential properties	-	-	*66,943*	*66,943*
Investment securities available-for-sale	-	768,300	1,412	769,712
Other assets – derivative financial assets	-	45,733	-	45,733
Other assets – trading securities owned	1,034	-	-	1,034
Total revalued property	-	-	223,547	223,547
Office buildings	-	-	*112,082*	*112,082*
Service centers	-	-	*111,465*	*111,465*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	-	709,861	709,861
Amounts due from credit institutions	-	-	418,502	418,502
Loans to customers	-	-	4,429,922	4,429,922
Finance lease receivables	-	-	38,519	38,519
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	7,505	-	7,505
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	3,500,813	3,500,813
Amounts due to credit institutions	-	-	1,409,213	1,409,213
Debt securities issued	-	-	856,695	856,695

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	-	-	*157,707*	157,707
Land	-	-	*26,749*	*26,749*
Residential properties	-	-	*42,954*	*42,954*
Non-residential properties	-	-	*88,004*	*88,004*
Investment securities available-for-sale	-	514,401	5,222	519,623
Other assets – derivative financial assets	-	39,431	-	39,431
Other assets – trading securities owned	1,149	-	-	1,149
Total revalued property	-	-	205,475	205,475
Office buildings	-	-	*85,400*	*85,400*
Service centers	-	-	*120,075*	*120,075*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	-	1,049,069	1,049,069
Amounts due from credit institutions	-	-	347,261	347,261
Loans to customers	-	-	3,600,245	3,600,245
Finance lease receivables	-	-	45,606	45,606
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	1,513	-	1,513
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	3,159,507	3,159,507
Amounts due to credit institutions	-	-	1,157,979	1,157,979
Debt securities issued	-	-	728,117	728,117

31 December 2012	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Investment properties	-	-	160,353	160,353
Investment securities available-for-sale	55	458,017	5,888	463,960
Other assets – derivative financial assets	-	36,784	-	36,784
Other assets – trading securities owned	971	-	-	971
Revalued property	-	-	203,302	203,302
Assets for which fair values are disclosed				
Cash and cash equivalents	-	-	750,517	750,517
Amounts due from credit institutions	-	-	396,559	396,559
Loans to customers	-	-	3,008,665	3,008,665
Finance lease receivables	-	-	71,686	71,686
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	4,867	-	4,867
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	2,707,231	2,707,231
Amounts due to credit institutions	-	-	1,236,313	1,236,313
Debt securities issued	-	-	420,849	420,849

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Derivative financial instruments

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

Trading securities and investment securities available-for-sale

Trading securities and certain part of investment securities available-for-sale are quoted equity and debt securities. Investment securities available-for-sale valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	31 December 2011	Sale of AFS securities	Transfers from level 2	At 31 December 2012	Sale of AFS securities	At 31 December 2013	Impairment of Investment	Transfers from level 2	At 31 December 2014
Level 3 financial assets									
Equity investment securities available-for-sale	4,034	(1,983)	3,837	5,888	(666)	5,222	(3,837)	27	1,412

Movements in level 3 non-financial assets measured at fair value

All investment properties and revalued properties of property and equipment are of level 3. Reconciliations of their opening and closing amounts are provided in Notes 12 and 13 respectively.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
	2014		2013		2012	
Level 3 financial assets						
Equity investment securities available-for-sale	1,412	+/- 212	5,222	+/- 786	5,888	+/- 886

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2014	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**190,860**						
Land	92,285	Market approach	Price per square metre	1 - 870 (361)	Square metres, land	57 - 100,000 (24,501)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,800
Residential properties	31,632						
	29,747	Market approach	Price per square metre	5 - 13,750 (2,135)	Square metres, land	257 - 20,000 (679)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,786
					Square metres, building	9 - 2,892 (860)	
	1,885	Cost approach	Replacement cost per square metre	12 - 703 (307)	Square metres, building	45 - 2,475 (828)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 108
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 11
			Land price pet square metre	1 - 574 (58)	Square metres, land	54 - 8,808 (3,536)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 70
Non-residential properties	66,943						
	40,642	Market approach	Price per square metre	17 - 5,545 (2,128)	Square metres, land	59 - 18,487 (1,241)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 3,422
					Square metres, building	8 - 4,337 (2,147)	
	26,301	Cost approach	Replacement cost per square metre	8 - 3,403 (1,634)	Square metres, building	12 - 14,520 (5,092)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 1,496
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 150
			Land price pet square metre	1 - 459 (84)	Square metres, land	171 - 230,398 (87,094)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 889

