

წლიური ანგარიში ANNUAL REPORT



ბაზისბანკი
BASISBANK

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ABOUT BASISBANK

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BASISBANK - OUR STORY

THE BIRTH OF THE BANK - EARLY YEARS

In 1993 a group of friends – physicists and mathematicians, graduates from Moscow State University decide to set up a bank. Equipped with only one office a few employees and GEL 5 million in capital at that time, the Bank has managed to weather various changes and meet many challenges along the way: Post-soviet era, transition to a free market economy, adaptation to new economic realities, difficult political and economic situation and many more.

Being the only bank in Georgia to have a diversified Georgian shareholding and no foreign ownership or support in the beginning, the Bank could have ended as swiftly as it began as out of more than 300 banks operating in 90s the majority collapsed due to their inability of adapting to difficult changes and lack of proper management. However, it wasn't Basisbank's (BB) story. Backed by the sound management, the Bank evolved through its organic growth and prepared attractive platform for the entrance of an experienced, growth-oriented strategic investor.

From the initial stage the Bank's management had a clear and simple aim to connect its resources to the needs of its clients and to prepare a solid ground for a successful activities of the bank in a long-term run. Thus, BB's Management directed all their resources to accomplish a major business conception—creation of a niche Bank with a customer-focused approach based on strong communication ties with customers.

From the beginning the bank has strived for:

- Continuous care for the financial welfare of its customers
- Business success of its clients
- Creation of the best long-term partnership with promising, development oriented SMEs
- Formation of the efficient, reputable institution in the country
- Gaining recognition and status of a reliable regional partner among active IFIs

Throughout the early years of operation, the Bank was steadily growing. By the time EBRD's strategic alliance with BB, it was a very different institution from the tiny business.

YEARS OF STRATEGICAL ALLIANCE WITH EBRD SUPPORTING GROWTH

Prior to strategic alliance with EBRD, BB put forth a hard work to upgrade its operations to adapt it to the best

international practices. By the time EBRD became BB's shareholder, the bank already had functional organization structure, efficient corporate governance structure adjusted to the size of the Bank and reporting system. In the years of BB/EBRD strategic partnership the Bank has undergone fundamental changes. The Management of the Bank was completely reorganized; new significant structures were introduced and established; with EBRD's entrance the format of communications between Supervisory Board (SB) and Management Board (MB) changed encompassing regular meetings and interactions, the strategic development plan was reformulated according to the mutual interests of the new and existing owners.

A new and enhanced corporate governance system has been jointly formulated by the Bank's local personnel and European consultants. Two years EBRD initiated Institution Building Plan was carried out with the help of international consulting company DAI (Development Alternative, Inc (DAI Europe). Under IBP program extensive consulting services were provided by the European professionals to transform the Bank's organization structure to meet the best international practices.

The tremendous work that has been done by the Bank's Management and dedicated staff brought BB recognition as an efficient, reliable bank with strong position among its peers and built a reputation that endures the present day. The aforementioned four year work has led to the upgrading of BB's credit ratings: International credit rating agency "Fitch Ratings" increased its ratings to BB from long-term CCC to B- and from short-term C to B with a stable outlook in 2010 and reaffirmed it in 2011.

The bank has grown far beyond its primary vision of a locally owned and managed institution that understood local needs. It won the confidence and loyalty of its staff, clients, partners, shareholders and assured that this once-small local bank became a prominent actor and a trustworthy partner on the market.

2012 – UP TO PRESENT DAYS ENTRANCE OF A NEW STRATEGIC INVESTOR – HUALING GROUP

While EBRD/BB strategic alliance was a period of BB's significant organizational transformations and developments, it has prepared the groundwork for the Bank's robust organic growth strategy.

On the background of already developed, strong financial institution, the right time came for the Bank to look further for increasing its capital base and capturing market share.

BB was already prepared for a more dynamic growth, however further solid capital infusion was needed and the Bank turned its attention on looking out for potential strategic investors as a possible vehicle to realize the Bank's robust growth strategy.

In 2012, BB found such an investor who would be interested in the company's further rapid development and who would inject additional capital in the Bank's business acceleration. China's Xinjiang Hualing Industry & Trade (Group) Co., Ltd (the "Hualing Group") – a big Chinese company acquired 90% equity stake in BB. By that period BB already had:

- Efficient organization structure based on best Corporate Governance Principles
- Fast, efficient and responsive services
- Full package of banking services for Retail, Corporate and SME segments
- Knowledgeable and equipped staff to handle local and global business challenges for the clients
- Well developed branch network

Together with the new owner and solid capital infusion the Bank started to rigorously execute its redefined 5 year strategy that encompassed ambitious growth.

2014 ACCOMPLISHMENTS

2014 was one of the most successful and active years within its 21st years history for BB. Consistent with the last two years outstanding performance, BB achieved healthy growth and delivered record performance across its key business directions representing the third consecutive year of solid results.

Consistently executing on its strategic priorities, BB made progress in gaining its market position in assets and deposits throughout the year. Our market position in assets upgraded to 7th position from its former 11th position in 2012, reaching GEL 580 million in assets and our deposits market position grew to the 8th position totaling in GEL 398 million of customer deposits.

In 2014, BB continued benchmarking itself against international standards and best practices in terms of product offerings, service levels and sound internal control environment.

As part of the efforts to expand its business activities

and execute on strategic priorities to be the best financial services provider for its local customers, as well as building strong cooperation ties with China, BB continued its drive to design and offer new product opportunities. One of the most successful examples is launching of the new, state-of-the art project "BB's Business Club"

BB's Business Club is an online portal which was specifically developed for the promotion and expansion of small and medium businesses in Georgia. The business portal has no analogue on the market which gives possibility to its customers to meet with new partners and companies, expand selling network and enjoy advantage of exclusive conditions on a variety of goods and services.

In coming year, BB intends to leverage its business portal capabilities and expand its franchise boundaries to include and offer the Business club membership to Chinese companies as well. Through introduction of business portal to Chinese counterparties, BB will create a new and larger communications and financial services platform by becoming partner to China's leading banks and companies and will acquire huge potential of growing its franchise and creating more value.

In line with BB's strategy to strengthen its focus on Asian market and intensify preparatory activities to achieve unparalleled advantage and direct linkage and access to Chinese retail and corporate businesses, BB continued to build strong platform throughout last year to meet increasing demands of Chinese businesses and retail segment in Georgia.

Another interesting particular project was entrance into cooperation with UnionPay one of the largest bank card association of Peoples Republic of China. The aim of the new cooperation with Unionpay is to meet increasing demand for card use of the Chinese in overseas business, travel and study and providing them with payment convenience while traveling in Georgia. The stated cooperation will give the Bank opportunity to capture the Asian niche of increasing clients in the country.

Another important event of the reporting year was the expansion of the range of transactions available to the Bank's retail and business customers online through internet banking, including making account-to-account transfers, which enables customers to make money transfers to any internal or external account at their will.

BB remained committed to strengthening its ties with foreign partners in 2014. Cooperation with International Financial Institutions is an integral part of BB's strategy. Our productive relations with various financial institutions confirmed once again that this confidence was well-deserved and that the Bank remains to be a reliable partner. BB's long-dated cooperation with reputable International Institutions once again evidenced into the initiation of several joint projects which will enter into force in the first half of the new 2015 year.

Among other significant events it is worth to note that based on impressive growth results and high quality of loan portfolio, Fitch re-affirmed the Bank's ratings at Long-term "B", Short-term "B" with a Stable Outlook in 2014.

In 2014 BB established a clear goal to be the best financial services provider in the eyes of its customers. There is sufficient evidence that we are making progress on the course we set. In 2014 BB made significant progress to streamline its serving capacity by enhancing quality of its business units. The Bank underwent a series of reorganization in the key departments and introduced new structural departments: Project Management and Business Analysis Department, Small and Medium Business Department and Risk Management Committee, to better align its operating units to serve the three groups of clients: Retail, SME and corporate.

Within the context of corporate governance the Bank continued to uphold positive business ethics and to ensure that standards of corporate governance, internal control and risk management are practiced throughout the Bank. During 2014 BB engaged IFC for its Corporate Governance assessment in control environment. IFC assessed and monitored on an ongoing basis BB structuring and control environment, a system of internal control and risk management, integrated compliance and internal audit function and provided its recommendations.

By the end of the year 2014, changes were made to the Bank's ownership structure. Hualing Group retained its majority 92.78% interest in the Bank. EBRD and Z.Tsikhistavi, as part of the Subscription Agreements sold their remaining shares of the Bank. Mr. MiZaiqi, Member of SB acquired 7% of the Bank's shares, while BB's current MB collectively invested and acquired 0.22% shares in the Bank.



HUALING GROUP

ABOUT HUALING GROUP

Hualing Commerce, Industry & Trade (Group) co. Ltd, the new shareholder of the Bank, is a private enterprise group established in 1988. The Group operates in many different areas, more specifically focuses on the commodities wholesale market (rental and management services), and diversifies into international trade, development of modern livestock slaughter industry, logistic transportation, constructions, hotel, tourism etc.

Hualing first entered Georgian market in 2007 and invested in local forestry exploration, wood processing and mining. Hualing Group established the "Free Industry Zone" in Kutaisi in 2009, with ongoing construction of infrastructure facilities and installation of equipments. Hualing Group will establish a large-scale modern commerce market and launch the Hualing International Special Economic Zone Project.

In 2011 the group decided to enter the Georgian financial market. The key stimulus for the decision was to benefit from the development prospects of the region and the sector itself. The banking institutions are the most important means for market development and banking is one of the most growing sectors in Georgia.

Hualing Group intends to support the establishment of strong financial institution with high-quality financial services, to strengthen and promote its sustainable growth and development.

Following the acquisition of 90% stakes in BB by Xinjiang Hualing Industry & Trade (Group) Co. Ltd, additional capital injection in the amount of 45 million USD was made by the Bank's new major shareholder.

Investment Projects of "Hualing Group" in Georgia:

"Hualing Group" has started investment Projects in

Georgia since 2007 and up to know, "Hualing Group" has implemented 5 major projects in Georgia with total investment in the amount of USD 500 000 000 (end of 2014). One of them is "Hualing, Tbilisi Sea Residence"_2 million of m² of living area.

"Hualing, Tbilisi Sea Plaza"_2 million of m² of commercial space. 100 hectares of territory will be utilized for roads, recreation and leisure zones.

According to the plan, the construction of the New City of Tbilisi Sea started in 2012 and by the beginning of 2015 Hualing Group already constructed and completed eighteen high-rise apartment buildings in the living area of the project. From the beginning of 2015 sale of the stated residential apartments has commenced.

In May an official opening of "Hotels & Preference Hualing Tbilisi" - 5 star premium-class Hotel with 247 rooms will be held.

The part of territory is occupied by Olympic Village which will host the Youth Olympic Festival in 2015. According to the agreement made between Hualing Group and Georgian Government the complex will be handed over to the State for the three months period in May 2015. Olympic Village includes: 9 living apartment buildings with complete renovation, 5 - star Hotel "Hotels & Preference Hualing Tbilisi", Restaurant accommodating 2000 clients and special parking territory.

In June, 2014 "Hualing Tbilisi Sea Plaza" was opened in "Hualing. New City of Tbilisi Sea". "Hualing Tbilisi Sea Plaza" construction area holds 300 000 m², the construction is divided into northern and southern parts and is carried out in two stages. The total area of the Southern part is 160 000 m², including 110 000 m² of shopping territory and 25 pavilions with total area of 1853 m².

According to the recent figures, "Hualing Group" was named as the leading foreign investment group in Georgia.

Statement of the Chairman of Supervisory Board



Zhang Jun
Chairman of the Supervisory Board

I am particularly proud to note that 2014 was another fruitful year in the development of BB (or 'the Bank'). Despite of on-going economic and market challenges, the Bank continued its consistent development strategy and successfully met the goals set at the beginning of the year. Although still small in size, BB has undoubtedly developed into a stable and trustworthy financial institution.

BB has always strived to be equally well presented in retail and corporate business segments and maintained the principle of customer-oriented services. In 2014, the Bank started to increase investment in relevant staff training, infrastructure and internet platform to enhance SME lending business. We also improved lending procedures and enhanced banking products, to make them even more practical and competitive, expanded network of service-centers and ATMs which is critical for efficient customer service.

For retail clients, BB has adjusted the design of retail products to meet customer needs and market demand.

New types of products were introduced and very active campaigns were conducted to intensify retail services.

With continuing strengthening of economic and trade relationship between Georgia and China, new door of development opportunities was opened for BB. From the beginning of cooperation between BB and its shareholder Hualing Group, we upheld the consistent vision, to help the development of SMEs, which is the foundation of a country's economic strength. Therefore, we will maintain our shared visions and core values to strive for a better future.

Looking ahead to year 2015 the Bank will continue to move forward according to established business strategy and goals.

We will provide SMEs and corporate clients with more simplified and efficient service, not only through traditional channels but also the internet platform – Business Portal. We will help our SME clients to organize various promotion events, to introduce business partners between Georgia and China to promote sales and business cooperation.

Especially, we would like to strengthen our particular focus on the agro lending business. The Agricultural sector is one of the most important directions actively supported and promoted by the government. BB's new agro lending business unit will work with SME and micro clients close to the very spots where these businesses are presented.

