JSC PROGRESS BANK

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

31 December 2014

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Independent auditor's report

To the Shareholders and Management of JSC Progress Bank:

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of JSC Progress Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch.

21 May 2014
Tbilisi, Georgia

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JSC Progress Bank
Statement of Financial Position

In thousands of Georgian Lari	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	9,455	9,992
Mandatory Cash balances with the NBG	8	9,187	4,551
Loans and advances to customers	9	49,916	36,066
Investment securities available for sale	10	1,118	1,042
Other financial assets	12	51	18
Other assets	13	1,155	861
Deferred income tax asset	21	143	267
Intangible assets	11	300	305
Premises and equipment	11	2,385	2,499
TOTAL ASSETS		**73,710**	**55,601**
LIABILITIES			
Due to other banks	14	2,864	2,389
Customer accounts	15	56,618	37,008
Other financial liabilities	16	119	287
Provisions for liabilities and charges	24	462	231
TOTAL LIABILITIES		**60,063**	**39,915**
EQUITY			
Share capital	17	17,475	17,475
Retained earnings		(3,828)	(1,789)
Net assets attributable to the Bank's owners		**13,647**	**15,686**
TOTAL EQUITY		**13,647**	**15,686**
TOTAL LIABILITIES AND EQUITY		**73,710**	**55,601**

Approved for issue and signed on 21 May 2015.

Akaki Kordzadze
General Director

Maia Mtavarashvili
Chief Accountant

The notes set out on pages 5 to 46 form an integral part of these financial statements.

In thousands of Georgian Lari	Note	2014	2013
Interest income	18	7,340	5,559
Interest expense	18	(3,824)	(1,626)
Net interest income		**3,516**	**3,933**
Provision for loan impairment		(1,603)	(1,074)
Net interest income after provision for loan impairment		**1,913**	**2,859**
Fee and commission income	19	474	229
Fee and commission expense	19	(56)	(35)
Gains less losses from trading in foreign currencies		304	204
Foreign exchange translation losses less gains		(276)	(164)
Provision for credit related commitments	24	(231)	(134)
Other operating income		120	137
Administrative and other operating expenses	20	(4,163)	(3,559)
Loss before tax		**(1,915)**	**(463)**
Income tax (expense)/benefit	21	(124)	66
LOSS FOR THE YEAR		**(2,039)**	**(397)**
Other comprehensive income/(loss)		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(2,039)**	**(397)**

In thousands of Georgian Lari	**Note**	**Share capital**	**Retained earnings**	**Total Equity**
Balance at 31 December 2012		**17,475**	**(1,392)**	**16,083**
Total comprehensive loss for 2013			(397)	(397)
Balance at 31 December 2013		**17,475**	**(1,789)**	**15,686**
Total comprehensive loss for 2014			(2,039)	(2,039)
Balance at 31 December 2014		**17,475**	**(3,828)**	**13,647**

In thousands of Georgian Lari	Note	2014	2013
Cash flows from operating activities			
Interest received		6,877	4,975
Interest paid		(2,616)	(924)
Fees and commissions received		470	217
Fees and commissions paid		(56)	(27)
Income received from trading in foreign currencies		28	40
Other operating income received		98	136
Administrative and other operating expenses paid		(3,883)	(3,225)
Cash flows from operating activities before changes in operating assets and liabilities		**918**	**1,192**
Net (increase)/decrease in:			
- Mandatory cash balances with the NBG		(4,636)	(4,241)
- loans and advances to customers		(14,990)	(20,767)
- other assets		(535)	(847)
Net increase/(decrease) in:			
- due to other banks		475	1,889
- customer accounts		18,402	32,245
- other liabilities		(224)	194
Net cash (used in)/from operating activities		**(590)**	**9,665**
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	(1,118)	(4,502)
Proceeds from disposal and redemption of investment securities available for sale	10	1,042	3,460
Acquisition of premises and equipment		(61)	(208)
Proceeds from disposal of premises and equipment		-	5
Proceeds from disposal of foreclosed properties		234	-
Acquisition of intangible assets		(44)	(144)
Net cash from/(used in) investing activities		**53**	**(1,389)**
Cash flows from financing activities			
Net cash from/(used in) financing activities		**-**	**-**
Net (decrease)/increase in cash and cash equivalents		**(537)**	**8,276**
Cash and cash equivalents at the beginning of the year		9,992	1,716
Cash and cash equivalents at the end of the year	7	**9,455**	**9,992**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for JSC Progress Bank (the "Bank").

The Bank was incorporated and is domiciled in Georgia. The Bank is a closed joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2014 and 2013 the Bank's immediate parent company was Webion Investments Limited and the Bank was ultimately controlled by Mr Mike Zoi.

	% of ownership interest held as at 31 December	
Shareholders	**2014**	**2013**
Webion Investments Limited	78.29%	78.29%
Mr. Bidzina Ivanishvili	21.71%	21.71%

Principal activity. The Bank's principal business activity is commercial and retail banking operations in Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") since 2007. The Bank has 3 (2013: 3) branches in Georgia.

Registered address and place of business. The Bank's registered address is: #8 Baratashvili street, Tbilisi 0105, Georgia.