	2014	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Property and equipment	**223,547**						
Office buildings	112,082						
	58,060	Market approach	Price per square metre	689 - 5,975 (4,812)	Square metres, land	57 - 100,000 (24,501)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 3,576
					Square metres, building	40 - 4,787 (2,869)	
	54,022	Cost approach	Replacement cost per square metre	574 - 990 (845)	Square metres, building	557 - 8,594 (7,003)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 690
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 85
			Land price pet square metre	16 - 3,033 (2,413)	Square metres, land	877 - 13,900 (12,849)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 3,172
Service centers	111,465						
	90,168	Market approach	Price per square metre	40 - 14,681 (4,336)	Square metres, land	113 - 3,164 (490)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 7,054
					Square metres, building	15 - 1,589 (585)	
	21,297	Cost approach	Replacement cost per square metre	72 - 2,079 (1,149)	Square metres, building	149 - 6,461 (1,789)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 1,155
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 113
			Land price pet square metre	4 - 582 (202)	Square metres, land	124 - 34,672 (11,102)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 383

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2014, 31 December 2013 and 31 December 2012:

	31 December 2014		
	Loans and receivables	***Available-for sale***	***Fair value through profit or loss***
Financial assets			
Amounts due from credit institutions	418,502	-	-
Loans to customers	4,329,795	-	-
Finance lease receivables	38,519	-	-
Trade and other receivables (in other assets)	62,164	-	-
Equity instruments	-	1,412	41
Debt instruments	-	768,300	993
Foreign currency derivative financial instruments	-	-	45,733
Total:	**4,848,980**	**769,712**	**46,767**
Financial liabilities			
Amounts owed to customers	3,473,429	-	-
Amounts owed to credit institutions	1,409,213	-	-
Debt securities issued	856,695	-	-
Trade and other payables (in other liabilities)	79,551	-	-
Foreign currency derivative financial instruments	-	-	7,505
Total:	**5,818,888**	**-**	**7,505**

	31 December 2013			31 December 2012		
	Loans and receivables	***Available-for sale***	***Fair value through profit or loss***	***Loans and receivables***	***Available-for sale***	***Fair value through profit or loss***
Financial assets						
Amounts due from credit institutions	519,623	-	-	396,559	-	-
Loans to customers	3,485,407	-	-	3,033,667	-	-
Finance lease receivables	45,606	-	-	71,686	-	-
Trade and other receivables (in other assets)	52,171	-	-	100,893	-	-
Equity instruments	-	5,266	58	-	5,943	211
Debt instruments	-	514,357	1,091	-	458,017	760
	-	-	39,431			
Foreign currency derivative financial instruments				-	-	36,518
Commodity options	-	-	-	-	-	266
Total:	**4,102,807**	**519,623**	**40,580**	**3,602,805**	**463,960**	**37,755**
Financial liabilities						
Amounts owed to customers	3,117,757	-	-	2,693,025	-	-
Amounts owed to credit institutions	1,157,979	-	-	1,236,313	-	-
Debt securities issued	728,117	-	-	420,849	-	-
Trade and other payables (in other liabilities)	49,367	-	-	59,980	-	-
	-	-	60			
Foreign currency derivative financial instruments				-	-	84
Interest rate swaps	-	-	1,453	-	-	4,783

(Thousands of Georgian Lari)

30. Fair Value Measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2014	Fair value 2014	Unrecognised gain (loss) 2014
Financial assets			
Cash and cash equivalents	709,861	709,861	-
Amounts due from credit institutions	418,502	418,502	-
Loans to customers	4,329,795	4,429,922	100,127
Finance lease receivables	38,519	38,519	-
Financial liabilities			
Amounts due to customers	3,473,429	3,500,813	(27,384)
Amounts due to credit institutions	1,409,213	1,409,213	-
Debt securities issued	856,695	856,695	-
Total unrecognised change in unrealised fair value			**72,743**

	Carrying value 2013	Fair value 2013	Unrecognised loss 2013	Carrying value 2012	Fair value 2012	Unrecognised loss 2012
Financial assets						
Cash and cash equivalents	1,049,069	1,049,069	-	750,517	750,517	-
Amounts due from credit institutions	347,261	347,261	-	396,559	396,559	-
Loans to customers	3,485,407	3,600,245	114,838	3,033,667	3,008,665	(25,002)
Finance lease receivables	45,606	45,606	-	71,686	71,686	-
Financial liabilities						
Amounts due to customers	3,117,757	3,159,507	(41,750)	2,693,025	2,707,231	(14,206)
Amounts due to credit institutions	1,157,979	1,157,979	-	1,236,313	1,236,313	-
Debt securities issued	728,117	728,117	-	420,849	420,849	-
Total unrecognised change in unrealised fair value			**73,088**			**(39,208)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

31. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Risk management" for the Group's contractual undiscounted repayment obligations.