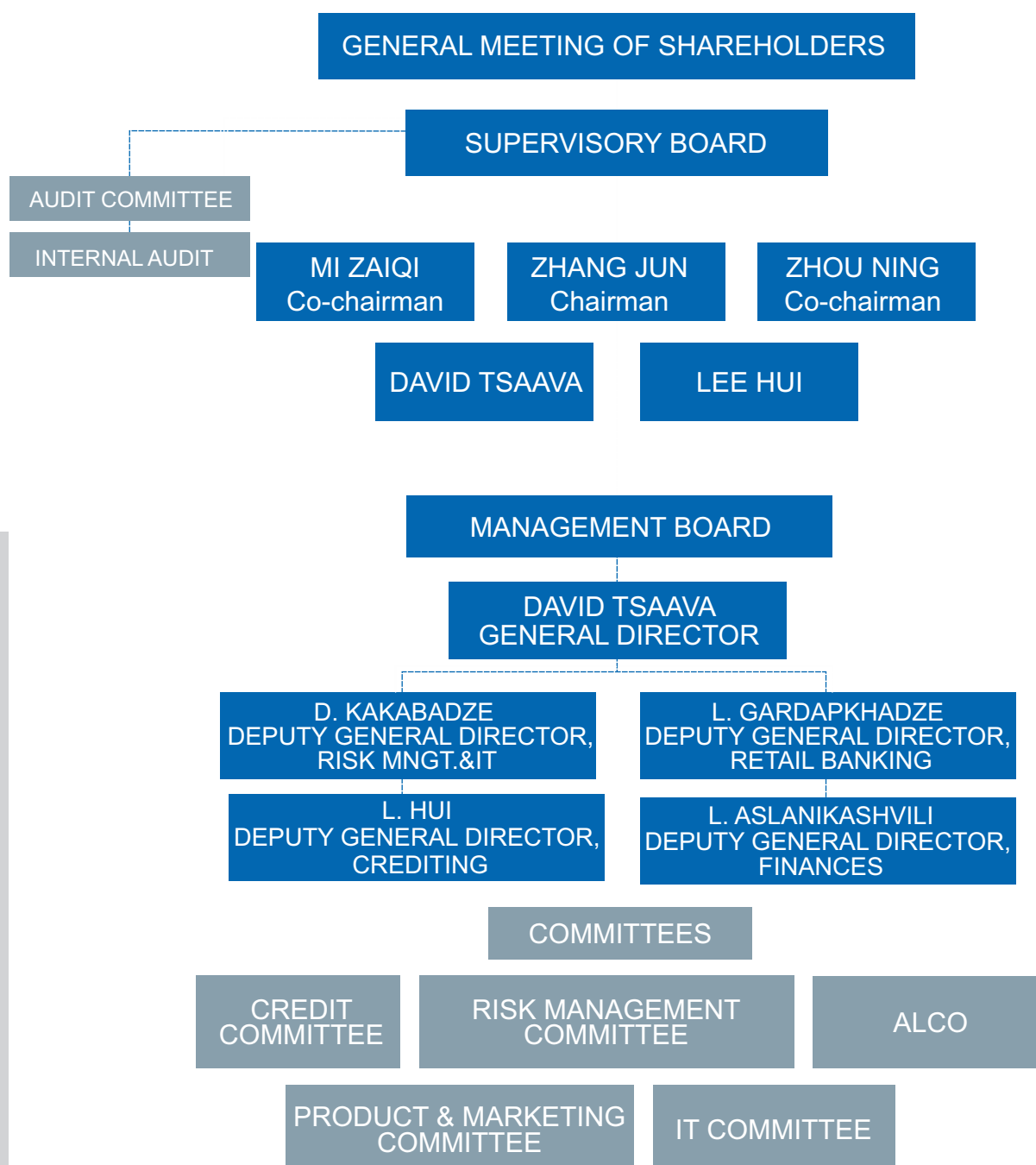
To better serve our individual clients, BB will keep looking for the innovative products and smart banking solutions. To improve the customer experience, the Bank also plans to enhance remote banking by improving our payments and account management tools based on unique platform for mobile and internet banking.

Finally, I would like to state that BB is and will continue to be a universal financial institution, serving its retail, SME and corporate customers along with its huge potential in exploring new business development.

GOVERNING BODIES

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Executive Group



Executive Group



Zhang Jun
Chairman
of Supervisory Board



Mi Zaiqi
Vice Chairman
of Supervisory Board



Zhou Ning
Vice Chairman
of Supervisory Board



David Tsaava
Member of Supervisory Board,
General Director



Hui Li
Member of Supervisory Board,
Deputy General Director, Lending



David Kakabadze
Deputy General Director,
Risk Management and IT



Lia Aslanikashvili
Deputy General Director,
Finances



Levan Gardapkhadze
Deputy General Director,
Retail Business

BUSINESS PROFILE

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Statement of the General Director



David Tsaava
General Director

During 2014 the Bank consistently continued its steady development. The Bank remained useful to the clients, employees and shareholders.

The last year was especially noteworthy to the Bank owing to the large business scale of our major shareholder – Chinese Hualing Group which opened the road to new possibilities for BB.

We are proud to be a part of the group which held the leading position among the largest investors list in Georgia and made significant contribution to the economic development of the country in recent years.

On the whole, enhancing trade and business relations with partner countries and especially with Chinese essential for the country's economic advancement. China is one of the most attractive and interesting countries considering its leading position in global economy. China in particular contributes to the establishment of broader business contacts and inflow of investments to Georgia. I believe that further development of economic and trade relations with China will increasingly promote local economy and businesses.

BB is well positioned to provide a solid platform for Georgian and Chinese entrepreneurs and facilitate to the establishment of their business contacts. Our target is not merely based on providing of banking services to companies, we are striving to become exclusive mediator in establishing close relations between these two countries. We are fully aware that for servicing such large businesses significant technical and infrastructural resources are required. To address this issue a number of important projects were implemented by the Bank in 2014. We have considerable financial support from our major shareholder Hualing Group; we have close and long-dated cooperation with European and Asian International Financial Institutions in order to attract long-term and affordable resources for support of the local entrepreneurs. The Bank commenced serious negotiations with its partner international financial institutions in 2014 to receive imposing financial resources for promoting SME and TFP businesses in particular. We expect to close several deals with BSTDB and EBRD by the end of the first half of the next year with total contribution of 36.5 million USD.

To address our SME clients' needs in 2014 we introduced unparalleled business portal "Business Club" of BB, the project which by its significance and exclusiveness may be freely referred as the "project of the year". Each Business Club member is automatically entitled to become owner of a business credit card with outstanding, favorable terms and at the same time obtain a unique opportunity to find new partners, expand sales network and have access to exclusive conditions to variety of goods and services. In coming year not only Georgian but Chinese companies will also become Business Club's active users.

By the end of 2014 changes were made to the Bank's organizational structure. We considerably enhanced agrocredit direction, hired a number of highly experienced specialists and professionals.

Development of Agro sector is a strategic and priority sphere for the country. The Bank is ready to increase its contribution to agribusiness through targeted and balanced lending. The Bank will shape its product and service offerings to agribusinesses in order to increase

Statement of the General Director

recognition of the Bank among potential customers. For the targeted business development new service-centers will further be opened in regions.

In 2014 the Bank implemented a series of promotional campaigns for different types of retail loans, introduced several new products for mortgage loans. To widen outreach to Chinese retail and business segments the bank joined UnionPay system. The new cooperation with Union Pay, on one hand will provide greater convenience to Chinese clients during their business or leisure traveling to Georgia and on the other hand will help to increase sales volume to Georgian businesses.

In 2015, we will continue to work hard to uphold our reputation in achieving solid results. The Bank will increase its focus on customers and will perform complete re-branding of its service-centers, furnishing them with brand-new technologies and equipment to increase convenience and improve customer service.

Our objective for the next year is to be better organized and prepared to serve our increasing number of local and foreign customers and to create new opportunities for them.

Business Directions

RETAIL BANKING

The year 2014 was a success for the Bank's retail banking business. Against the background of the ongoing competitive environment in the banking sector, our objective was to continually improve and refine service quality. To accomplish the objective, the Bank studied its customer demands and preferences and strived to accommodate and adapt them in the daily operations of the Bank. During the last financial year, in order to provide its customers greater, convenient choices, BB maintained its strong drive towards improvement in service quality across all customers touch points namely: branches, ATMs, Internet banking and mobile banking along with the back office support functions. It was for accommodation of its customer interests that the Bank realigned its network of service centers and ATMs, extended service centers working hours, and streamlined and improved existing procedures. In 2014 the Bank opened a new service center in Batumi and Rustavi, where BB offers full spectrum of high quality services to its customers. At present, the Bank operates 19 service centers and 56 ATMs across Georgia.



As new channels and forms of distribution develop, we will continue to constantly innovate to keep up with the technological advances existing in the financial market.

The Bank has directed a great effort to develop and streamline its retail credit approval process to make it more customers centric and efficient. The Bank made significant headway in the loan approval automation system, as a result of the stated project implementation,



Business Directions



a number of processes became automated and we were able to optimize credit approval process time and resources, hence offering customers flexible service in a much shorter time.

With the aim to achieve the strategic plan for the management in retail banking, major improvements were made to some existing products. A number of promotional campaigns were implemented to increase the sales volume of credit cards, consumer, mortgage and installment loans.

During the year the Bank launched two new lending products for its retail customers: Mortgage Transfer-Loan, which is issued on the base of money transfers from abroad and Floating Rate Mortgage Loan – a mortgage loan in local currency which is linked to the National Bank's refinancing index. Both products were specifically designed to better align customers needs to the changing market environment.

By the end of 2014, BB's retail loan portfolio demonstrated a 45% increase and reached GEL 85 million, driven primarily by a growth in mortgage loans. Retail deposits grew 16% constituting GEL 42 million.

Considering the fierce competition on the retail banking market, it is important to focus on not only high service quality and well-developed network of service centers and ATMs but also on diversity of products and their useful terms. In 2015, BB will continue to be active in the retail segment and customarily respond to the market demands.

COMMERCIAL BANKING

BB provides its corporate and SME clients a wide range of financial products backed by high quality service and relationship management. The Bank's commercial banking business covers the emerging corporate segment and small and medium enterprises. BB has two business groups, corporate and SME, catering to these segments with a wide range of banking services covering their working capital, term finance, international trade services, foreign exchange and advisory requirements and needs.

2014, as the previous two years, became a new successful milestone in corporate and SME business development. The Bank achieved significant increase in corporate and SME client base as well as new loans generated. As of the end of 2014 BB served about 4,780 business entities. Business lending increased by 46% surpassing the banking sector growth results 19%. Deposits of corporate customers grew by 95% and constituted GEL 325 million.

Last year was an important step for the Bank's commercial business development strategy; significant changes were made in corporate and SME business directions. Intensive corporate and SME business growth strategy called for the strengthening of corporate and SME banking, for a more effective and flexible structure. With the purpose to increase efficiency, corporate and SME units were considerably expanded and reorganized in accordance with the strategy the Bank conducted staff retraining and capacity building program, developed new products for corporate and SME customers incorporating much more favorable, competitive terms. A number of business models were enhanced, redesigned and launched, namely: agro loan administration model, floating interest rate administration model and business loan administration model. Loan application process was standardized and automated increasing its capacity and shortening the response time.

In 2014 SME crediting continued to be one of the priority areas.

A number of initiatives were made by the Bank last year: This includes joining the Government's Cheap Loans Program in support of SMEs launched in 2014.

By the decision of the state, the project will continue in 2015. In addition, BB continues to closely cooperate with different international financial institutions to raise investments to fund SME loans.

Business Directions



Another important area, where Bank enhanced its activities referred to agriculture lending. As part of its strategy BB placed its focus on strengthening its agribusiness lending direction and hired special experienced staff to further promote and increase its contribution to this sector. Development of Agricultural sector is very important given its significance to the Country's economic overall growth. Government activity supports and promotes this sector as a strategic component as the for stimulating SME business development. Preferential Agrocredit, a project initiated by the Ministry of Agriculture in 2013, proved to be a success. Under the project, BB and Agriculture Development Fund have helped farmers get preferential agro credits. Within the frames of Project "Preferential Agrocredit", credits issued by BB reached 18 million GEL. In coming years, the Bank will focus on farm households with a good production potential and



Business Directions

repayment capacity and will establish a comprehensive database on key information as regards to agricultural sector. BB will also work on designing approval conditions for agricultural financial products such as term structure, repayment schedule and risk-based pricing.

With significant growth plans and need of gaining healthy borrowers and depositors the bank is oriented to continue its business with large Corporate and SMEs,

by pursuing prudential risk management practices as defined by its internal risk management policy and risk appetite. To maintain and increase our SME and corporate client base, we plan to work on new products and services, widen our geographic coverage and increase our presence in the regions and the touchpoints where such clients are mostly concentrated. The new business units will work with corporate, SME and micro clients close to the very spots where these businesses are mostly presented.

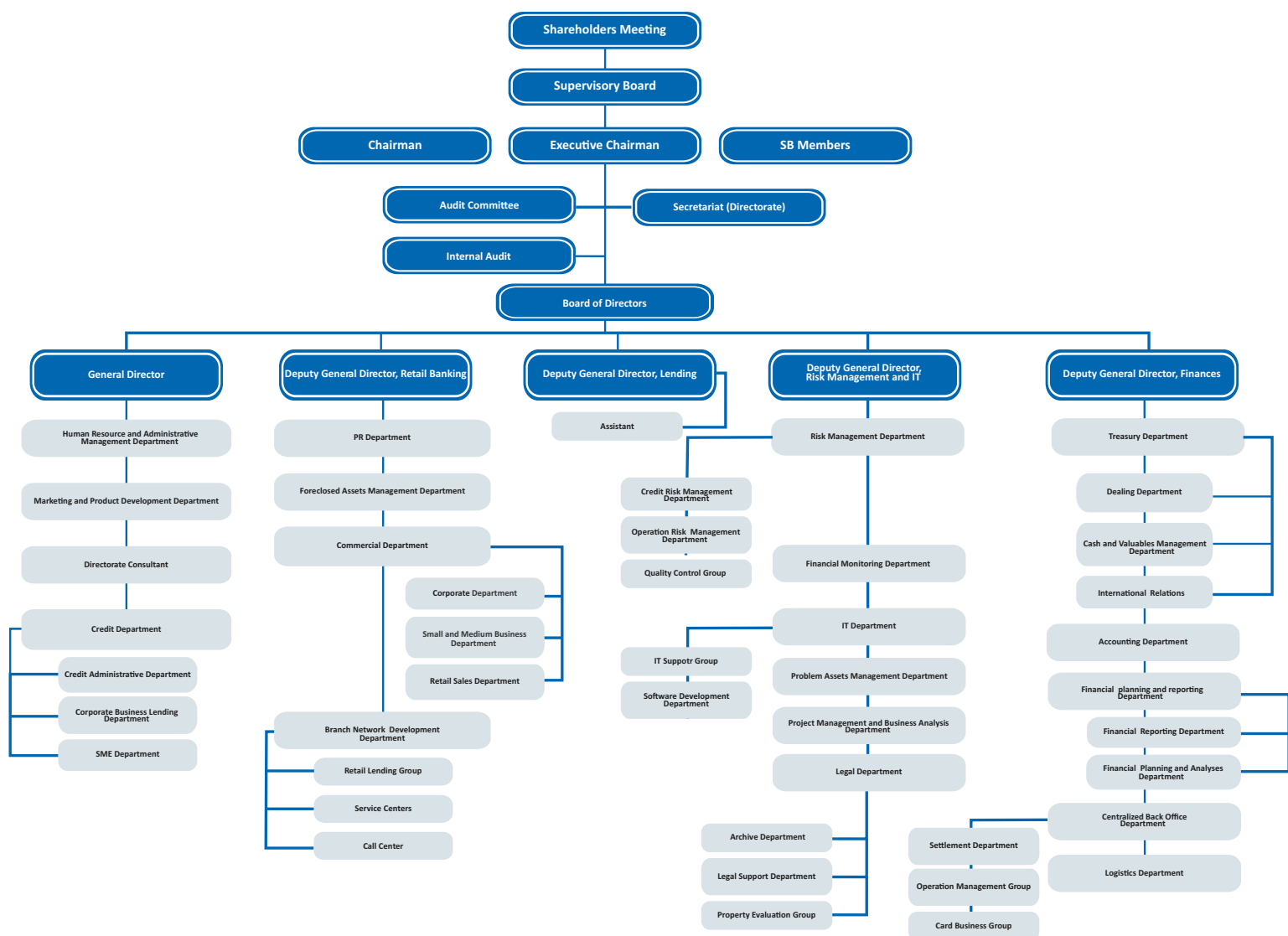


CORPORATE GOVERNANCE AND RISK MANAGEMENT

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Corporate Governance and Risk Management

Organization Structure



Corporate Governance

BB has established a robust system of corporate governance in accordance with high international standards which ensures effective allocation and clear separation of roles and responsibilities between shareholders, supervision and management. The bank is committed to ensure responsible management and adequate, efficient control systems based on a strong framework - a prerequisite for future sustainable development and growth and important factor for ongoing operational performance. The Bank is a signatory to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia (CG Code) in 2009, which follows the corporate governance standards of the Basel Committee including areas related to the control environment.