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

2 Operating Environment of the Bank

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

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

3 Summary of Significant Accounting Policies

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

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

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

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are not deemed to have occurred at the end of the reporting period. Refer to Note 25.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material. The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts. Such amounts are recognized as loans and receivables.

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

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

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

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

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

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

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

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

	Annual rate
Buildings and other real estate	2%
Furniture and fixtures	8%-20%
Computers and office equipment	8%-20%
Vehicles	20%
Leasehold improvements	16%

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

At 31 December 2014, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.8636 (2013: USD 1 = GEL 1.7363), EUR 1 = GEL 2.2656 (2013: EUR 1 = GEL 2.3891).

3 Summary of Significant Accounting Policies (Continued)

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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

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

	31 December 2014			31 December 2013		
	Amounts expected to be received or settled			Amounts expected to be received or settled		
In thousands of Georgian Lari	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS						
Cash and cash equivalents	9,455	-	9,455	9,992	-	9,992
Mandatory Cash balances with the NBG	9,187	-	9,187	4,551	-	4,551
Loans and advances to customers	23,351	26,565	49,916	15,166	20,900	36,066
Investment securities available for sale	1,118	-	1,118	1,042	-	1,042
Other financial assets	51	-	51	18	-	18
Other assets	131	1,024	1,155	107	754	861
Deferred income tax asset	-	143	143	-	267	267
Intangible assets	-	300	300	-	305	305
Premises and equipment	-	2,385	2,385	-	2,499	2,499
TOTAL ASSETS	**43,293**	**30,417**	**73,710**	**30,876**	**24,725**	**55,601**
LIABILITIES						
Due to other banks	2,864	-	2,864	2,389	-	2,389
Customer accounts	48,683	7,935	56,618	23,060	13,948	37,008
Other financial liabilities	119	-	119	287	-	287
Provisions for liabilities and charges	462	-	462	231	-	231
TOTAL LIABILITIES	**52,128**	**7,935**	**60,063**	**25,967**	**13,948**	**39,915**

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of GEL 416 thousand (2013: GEL 256 thousand), respectively.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 26.

Going Concern. Management has prepared these financial statements on a going concern basis. The Bank incurred net loss for 2014, 2013, 2012 and 2011. However, the Bank had net interest income after provision for loan impairment for the same periods. The management believes that the Bank will be able to increase the net interest income after provision for loan impairment in subsequent periods through growth of its interest bearing portfolios. In management's view, such increase in net interest income after provision for loan impairment will be sufficient to cover administrative and other operating expense and the Bank will become profitable. There was high concentration of customer accounts with top ten customers of the Bank representing large share in total customer accounts as at 31 December 2014 as disclosed in Note 15. However, the management does not anticipate any significant unexpected calls on current accounts and expects that significant part of the term deposits will be prolonged after they mature. The Bank was in compliance with the NBG's capital and liquidity ratios as at 31 December 2014 and 2013 (refer to Note 23 and Note 25, respectively). Considering all above the management believes that going concern basis is appropriate in preparation of these financial statements.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Bank.

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

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

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

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the new standard on its financial statements.

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Bank is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufact uring. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Bank is currently assessing the impact of the amendments on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Bank is currently assessing the impact of the amendments on its separate financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The amendment did not have a significant impact on the financial statements of the Bank.

6 New Accounting Pronouncements (Continued)

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its financial statements.

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

7 Cash and Cash Equivalents

In thousands of Georgian Lari	**2014**	**2013**
Cash on hand	3,918	4,272
Cash balances with the NBG (other than mandatory reserve deposits)	736	1,691
Correspondent accounts and overnight placements with other banks	4,801	1,696
Placements with other banks with original maturities of less than three months	-	2,333
Total cash and cash equivalents	**9,455**	**9,992**

The credit quality of cash and cash equivalents balances may be summarised based on Fitch's Ratings as follows at 31 December 2014:

In thousands of Georgian Lari	**Cash balances with the NBG, excluding mandatory reserves**	**Correspondent accounts and overnight placements**	**Placements with other banks**	**Total**
Neither past due nor impaired				
- National Bank of Georgia	736	-	-	**736**
- A- to A+ rated	-	652	-	**652**
- BBB	-	64	-	**64**
- BB-	-	4,026	-	**4,026**
- B	-	11	-	**11**
- B-	-	5	-	**5**
- Unrated	-	43	-	**43**
Total cash and cash equivalents, excluding cash on hand	**736**	**4,801**	**-**	**5,537**

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

In thousands of Georgian Lari	**Cash balances with the NBG, excluding mandatory reserves**	**Correspondent accounts and overnight placements**	**Placements with other banks**	**Total**
Neither past due nor impaired				
- National Bank of Georgia	1,691	-	-	**1,691**
- A- to A+ rated	-	556	-	**556**
- BB-	-	366	2,300	**2,666**
- B	-	21	33	**54**
- Unrated	-	753	-	**753**
Total cash and cash equivalents, excluding cash on hand	**1,691**	**1,696**	**2,333**	**5,720**

At 31 December 2014 the Bank had 1 counterparty bank (2013: one) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 4,019 thousand (2013: GEL 2,666 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 22. Information on related party balances is disclosed in Note 26.