2014	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	691,290	18,571	-	-	-	-	-	709,861
Amounts due from credit institutions	382,935	808	3,974	26,324	2,486	-	1,975	418,502
Investment securities available-for-sale	327,846	383,657	7,361	9,698	34,008	1,966	5,176	769,712
Loans to customers	-	682,747	505,604	736,348	1,275,465	629,311	500,320	4,329,795
Finance lease receivables	-	17,900	5,466	5,791	8,687	675	-	38,519
Total	**1,402,071**	**1,103,683**	**522,405**	**778,161**	**1,320,646**	**631,952**	**507,471**	**6,266,389**
Financial liabilities								
Amounts due to customers	360,498	603,510	412,441	1,686,080	355,892	39,995	15,013	3,473,429
Amounts due to credit institutions	32,948	582,885	63,704	153,847	314,313	152,742	108,774	1,409,213
Debt securities issued	-	45,864	28,930	43,425	738,476	-	-	856,695
Total	**393,446**	**1,232,259**	**505,075**	**1,883,352**	**1,408,681**	**192,737**	**123,787**	**5,739,337**
Net	**1,008,625**	**(128,576)**	**17,330**	**(1,105,191)**	**(88,035)**	**439,215**	**383,684**	**527,052**
Accumulated gap	**1,008,625**	**880,049**	**897,379**	**(207,812)**	**(295,847)**	**143,368**	**527,052**	

2013	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	880,125	168,944	-	-	-	-	-	1,049,069
Amounts due from credit institutions	289,926	7,438	7,296	29,199	8,953	4,449	-	347,261
Investment securities available-for-sale	256,140	254,202	3,518	1,697	2,915	823	328	519,623
Loans to customers	-	657,902	410,649	696,307	1,051,950	427,194	241,405	3,485,407
Finance lease receivables	-	16,056	5,713	10,184	10,885	1,923	845	45,606
Total	**1,426,191**	**1,104,542**	**427,176**	**737,387**	**1,074,703**	**434,389**	**242,578**	**5,446,966**
Financial liabilities								
Amounts due to customers	284,124	525,229	460,880	1,542,062	251,091	43,228	11,143	3,117,757
Amounts due to credit institutions	13,620	401,781	61,071	137,223	272,072	182,508	89,704	1,157,979
Debt securities issued	-	26,886	-	25,938	94,848	580,445	-	728,117
Total	**297,744**	**953,896**	**521,951**	**1,705,223**	**618,011**	**806,181**	**100,847**	**5,003,853**
Net	**1,128,447**	**150,646**	**(94,775)**	**(967,836)**	**456,692**	**(371,792)**	**141,731**	**443,113**
Accumulated gap	**1,128,447**	**1,279,093**	**1,184,318**	**216,482**	**673,174**	**301,382**	**443,113**	

2012	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	586,852	163,665	-	-	-	-	-	750,517
Amounts due from credit institutions	322,871	48,143	5,790	4,557	9,136	4,448	1,614	396,559
Investment securities available-for-sale	5,200	168,670	114,920	41,159	76,185	51,777	6,049	463,960
Loans to customers	-	605,509	312,302	626,152	935,203	361,248	193,253	3,033,667
Finance lease receivables	-	9,058	5,716	10,353	25,886	13,049	7,624	71,686
Total	**914,923**	**995,045**	**438,728**	**682,221**	**1,046,410**	**430,522**	**208,540**	**4,716,389**
Financial liabilities								
Amounts due to customers	355,835	453,796	214,743	1,337,512	283,000	39,694	8,445	2,693,025
Amounts due to credit institutions	40,321	420,742	49,362	148,883	285,822	189,484	101,699	1,236,313
Debt securities issued	-	15,413	-	15,254	55,357	334,825	-	420,849
Total	**396,156**	**889,951**	**264,105**	**1,501,649**	**624,179**	**564,003**	**110,144**	**4,350,187**
Net	**518,767**	**105,094**	**174,623**	**(819,428)**	**422,231**	**(133,481)**	**98,396**	**366,202**
Accumulated gap	**518,767**	**623,861**	**798,484**	**(20,944)**	**401,287**	**267,806**	**366,202**	

(Thousands of Georgian Lari)

31. Maturity Analysis of Financial Assets and Liabilities (continued)

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 1 year category in the table above. The remaining current accounts are included in the on demand category.