The corporate Governance is executed through these key elements:

The General Meeting of Shareholders is the supreme governing body of the Bank, which takes decisions on the most important issues. The General Meeting of Shareholders elects members of the SB. The rules for recruiting of SB members are regulated by the law of Georgia, the Bank's Charter and Policy of the SB.

The responsibilities of the MB and the SB outlining the functions and decision-making capacity of each of these bodies are clearly separated. The SB sets the main targets and directions for the bank development, actively performs its strategic and oversight functions by providing general supervision of the Bank's activities; decisions on business directions by setting operating and strategic priorities; sets succession plans for the MB; ensures existence of effective and trustworthy system of internal and risk management controls; supervises activities of the executive bodies and is responsible and accountable to the General Meeting of Shareholders as a supreme governing body of the Bank. The decisions affecting the Bank are approved by the SB. The MB is reporting to the SB which reviews the efficiency of its work on a regular basis (at least four times a year).

To exercise its power and oversee audit, compliance and compensation the SB performs this task through internal Audit Committee, which is established by the SB and oversees the implementation of the supervisory functions and provides the objective information on Financial and Risk management, internal control systems effectiveness, target performance and compliance with regulatory and internal requirements, etc. The Audit Committee meetings are held at least four

times per year that should coincide with financial reporting and audit cycle. Extraordinary meetings can be also convened based on the needs and requirements of the SB. The Audit Committee provides regular reports to the SB, makes assessments of internal control effectiveness and recommendations for corrective actions or enhancements in specific areas.

The management runs operations of the Bank and is responsible for managing its activities in accordance with the Bank's objectives set out by the SB. The SB appoints the members, the functions, the structure and the role in governance, responsibilities and remuneration is clearly defined by the SB. The accountability of the management, the function, responsibilities, meetings, decision making framework is defined by the Regulation on the Directorate adopted by the SB.

BB has a comprehensive organizational structure which ensures solid control environment-effective functioning and interaction between the SB, the Management Team, the Audit Committee, the Internal Audit Service. The Bank has the interest in strengthening and enhancing corporate governance practices in the Bank, particularly in the area of the control environment.

Risk Management

The risk management framework of the Bank is comprised of all key functions responsible for designing and implementing the risk strategy—The SB and its Internal Audit Committee; The MB through Risk Management Committee and other related functions within the bank - the Risk Management Unit, Assets Liability Management Committee (ALCO) and other units.

The SB sets the general principals and polices of risk management according to its strategy and risk appetite. The MB is responsible for implementing the risk management strategy, risk preferences and policies determined by the SB as well as implementing monitoring and control, is accountable for the risk undertakings. The risk management is the area where involvement of the management team is particularly important. Based on reports of the risk management unit, the management is assessing the risk strategy and the risk governance framework which ensures that risks are controlled in a proper way; develops a risk management culture, which implies an adequate communication at all levels of the organization, ensures that risk management unit carries the risk identification, assessment, monitoring and control at all levels in accordance with the risk management policy and procedures. In addition the management ensures that the risk management framework is up-to-date and reflects all relevant risks and controlling tools are in place to reflect the changes in business environment, the bank's strategic focus, the business plan, operating environment or other factors. The management conducts such review and initiates appropriate adjustments at least on an annual basis in case of necessity.

The risk strategy of the Bank is derived from the business strategy, which is approved by the SB and needs to be modified at any time when strategy is revised by the Bank. The Risk management processes are constructed in a way to support the execution of the risk strategy in the daily processes of the Bank and management and the reporting system also is built up in to support risk governance.

The risk strategy defines BB's approach to risk management including general methodologies to identify, assess, control, report and manage / challenge relevant risks and the risk governance structure built to support these activities within the everyday operation of the Bank.

The Bank has elaborated ICAAP Policy which is requirement under Pillar 2 of new Basel regulations and was submitted to NBS for review and discussion.

ICAAP Policy reviews every major category of risks the bank faces, and introduces which is and discussion and introduces methods to quantify those risks, describes how these risks are managed by the bank and what the limits systems are: Credit Risk, portfolio induced Market Risk, Op. Risk, market risk, interest rate risk, FX risk, business model risk, reputational risk etc. Management of each material risk types are defined within the ICAAP framework of the Bank.

Corporate Governance

HR DEVELOPMENT

To fulfill its responsibilities, the Bank relies on talented staff with a wide range of specialized skills. Most of the Bank's top and middle management work at the Bank for more than 10 years. The Bank staff have diverse professional and operational backgrounds. The Bank also actively recruits young and talented pool of university graduates from various economics and finance faculties. In 2014 45 employees were hired through the recruitment initiative.

An important part of what makes the Bank an attractive workplace is the way it engages and challenges staff while providing a range of development opportunities. This is reflected in the number of internal job changes that occur every year as employees win promotions based on performance and specific skills through competitions. Last year 23 employees were promoted to the higher positions.

In 2014, the Bank strengthened its recruitment of external talent in the areas of agriculture lending specialization and increased the focus of its development program on mid-career professionals. The Bank's turnover rate is quite low which is a positive indicator of employee job satisfaction.

BB remains focused on attracting and retaining a pool of committed competent employees who, through continuous learning, will ensure that the Bank is able to withstand challenges and remains competitive on the market. The Bank revised its remuneration policy to ensure that its compensation and benefits packages are adequate to the positions and job rankings.



Corporate Governance

In 2014, the Bank remained committed to institutional strengthening through the different group training interventions. The main directions were finances, risk, accounting, audit and service spheres.

Additional development opportunities were offered to middle management employees. The Bank financed several middle managers to complete their academic programs. BB also sponsored 12 employees of the Bank for their long-term certified courses in Financial Management.



PROJECTS AND SOCIAL RESPONSIBILITY

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Projects and Social Responsibility

BB SUPPORTS JSC "PROFESSIONAL WINE PRODUCTS" CONFERENCE

JSC "Professional Wine Products" hold conference on wine and barrels production issue in exhibition center of "Expo Georgia" with support of BB and Ministry of Agriculture of Georgia.

The major reports on the subject of winery and barrels production were made by Spanish experts. The conference was attended by representative of the Ministry of Agriculture, representatives of BB, National Agency of Wine and JSC "Professional Wine Products" winery's leader production representatives. After conference was arranged testing of national Georgian wines and imported wines, aged in oak barrels.

Should be pointed out that BB has long-term partnership cooperation with the largest and leading wine producers.

BB's main priorities are supporting and lending of small and medium businesses involved in national production.



BB FINANCES EDUCATION OF STUDENTS WITHIN THE FRAMES OF CHARITY FOUNDATION "IAVNANA"

On the 3rd of March 2014 Foundation "Iavnana" became 10 years old. Owing to jubilee in Tbilisi Concert Hall was held gala-concert. In charity event were participated world renown artists. Marcello Giordano, Katie Melua, Paata Burchuladze, Nikoloz Rachveli, Georgian National Symphony Orchestra, Nino Katamadze, Nani Bregvadze, Vakhtang Kikabidze, Eka Mamaladze, Teona Dvali, Nato Metonidze, Liza Bagrationi, Niaz Diasamidze, Giorgi Tsagareli, "Mgzavrebi", Shvidkatsa, Sophia Nizharadze, Tsiaperi Trio, Ia Shughliashvili, Mariko Ebralidze, Murman Jinoria, David Khrikuli, Liza Ramishvili, troupe of Opera and Ballet Theatre etc. In order to participate in campaign in Tbilisi has arrived Hiller Rassel American composer and singer, 12 years old girl, author of almost 60 compositions, international music community predicts her a great future.

During the event 15 social disadvantaged and large families have received apartment keys.

Within the frames of charitable event 6 successful students education was financed by BB.

This event is not the first time of collaboration between the BB and charity foundation "Iavnana"- bank has already financed education of several dozen of students, besides already few years within the bank exists "BB's friends" which provides monthly welfare to socially vulnerable and financially disadvantaged families with assistance of Foundation "Iavnana".



Projects and Social Responsibility



MEMORANDUM OF MUTUAL COOPERATION HAS BEEN CONCLUDED BETWEEN THE SCHOOL OF ECONOMIC, BUSINESS AND MANAGEMENT OF UNIVERSITY OF GEORGIA AND BB

On April 4th was drawn up Memorandum of mutual cooperation between the School of Economic, Business and Management of University of Georgia and BB.

Memorandum was signed by Deputy General Director of BB David Kakabadze and Director of School of Economic, Business and Management of University of Georgia Maya Amashukeli.

The subject of the memorandum is to provide adaptation of specialists to the terms of changeable demand of modern market and performance of other relevant activities.

Noteworthy is the fact that BB is actively involved in cooperation process with various partner Universities, as it's priority in social responsibility is to support education sphere and performing of such useful projects as: financing of educational programs for students, granting of nominal scholarships, financing of different student's conferences etc.

BB FINANCES A NEW REWARDING PROJECT "FOUNDATION OF EDUCATION ENCOURAGEMENT"

PRIZE OF GEL 3000 FOR ILIAUNI YOUNG SCIENTISTS

BB's priority in social responsibility is to support education sphere. In the Bank is established "Foundation of Education Encouragement", which carries out such rewarding Projects as: financing of

education programs for students, granting of nominal bank's scholarships, financing of different conferences for students and other. Ten young scientists from The Ilia State University were granted with prize of GEL 3000 established by BB.

Pascal is a bonus prize in amount of GEL 3000 and any young scientist affiliated at the Ilia University can get it, who has significant publications at international thematic international refereed journal included in Thomson Reuters data base.



BB PARTICIPATES IN CHARITY EVENT DEDICATED TO THE CHILDREN AFFECTED WITH CANCER

On July 8th was held Charity Concert with participation of ensembles "Sukhishvili" and "Rustavi", the income received from the Concert was completely transferred to the Charitable Foundation of "Elder Andria".

Substantial sum was transferred to the needs of children affected with cancer.



Projects and Social Responsibility



BB CELEBRATES THE DAY OF BANKER WITH ACTION OF GARBAGE COLLECTION

BB has joined the initiative of National Bank of Georgia in wide-range action on garbage collection, which was held in connection with professional holiday-the Day of the Banker. The campaign was held not only in Tbilisi, but as well in different regions of Georgia (Adjara, Imereti, Samegrelo, Kakheti, Shida Kartli, Samtskhe-Javakheti, Kvemo Kartli, Guria, Mtskheta-Mtianeti) and approximately 2000 employees of banking sector have participated in it.

„BB has joined to such useful initiative with pleasure and as usual, has shown high social responsibility. We are delighted that we made contribution to improving the environment and protection of our country's nature. We look forward that in the future other sectors will join to the garbage collection campaigns. I would like to express my gratitude to each employee of BB for the shown activity. Noteworthy that except Tbilisi in campaign were been actively involved all of regional Service Centers of BB“ has declared General Director of BB Mr. David Tsaava.

THE WEEK OF TOLERANCE WAS HELD WITH SUPPORT OF BB IN THE UNIVERSITY OF GEORGIA

16 th of November is International Day of Tolerance acknowledged by the UN. For celebration of this day University of Georgia has organized the Week of Tolerance starting from 10 up to 16th of November, within the frames of which were held thematically

appropriate competitions, meetings, film screening, exhibition and many other events with participation of students, colleagues and the guests. BB was the Golden sponsor of the event. Noteworthy that the University of Georgia has established with the Bank long-term cooperation, within which were organized variety of useful and interesting Projects in the field of education support.



BB ALLOCATES GEL 50 000 TO ILIA STATE UNIVERSITY "CLINIC OF DEVELOPMENT OF CHILDREN AND ADOLESCENTS"

“Clinic of development of Children and Adolescent” was opened at Scientific and Research Iliauni Institute of the Ilia State University. The Clinic creates the opportunity of providing education, research and service in one space for children and adolescent development.

This year the infrastructure of Clinic was completely renovated and it represents the largest institution among similar profile ones in Georgia with the most state-of-art equipment in this field.

BB has allocated for Clinic development GEL 50 000. Mentioned amount was spent to provide “Clinic of development of Children and Adolescent” with equipment and furniture.

According the declaration of General Director of BB Mr. David Tsaava it is not the one time contribution to the development of Clinic and he has expressed the readiness to support the Clinic in further development.

Projects and Social Responsibility

WINNERS OF STUDENT HACKATHON WERE AWARDED

On December 19-20-21 was held one more Hackathon organized by „Unihack“ and BB. It's already the third Hackathon during the last year, so the third time “Unihack” has brought together young developers, provided them with space, time and conditions and ability to do whatever they want. After the three days everybody could see the results: robots, new Software, apps, interesting ways of solving urgent problems and so on. The difference in compare with previous cases lies in the fact that this time Hackathon was international and in three days marathon took participation developers from Azerbaijan, Turkey and Ukraine.

As a result within the competition was achieved 8 prizes. According to the organizers during the selection of prizes was intended to transfer to the winners such facilities that provides the opportunity to work with and to improve their skills. So winners got Oculus Rift, Leap Motion, Myo Armband, Arduino Kit, Peeble Smartwatch etc.

Noteworthy is the fact that BB was not provided only financial support and sponsorship to but Director of the Bank in Risk Management and Information Technologies David Kakabadze was an active participant of the event and an honorable member of jury.

„BB always welcomes and encourages these useful projects that contributes development of this culture in



Georgia. indeed, we have witnessed that within three days created a variety of interesting projects that for sure will be implemented in reality and will bring benefit.“ – has declared David Kakabadze.

THE FIRST BILATERAL PROJECT OF BB AND „CRIME PREVENTION CENTER“ - „JUVENILE CRIME CREVENTION“

In the House of Justice in Tbilisi was held awarding ceremony for the winners of Olympiad "Juvenile crime prevention". 20 active students have participated in program “House of leaders” of acting LEPL “Crime prevention center” of management of Ministry of Justice of Georgia. The winners of Olympiad were Giga Inadze, Levan Kereselidze da Nana Korbeshashvili, The winners were granted by BB with Tablet PCs. As well Bank has revealed the fourth winner, David Bibileishvili.

After passing the trainings the students have prepared their works individually and has submitted them to the qualified jury. As a result of works submission on the basis of total points summing were revealed the winners. The final target of the whole process and the main goal of Olympiad were to raise the awareness on crime prevention among youth.