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

8 Mandatory cash balances with the National Bank of Georgia

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

In 2014, Fitch Ratings re-affirmed government of Georgia’s short-term sovereign credit rating of “B” and long-term credit rating of “BB-“.

9 Loans and Advances to Customers

In thousands of Georgian Lari	**2014**	**2013**
Corporate loans	6,592	4,431
SME and Micro loans	16,072	14,896
Loans to individuals	31,413	19,297
Less: Provision for loan impairment	(4,161)	(2,558)
Total loans and advances to customers	**49,916**	**36,066**

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of Georgian Lari	**Corporate loans**	**SME and Micro loans**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January 2014	**185**	**997**	**1,376**	**2,558**
Provision for impairment during the year	583	841	179	**1,603**
Provision for loan impairment at 31 December 2014	**768**	**1,838**	**1,555**	**4,161**

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

In thousands of Georgian Lari	**Corporate loans**	**SME and Micro loans**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January 2013	**418**	**685**	**381**	**1,484**
Provision for impairment during the year	(233)	312	995	**1,074**
Provision for loan impairment at 31 December 2013	185	997	1,376	**2,558**

9 Loans and Advances to Customers (Continued)

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

	2014		2013	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	31,413	58%	19,296	50%
Trade and Service	19,835	37%	16,963	44%
Construction	1,031	2%	1,178	3%
Other	1,798	3%	1,187	3%
Total loans and advances to customers (before impairment)	**54,077**	**100%**	**38,624**	**100%**

At 31 December 2014 the Bank had 7 borrowers (2013: 5 borrowers) with aggregated loan amounts above GEL 1,500 thousand. The total aggregate amount of these loans was GEL 13,480 thousand (2013: GEL 9,388 thousand) or 27% of the gross loan portfolio (2013: 26%).

Information about collateral at 31 December 2014 is as follows:

In thousands of Georgian Lari	**Corporate loans**	**SME and Micro loans**	**Loans to individuals**	**Total**
Unsecured loans	571	3,714	20,463	**24,748**
Loans collateralised by:				
- cash deposits	-	88	531	**619**
- real estate	3,177	11,388	9,700	**24,265**
- other assets	2,844	882	719	**4,445**
Total loans and advances to customers	**6,592**	**16,072**	**31,413**	**54,077**

Information about collateral at 31 December 2013 is as follows:

In thousands of Georgian Lari	**Corporate loans**	**SME and Micro loans**	**Loans to individuals**	**Total**
Unsecured loans	-	2,867	5,903	**8,770**
Loans collateralised by:				
- cash deposits	-	-	23	**23**
- real estate	2,185	10,362	10,962	**23,509**
- other assets	2,246	1,667	2,409	**6,322**
Total loans and advances to customers	**4,431**	**14,896**	**19,297**	**38,624**

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, and other assets. Other assets mainly include equipment, vehicles, securities and inventory. Third party guarantees received by the Bank were not considered in the above table.

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

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

In thousands of Georgian Lari	Corporate loans	SME and Micro loans	Loans to individuals	Total
Neither past due nor impaired				
- Borrowers with credit history over two years	3,749	4,999	10,330	19,078
- New Individual loans over GEL 100 thousand	-	3,176	12,222	15,398
- New Individual loans under GEL 100 thousand	-	998	3,485	4,483
Total neither past due nor impaired (gross)	**3,749**	**9,173**	**26,037**	**38,959**
Past due but not impaired				
- less than 30 days overdue	-	31	1,680	1,711
- 30 to 90 days overdue	-	80	209	289
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	-	124	114	238
- Over 361 days overdue	-	404	-	404
Total past due but not impaired (gross)	**-**	**639**	**2,003**	**2,642**
Loans individually determined to be impaired (gross)				
- Not overdue	-	760	413	1,173
- less than 30 days overdue	-	791	4	795
- 30 to 90 days overdue	-	465	478	943
- 91 to 180 days overdue	-	555	626	1,181
- 181 to 360 days overdue	2,712	2,255	586	5,553
- over 360 days overdue	131	1,434	1,266	2,831
Total individually impaired loans (gross)	**2,843**	**6,260**	**3,373**	**12,476**
Less impairment provisions	**(768)**	**(1,838)**	**(1,555)**	**(4,161)**
Total loans and advances to customers	**5,824**	**14,234**	**29,858**	**49,916**

9 Loans and Advances to Customers (Continued)

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

In thousands of Georgian Lari	**Corporate loans**	**SME and Micro loans**	**Loans to individuals**	**Total**
Neither past due nor impaired				
- Borrowers with credit history over two years	1,882	2,355	7,147	11,384
- New Individual loans over GEL 100 thousand	1,472	8,937	3,592	14,001
- New Individual loans under GEL 100 thousand	-	1,142	4,466	5,608
Total neither past due nor impaired (gross)	**3,354**	**12,434**	**15,205**	**30,993**
Past due but not impaired				
- less than 30 days overdue	304	-	215	519
- 30 to 90 days overdue	-	33	76	109
- 91 to 180 days overdue	-	50	252	302
- 181 to 360 days overdue	-	235	166	401
- Over 361 days overdue	131	30	73	234
Total past due but not impaired (gross)	**435**	**348**	**782**	**1,565**
Loans individually determined to be impaired (gross)				
- Not overdue	642	-	247	889
- less than 30 days overdue	-	378	959	1,337
- 30 to 90 days overdue	-	67	213	280
- 91 to 180 days overdue	-	26	13	39
- 181 to 360 days overdue	-	743	1,277	2,020
- over 360 days overdue	-	900	601	1,501
Total individually impaired loans (gross)	**642**	**2,114**	**3,310**	**6,066**
Less impairment provisions	**(185)**	**(997)**	**(1,376)**	**(2,558)**
Total loans and advances to customers	**4,246**	**13,899**	**17,921**	**36,066**