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreement;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2014 amounts due to customers amounted to GEL 3,473,429 (2013: GEL 3,117,757, 2012: GEL 2,693,025) and represented 57% (2013: 59%, 2012: 59%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2014 amounts owed to credit institutions amounted to GEL 1,409,213 (2013: GEL 1,157,979, 2012: GEL 1,236,313) and represented 23% (2013: 22%, 2012: 27%) of total liabilities. As at 31 December 2014 debt securities issued amounted to GEL 856,695 (2013: GEL 728,117, 2012: GEL 420,849) and represented 14% (2013: 14%, 2012: 9%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

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

	31 December 2014		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	709,861	-	709,861
Amounts due from credit institutions	414,041	4,461	418,502
Investment securities available-for-sale	728,562	41,150	769,712
Loans to customers	1,924,699	2,405,096	4,329,795
Finance lease receivables	29,157	9,362	38,519
Investments in associates	-	-	-
Investment properties	-	190,860	190,860
Property and equipment	-	588,513	588,513
Intangible assets	-	34,432	34,432
Goodwill	-	49,633	49,633
Current income tax assets	4,215	-	4,215
Deferred income tax assets	-	18,530	18,530
Prepayments	17,577	15,926	33,503
Other assets	210,715	140,511	351,226
Total assets	**4,038,827**	**3,498,474**	**7,537,301**
Amounts due to customers	3,062,529	410,900	3,473,429
Amounts due to credit institutions	833,384	575,829	1,409,213
Debt securities issued	118,219	738,476	856,695
Current income tax liabilities	11,093	-	11,093
Deferred income tax liabilities	-	86,471	86,471
Provisions	3,934	798	4,732
Other liabilities	124,446	110,135	234,581
Total liabilities	**4,153,605**	**1,922,609**	**6,076,214**
Net	**(114,778)**	**1,575,865**	**1,461,087**

(Thousands of Georgian Lari)

31. Maturity Analysis of Financial Assets and Liabilities (continued)

	31 December 2013			*31 December 2012*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,049,069	-	1,049,069	750,517	-	750,517
Amounts due from credit institutions	333,859	13,402	347,261	381,361	15,198	396,559
Investment securities available-for-sale	515,557	4,066	519,623	329,949	134,011	463,960
Loans to customers	1,764,858	1,720,549	3,485,407	1,543,963	1,489,704	3,033,667
Finance lease receivables	31,953	13,653	45,606	25,127	46,559	71,686
Investments in associates	-	-	-	-	2,441	2,441
Investment properties	-	157,707	157,707	-	160,353	160,353
Property and equipment	-	470,669	470,669	-	430,877	430,877
Intangible assets	-	26,434	26,434	-	23,078	23,078
Goodwill	-	48,720	48,720	-	45,657	45,657
Current income tax assets	4,552	-	4,552	944	-	944
Deferred income tax assets	-	14,544	14,544	-	14,352	14,352
Prepayments	14,684	10,732	25,416	12,833	28,314	41,147
Other assets	221,527	107,699	329,226	137,976	83,066	221,042
Total assets	**3,936,059**	**2,588,175**	**6,524,234**	**3,182,670**	**2,473,610**	**5,656,280**
Amounts due to customers	2,812,295	305,462	3,117,757	2,361,886	331,139	2,693,025
Amounts due to credit institutions	613,695	544,284	1,157,979	659,308	577,005	1,236,313
Debt securities issued	52,824	675,293	728,117	30,667	390,182	420,849
Current income tax liabilities	2,928	-	2,928	13,818	-	13,818
Deferred income tax liabilities	-	66,100	66,100	-	46,184	46,184
Provisions	481	-	481	683	-	683
Other liabilities	185,332	21,225	206,557	124,076	60,148	184,224
Total liabilities	**3,667,555**	**1,612,364**	**5,279,919**	**3,190,438**	**1,404,658**	**4,595,096**
Net	**268,504**	**975,811**	**1,244,315**	**(7,768)**	**1,068,952**	**1,061,184**