According the statement of Ms. Tamar Khaduri, Head of PR Department of BB, supporting of education and raising of civil and legal awareness is one of the priorities of the company. "By joint efforts of state and private sector and by enhancing of social responsibilities is possible to form a new erudite generation. BB for 6 years has actively supports educational sphere” – declared Tamar Khaduri. The Prize awarding ceremony was attended by Director of BB Levan Gardaphkhadze.



Projects and Social Responsibility



BB CONGRATULATES ELDERLY PEOPLE WITH NEW YEAR

Ministry of Justice and representatives of BB has congratulated on the coming New Year

beneficiaries of Tbilisi Elderly Home. Within the visit to Temqa Elderly Home representatives of acting LEPL "Crime prevention center" of management of Ministry of Justice joined to the Minister. Event was held within the frames of program „Two generations“ by Crime Prevention Center and it was attended by Beneficiaries. Young people have granted 84 residents of Temqa Elderly Home with New Year presents funded by support of BB.

Objective of „Two generations“ project is development of a sense of care and responsibility in young participants towards the older generation. School children visited Elderly Home and help the elderly people in implementation of everyday routine, have read to them newspapers, take part in yard improvement. „We are glad that we have the opportunity to contribute to the next, and especially useful project provided by Crime Prevention Center.

This was the first but not last visit of BB to Elderly Home, starting from 2015 onwards our friendship will take the regular basis.“- has declared Director of BB Mr. Levan Gardaphkhadze.



BB FINANCES THE 5-TH INTERNATIONAL SCIENTIFIC-PRACTICAL CONFERENCE „TOURISM: ECONOMICS AND BUSINESS“

The Tourist Faculty of Batumi State University of Shota Rustaveli has held the 5-th International Scientific-Practical Conference took place in mountainous region of Adjara with the sponsorship of BB.

The Conference brought together representative of local Tourism Industry and foreign tourism companies from more than 10 countries.

Its worth mentioning that "BB" sponsored Scientific-Practical Conference last year as well.

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GEORGIAN BUSINESS ENVIRONMENT AND DEVELOPMENT PROSPECTS

In 2014 the growth was slightly lower than the forecasted 5%, but still the Georgian economy is performing well comparing to the countries of region and main trading partners (Turkey, Azerbaijan, Armenia, Ukraine, Russia). The first three quarters' GDP growth was averaged to 6% followed by a drop in the fourth quarter which resulted in 4.8% of yearly growth.

The factors impacting the growth were mainly related to external factors, as an emerging market the Georgian economy is still greatly vulnerable to various external and internal shocks, political and macro-economic challenges in the region.

Several factors were impacting the growth, eased monetary policy and fiscal stimulus supported by public investments have contributed to consumption and investments at the beginning of the year mainly due to pick up in the economic activity at the end of 2013 pushed by the Government increased spending in the last quarter. The export was also very important at the beginning of 2014, where resume of trading with Russia and admittance of Georgian products on Russian market have picked up the export turnover and increased in 2013 by more than 20%.

The changes in economic situation in major trading partners like Ukraine and Russia, Azerbaijan in 2014 resulted in decrease of exports to these counties. At the beginning of the year the crisis in Russia and Ukraine have limited impact on growth, export grew by 7 percent from January to September, however by the end of the year turned to decline -2%. While the domestic recovery has resulted in increased import by even more than 9%, by the end of the year the trade balance worsened. The decline in remittances from Russia and Ukraine also impacted the current account deficit. Decline in export and remittances were partially offset by increased remittance from other counties like Turkey, Greece and significant fall of oil price which in turn have lowered the inflationary pressure on Lari during the most part of the year.

In 2013 and the first half of 2014 Lari remained broadly stable against the US dollar. Floating exchange rate mitigates impact of external shocks on local market. The National Bank of Georgia's (NBG) interventions on the

market is to avoid sharp fluctuations in the exchange rate due to temporal excessive flows. The Georgian Lari exchange rate against the U.S. dollar was stable during the most part of the year at average 1.75, however the negative pressure on Lari in the fourth quarter of the year was significant and Lari depreciated by more than 6% from 1.7524 in September to 1.8636 at the end of December. In 2014 the inflation reached 2%. With inflation below the target (5%) the Monetary policy rate has been kept at 4%. Given the uncertain environment the risk of inflationary pressure remains. It is expected that the inflation will move to targeted level quicker than expected in 2015 and NBG will change the monetary policy rate and increase it in response of threats of inflation.

In 2015 the growth is expected to lower, reflecting the economic decline in the region and European Union. The Government is committed to improve investors' expectations for the stability and prospects of the market. The positive impulse is the signing of the Association Agreement with EU, including DCFTA (Deep and Comprehensive Free Trade Agreement). It will support to export growth and to modernization of the economy.

Georgia is going through an important stage of transformation and development challenged by political and economic instability in the region. Georgia's growth and economic attractiveness largely rely on foreign investments. With its strategically important location on crossroads of Europe and Asia, natural resources and wide-range of climatic zones, rich tradition in winery and agriculture, huge hydro resource, Georgia has a great development opportunity to explore its potential. Georgia is capable to become a reliable transit country of oil and gas pipeline. With its huge untapped hydro resources Georgia has an ambition to become a regional energy hub. Georgia is to launch large scale hydro power projects which are of great interest of investors. There is a huge potential in marine, cargo storage and logistics, railway development stimulated by road transport and logistics centers development.

In this context The Silk Road Economic Belt initiative announced by Chinese President Xi Jinping in November 2014 which aims at improving transport infrastructure in Central Asia and beyond to revive the old Silk Road trading route makes Georgia's involvement in this project very important—the country is

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to take full advantage of its favorable geopolitical position as a transportation hub between Asia and Europe. Building of a deep-water port in Anaklia on the Black Sea initiated by the Georgian Government will be an important part of the New Silk Road. The initiative will make it possible to transfer commodities from China to Europe, which will bring more trade opportunities to the countries along the Silk Road.

The Georgian banking sector is one of the most well developed and regulated sectors in Georgia and has fairly significant resources and potential for further development. In mid-term the growth of the sector depends on relatively healthy development of the market.

With the economic growth of average 6% the growth of banking sector for last five years (post crisis period after 2008 year shocks) averaged to 20%, this is a medium growth level for the sector, but still sufficiently high given very low inflation for an emerging market 2.4% in 2013 and 2% in 2014.

The lending to corporate (including SMEs and large corporates) composes 20% of GDP, in gross portfolio lending 83% falls on large businesses and 17% on MSME, reflecting the trends in the economy. The portfolio distribution according to economic sectors is in Trade, Energy, Hotels and tourism. Agriculture was significant comparing to previous years, in 2014 year sector loans increased by more than GEL 100 million. The government initiation of new program for supporting the sector has pushed the investments in agriculture.

Georgia has seen rapid retail loan growth in recent years, but the retail/GDP ratio remain moderate 18% and significantly lower than in most CEE markets (more than 30%). The Georgian market is small and the most part of the population is self-employed, the market is characterized with very limited development of SME segment. Still the retail banking is well developed, the technological development and the variety of products offered proves that the potential of retail business development is great. The market competition is turned on more introduction of innovations and advanced technologies, development of card market, etc., this part will be more important in coming years. In 2014 the growth of mortgages and consumer loans reached to 30%, such an increase was largely backed by introduction of refinancing loans by NBG which provides

the banks with Lari resources linked to refinancing rate, this enable the banks to issue long-term Lari loan with floating rates thus minimizing the risk of revaluation.

BB'S PERFORMANCE 2014

Despite of on-going market challenges, subdued investment climate and low activity within the sector, BB's 2014 results still showed solid performance. The key financial results for 2014 are summarized below:

- The BB's net profit for the year stands at GEL 14.5 million up from the last year's GEL 13.3 million;
- The growth of average earning assets is solid above 55% due to high average portfolio growth of more than 60% and significant increase in securities portfolio +50%. The loan portfolio share in total assets is still below 50% and loan to deposit ratio is down to 71%, but compensated with healthy growth in securities the average earning assets is composing 80% of average assets;
- Overhead ratio remains lower level at 40% supporting return on equity above 11%, than in 2013 due to higher level of average equity comparing to 2013 (by more than GEL 35 million)¹;
- Capital/Regulatory ratio remained at appr. 30%, with Risk-weighted assets growth of 28% reaching GEL 451 million;

Key performance indicators (KPIs)	2014 Actual	2013 Actual
ROAE	11.3%	13.0%
ROAA	3.1%	4.0%
Yearly growth of average earning assets	55.4%	109.3%
Yearly growth of average loan portfolio	61.4%	78.4%
Yearly growth of RWAs	27.6%	85.7%
Average Interest bearing assets / total Assets	80%	80%
Average Loans / Average Assets	47%	45%
Risk weighted assets /total assets	78%	90%
CAR (Basel I_NBG)	29%	23%
Overhead ratio	40%	51%
Liquidity Ratio (Liquid Assets / Total Liabilities)	62%	65%
Liquid Assets (Liquid Assets /Total Assets)	48%	45%
Loans To Deposits	71%	84%

¹Capital injections in 2013 were made in mid of the year

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- 2014 results reflect solid operating performance (income before provisions) over year 2013 results +73% which was mostly due to increased NII for the period, mostly gained on lending (GEL 30 million) supported with gains from the investments in securities (GEL 6.1 million) giving rise of Net interest income up to GEL 26 million from last year GEL 18 million and non-interest income growth of +40% in (GEL 5.3 million) resulted in Operating revenue growth by GEL 8 million in total. High revenues from securities reflect high investments in Gov. securities (GEL 169 million for the end of the year and average investment portfolio for 12 month amounted GEL 106 million) which compose 29% of total assets. The reason for such high investment is linked to strong deposit inflow on companies' accounts by solid amount of GEL 150 million;

- The cost to income (efficiency) ratio stands at 40%. We expect that the cost base will be increased in following years comparing to current year results due to higher expenses from increased operational needs (mainly staff enhancements in SME lending) higher investments in platforms, which are necessary for the bank and investments in infrastructure will be more important in following years, extension of service units – branch development, extension of ATMs, etc;

- Other items in P&L are related to risk exposure of the bank - Provision for credit losses was GEL 2.6 million as of the end of 2014. About 65% of portfolio loans are denominated in USD while significant part of the borrowers gains their income in GEL. This is obvious that Lari has reached new equilibrium against USD which may result in certain difficulties for some borrowers. The management of the Bank monitors the changes in exchange rates and assesses the impact using stress tests with different shock scenarios. Due to some expectations on deterioration of retail portfolio quality after depreciation of Georgian Lari already observable by the end of 2014 the management made additional provisions to loan impairment for the increased risks. The correction of IFRS adjustments were made at the end year by additional 1.5% extra expense on retail portfolio, individually significant loans were less imposed to such risks and no significant deterioration of portfolio was observable by the end of the year;

- Performance indicators ROAE and ROAA stand within reasonable level 11.3% and 3.1% respectively (based of 12 months average amount of equity and assets);

- The overall increase of assets compared to December 31, 2013 is for +48%, GEL 188 million,

primarily driven by a growth in loans and securities for more than GEL 165 million. The loan portfolio growth was largely related to GEL 65 million in corporate financing and GEL 19 million in mortgage loans primarily in GEL floating interest rate products;

- The portfolio quality remains healthy, NPLs² stood at 1.9% at end of 2014, as at end of 2013 2.2%. The total overdue portfolio more than 30 days, including portfolio which was restructured during last 12 month is composing 5.5% of gross portfolio. The credit losses (which are defined as net of changes in NPLs and write-offs) were at 0.63% as of average loans during the year and recoveries 0.2%. To assess the current portfolio in overall the credit exposure of problem loans (defined as net of overdue loans (gross exposure less gross reserves) in arrears for more than 30 days plus restructured loans for last 12 month less provisions) compose 3% of gross portfolio and 6.5% of regulatory capital;

- FX induced credit risk exposures still remains high above 60%, which increases the risk in case of sharp depreciation of local currency. BB monitors FX induced credit risk by periodically performing stress tests both on retail and business loans. In bank's ICAAZ this risk is a key part of capital assessment process, and

Balance Sheet items development	2014	2013	Yearly change in %
Total liquid assets	277,301	174,884	58.6%
Gross Loans	282,458	193,639	45.9%
Corporate Loans	145,775	81,521	78.8%
SME Loans	51,456	53,141	-3.2%
Retail Loans	85,227	58,977	44.5%
Mortgage Loans	59,231	39,495	50.0%
Consumer Loans	20,276	14,285	41.9%
Card Loans	5,720	5,197	10.1%
Loan Loss Reserves	(7,696)	(5,099)	50.9%
LLRR	2.7%	2.6%	
Net Loans	274,762	188,539	45.7%
Total Assets	579,738	391,402	48%
Customer Deposits	398,460	231,364	72.2%~
Current Deposits	98,664	99,872	1.2%
Demand Deposits	69,195	51,556	34.2%
Time Deposits	230,600	79,936	188.5%
Borrowings	29,573	30,189	-1.9%
Subordinated Debt	3,447	3,165	7.2%
Total Liabilities	444,082	270,606	64%
Total Shareholders' Equity	135,661	120,796	12%

In thousand GEL

²NPL ratio is calculate based on NBG definition, III category loans (30% of provisioning) with more than 90 days overdue

Financial Report

effects of stress scenarios are taken into consideration in setting internal capital requirement. Adequacy of LLP is monitored on monthly bases and in case of sharp deterioration of FX rate LLP is adjusted accordingly;

- Loan portfolio provisioning - Provision for credit losses was GEL 2.6 million (charges provided for the period) in 2014, and gross portfolio provision rate equaled to 2.7%, compared to the end of 2013 2.6%. The latest depreciation of national currency exposes some part of portfolio to risk. The assessed possible impact on portfolio (with Lari depreciation up to 20%) in addition was GEL 1 million, which is 1.5% of retail portfolio. In order to decrease FX induced risk in retail portfolio BB actively started lending in GEL using variable interest rate and the share of retail loans denominated in GEL increased from 26% in 2013 to 32% in 2014, share of all Lari loans in portfolio increased from 27% in 2013 to 33% by the end of 2014.