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

9 Loans and Advances to Customers (Continued)

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

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

The financial effect of collateral is presented by disclosing the effect of the collateral on the calculation of the loan impairment provision by the Bank. The tables below disclose the provision amounts of individually assessed loans when (i) the collateral held against the loans is considered in the calculation of the provision and (ii) the collateral held against the loans is not considered in the calculation of the provision:

In thousands of Georgian Lari	**Gross value of the loans**	**Fair value of collateral**	**Impairment provision with collateral**	**Impairment provision without collateral**	**Effect on total provision for loan impairment**
Individually assessed loans	7,396	7,065	(1,131)	(5,613)	(4,482)
Total	**7,396**	**7,065**	**(1,131)**	**(5,613)**	**(4,482)**

The effect of collateral at 31 December 2013:

In thousands of Georgian Lari	**Gross value of the loans**	**Fair value of collateral**	**Impairment provision with collateral**	**Impairment provision without collateral**	**Effect on total provision for loan impairment**
Individually assessed loans	10,188	15,333	(257)	(10,188)	(9,931)
Total	**10,188**	**15,333**	**(257)**	**(10,188)**	**(9,931)**

Refer to Note 25 for the estimated fair value of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 22. Information on related party balances is disclosed in Note 26.

10 Investment Securities Available for Sale

In thousands of Georgian Lari	2014	2013
MFO Rico Express coupon securities	1,118	1,042
Total investment securities available for sale	**1,118**	**1,042**

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

In thousands of Georgian Lari	Note	2014	2013
Carrying amount at 1 January		**1,042**	**-**
Interest income accrued	18	39	66
Interest income received		(39)	(66)
Purchases		1,118	4,502
Redemption		(1,042)	(3,460)
Carrying amount at 31 December		**1,118**	**1,042**

Interest rate analysis of investment securities available for sale is disclosed in Note 22.

11 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Note	Buildings	Furniture and equipment	Computers and office equipment	Vehicles	Other	Leasehold Improvements	Total premises and equipment	Intangible Assets	Total
Cost at 1 January 2013		1,988	824	447	229	161	114	**3,763**	323	**4,086**
Accumulated depreciation		(163)	(494)	(281)	(195)	(49)	(10)	**(1,192)**	(110)	**(1,302)**
Carrying amount at 1 January 2013		1,825	330	166	34	112	104	**2,571**	213	**2,784**
Additions		-	4	88	106	10	-	**208**	144	**352**
Disposals		-	(9)	(26)	-	-	-	**(35)**	(17)	**(52)**
Depreciation										
Depreciation charge		(40)	(113)	(62)	(40)	(11)	(13)	**(279)**	(52)	**(331)**
Disposals		-	8	26	-	-	-	**34**	17	**51**
Carrying amount at 31 December 2013		**1,785**	**220**	**192**	**100**	**111**	**91**	**2,499**	**305**	**2,804**
Cost at 31 December 2013		1,988	819	509	335	171	114	**3,936**	450	**4,386**
Accumulated depreciation		(203)	(599)	(317)	(235)	(60)	(23)	**(1,437)**	(145)	**(1,582)**
Carrying amount at 31 December 2013		**1,785**	**220**	**192**	**100**	**111**	**91**	**2,499**	**305**	**2,804**
Additions		-	15	42	-	4	-	**61**	44	**105**
Disposals		-	-	(1)	-	(1)	-	**(2)**	(1)	**(3)**
Depreciation										
Depreciation charge		(41)	(36)	(44)	(25)	(16)	(13)	**(175)**	(49)	**(224)**
Disposals		-	-	1	-	1	-	**2**	1	**3**
Carrying amount at 31 December 2014		**1,744**	**199**	**190**	**75**	**99**	**78**	**2,385**	**300**	**2,685**
Cost at 31 December 2014		1,988	834	550	335	174	114	**3,995**	493	**4,488**
Accumulated depreciation		(244)	(635)	(360)	(260)	(75)	(36)	**(1,610)**	(193)	**(1,803)**
Carrying amount at 31 December 2014		**1,744**	**199**	**190**	**75**	**99**	**78**	**2,385**	**300**	**2,685**

12 Other Financial Assets

In thousands of Georgian Lari	Note	2014	2013
Receivables on other operations		51	18
Total other financial assets		**51**	**18**

13 Other Assets

In thousands of Georgian Lari	Note	2014	2013
Repossessed collateral		721	754
Uninstalled equipment		303	-
Prepayments		126	85
Taxes other than on income		5	22
Total other assets		**1,155**	**861**

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans.