32. Related Party Disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2014			*2013*			*2012*		
	Share-holders	*Asso-ciates*	*Key management personnel**	*Share-holders*	*Asso-ciates*	*Key management personnel**	*Share-holders*	*Asso-ciates*	*Key management personnel**
Loans outstanding at 1 January, gross	**8,098**	**-**	**1,484**	**13,033**	**-**	**5,136**	**-**	**304**	**6,558**
Loans issued during the year	-	85,933	4,853	-	-	2,871	13,033	-	7,457
Loan repayments during the year	(577)	(16,376)	(4,474)	(5,490)	-	(2,319)	-	(259)	(8,389)
Other movements	88	9,035	185	555	-	(4,204)	-	(45)	(490)
Loans outstanding at 31 December, gross	**7,609**	**78,592**	**2,048**	**8,098**	**-**	**1,484**	**13,033**	-	**5,136**
Less: allowance for impairment at 31 December	-	(743)	(1)	-	-	(20)	-	-	(76)
Loans outstanding at 31 December, net	**7,609**	**77,849**	**2,047**	**8,098**	**-**	**1,464**	**13,033**	-	**5,060**
Interest income on loans	-	1,767	86	-	-	66	-	14	640
Loan impairment charge	-	(743)	-	-	-	(14)	-	-	(1)
Deposits at 1 January	**25**	**50**	**11,455**	**-**	**17**	**9,681**	**-**	**171**	**5,903**
Deposits received during the year	288,680	132,087	33,646	53,864	168	20,444	-	11,040	28,561
Deposits repaid during the year	(144,028)	(128,859)	(31,225)	(53,839)	(119)	(15,018)	-	(11,191)	(25,264)
Other movements	(9,972)	1,697	3,624	-	(16)	(3,652)	-	(3)	481
Deposits at 31 December	**134,705**	**4,975**	**17,500**	**25**	**50**	**11,455**	**-**	**17**	**9,681**
Interest expense on deposits	-	(2)	(513)	-	-	(425)	-	(26)	(612)
Other income	-	2	92	-	-	86	-	-	121

**** Key management personnel include members of the Bank's Supervisory Board and Chief Executive Officer and Deputies of the Bank.***

(Thousands of Georgian Lari)

32. Related Party Disclosures (continued)

Compensation of key management personnel comprised the following:

	2014	2013	2012
Salaries and other benefits	3,279	2,533	2,656
Share-based payments compensation	14,763	12,309	8,048
Social security costs	43	28	24
Total key management compensation	**18,085**	**14,870**	**10,728**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 28). The number of key management personnel at 31 December 2014 was 16 (31 December 2013: 15, 31 December 2012: 15).

33. Capital Adequacy

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

Approved and published on 28 October 2013 by NBG, a new capital adequacy regulation becomes effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar II (ICAAP) requirements becoming effective 30 June 2015. A transition period is to continue through 1 January 2017, during which the Bank will be required to comply with both, the new, as well as the current, capital regulations of the NBG.

During year ended 31 December 2014, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2014, 31 December 2013 and 31 December 2012, the Bank's capital adequacy ratio on this basis was as follows:

	2014	*2013*	*2012*
Core capital	895,318	810,545	739,880
Supplementary capital	398,598	313,220	389,685
Less: Deductions from capital	(365,487)	(256,471)	(262,616)
Total regulatory capital	**928,429**	**867,294**	**866,949**
Risk-weighted assets	**6,719,169**	**5,638,556**	**5,352,187**
Total capital adequacy ratio	**13.8%**	**15.4%**	**16.2%**

Core capital comprises share capital, additional paid-in capital and retained earnings (without current period profits), less intangible assets and goodwill. Supplementary capital includes subordinated long-term debt, current period profits and general loss provisions. Deductions from the capital include investments in subsidiaries. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

(Thousands of Georgian Lari)

33. Capital Adequacy (continued)

New NBG (Basel II/III) capital adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total capital adequacy ratio of 12.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II/III requirements. As at 31 December 2014 the Bank's capital adequacy ratio on this basis was as follows:

	2014
Tier 1 capital	1,128,004
Less: Deductions from capital	(327,539)
Tier 2 capital	217,100
Total capital	**1,017,565**
Risk-weighted assets	**7,204,080**
Total capital ratio	14.1%
Tier 1 capital ratio	11.1%
Minimum capital adequacy ratio	**8.0%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2014, 31 December 2013 and 31 December 2012, was as follows:

	2014	*2013*	*2012*
Tier 1 capital	1,431,399	1,170,104	1,006,756
Less: Deductions Goodwill	(49,633)	-	-
Tier 2 capital	249,419	256,224	284,677
Less: Deductions from capital	(1,522)	(51,147)	(48,697)
Total capital	**1,629,663**	**1,375,181**	**1,242,736**
Risk-weighted assets	**6,252,992**	**5,080,827**	**4,749,484**
Total capital ratio	26.1%	27.1%	26.2%
Tier 1 capital ratio	22.1%	23.0%	21.2%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**

34. Event after the Reporting Period

Acquisition of JSC Privatbank

In January 2015 the Bank completed the acquisition of shares in JSC Privatbank, a bank operating in Georgia with a focus on retail banking. Total consideration given for the acquisition was GEL 92,483.

Initial purchase accounting is currently in progress and not all of the asset valuations and accounting estimates are formally finalized. Therefore, management considers a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2015 half yearly financial statements.