✂ As at end of 2014 the total liabilities increased by GEL 174 million (+64%) compared to year-end 2013. This increase reflects strong deposit inflow during the third quarter of the year, largely driven by the increased amounts on Companies' accounts. To stimulate retail portfolio we introduced additional schemes to offer to clients who is looking for better market prices and better conditions and we increased our funding base by GEL 22 million;

- Borrowings compose 7% of total liabilities, during the year the bank has agreed new line from BSTDB for additional USD 5 million, in addition Commerzbank has approved a new clean limit for BB up to EUR 2 million, which is directed in trade finance projects. The total exposure to IFIs is GEL 33 million. To support the funding base the bank conducts negotiations with EBRD, IFC and ADB and plans to launch new projects to increase our long term borrowings share in funding;

- BB funding is largely based on deposit funding (92%). The concentration is high in corporate deposits 74% of total deposit portfolio. Share of retail deposits reduced from 21% down to 18% in portfolio due to high inflow of corporate deposits mentioned above. The share of on-demand deposits (both settlement account as well as Interest bearing demand deposit) in total funding is above 39%, about 70% of term deposits have the contractual maturity of less than 6 month. Long-term funding is sourced mainly from international financial institutions;

- BASEL III framework for liquidity risk measurement, standards and monitoring requires the banks to ensure adequate level of liquid assets to cover the liquidity outflows for 30 days (LCR). The total expected cash outflows under the scenario are to be calculated for 30 calendar days and coverage ratio should not be less than 100%. Based on this model our liquidity funding is above GEL 270 million, Lari demand on liquidity is covered by 160%;

- BB has a significant liquidity buffer, the average liquidity stands at 70% of customer deposits and other liabilities. Liquidity reserves (including: Cash and cash equivalents, mandatory reserves, unbound securities) amounted to GEL 269 million as of 2014 which generates a positive liquidity stress results. Regular stress test analyses aim to ensure that we always hold sufficient cash and liquid assets to close a potential funding gap;

Regulatory and other compliance issues;

- Tier 1 capital according to NBG current regulation as of 2014 was GEL 112 million, and total regulatory capital GEL 129 million up from 2013 year end result GEL 114 million, resulting in capital ratio of 28.8 % as of 2014, 32.2% as of 2013. Capital according to NBG accounts increased in the first 12 months of

Liquidity Composition of funding sources:

<i>In thousands of GEL</i>	<i>2014</i>	<i>Share in total funding</i>	<i>2013</i>	<i>Share in total funding</i>
State and public organisations	64,738	15%	35,970	14%
Other legal entities	256,082	59%	139,912	53%
Individuals	77,640	18%	55,482	21%
Total customer accounts	398,460	92%	231,364	87%
Loans from Banks and other Financial Institutions	29,573	7%	30,189	11%
'Subordinated debt	3,447	1%	3,165	1%
Total funding	431,480		264,717	

2014 by GEL 12 million, a result of operating net income under national accounts and newly issued shares for the management in total GEL 265 thousand;

- The risk weighted assets according to NBG were GEL 451 million as of 2014, GEL 100 million (28%) higher than at the end of 2013 (GEL 353 million) versus gross assets which for the period increased by GEL 188 million. Lower increase in RWA largely reflects increases in credit risk related assets, GEL 188 million growth in assets falls on local Gov. securities portfolio GEL 102 million which as per local regulatory framework is weighted at zero percentage;

According to the requirements set by the National Bank of Georgia in the Regulation on Capital Adequacy Requirements for Commercial Bank (approved by the President of the National Bank of Georgia) starting from June 2014 the calculation of the regulatory capital under Basel II/III standard adapted by NBG and capital ratios should be made also according to new rules set by the Pillar I of the new regulation. In addition to the previous approach (which provided only for credit and FC risks) the new calculations incorporate the capital requirements for credit risk, credit induced market risk and operational risks.

The capital requirement calculations are further enhanced under Pillar II, where the internal capital requirement based on the bank's internal model is calculated. The bank elaborated different stress testing models - stress scenarios are based on very tough macro-economic assumptions and include all areas of the bank's functioning, including but not limited to credit deterioration in case of significant downfall of the GDP, FC rate, interest rates increase, liquidity stress, impact on operating income and capital sufficiency and solvency.

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS REPORT**

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BASISBANK GROUP

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

31 December 2014

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INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To the Shareholders and Management of JSC BasisBank:

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch

31 March 2015
Tbilisi, Georgia

BasisBank Group
Consolidated Statement of Financial Position

<i>In thousands of Georgian Lari</i>	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	70,492	59,506
Mandatory Cash balances with the NBG	8	37,181	21,805
Loans and advances to customers	9	274,762	188,539
Investment securities available for sale	10	169,691	93,575
Investment properties	11	2,048	1,802
Current income tax prepayment	27	72	-
Other financial assets	13	845	435
Other assets	14	8,127	9,148
Intangible assets	12	601	668
Premises and equipment	12	15,919	15,925
TOTAL ASSETS		579,738	391,403
LIABILITIES			
Due to other banks	15	9,016	25
Customer accounts	16	398,466	231,364
Other borrowed funds	17	29,573	30,189
Other financial liabilities	18	688	1,789
Current income tax liability	27	4	1,281
Deferred income tax liability	27	1,686	1,506
Provisions for liabilities and charges	30	186	22
Other liabilities	19	1,011	1,264
Subordinated debt	20	3,447	3,165
TOTAL LIABILITIES		444,077	270,605
EQUITY			
Share capital	21	15,941	15,941
Share premium		73,967	73,967
Retained earnings		42,199	27,222
Share based payment reserve	22	338	-
Revaluation reserve for premises		2,638	2,638
Revaluation reserve for available-for-sale securities		578	1,030
Net assets attributable to the Bank's owners		135,661	120,798
TOTAL EQUITY		135,661	120,798
TOTAL LIABILITIES AND EQUITY		579,738	391,403

Approved for issue and signed on 31 March 2015.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

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

	Note	2014	2013
<i>In thousands of Georgian Lari</i>			
Interest income	23	37,750	26,850
Interest expense	23	(11,316)	(8,397)
Net interest income		26,434	18,453
Provision for loan impairment		(2,597)	(1,284)
Net interest income after provision for loan impairment		23,837	17,169
Fee and commission income	24	3,291	2,733
Fee and commission expense	24	(1,825)	(1,605)
Gains less losses from financial derivatives/(losses less gains)		210	(937)
Gains less losses from trading in foreign currencies		3,319	2,383
Foreign exchange translation (losses less gains)/gains less losses		(70)	1,299
(Provision)/reversal of provision for credit related commitments	30	(163)	144
Other operating income	25	309	4,661
Administrative and other operating expenses	26	(12,376)	(11,673)
Profit before tax		16,532	14,174
Income tax expense	27	(1,555)	(1,623)
PROFIT FOR THE YEAR		14,977	12,551
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
<i>Available-for-sale investments:</i>			
- (Losses less gains)gains less losses arising during the year	10	(433)	693
- Gains less losses reclassified to profit or loss upon disposal or impairment		(99)	(60)
Income tax recorded directly in other comprehensive income		80	(95)
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of premises and equipment	12	-	326
Income tax recorded directly in other comprehensive income	27	-	(49)
Other comprehensive income/(loss) for the year		(452)	815
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		14,525	13,366
Profit is attributable to:			
- Owners of the Bank		14,977	12,551
Profit for the year		14,977	12,551
Total comprehensive income is attributable to:			
- Owners of the Bank		14,525	13,366
Total comprehensive income for the year		14,525	13,366

BasisBank Group
Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Bank					Retained earnings	Total	Non-controlling interest	Total equity
		Share capital	Share premium	Share based payments reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises				
In thousands of Georgian Lari										
Balance at 31 December 2012		9,079	27,296	-	492	2,361	14,671	53,899	250	54,149
Profit for the year		-	-	-			12,551	12,551	-	12,551
Other comprehensive income		-	-	-	538	277		815	-	815
Total comprehensive income for 2013		-	-	-	538	277	12,551	13,366	-	13,366
Share issue	21	6,862	46,671	-	-	-	-	53,533	-	53,533
Disposal of subsidiaries		-	-	-	-	-	-	-	(250)	(250)
Balance at 31 December 2013		15,941	73,967		1,030	2,638	27,222	120,798		120,798
Profit for the year		-	-	-	-	-	14,977	14,977	-	14,977
Other comprehensive loss		-	-	-	(452)	-	-	(452)	-	(452)
Total comprehensive income for 2014		-	-	-	(452)	-	14,977	14,525	-	14,525
Share Based payments	22	-	-	338	-	-	-	338	-	338
Balance at 31 December 2014		15,941	73,967	338	578	2,638	42,199	135,661	-	135,661

BasisBank Group
Consolidated Statement of Cash Flows

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Cash flows from operating activities			
Interest received		34,564	24,937
Interest paid		(10,037)	(7,924)
Fees and commissions received		3,283	2,421
Fees and commissions paid		(1,825)	(746)
Income received from financial derivatives		66	11
Income received from trading in foreign currencies		3,319	2,383
Other operating income received		260	99
Staff costs paid		(7,567)	(6,158)
Administrative and other operating expenses paid		(3,937)	(3,192)
Income tax paid		(2,646)	-
Cash flows from operating activities before changes in operating assets and liabilities		15,480	11,831
<i>Net (increase)/decrease in:</i>			
- due from other banks		(12,958)	(7,570)
- loans and advances to customers		(78,491)	(90,902)
- other financial assets		(150)	(147)
- other assets		268	348
<i>Net increase/(decrease) in:</i>			
- due to other banks		9,035	(5,381)
- customer accounts		156,328	109,124
- other financial liabilities		(816)	(158)
- provisions for liabilities and charges and other liabilities		(187)	(157)
Net cash from operating activities		88,509	16,988
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	(210,807)	(123,502)
Proceeds from disposal and redemption of investment securities available for sale	10	137,097	61,520
Acquisition of premises and equipment		(875)	(1,677)
Proceeds from disposal of premises and equipment		108	12
Acquisition of investment properties		-	(939)
Proceeds from disposal of foreclosed properties		1,452	11,450
Acquisition of intangible assets		(25)	(539)
Net cash used in investing activities		(73,050)	(53,675)
Cash flows from financing activities			
Proceeds from other borrowed funds		19,194	18,611
Repayment of other borrowed funds		(22,109)	(9,625)
Issue of ordinary shares	21	-	53,533
Net cash from/(used in) financing activities		(2,915)	62,519
Effect of exchange rate changes on cash and cash equivalents		(1,558)	1,071
Net increase in cash and cash equivalents		10,986	26,903
Cash and cash equivalents at the beginning of the year		59,506	32,603
Cash and cash equivalents at the end of the year	7	70,492	59,506

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for JSC Basisbank (the "Bank") and its subsidiaries (the "Group").

The Bank was incorporated and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2014 and 2013 the Bank's immediate parent company was Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People's Republic of China and the Bank was ultimately controlled by Mr Mi Enhua.

Shareholders	% of ownership interest held as at 31 December	
	2014	2013
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.980%	92.980%
Mr. Zurab Tsikhistavi	-	5.166%
Mr. Mi Zaiqi	7.020%	-
European Bank for Reconstruction and Development ("EBRD")	-	1.854%

Principal activity. The Group'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 1993.

The Bank has 18 (2013: 17) branches in Georgia and 54 ATMs (2013: 54). The Group had 296 employees at 31 December 2014 (2013: 281 employees).

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

Name	Country of incorporation	Principal activities	Ownership % at 31 December	
			2014	2013
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%

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

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

2 Operating Environment of the Group

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

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

3 Summary of Significant Accounting Policies

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

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

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

3 Summary of Significant Accounting Policies (Continued)

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an 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 Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 33.

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 Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and 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 Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

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

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 Group'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)

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

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

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

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

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

Costs of minor repairs and 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 or revalued amounts to their residual values over their estimated useful lives:

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

At 31 December 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).

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

3 Summary of Significant Accounting Policies (Continued)

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

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

3 Summary of Significant Accounting Policies (Continued)

	31 December 2014			31 December 2013		
	Amounts expected to be received or settled		Total	Amounts expected to be received or settled		Total
	Within 12 months after the reporting period	After 12 months after the reporting period		Within 12 months after the reporting period	After 12 months after the reporting period	
<i>In thousands of Georgian Lari</i>						
ASSETS						
Cash and cash equivalents	70,492	-	70,492	59,506	-	59,506
Mandatory cash balances with the NBG	37,181	-	37,181	21,805	-	21,805
Loans and advances to customers	109,799	164,963	274,762	63,639	124,900	188,539
Investment securities available for sale	169,628	63	169,691	93,512	63	93,575
Investment properties	-	2,048	2,048	-	1,802	1,802
Current income tax prepayment	72	-	72			
Intangible assets	-	601	601	-	668	668
Premises and equipment	-	15,919	15,919	-	15,925	15,925
Other financial assets	752	93	845	435	-	435
Other assets	262	7,865	8,127	1,886	7,262	9,148
TOTAL ASSETS	388,186	191,552	579,738	240,783	150,620	391,403
LIABILITIES						
Due to other banks	9,016	-	9,016	25	-	25
Customer accounts	376,429	22,037	398,466	223,078	8,286	231,364
Other borrowed funds	29,298	275	29,573	21,088	9,101	30,189
Current income tax liability	4	-	4	1,281	-	1,281
Deferred income tax liability	-	1,686	1,686	-	1,506	1,506
Provisions for liabilities and charges	186	-	186	22	-	22
Other financial liabilities	688	-	688	1,789	-	1,789
Other liabilities	908	103	1,011	1,264	-	1,264
Subordinated debt	-	3,447	3,447	-	3,165	3,165
TOTAL LIABILITIES	416,529	27,548	444,077	248,547	22,058	270,605

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of GEL 770 thousand (2013: GEL 510 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of GEL 320 thousand (2013: GEL 256 thousand), respectively.

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

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

5 Adoption of New or Revised Standards and Interpretations

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

“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 Group.

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 Group.

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 Group.

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 Group.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group 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 Group 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 Group’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 Group is currently assessing the impact of the amendments on its financial statements.

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

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

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

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

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

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

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

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 Group 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 Group's consolidated financial statements.

7 Cash and Cash Equivalents

<i>In thousands of Georgian Lari</i>	2014	2013
Cash on hand	18,181	18,201
Cash-in-transit	480	-
Cash balances with the NBG (other than mandatory reserve deposits)	28,558	5,854
Correspondent accounts and overnight placements with other banks	19,544	11,446
Placements with other banks with original maturities of less than three months	3,729	24,005
Total cash and cash equivalents	70,492	59,506

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

<i>In thousands of Georgian Lari</i>	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
<i>Neither past due nor impaired</i>				
- National Bank of Georgia	28,558	-	-	28,558
- A- to A+ rated	-	18,466	-	18,466
- Lower than A- rated	-	971	3,729	4,700
- Unrated	-	107	-	107
Total cash and cash equivalents, excluding cash on hand and cash-in-transit	28,558	19,544	3,729	51,831

As at 31 December 2014 there were no placements with unrated Georgian Banks. The unrated balances represent placements with 2 Non-OECD Banks with aggregate amount of GEL 107 thousand (2013: 2 Georgian Banks with aggregate amount of GEL 5,098 thousand and 5 Non-OECD Banks with aggregate amount of GEL 451 thousand thousand).

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

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

7 Cash and Cash Equivalents (Continued)

At 31 December 2014 the Group had 1 counterparty bank (2013: none) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 15,793 thousand.