14 Due to Other Banks

In thousands of Georgian Lari	2014	2013
Correspondent accounts and overnight placements of other banks	1,000	-
Short-term placements of other banks	1,864	2,389
Total due to other banks	**2,864**	**2,389**

Refer to Note 25 for the disclosure of the fair value of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 22. Information on related party balances is disclosed in Note 26.

15 Customer Accounts

In thousands of Georgian Lari	2014	2013
- Current/settlement accounts	7,034	7,858
- Term deposits	49,584	29,150
Total customer accounts	**56,618**	**37,008**

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	32,567	58%	20,542	56%
Trade	10,138	18%	7,131	19%
Mining	3,968	7%	6,468	17%
Global fund	3,679	6%	-	0%
Transport and Communication	3,504	6%	-	0%
Agriculture	706	1%	1,565	4%
Construction	83	0%	468	1%
Other	1,973	4%	834	3%
Total customer accounts	**56,618**	**100%**	**37,008**	**100%**

At 31 December 2014, customer accounts totalling GEL 28,330 (2013: GEL 17,488) were due to ten customers.

Refer to Note 25 for the disclosure of the fair value of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 22. Information on related party balances is disclosed in Note 26.

16 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	Note	2014	2013
Payables for services and goods		119	287
Total other financial liabilities		**119**	**287**

Refer to Note 25 for disclosure of the fair value of other financial liabilities.

17 Share Capital

In thousands of Georgian Lari except for number of shares	**Number of outstanding shares in thousands**	**Ordinary shares**	**Total**
At 1 January 2013	**17,475**	**17,475**	**17,475**
At 31 December 2013	**17,475**	**17,475**	**17,475**
At 31 December 2014	**17,475**	**17,475**	**17,475**

The total number of authorised ordinary shares is 18,240 thousand shares (2013: 18,240 thousand shares), with a par value of GEL 1 per share (2013: GEL 1 per share). The total number of issued ordinary shares is 17,475 thousand shares (2013: 17,475 thousand shares). All issued ordinary shares are fully paid.

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

18 Interest Income and Expense

In thousands of Georgian Lari	**2014**	**2013**
Interest income		
Loans and advances to customers	7,175	5,438
Debt investment securities available for sale	39	66
Due from other banks and mandatory balances held with the NBG	126	55
Total interest income	**7,340**	**5,559**
Interest expense		
Customer accounts	3,768	1,564
Due to other banks	56	62
Total interest expense	**3,824**	**1,626**
Net interest income	**3,516**	**3,933**

19 Fee and Commission Income and Expense

In thousands of Georgian Lari	2014	2013
Fee and commission income		
- Fees related to guarantees	345	150
- Settlement transactions	76	52
- Cash transactions	23	15
- Documentary operations	9	9
- Other	21	3
Total fee and commission income	**474**	**229**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Correspondent bank services	38	22
- Cash operations	14	12
- Other	4	1
Total fee and commission expense	**56**	**35**
Net fee and commission income	**418**	**194**

20 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2014	2013
Employee compensation		2,604	2,177
Professional services		462	428
Depreciation and amortisation		224	331
Communications and information services		268	148
Operating leases		92	73
Travel and training		66	81
Utilities		46	40
Other		401	281
Total administrative and other operating expenses		**4,163**	**3,559**

21 Income Taxes

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

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

In thousands of Georgian Lari	2014	2013
Current tax	-	-
Deferred tax	124	(66)
Income tax expense/(benefit) for the year	**124**	**(66)**

21 Income Taxes (Continued)

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

The income tax rate applicable to the majority of the Bank's loss is 15% (2013: 15%). Reconciliation between the expected and the actual taxation charge is provided below:

In thousands of Georgian Lari	2014	2013
Loss before tax	**(1,915)**	**(463)**
Theoretical tax benefit at statutory rate (2014: 15%; 2013: 15%)	(287)	(69)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Unrecognised tax loss carry forwards	53	-
- Under provision of current tax in prior years	(16)	-
- Reassessment related to previous years	41	-
- Derecognition of previously recognised tax loss carry-forwards	315	-
- Non-deductible expenses	18	3
Income tax expense/(benefit) for the year	**124**	**(66)**

Management has applied judgement in assessment of recoverability of deferred tax asset in respect with tax loss carry-forwards for prior periods. Based on the analysis of the historical performance, as well as projection of the availability and timing of future taxable profit, the management has decided not to recognise the deferred tax asset of GEL 324 thousand as at 31 December 2014 (2013: nil) related to accumulated tax loss carry-forwards. As at 31 December 2014 the Bank has accumulated tax loss of GEL 2,163 thousand (2013: GEL 2,100 thousand).

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences during 2014 is detailed below and is recorded at the rate of 15% (2013: 15%).

In thousands Georgian Lari	1 January 2014	Credited/ (charged) to profit or loss	31 December 2014
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(49)	(2)	(51)
Loans to customers	(59)	213	154
Guarantee impairment provision	24	4	28
Other Assets	27	(24)	3
Other Liabilities	9	-	9
Tax loss carry-forwards	315	(315)	-
Net deferred tax asset	**267**	**(124)**	**143**

21 Income Taxes (Continued)

The tax effect of the movements in the temporary differences during 2013 is detailed below:

In thousands of Georgian Lari	**1 January 2013**	**Credited/ (charged) to profit or loss**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(45)	(4)	(49)
Loans to customers	(168)	109	(59)
Guarantee impairment provision	17	7	24
Other Assets	22	5	27
Other Liabilities	8	1	9
Tax loss carry-forwards	367	(52)	315
Net deferred tax asset	**201**	**66**	**267**

22 Financial Risk Management

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

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

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position and the amount of guarantees and commitments to extend credit (refer to Note 24). The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committee and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Department. Daily risk management is performed by Credit Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved by the Management Board.

The Bank's risk management reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

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

22 Financial Risk Management (Continued)

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, both of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insomuch as such change may adversely affect the Bank's revenues, equity, liquidity and creditworthiness. The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to meet the requirements of the NBG.

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

	At 31 December 2014			At 31 December 2013		
In thousands of Georgian Lari	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Georgian Lari	19,994	(7,849)	12,145	19,236	(5,776)	13,460
US Dollars	40,967	(42,722)	(1,755)	12,947	(27,345)	(14,398)
Euros	8,662	(9,015)	(353)	19,414	(6,563)	12,851
Other	104	(15)	89	72	-	72
Total	**69,727**	**(59,601)**	**10,126**	**51,669**	**(39,684)**	**11,985**

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

	At 31 December 2014		At 31 December 2013	
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 25% (2013: strengthening by 10%)	(373)	-	(1,224)	-
US Dollar weakening by 25% (2013: weakening by 10%)	373	-	1,224	-
Euro strengthening by 25% (2013: strengthening by 10%)	(75)	-	1,092	-
Euro weakening by 25% (2013: weakening by 10%)	75	-	(1,092)	-

Other than as a result of any impact on the Bank's profit or loss, there is no other impact on the Bank's equity as a result of such changes in exchange rates. The exposure was calculated only for significant monetary balances denominated in currencies other than the functional currency of the Bank.

22 Financial Risk Management (Continued)

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

The Bank was not subject to significant cash flow interest rate risk as at 31 December 2014 and 2013 as all of the Bank's financial assets and liabilities had fixed contractual interest rates or were interest free. As at 31 December 2014 and 2013 the Bank was subject to fair value interest rate risk on the investment securities available for sale.

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

In thousands of Georgian Lari	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
31 December 2014						
Total financial assets	23,169	2,508	17,484	18,587	7,979	69,727
Total financial liabilities	13,516	6,848	31,301	7,696	240	59,601
Net interest sensitivity gap at 31 December 2014	**9,653**	**(4,340)**	**(13,817)**	**10,891**	**7,739**	**10,126**
31 December 2013						
Total financial assets	12,732	5,199	12,838	16,342	4,558	51,669
Total financial liabilities	8,187	4,644	12,905	13,668	280	39,684
Net interest sensitivity gap at 31 December 2013	**4,545**	**555**	**(67)**	**2,674**	**4,278**	**11,985**

The Bank monitors interest rates for its financial instruments. The table below summarises the weighted average interest rates at the respective reporting dates based on reports reviewed by key management personnel for principal currencies.

	2014			**2013**		
In % p.a.	**GEL**	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash and cash equivalents	-	-	-	-	-	-
Mandatory cash balances with the NBG	2%	-	-	2%	-	-
Due from other banks	3.2%	-	-	2%	-	-
Loans and advances to customers	17.9%	16.7%	15.5%	18.4%	17.3%	17.0%
Investment securities available for sale	10%	10%	10%	9%	9%	9%
Other financial assets	-	-	-	-	-	-
Liabilities						
Due to other banks	-	2.5%	-	-	-	1%
Customer accounts	6.2%	8.4%	6.1%	5.5%	10.1%	1.1%
Other financial liabilities	-	-	-	-	-	-

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

22 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2014 is set out below:

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	8,734	652	69	9,455
Mandatory cash balances with NBG	9,187	-	-	9,187
Loans and advances to customers	49,637	-	279	49,916
Investment securities available for sale	1,118	-	-	1,118
Other financial assets	51	-	-	51
Total financial assets	**68,727**	**652**	**348**	**69,727**
Financial liabilities				
Due to other banks	2,864	-	-	2,864
Customer accounts	46,791	4,592	5,235	56,618
Other financial liabilities	119	-	-	119
Total financial liabilities	**49,774**	**4,592**	**5,235**	**59,601**
Net position in on-balance sheet financial instruments	**18,953**	**(3,940)**	**(4,887)**	**10,126**
Credit related commitments	**12,285**	**-**	**-**	**12,285**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located.

22 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2013 is set out below:

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	8,749	556	687	9,992
Mandatory cash balances with NBG	4,551	-	-	4,551
Loans and advances to customers	36,066	-	-	36,066
Investment securities available for sale	1,042	-	-	1,042
Other financial assets	18	-	-	18
Total financial assets	**50,426**	**556**	**687**	**51,669**
Financial liabilities				
Due to other banks	2,389	-	-	2,389
Customer accounts	34,398	2,185	425	37,008
Other financial liabilities	287	-	-	287
Total financial liabilities	**37,074**	**2,185**	**425**	**39,684**
Net position in on-balance sheet financial instruments	**13,352**	**(1,629)**	**262**	**11,985**
Credit related commitments	**7,836**	**-**	**-**	**24,363**

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

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

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, maintaining funding contingency plans, and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG. The ratio requirement of the NBG is 30% (2013: 30%). The average liquidity ratio was 32% at 31 December 2014 (2013: 32.83%); the Bank was compliant with the requirement of the NBG as at 31 December 2014 and 2013.