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

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

8 Mandatory cash balances with the National Bank of Georgia

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

In 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

<i>In thousands of Georgian Lari</i>	2014	2013
Corporate loans	197,231	134,661
Consumer loans	20,276	14,223
Mortgage loans	59,231	39,495
Credit Cards	5,720	5,259
Less: Provision for loan impairment	(7,696)	(5,099)
Total loans and advances to customers	274,762	188,539

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

<i>In thousands of Georgian Lari</i>	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
Provision for loan impairment at 1 January 2014	3,373	352	1,166	208	5,099
Amounts written off during the year as uncollectible	(132)	(125)	(21)	(136)	(413)
Provision for impairment during the year*	628	663	1,557	163	3,010
Provision for loan impairment at 31 December 2014	3,869	890	2,702	235	7,696

*The provision for impairment during 2014 differs from the amount presented in profit or loss for the year due to GEL 413 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

9 Loans and Advances to Customers (Continued)

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

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

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

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

<i>In thousands of Georgian Lari</i>	2014		2013	
	Amount	%	Amount	%
Individuals	85,227	30%	58,977	30%
Production & Manufacturing	23,908	8%	19,902	10%
Trade	22,198	8%	20,782	11%
Service	18,499	7%	19,145	10%
Real Estate Development	17,437	6%	6,264	3%
Wine production	17,279	6%	9,446	5%
Real Estate Management	16,919	6%	14,352	7%
Hotels & Restaurants	16,299	6%	11,596	6%
Financial Institutions	13,945	5%	3,708	2%
Health Care	10,133	4%	1,755	1%
Agricultural	10,037	3%	1,484	1%
Construction & Production of Construction Materials	8,821	3%	6,057	3%
Energy	8,299	3%	7,554	4%
Other	13,457	5%	12,616	7%
Total loans and advances to customers (before impairment)	282,458	100%	193,638	100%

At 31 December 2014 the Group had 6 borrowers (2013: 5 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 44,462 thousand (2013: GEL 30,485 thousand) or 16% of the gross loan portfolio (2013: 16%).

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2014 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>In thousands of Georgian Lari</i>					
Unsecured loans	9,934	10,281	1,434	5,700	27,349
Loans collateralised by:					
- cash deposits	16,680	884	-	-	17,564
- real estate	163,807	8,742	57,780	-	230,329
- transport and equipment	950	368	17	-	1,335
- other assets	5,860	1	-	20	5,881
Total loans and advances to customers	197,231	20,276	59,231	5,720	282,458

Information about collateral at 31 December 2013 is as follows:

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

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, transport and equipment, other assets. Other assets mainly include securities and inventory. Third party guarantees received in the amount of GEL 15,718 thousand (2013: GEL 7,457 thousand) were not considered in the above table.

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

9 Loans and Advances to Customers (Continued)

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

	Corporate loans	Consumer loans	Mortgage loans	Credit cards	Total
<i>In thousands of Georgian Lari</i>					
<i>Neither past due nor impaired</i>					
- Large borrowers with credit history over two years	59,398	-	-	-	59,398
- Large new borrowers	64,176	-	-	-	64,176
- Loans to medium size entities	24,797	-	-	-	24,797
- Loans to small entities	345	-	-	-	345
- Loans to individuals with credit limit over GEL 100 thousand	29,161	2,578	23,459	267	55,465
- Loans to individuals with credit limit below GEL 100 thousand	5,188	15,528	31,939	5,272	57,927
Total neither past due nor impaired	183,065	18,106	55,398	5,539	262,108
<i>Past due but not impaired</i>					
- less than 30 days overdue	2,828	618	392	1	3,839
- 30 to 90 days overdue	1,399	-	-	-	1,399
- 91 to 180 days overdue	104	-	-	-	104
- 181 to 360 days overdue	49	-	-	-	49
Total past due but not impaired	4,380	618	392	1	5,391
<i>Loans individually determined to be impaired (gross)</i>					
- Not overdue	6,425	707	959	53	8,144
- less than 30 days overdue	781	396	773	33	1,983
- 30 to 90 days overdue	867	231	651	49	1,798
- 91 to 180 days overdue	489	61	421	29	1,000
- 181 to 360 days overdue	605	113	548	11	1,277
- over 360 days overdue	620	44	89	4	757
Total individually impaired loans (gross)	9,787	1,552	3,441	179	14,959
Less impairment provisions	(3,869)	(890)	(2,702)	(235)	(7,696)
Total loans and advances to customers	193,363	19,386	56,529	5,484	274,762

9 Loans and Advances to Customers (Continued)

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

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

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

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

9 Loans and Advances to Customers (Continued)

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

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

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2014:

<i>In thousands of Georgian Lari</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	169,381	521,806	27,850	17,917
Consumer loans	9,841	39,469	10,435	155
Mortgage loans	56,312	149,909	2,919	1,485
Credit Cards	20	22	5,700	-
Total	235,554	711,206	46,904	19,557

The effect of collateral at 31 December 2013:

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

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

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

10 Investment Securities Available for Sale

<i>In thousands of Georgian Lari</i>	2014	2013
Georgian government treasury bonds	58,777	31,294
Georgian government treasury bills	27,314	16,634
NBG certificates of deposit	83,537	45,584
Total debt securities	169,628	93,512
Corporate shares (not quoted)	63	63
Total investment securities available for sale	169,691	93,575

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

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Carrying amount at 1 January		93,512	28,809
Fair value gains less losses		(433)	693
Gains less losses reclassified to profit or loss upon disposal or impairment		(99)	(60)
Interest income accrued	23	6,121	3,531
Interest income received		(2,651)	(1,443)
Purchases		210,276	123,502
Redemption at maturity		(137,098)	(61,520)
Carrying amount at 31 December		169,628	93,512

Investment securities available for sale include equity securities with a carrying value of GEL 63 thousand (2013: GEL 63 thousand) which are not publicly traded. Therefore they are carried at cost. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

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

11 Investment Properties

<i>In thousands of Georgian Lari</i>	2014	2013
Investment properties at fair value at 1 January	1,802	1,055
Additions	27	939
Disposals		(55)
Transfer from other assets	219	
Impairment		(137)
Investment properties at fair value at 31 December	2,048	1,802

As of 31 December 2014, the fair value of investment properties was GEL 2,295 thousand (2013: GEL 1,912 thousand). The fair value of the Group's investment properties was determined by the Bank's internal appraisers, who hold a recognized and relevant professional qualification. In determining the fair values of investment properties, three market comparatives were identified for each property. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property.

12 Premises, Equipment and Intangible Assets

	Note	Premises	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
<i>In thousands of Georgian Lari</i>							
Cost/valuation at 1 January 2013		14,343	5,946	19	20,308	446	20,754
Accumulated depreciation		500	4,926	-	5,426	247	5,673
Carrying amount at 1 January 2013		13,843	1,020	19	14,882	199	15,081
Additions		-	1,401	288	1,689	540	2,229
Transfers		159	-	(159)	-	-	-
Disposals		-	(428)	-	(428)	-	(428)
Revaluation loss		(144)	-	-	(144)	-	(144)
Reversals of accumulated depreciation upon revaluation		(781)	-	-	(781)	-	(781)
Revaluation		326	-	-	326	-	326
Depreciation							
Depreciation charge		281	535	-	816	71	887
Reversals of accumulated depreciation upon revaluation		(781)	-	-	(781)	-	(781)
Disposals		-	(416)	-	(416)	-	(416)
Carrying amount at 31 December 2013		13,903	1,874	148	15,925	668	16,593
Cost/valuation at 31 December 2013		13,903	6,919	148	20,970	986	21,956
Accumulated depreciation		-	5,045	-	5,045	318	5,363
Carrying amount at 31 December 2013		13,903	1,874	148	15,925	668	16,593
Additions		159	667	55	881	25	906
Transfers		148	-	(148)	-	-	-
Disposals		-	(124)	-	(124)	-	(124)
Depreciation							
Depreciation charge		280	507	-	787	92	879
Disposals		-	(24)	-	(24)	-	(24)
Carrying amount at 31 December 2014		13,930	1,934	55	15,919	601	16,520
Cost/valuation at 31 December 2014		14,210	7,462	55	21,727	1,011	22,738
Accumulated depreciation		280	5,528	-	5,808	410	6,218
Carrying amount at 31 December 2014		13,930	1,934	55	15,919	601	16,520

12 Premises, Equipment and Intangible Assets (Continued)

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

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

At 31 December 2014, the carrying amount of premises would have been GEL 11,101 thousand (2013: GEL 10,794 thousand) had the assets been carried at cost less depreciation.

13 Other Financial Assets

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Receivables for credit card services and money transfers		76	-
Receivables for sale of repossessed property		414	414
Other financial derivatives	32	236	-
Other receivables		152	145
Less: Provision for impairment		(33)	(124)
Total other financial assets		845	435

As at 31 December 2014 a provision against receivables from the sale of repossessed property for GEL 414 thousand was created as purchaser failed to repay. The same property is held by the Bank as collateral. Other receivables are current and not impaired.

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

14 Other Assets

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Repossessed collateral		6,648	7,719
VAT paid		927	933
Litigation prepayments		277	251
Prepayments for services		85	94
Fixed asset prepayments		119	57
Withholding taxes paid		6	1
Other		65	93
Total other assets		8,127	9,148

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

15 Due to Other Banks

<i>In thousands of Georgian Lari</i>	2014	2013
Correspondent accounts and overnight placements of other banks	16	25
Short-term placements of other banks	9,000	-
Total due to other banks	9,016	25

Refer to Note 33 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 15. Information on related party balances is disclosed in Note 35.

16 Customer Accounts

<i>In thousands of Georgian Lari</i>	2014	2013
State and public organisations		
- Current/settlement accounts	32,888	17,281
- Term deposits	31,851	18,689
Other legal entities		
- Current/settlement accounts	87,543	101,023
- Term deposits	168,543	38,889
Individuals		
- Current/demand accounts	47,429	33,820
- Term deposits	30,212	21,662
Total customer accounts	398,466	231,364

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

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Georgian Lari</i>	2014		2013	
	Amount	%	Amount	%
State Deposits	15,241	4%	9,221	4%
Construction	177,194	45%	74,398	32%
Trade	23,661	6%	36,987	16%
Production/Manufacturing	21,318	5%	12,944	6%
Energy	12,218	3%	11,060	5%
Education	12,750	3%	9,465	4%
Financial Institutions	20,408	5%	9,199	4%
Transportation or Communication	23,723	6%	9,051	4%
Service	6,107	2%	911	0%
Agriculture	923	0%	711	0%
Other	7,282	2%	1,935	1%
Individuals	77,641	19%	55,482	24%
Total customer accounts	398,466	100%	231,364	100%

At 31 December 2014, the Group had five customers (2013: two customers) with balances above 10 % of total equity. The aggregate balance of these customers was GEL 165,678 thousand (2013: GEL 48,342 thousand).

16 Customer Accounts (Continued)

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

17 Other Borrowed Funds

<i>In thousands of Georgian Lari</i>	2014	2013
Loans from World Business Capital	9,264	10,003
Loans from Black Sea Trade and Development Bank	18,883	17,602
Loans from European Bank for Reconstruction and Development ("EBRD")	937	1,912
Loan from Ministry of Finance	429	600
Other	60	72
Total other borrowed funds	29,573	30,189

As at 31 December 2014 loans from World Business Capital were secured by loans to customers with the carrying value of GEL 16,416 thousand (2013: GEL 18,512 thousand).

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

18 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Payables for services		466	-
Debit or credit card payables		33	258
Other derivative financial instruments	32	92	948
Other accrued liabilities		97	583
Total other financial liabilities		688	1,789

Other derivative financial instruments are the currency swap contracts. Refer to Note 33 for disclosure of the fair value of each class of other financial liabilities.

19 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Taxes payable other than on income		8	375
Accrued employee benefit costs		904	822
Other		99	67
Total other liabilities		1,011	1,264

20 Subordinated Debt

Subordinated debt of GEL 3,447 thousand (2013: GEL 3,165 thousand) carries an interest rate of three months LIBOR +5% p.a. and matures in 2021. The debt ranks after all other creditors in the case of liquidation.

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

21 Share Capital

<i>In thousands of Georgian Lari except for number of shares</i>	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2013	9,079	9,079	27,296	36,375
New shares issued	6,862	6,862	46,671	53,533
At 31 December 2013	15,941	15,941	73,967	89,908
At 31 December 2014	15,941	15,941	73,967	89,908

The total number of authorised ordinary shares is 15,976 thousand shares (2013: 15,941 thousand shares), with a par value of GEL 1 per share (2013: GEL 1 per share). The total number of issued ordinary shares is 15,941 thousand shares (2013: 15,941 thousand shares). All issued ordinary shares are fully paid.

At the reporting date, the Group has 35 thousand shares reserved for issuance under share based payment arrangement. Per management's estimate, the total number of shares that the Bank will need to issue under the share based payment arrangement approximates 73 thousand. For share based payments refer to Note 22.

Share premium represents the excess of contributions received over the nominal value of shares issued, which is GEL 73,967 thousand at 31 December 2014, (2013: GEL 73,967 thousand)

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

22 Share Based Payments

In July 2013, the Supervisory Board of the Bank approved a Senior Management Bonus scheme for the years 2013 – 2014 and granted 73,000 new shares to the members of senior management of the Group. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth and profitability metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants set by the lending international financial institutions. The awarded shares carry service conditions and before those conditions are met, the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013 and 2014 tranche vest upon expiry of the continuous employment condition on 31 December 2015. After the awarded shares vest, these shares are subject to certain post-vesting restrictions. June 2016 (the end of first lock-up period) and August 2017 (the end of second lock-up period) is when the post-vesting restrictions expire.

22 Share Based Payments (Continued)

The Group considers 26 July 2013 as the grant date. The fair value per share at the grant date was estimated at GEL 7.85 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the former owners of the Bank and the Bank's current major shareholder. Based on management's assessment, the share purchase transaction can be considered as an orderly transaction between willing and unrelated market participants. All staff costs related to this Senior Management Bonus scheme is recognized during the vesting period. The total expense on the scheme in 2014 amounted to GEL 113 thousand (2013: GEL 225 thousand).

Tabular information on the scheme is given below:

<i>In thousands of Georgian Lari except for number of shares</i>	2014	2013
Number of unvested shares at the beginning of the year	73,000	-
Number of shares granted	-	73,000
Number of shares vested	-	-
Number of unvested shares at the end of the year	73,000	73,000
Value at grant date per share (in GEL)	7.85	7.85
Expense on equity-settled part	113	225
Expense recognized as staff cost during the year	113	225

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period and corresponding entry is credited to share based payment reserve in equity. The expense recognized as staff costs under the scheme of GEL 225 thousand in 2013 was included in Other Liabilities as at 31 December 2013 based on materiality considerations and was transferred to share based payment reserve in 2014. The share based payment reserve included in equity amounted to GEL 338 as at 31 December 2014.

23 Interest Income and Expense

<i>In thousands of Georgian Lari</i>	2014	2013
Interest income		
Loans and advances to customers	30,881	22,400
Debt investment securities available for sale	6,121	3,531
Due from other banks and mandatory balances held with the NBG	748	919
Total interest income	37,750	26,850
Interest expense		
Term deposits of legal entities	4,942	3,036
Term deposits of individuals	2,200	2,321
Current/settlement accounts	1,789	1,322
Borrowings from banks and other financial institutions	2,194	1,651
Due to other banks	113	61
Repurchase agreements	78	6
Total interest expense	11,316	8,397
Net interest income	26,434	18,453

24 Fee and Commission Income and Expense

<i>In thousands of Georgian Lari</i>	2014	2013
Fee and commission income		
- Plastic card fees	1,041	871
- Settlement transactions	1,040	723
- Cash transactions	458	409
- Fees related to guarantees	403	327
- Distant banking fees	133	123
- Other	216	280
Total fee and commission income	3,291	2,733
Fee and commission expense		
<i>Fee and commission expense not relating to financial instruments at fair value through profit or loss</i>		
- Plastic card system fees	602	423
- Communication and Computer Centre Service fees	483	436
- Settlement transactions	261	228
- Commissions for credit lines	90	167
- Cash Collection & Transaction fees	170	163
- Expenses Related to Guarantees	104	97
- Other	115	91
Total fee and commission expense	1,825	1,605
Net fee and commission income	1,466	1,128

25 Other Operating Income

<i>In thousands of Georgian Lari</i>	2014	2013
Gains less losses on disposal of repossessed property	45	3,448
Reversal of impairment of repossessed property	71	1,065
Rental income	193	128
Fines and penalties	-	20
Total other operating income	309	4,661

Investment properties rental income as at December 2014 amounted to GEL 100 thousand (2013: GEL 44 thousand).

26 Administrative and Other Operating Expenses

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Employee compensation		7,569	6,764
Depreciation and amortisation	12	879	887
Professional services		731	634
Advertising and marketing services		800	621
Security services		491	408
Occupancy		584	477
Communications and information services		219	174
Taxes other than on income		218	171
Office supplies		141	149
Loss on revaluation of premises	12	-	144
Impairment of investment properties	11	-	137
Impairment of other financial assets	13	5	261
Repairs and maintenance		59	78
Insurance		92	70
Travel and training		88	65
Other		500	633
Total administrative and other operating expenses		12,376	11,673

Included in employee compensation for 2014 is expense recognized as staff costs under the share based payment part of the Senior Management Bonus scheme of GEL 113 thousand (2013: GEL 225 thousand). For details on the scheme, refer to Note 22.

Direct operating expenses for investment properties that generate rental income amounted to GEL 30 thousand (2013: GEL 10 thousand) and consisted of costs of utilities, maintenance and taxes. Direct operating expenses for investment properties that did not generate rental income amounted to GEL 3 thousand (2013: GEL 1 thousand).

27 Income Taxes

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

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

<i>In thousands of Georgian Lari</i>	2014	2013
Current tax	(1,295)	(1,286)
Deferred tax	(260)	(337)
Income tax expense for the year	(1,555)	(1,623)

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

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

27 Income Taxes (Continued)

<i>In thousands of Georgian Lari</i>	2014	2013
Profit before tax	16,532	14,174
Theoretical tax charge at statutory rate (2014: 15%; 2013: 15%)	(2,480)	(2,126)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (NBG's securities and deposits)	968	560
- Other income which is exempt from taxation	43	-
- Imputed benefits	(49)	(16)
- Non-deductible expenses	(37)	(41)
Income tax expense for the year	(1,555)	(1,623)

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

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 2 thousand (2013: 5 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

(d) Deferred taxes analysed by type of temporary difference

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

	1 January 2014	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2014
<i>In thousands Georgian Lari</i>				
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(1,872)	(55)	-	(1,927)
Loan impairment provision	(116)	(109)	-	(225)
Guarantee impairment provision	(14)	(78)	-	(92)
Fair valuation of investment securities available for sale	(182)	-	80	(102)
Accruals	219	(37)	-	182
Other	459	8	-	467
Share Based Payment	-	11	-	11
Net deferred tax liability	(1,506)	(260)	80	(1,686)

27 Income Taxes (Continued)

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

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

28 Financial Risk Management

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

Responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer. The risk management function is split between following risk management units: The Supervisory Board, the Management Board, Audit Committee, Assets and Liabilities Management Committee ("ALCO"), Risk Management department, Treasury department, and Credit Committees.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board sets the general approach and principles for risk management by assessing the Bank's risk profile and the adequacy and effectiveness of the Bank's risk management framework, approving individual risk strategies, setting risk appetite and the risk control framework.

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

28 Financial Risk Management (Continued)

The Management Board defines appropriate procedures for managing all inherent risks in each business line, with the role of structuring business to reflect risk, ensuring adequate segregation of duties and adequate procedures in place, defining operational responsibilities of subordinate staff. The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees; to facilitate efficient decision-making, the Group establishes a hierarchy of credit committees depending on the type and amount of the exposure.

Market and liquidity risks are managed by the Asset and Liability Management Committee in coordination with the Treasury Department and the Risk Management department. The Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, structural interest rate exposures, and controls and manages foreign exchange risk exposure.

The Bank sets principles about risk taking and risk management which are reflected in the internal rules and policies, and applied consistently throughout the organisation. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment,
- adequate and effective monitoring and reporting system,
- proper quantification of risks using proper methodologies in line with the size and complexity of the Bank,
- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices via using international standards,
- operating effective risk governance by maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest,
- the observation of risk management considerations upon the launch of new activities, business lines or products

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular emphasis is placed on developing risk maps that are used to identify a wide range of risk factors and serve as a basis for determining the level of comfort over the current risk mitigation procedures.

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

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment (refer to Note 30). The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

28 Financial Risk Management (Continued)

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

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

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

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

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Credit Department. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Respective Credit Committee reviews the loan/credit application on the basis of submission by the Credit Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee. For credit applications which are above GEL 300 thousand, risk management department prepares conclusion and calculates internal credit rating, before the application is submitted to Credit Committee.

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

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

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

In order to monitor credit risk exposures, regular reports are produced by the Risk Management Department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to Senior Credit committee on a monthly basis and reviewed by the Supervisory Board on a quarterly basis.

The Group'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.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to one single borrower and single borrowers' group, related party concentrations, large borrowers' group concentrations (top 20 and top 40 borrowers concentration to gross loans), sector concentrations. Refer to Note 9.

28 Financial Risk Management (Continued)

The Group uses the following steps to measure and manage credit risk:

- Establishment of an appropriate credit risk management environment. In BasisBank this is achieved through written Credit Policy and Credit Manual related to target markets, portfolio mix, price and non-price terms, the structure of limits, approval authorities and exception processing and reporting.
- Operating under a sound credit-granting process. In BasisBank, this involves the consideration of a number of elements in credit granting, including, but not limited to: segregation of duties between loan origination, approval, disbursement, and monitoring processes and procedures; prudent analysis of the borrowers' financial position; conservative assessment of sufficiency of collateral (e.g. Loan-to-Value ratio).
- Maintenance of appropriate credit administration, measurement and monitoring processes. This involves regular monitoring of a number of key items related to the condition of individual borrowers. These items include the current financial condition of the borrower or counterparty, compliance with existing covenants', collateral coverage relative to the borrower's current condition, and contractual payment delinquencies. Also it involves monitoring of levels of credits in the credit portfolio to specific types of borrowers to avoid concentrations of risk. Such concentrations occur when there are high levels of direct or indirect credits to a single counterparty, a group of connected counterparties, or a particular industry or economic sector. Lastly, BasisBank is using and will further develop appropriate credit administration, measurement and monitoring processes which involves certain key areas in the process of stress testing to help the bank identify possible events or economic changes that could affect the bank's credit exposures and assess its ability to withstand such changes.
- Maintenance of appropriate portfolio quality reporting: Portfolio quality and lending limits determined by Credit Policy are regularly followed by the Credit Risk Management as control function and presented to the management of the Bank via portfolio reporting. Portfolio report contains information about the distribution of the portfolio over the rating classes, amounts in delays, and exposures by sectors.

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 Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group 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 inasmuch as such change may adversely affect the Bank revenues, equity, liquidity and creditworthiness. The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a consolidated on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital.

28 Financial Risk Management (Continued)

However, ALCO introduces intra-day and overnight open currency position limits in aggregate and for individual currencies, within which the Bank may operate. Such limits are reviewed by ALCO from time to time to respond to market conditions. Bank's internal limits are significantly lower than the limits set by the NBG. Current limit equals 5% of the regulatory capital.

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

<i>In thousands of Georgian Lari</i>	At 31 December 2014				At 31 December 2013			
	Mone- tary financial assets	Mone- tary financial liabilities	Deri- vatives	Net position	Mone- tary financial assets	Mone- tary financial liabilities	Deri- vatives	Net position
Georgian Lari	301,204	(181,411)	(199)	119,594	184,988	(107,860)	25,389	102,517
US Dollars	243,846	(246,569)	2,610	(113)	169,492	(143,332)	(26,337)	(177)
Euros	14,917	(12,689)	(2,267)	(39)	14,278	(14,248)	-	30
CHF	155	(142)	-	13	19	(9)	-	10
Pound Sterling	248	(240)	-	8	173	(132)	-	41
Russian Roubles	56	(47)	-	9	1	(3)	-	(2)
CNY	5	-	-	5	8	-	-	8
Total	560,431	(441,098)	144	119,477	368,959	(265,584)	(948)	102,427

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

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

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 respective Group entities, with all other variables held constant:

<i>In thousands of Georgian Lari</i>	At 31 December 2014		At 31 December 2013	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 20% (2013: strengthening by 20%)	(38)	-	(35)	-
US Dollar weakening by 20% (2013: weakening by 20%)	38	-	35	-
Euro strengthening by 20% (2013: strengthening by 20%)	(8)	-	6	-
Euro weakening by 20% (2013: weakening by 20%)	8	-	(6)	-

28 Financial Risk Management (Continued)

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

<i>In thousands of GEL</i>	At 31 December 2014		At 31 December 2013	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 20% (2013: strengthening by 20%)	43		159	-
USD weakening by 20% (2013: weakening by 20%)	(43)		(159)	-
EUR strengthening by 20% (2013: strengthening by 20%)	-		-	-
EUR weakening by 20% (2013: weakening by 20%)	-		-	-

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

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

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest-bearing	Total
31 December 2014						
Total financial assets	239,413	30,807	42,158	181,514	59,079	552,971
Total financial liabilities	100,280	166,062	65,578	20,648	88,622	441,190
Net interest sensitivity gap at 31 December 2014	139,133	(135,255)	(23,420)	160,866	(29,543)	111,781
31 December 2013						
Total financial assets	153,098	18,698	22,892	139,971	29,201	363,860
Total financial liabilities	62,359	37,430	44,407	31,863	90,473	266,532
Net interest sensitivity gap at 31 December 2013	90,739	(18,732)	(21,515)	108,108	(61,272)	97,328

Most of interest bearing assets and liabilities are placed at fixed rates, part of borrowings are based on floating interest rates. At 31 December 2014, if interest rates at that date had been 200 basis points lower (2013: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 60 thousand (2013: GEL 235 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of equity would have been GEL 2,416 thousand (2013: GEL 1,525 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

28 Financial Risk Management (Continued)

If interest rates had been 200 basis points higher (2013: 200 basis points higher), with all other variables held constant, profit would have been GEL 60 thousand (2013: GEL 235 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. Other components of equity would have been GEL 2,272 thousand (2013: GEL 1,420 thousand) lower, mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.

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

In % p.a.	2014			2013		
	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	-	-	-	-	-	-
Mandatory cash balances with the NBG	2.0%	-	-	1.9%	-	0.2%
Due from other banks	0.1%	0.4%	0.0%	3.6%	0.0%	0.0%
Loans and advances to customers	11.4%	11.7%	12.8%	12.4%	12.7%	15.0%
Investment securities available for sale	5.7%	-	-	5.5%	-	-
Other financial assets	-	-	-	-	-	-
Liabilities						
Due to other banks	4.0%	-	-	-	-	-
Customer accounts	3.8%	3.1%	2.9%	2.8%	4.2%	3.1%
- current and settlement accounts	2.9%	1.9%	1.1%	2.3%	1.8%	0.6%
- term deposits	5.0%	3.6%	5.5%	6.4%	6.1%	6.8%
Other financial liabilities	-	-	-	2.0%	-	-
Borrowings from banks and other financial institutions	-	5.4%	-	-	5.4%	-
Subordinated debt	-	5.3%	-	-	5.3%	-

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

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group’s current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2013: no material impact).

The management of interest rate risk is regulated by the Assets and Liabilities Management (“ALM”) Policy of the Bank. The Risk Management department regularly produces a report on interest sensitivity gap by repricing periods. The report is used to assess the impact of changes in interest rates on the profit of the Bank. The amount of the stress (expressed in basis points) of the interest rates incorporated in the report is defined by the Risk Management department, based on observed fluctuations in interest rates for relevant currencies. The limit of tolerable potential impact on the profit of the Bank is defined as up to 1% of the regulatory capital.

28 Financial Risk Management (Continued)

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

<i>In thousands of Georgian Lari</i>	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	51,869	59	18,456	108	70,492
Mandatory cash balances with NBG	37,181	-	-	-	37,181
Loans and advances to customers	274,762	-	-	-	274,762
Investment securities available for sale	169,691	-	-	-	169,691
Other financial assets	845	-	-	-	845
Total financial assets	534,348	59	18,456	108	552,971
Financial liabilities					
Due to other banks	9,016	-	-	-	9,016
Customer accounts	248,418	150,048	-	-	398,466
Borrowings from banks and other financial institution	489	-	29,084	-	29,573
Subordinated debt		-	3,447	-	3,447
Other financial liabilities	688	-	-	-	688
Total financial liabilities	258,611	150,048	32,531	-	441,190
Net position in on-balance sheet financial instruments	275,737	(149,989)	(14,075)	108	111,781
Credit related commitments	37,559	23,779	-	-	61,338

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

28 Financial Risk Management (Continued)

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

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

28 Financial Risk Management (Continued)

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

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

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, maintaining funding contingency plans, and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG, which is defined as average ratio of liquid assets to liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis. The average liquidity ratio was 70% at 31 December 2014 (2013: 70%);

The group manages liquidity risk according to the ALM Policy and Regulation of Liquidity Management, which detail liquidity management processes and procedures and relevant limits. The Regulation of Liquidity Management defines limits on:

- Liquidity Coverage Ratio ("LCR"),
- cumulative liquidity gaps.

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios, covering both, normal and severe market conditions is performed by the Treasury Department.