22 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2014 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

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

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

The maturity analysis of financial instruments at 31 December 2014 is as follows:

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	9,455	-	-	-	-	9,455
Mandatory Cash balances with the NBG	9,187	-	-	-	-	9,187
Loans and advances to customers	4,476	1,390	17,484	18,587	7,979	49,916
Investment securities available for sale	-	1,118	-	-	-	1,118
Other financial assets	51	0	-	-	-	51
Total	**23,169**	**2,508**	**17,484**	**18,587**	**7,979**	**69,727**
Liabilities						
Due to other banks	2,864	-	-	-	-	2,864
Customer accounts	10,550	6,923	32,923	8,965	1,275	60,636
Other financial liabilities	119	0	0	0	-	119
Financial guarantees issued	622	592	2,954	3,974	-	8,142
Undrawn credit line commitments	1,226	-	-	-	-	1,226
Total potential future payments for financial obligations	**15,381**	**7,515**	**35,877**	**12,939**	**1,275**	**72,987**
Liquidity gap arising from financial instruments	**7,788**	**(5,007)**	**(18,393)**	**5,648**	**6,704**	**(3,260)**

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

22 Financial Risk Management (Continued)

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

In thousands of Georgian Lari	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	7,692	2,300	-	-	-	9,992
Mandatory Cash balances with the NBG	4,551	-	-	-	-	4,551
Loans and advances to customers	471	1,857	12,838	16,342	4,558	36,066
Investment securities available for sale	-	1,042	-	-	-	1,042
Other financial assets	18	-	-	-	-	18
Total	**12,732**	**5,199**	**12,838**	**16,342**	**4,558**	**51,669**
Liabilities						
Due to other banks	-	2,390	-	-	-	2,390
Customer accounts	7,963	2,244	13,627	15,997	649	40,480
Other financial liabilities	224	38	25	-	-	287
Financial guarantees issued	725	166	2,391	1,335	-	4,617
Undrawn credit line commitments	1,727	-	-	-	-	1,727
Total potential future payments for financial obligations	**10,639**	**4,838**	**16,043**	**17,332**	**649**	**49,501**
Liquidity gap arising from financial instruments	**2,093**	**361**	**-3,205**	**-990**	**3,909**	**2,168**

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

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

Management believes that in spite of a substantial portion of customer accounts being on demand, the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

23 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia and (ii) to safeguard the Bank's ability to continue as a going concern. The amount of capital that the Bank managed as of 31 December 2014 was GEL 13,647 thousand (2013: GEL 15,686 thousand). Compliance with capital adequacy ratios set by the National Bank of Georgia is monitored monthly, with reports outlining their calculation reviewed and signed by the General Director and the Chief Accountant. The Bank has complied with all externally imposed capital requirements throughout 2014 and 2013.

Under the current capital requirements set by the National Bank of Georgia, banks have to maintain a ratio of Tier 1 and Regulatory Capital to risk-weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under NBG accounting rules and amounts to GEL 15,490 thousand (2013: GEL 15,597 thousand). As at 31 December 2014, these minimum levels set by the NBG were 8% for primary capital and 12% for regulatory capital (2013: 8% and 12%, respectively).

In thousands of Georgian Lari	**2014**	**2013**
Primary capital		
Share capital	17,475	17,475
Accumulated loss according to the NBG regulations	(2,186)	(2,319)
Deductions (Intangible Assets)	(300)	(305)
Total primary capital	**14,989**	**14,851**
Secondary capital		
Current year (loss)/profit according to NBG regulations	(415)	133
General reserve	916	613
Total secondary capital	**501**	**746**
Total regulatory capital	**15,490**	**15,597**
Risk weighted assets, combining credit, market and operational risks	**102,572**	**65,164**
Tier I ratio	**14.61%**	**22.79%**
Regulatory capital ratio	**15.10%**	**23.93%**

24 Contingencies and Commitments

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

Tax contingencies. Georgian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances tax year may remain open longer.

24 Contingencies and Commitments (Continued)

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Bank consults with qualified external tax advisors when necessary.

Operating lease commitments. The Bank did not have any material operating lease commitments as at 31 December 2014 and 2013.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations.

Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	**Note**	**2014**	**2013**
Financial guarantees issued		8,142	4,617
Performance guarantees issued		2,917	1,492
Undrawn credit line commitments		1,226	1,727
Less: Provision for financial and performance guarantees		(462)	(231)
Total credit related commitments and guarantees, net of provision		**11,823**	**7,605**

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

Assets pledged and restricted. Mandatory cash balances with the NBG of GEL 9,187 thousand (2013: GEL 4,551 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 8.