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 financial 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. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

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

28 Financial Risk Management (Continued)

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

<i>In thousands of Georgian Lari</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	70,492	-	-	-	-	70,492
Mandatory cash balances with the NBG	37,181	-	-	-	-	37,181
Loans and advances to customers	16,716	38,895	54,188	98,995	65,968	274,762
Investment securities available for sale	169,628	-	-	-	63	169,691
Gross-settled currency derivatives	2,610	2,503	-	-	-	5,113
Other financial assets	-	516	-	-	93	609
Total	296,627	41,914	54,188	98,995	66,124	557,848
Liabilities						
Due to other banks	9,016	-	-	-	-	9,016
Customer accounts – individuals	51,252	10,847	11,723	3,661	1,425	78,908
Customer accounts – other	129,245	138,241	37,917	16,890	-	322,293
Borrowings from banks and other financial institutions	-	886	886	31,198	-	32,970
Subordinated debt	-	-	-	-	4,167	4,167
Gross-settled currency derivatives	2,701	2,267	-	-	-	4,968
Other financial liabilities	-	596	-	-	-	596
Financial guarantees issued	1,499	2,288	7,175	1,691	-	12,653
Performance guarantees issued	113	1,254	18,749	5,614	-	25,730
Undrawn credit line commitments	22,771	-	-	-	-	22,771
Total potential future payments for financial obligations	216,597	156,379	76,450	59,054	5,592	514,072
Liquidity gap arising from financial instruments	80,030	(114,465)	(22,262)	39,941	60,532	43,776

28 Financial Risk Management (Continued)

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

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

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

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.

28 Financial Risk Management (Continued)

In addition to using the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
<i>In thousands of Georgian Lari</i>						
At 31 December 2014						
Financial assets	296,627	41,914	54,188	98,995	66,124	557,848
Financial liabilities	62,402	163,838	63,727	157,359	5,592	452,918
Financial and performance guarantees	186	-	-	-	-	186
Undrawn credit related commitments	2,277	-	-	-	-	2,277
Net liquidity gap based on expected maturities	231,762	(121,924)	(9,539)	(58,364)	60,532	102,467
Cumulative liquidity gap based on expected maturities	231,762	109,838	100,299	41,935	102,467	-
At 31 December 2013						
Financial assets	187,624	25,356	51,306	82,270	42,693	389,249
Financial liabilities	63,196	112,923	99,476	16,003	7,325	298,923
Financial and performance guarantees	22	-	-	-	-	22
Undrawn credit related commitments	4,704	-	-	-	-	4,704
Net liquidity gap based on expected maturities	119,702	(87,567)	(48,170)	66,267	35,368	85,600
Cumulative liquidity gap based on expected maturities	119,702	32,135	(16,035)	50,232	85,600	-

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

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

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

29 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum level stated in borrowing agreements. The Group considers total capital under management to be total equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2014 was GEL 135,661 thousand (2013: GEL 120,798 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 Deputy General Director, Finances. Other objectives of capital management are evaluated quarterly. The Group 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 129,958 thousand (2013: GEL 114,181 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).

<i>In thousands of Georgian Lari</i>	2014	2013
Primary capital		
Share capital	15,976	15,941
Share premium	74,197	73,967
Retained earnings according to the NBG regulations	22,864	12,451
Deductions (Intangible Assets)	(601)	(668)
Total primary capital	112,436	101,691
Secondary capital		
Current year profit according to NBG regulations	13,949	10,697
General reserve	5,043	3,517
Subordinated borrowings	3,727	3,473
Total secondary capital	22,719	17,687
Deductions (Investments in subsidiary companies)	(5,197)	(5,197)
Total regulatory capital	129,958	114,181
Risk weighted assets, combining credit, market and operational risks	450,828	353,224
Tier I ratio	24.9%	28.8%
Regulatory capital ratio	28.8%	32.3%

29 Management of Capital (Continued)

After adoption of NBG Basel II/III requirements the Bank, in addition to above capital ratio, calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

<i>In thousands of Georgian Lari</i>	2014	2013
Primary capital		
Share capital	15,976	15,941
Share premium	74,197	73,967
Retained earnings according to the NBG regulations	22,864	12,451
Revaluation reserve	3,470	3,473
Current year profit according to NBG regulations	13,949	10,697
Primary capital Before Correction	130,456	116,529
Deductions (Intangible Assets)	(601)	(668)
Deductions (Revaluation Reserve)	(3,470)	(3,473)
Deductions (Investments in Subsidiary Companies)	(5,197)	(5,197)
Total primary capital After correction	121,188	107,191
Secondary capital		
General reserve	5,043	3,517
Subordinated borrowings	3,727	3,473
Total secondary capital	8,770	6,990
Total regulatory capital	129,958	114,181
Risk weighted assets, combining credit, market and operational risks	461,844	361,622
Minimum Tier 1 Ratio	<u>8.5%</u>	<u>8.5%</u>
Tier I ratio	26.2%	29.6%
Minimum regulatory capital ratio	<u>10.5%</u>	<u>10.5%</u>
Regulatory capital ratio	28.1%	31.6%

30 Contingencies and Commitments

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

Tax contingencies. Georgian tax legislation 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 Group. 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.

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

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

<i>In thousands of Georgian Lari</i>	2014	2013
Not later than 1 year	170	131
Later than 1 year and not later than 5 years	-	-
Total operating lease commitments	170	131

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

Compliance with covenants. The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2014. As at 31 December 2013 the Group was in compliance with covenants, except of two covenant requirements under credit agreements with EBRD. The waivers received for breaches were dated subsequent to 31 December 2013. Consequently, as at 31 December 2013 the borrowings from EBRD with a carrying value of GEL 1,912 thousand were classified as on demand.

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

30 Contingencies and Commitments (Continued)

<i>In thousands of Georgian Lari</i>	2014	2013
Tier 1 capital		
Share capital	89,908	89,908
Retained earnings	42,060	26,815
Total tier 1 capital	131,968	116,723
Tier 2 capital		
Revaluation reserves	3,216	3,668
General reserve	3,861	2,601
Subordinated debt	3,447	3,165
Total tier 2 capital	10,524	9,434
Total capital	142,492	126,157

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

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

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

Outstanding credit related commitments are as follows:

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Financial guarantees issued		12,653	3,062
Performance guarantees issued		25,730	2,208
Undrawn credit line commitments		22,771	19,092
Letters of credit		184	-
Less: Provision for financial and performance guarantees		(186)	(22)
Total credit related commitments and performance guarantees, net of provision		61,152	24,340

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

30 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Georgian Lari		42,798	12,600
US Dollars		16,829	9,611
Euro		1,536	2,086
Other		175	65
Total		61,338	24,362

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

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

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Construction		24,032	1,028
Service		975	893
Other		723	287
Total guaranteed amounts		25,730	2,208

The performance guarantees issued to clients operating in construction sector are collateralised with cash deposits of GEL 23,536 thousand at 31 December 2014.

Movements in provisions for financial and performance guarantees are as follows:

<i>In thousands of Georgian Lari</i>	Note	2014	2013
Carrying amount at 1 January		22	167
Initial recognition of provision for issued financial guarantees		314	72
Unused amounts of provision reversed		(202)	(140)
Initial recognition of provision for issued performance guarantees		125	21
Unused amounts of provision reversed		(73)	(98)
Carrying amount at 31 December		186	22

30 Contingencies and Commitments (Continued)

Assets pledged and restricted. Mandatory cash balances with the NBG of GEL 37,181 thousand (2013: GEL 21,804 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 8. As at 31 December 2014, loans and advances to customers with carrying value of GEL 16,416 thousand (2013: GEL 18,512 thousand) were pledged as collateral against the borrowings from World Business Capital.

31 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2014:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru- ments	Cash collateral received	
<i>In thousands of Georgian Lari</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Due from other banks						
- Short-term placements with other banks with original maturities of more than three months	5,113	4,877	236	-	-	236
- Receivable for credit and debit card services	62	62	-	-	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	5,175	4,939	236	-	-	236
LIABILITIES						
-Short-term placements with other banks with original maturities of more than three months	4,969	4,877	92	-	-	92
-Payable for credit and debit card service	357	62	295	-	-	295
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	5,326	4,939	387	-	-	387

31 Offsetting Financial Assets and Financial Liabilities (Continued)

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

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

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

Amounts offset as at 31 December 2014 and 31 December 2013 primarily represent deposits placed with other banks and deposits received from banks under currency swap arrangements. Refer to Note 32.

32 Derivative Financial Instruments

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

	Notes	2014		2013	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Georgian Lari</i>					
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of	33				
- GEL receivable on settlement (+)		2,503		25,389	
- GEL payable on settlement (-)			(2,702)		
- USD receivable on settlement (+)		2,610			
- USD payable on settlement (-)					(26,337)
- Euros payable on settlement (-)			(2,267)		
Net fair value of foreign exchange forwards and swaps	33	144	-	-	(948)

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

33 Fair Value 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:

<i>In thousands of Georgian Lari</i>	31 December 2014				31 December 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
<i>Investment securities</i>								
<i>available for sale</i>								
Georgian government treasury bonds	-	58,777	-	58,777	-	31,294	-	31,294
Georgian government treasury bills	-	27,314	-	27,314	-	16,634	-	16,634
NBG deposit Certificate	-	83,537	-	83,537	-	45,584	-	45,584
<i>Other financial assets</i>								
Other financial derivatives	-	236	-	236	-	-	-	-
NON-FINANCIAL ASSETS								
- Premises	-	-	13,621	13,621	-	-	13,903	13,903
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS								
	-	169,864	13,621	183,485	-	93,512	13,903	107,415
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
<i>Other financial liabilities</i>								
- Other derivative financial instruments	-	92	-	92	-	948	-	948
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS								
	-	92	-	92	-	948	-	948

33 Fair Value Disclosures (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In thousands of Georgian Lari	Fair value at 31 December		Valuation technique	Inputs used
	2014	2013		
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Investment securities available for sale				
Georgian government treasury bonds	58,777	31,294	Discounted cash flows ("DCF")	Government bonds yield curve
Georgian government treasury bills	27,314	16,634		DCF
NBG deposit Certificate	83,537	45,584	DCF	Government bonds yield curve
Other financial assets				
Other financial derivatives	236	-	DCF	Official exchange rate, observable yield curve
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2				
	169,864	93,512		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Other derivative financial instruments	92	948	DCF	Official exchange rate, observable yield curve
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2				
	92	948		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2014.

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			
<i>In thousands of Georgian Lari</i>	2014	2013	Valuation technique	Inputs used
NON-FINANCIAL ASSETS				
- Premises	13,621	13,903	Market comparable assets	Comparable prices from less active market
ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3				
	13,621	13,903		
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3				
	13,621	13,903		

There were no changes in valuation technique for level 3 recurring fair value measurements in 2014.

33 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			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<i>In thousands of Georgian Lari</i>								
ASSETS								
Cash and cash equivalents								
- Cash on hand	18,181	-	-	18,181	18,201	-	-	18,201
- Cash-in-transit	480	-	-	480	-	-	-	-
- Cash balances with the NBG	28,558	-	-	28,558	5,854	-	-	5,854
- Correspondent accounts and overnight placements	19,544	-	-	19,544	11,446	-	-	11,446
- Placements with other banks	-	3,729	-	3,729	-	24,005	-	24,005
Mandatory balances with the NBG	-	37,181	-	37,181	-	21,804	-	21,805
Loans and advances to customers								
- Corporate loans	-	-	184,155	193,362	-	-	126,220	131,288
- Consumer loans	-	-	19,221	19,386	-	-	13,732	13,871
- Mortgage loans	-	-	59,282	56,529	-	-	44,599	38,330
- Credit cards	-	-	5,486	5,485	-	-	5,051	5,050
Other financial assets	-	845	-	845	-	435	-	435
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	2,295	2,048	-	-	1,912	1,802
TOTAL	66,763	41,755	270,439	385,328	35,501	46,244	191,514	272,087

33 Fair Value Disclosures (Continued)

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

<i>In thousands of Georgian Lari</i>	31 December 2014				31 December 2013			
	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								
<i>Due to other banks</i>								
- Correspondent accounts and overnight placements of other banks	-	16	-	16	-	25	-	25
- Short-term placements of other banks	-	9,000	-	9,000	-	-	-	-
<i>Customer accounts</i>								
- Current/settlement accounts of state and public organisations	-	32,888	-	32,888	-	17,281	-	17,281
- Term deposits of state and public organisations	-	-	33,169	31,851	-	-	19,293	18,689
- Current/settlement accounts of other legal entities	-	87,542	-	87,543	-	101,023	-	101,023
- Term deposits of other legal entities	-	-	168,717	168,543	-	-	39,579	38,889
- Current/demand accounts of individuals	-	47,429	-	47,429	-	33,820	-	33,820
- Term deposits of individuals	-	-	31,035	30,212	-	-	22,432	21,662
<i>Borrowings from banks and other financial institutions</i>								
- Borrowings from International Financial institutions	-	29,084	-	29,084	-	29,517	-	29,517
- Borrowings from government	-	489	-	489	-	672	-	672
<i>Other financial liabilities</i>								
-	-	688	-	688	-	1,789	-	1,789
<i>Subordinated debt</i>								
-	-	3,447	-	3,447	-	3,165	-	3,165
TOTAL	-	210,583	232,921	441,190	-	187,292	81,304	266,532

33 Fair Value Disclosures (Continued)

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

The fair value of investment properties was estimated using market comparatives (refer to Note 11).

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

34 Presentation of Financial Instruments by Measurement Category

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

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Gross amount of loans and advances to customers (contractual interest rate: 6.5% - 24%)	-	1	518	148
Impairment provisions for loans and advances to customers	-	-	(8)	-
Customer accounts (contractual interest rate: 0 – 11%)	914	2,817	900	147,649

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

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Interest income	11	169	43	29
Interest expense	(166)	(16)	(48)	(1,545)
(Provision charge)/Recovery of loan impairment	1	1	(4)	1
Gains less losses from trading in foreign currencies	(255)	205	(19)	(4,294)
Foreign exchange translation gains less losses	1	-	-	934
Fee and commission income	1	1	3	174
Fee and commission expense	-	-	-	-
Recovery of provision for credit related commitments	-	-	-	(453)
Administrative and other operating expenses	-	-	(40)	-

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

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Performance Guarantees issued by the Group at the year end	-	-	-	22,670
Undrawn credit line commitments	19	116	186	4

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

	Shareholders	Supervisory Board	Management Board	Companies under common control
<i>In thousands of Georgian Lari</i>				
Amounts lent to related parties during the year	152	2,427	1,537	231
Amounts repaid by related parties during the year	(140)	(140)	(578)	(260)

35 Related Party Transactions (Continued)

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

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

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

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

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

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

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

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

35 Related Party Transactions (Continued)

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

	2014		2013	
	Expense	Accrued liability	Expense	Accrued liability
<i>In thousands of Georgian Lari</i>				
Short-term benefits:				
- Salaries	454	-	346	-
- Short-term bonuses	-	-	-	-
Total	454	-	346	-

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

	2014		2013	
	Expense	Accrued liability	Expense	Accrued liability
<i>In thousands of Georgian Lari</i>				
Short-term benefits:				
- Salaries	578	-	486	-
- Short-term bonuses	710	480	623	550
Share-based compensation:				
- Equity-settled share-based compensation	113	-	224	-
Total	1,401	480	1,333	550

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

36 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. The management of the Bank monitors the changes in exchange rates and assesses the impact by utilising stress tests with different shock level scenarios to manage credit risk. If significant impact is identified as a result of the estimation, the management sets up additional provision for loan impairment for the increased risk. 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.

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