25 Fair Value Disclosures

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

(a) Recurring fair value measurements

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

	31 December 2014				31 December 2013			
In thousands of Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities available for sale								
MFO Rico Express coupon securities	-	-	1,118	1,118	-	-	1,042	1,042
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**-**	**1,118**	**1,118**	**-**	**-**	**1,042**	**1,042**

The description of valuation technique and description of inputs used in the fair value measurement for level 3 measurements at 31 December 2014:

	Fair value at 31 December			
In thousands of Georgian Lari	**2014**	**2013**	**Valuation technique**	**Inputs used**
FINANCIAL ASSETS				
- MFO Rico Express coupon securities	1,118	1,042	Discounted cash flows (“DCF”)	Interest rates on similar securities
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**1,118**	**1,042**		
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**1,118**	**1,042**		

The movement in investment securities available for sale is presented in Note 10. There were no changes in valuation technique for level 3 recurring fair value measurements in 2014.

25 Fair Value Disclosures (Continued)

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

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

	31 December 2014				31 December 2013			
In thousands of Georgian Lari	Level 1	Level 2	Level 3	Carry-ing value	Level 1	Level 2	Level 3	Carry-ing value
ASSETS								
Cash and cash equivalents	9,455	-	-	**9,455**	7,659	2,333	-	**9,992**
Mandatory balances with the NBG	-	9,187	-	**9,187**	-	4,551	-	**4,551**
Loans and advances to customers	-	-	49,691	**49,916**	-	-	36,066	**36,066**
Other financial assets	-	51	-	**51**	-	18	-	**18**
TOTAL	**9,455**	**9,238**	**49,691**	**68,609**	**7,659**	**6,902**	**36,066**	**50,627**

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

	31 December 2014				31 December 2013			
In thousands of Georgian Lari	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carry-ing value	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carry-ing value
FINANCIAL LIABILITIES								
Due to other banks	-	2,864	-	**2,864**	-	2,389	-	**2,389**
Customer accounts	-	7,034	51,048	**56,618**	-	7,858	29,570	**37,008**
Other financial liabilities	-	-	-	**119**	-	-	-	**287**
TOTAL	**-**	**9,898**	**51,048**	**59,601**	**-**	**10,247**	**29,570**	**39,684**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

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

26 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The other related parties category below is comprised of (i) parties that are entities that are controlled by the shareholders or key management personnel of the Bank, and (ii) parties that are close members of the family of the shareholders or the key management of the Bank.

At 31 December 2014, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Shareholders**	**Key management personnel of the bank**	**Other related parties**
Correspondent accounts and overnight placements with other banks (contractual interest rate: 0%)	-	-	43
Gross amount of loans and advances to customers (contractual interest rate: 18%)	-	27	-
Customer accounts (contractual interest rate: 0%-17%)	-	117	36
Due to other banks (contractual interest rate: 0%-2.5%)	-	-	2,864

The income and expense items with related parties for 2014 were as follows:

In thousands of Georgian Lari	**Shareholders**	**Key management personnel of the bank**	**Other related parties**
Interest income	-	35	-
Interest expense	-	10	5
Administrative and other operating expenses	-	62	-

At 31 December 2014, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	**Shareholders**	**Key management personnel of the bank**	**Other related parties**
Undrawn credit line commitments	-	13	-

Aggregate amounts lent to and repaid by related parties during 2014 were:

In thousands of Georgian Lari	**Shareholders**	**Key management personnel of the bank**	**Other related parties**
Amounts lent to related parties during the year	-	426	-
Amounts repaid by related parties during the year	-	456	420

26 Related Party Transactions (Continued)

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

In thousands of Georgian Lari	Shareholders	Key management personnel of the bank	Other related parties
Correspondent accounts and overnight placements with other banks (contractual interest rate: 0%)	-	-	66
Other assets	-	20	10
Gross amount of loans and advances to customers (contractual interest rate: 16%-18%)	-	21	420
Impairment provisions for loans and advances to customers	-	-	(9)
Customer accounts (contractual interest rate: 0%-16%)	-	383	2,836

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

In thousands of Georgian Lari	Shareholders	Key management personnel of the bank	Other related parties
Interest income	-	100	53
Interest expense	-	(26)	(65)
Provision charge of loan impairment	-	-	(9)
Administrative and other operating expenses	-	(67)	-

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

In thousands of Georgian Lari	Shareholders	Key management personnel of the bank	Other related parties
Guarantees issued by the Bank	-	625	3

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

In thousands of Georgian Lari	Shareholders	Key management personnel of the bank	Other related parties
Amounts lent to related parties during the year	-	21	420
Amounts repaid by related parties during the year	-	786	229

Compensation for the members of the key management personnel is presented below:

	2014		2013	
In thousands of Georgian Lari	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries and short-term bonuses	939	-	861	-
Total	**939**	**-**	**861**	**-**

27 Events After the End of the Reporting Period

After 31 December 2014 the exchange rate of GEL continued to depreciate against USD. Significant part of the loans issued by the Bank is denominated in USD while significant part of the borrowers gains their income in GEL. Prolonged or further depreciation of GEL may result in certain difficulties of some of these borrowers to repay their loans to the Bank. Due to high estimation uncertainty, the management of the Bank cannot reliably quantify the impact of GEL depreciation on Bank's financial position in the future.