JSC VTB Bank (Georgia)

Consolidated financial statements

For the year ended 31 December 2013
Together with independent auditors' report

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Independent auditor's report

To the shareholders and Supervisory Board of JSC VTB Bank (Georgia) -

We have audited the accompanying consolidated financial statements of JSC VTB Bank (Georgia) and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

EY Georgia LLC

10 March 2014

Consolidated statement of financial position

As of 31 December

(Thousands of Georgian Lari)

	Notes	*2013*	*2012*
Assets			
Cash and cash equivalents	6	177,862	90,668
Amounts due from banks and international financial institutions	7	50,041	33,655
Loans and advances to customers	8	478,173	345,188
Investment securities available-for-sale	9	53,670	11,551
Property and equipment	10	33,284	34,405
Investment property	11	26,926	20,723
Current income tax assets		34	83
Deferred income tax assets	12	3,021	6,181
Other assets	13	10,624	2,629
Total assets		833,635	545,083
Liabilities			
Amounts due to banks and international financial institutions	14	91,521	59,502
Amounts due to customers	15	520,152	293,139
Other borrowed funds	16	91,708	92,885
Current income tax liabilities		-	98
Other liabilities	13	16,606	8,512
Subordinated loan	25	21,077	20,127
Total liabilities		741,064	474,263
Equity			
Share capital	17	160,293	148,043
Land and buildings revaluation reserve		963	984
Unrealised gains on investment securities available-for-sale		-	27
Accumulated losses		(68,685)	(78,234)
Total equity		92,571	70,820
Total liabilities and equity		833,635	545,083

Signed and authorised for release on behalf of the Management Board of the Bank on 10 March 2014:

Archil Kontselidze
Chief Executive Officer

Mamuka Menteshashvili
Chief Financial Officer

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements

Consolidated income statement

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2013*	*2012*
Interest income			
Loans and advances to customers		66,536	50,642
Investment securities:			
- Available-for-sale		1,275	831
- Held-to-maturity		-	566
Cash and cash equivalents		987	782
Amounts due from banks and international financial institutions		10	23
		68,808	52,844
Interest expense			
Amounts due to customers		(19,975)	(12,785)
Amounts due to banks, international financial institutions and other borrowed funds		(9,195)	(8,248)
Subordinated loan		(1,343)	(1,394)
		(30,513)	(22,427)
Net interest income		**38,295**	**30,417**
Net recovery of provision for loan impairment	8	4,275	1,328
Net interest income after recovery of provision for loan impairment		42,570	31,745
Net fee and commission income	19	5,835	4,609
Net gains/(losses) from foreign currencies:			
- dealing		4,566	5,567
- translation differences		(1,042)	(1,020)
Net gains from investment securities available-for-sale		32	-
Net gains from disposal of investment property	11	1,702	190
Net gains on investment property revaluation	11	498	417
Other income	20	4,685	5,386
Non-interest income		16,276	15,149
Personnel expenses	21	(27,699)	(23,572)
Depreciation	10	(2,941)	(2,796)
Other operating expenses	21	(11,744)	(11,489)
Other impairment and provisions charge		(16)	(95)
Non-interest expenses		(42,399)	(37,952)
Profit before income tax expense		**16,447**	**8,942**
Income tax expense	12	(3,166)	(525)
Profit for the year		13,281	8,417

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Note	*2013*	*2012*
Profit for the year		13,281	8,417
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealised gains on investment securities available-for-sale		-	32
Realised gains on investment securities available-for-sale reclassified to the statement of profit or loss		(32)	-
Income tax effect		5	(5)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(27)	27
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of buildings		-	(594)
Income tax effect		-	89
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	(505)
Other comprehensive income for the year, net of tax		(27)	(478)
Total comprehensive income for the year		13,254	7,939

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Note	*Share capital*	*Land and buildings revaluation reserve*	*Unrealized gains / (losses) on investment securities available-for-sale*	*Accumulated losses*	*Total equity*
As of 31 December 2011		**148,043**	**1,572**	**-**	**(78,168)**	**71,447**
Total comprehensive income for the year		-	(505)	27	8,417	7,939
Depreciation of revaluation reserve, net of tax		-	(35)	-	35	-
Transfer of property revaluation reserve upon disposal		-	(48)	-	48	-
Dividends declared	17	-	-	-	(8,566)	(8,566)
As of 31 December 2012		148,043	984	27	(78,234)	70,820
Total comprehensive income for the year		-	-	(27)	13,281	13,254
Issuance of share capital	17	12,250	-	-	-	12,250
Depreciation of revaluation reserve, net of tax		-	(21)	-	21	-
Dividends declared	17	-	-	-	(3,753)	(3,753)
As of 31 December 2013		**160,293**	**963**	**-**	**(68,685)**	**92,571**

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Interest received		71,733	55,970
Interest paid		(28,179)	(23,950)
Fees and commissions received		9,608	6,821
Fees and commissions paid		(3,563)	(1,847)
Realised net gains from dealing in foreign currencies		5,242	4,238
Other income received		3,759	2,801
Personnel expenses paid		(26,443)	(22,302)
Other operating expenses paid		(12,225)	(9,861)
Cash flows from operating activities before changes in operating assets and liabilities		**19,932**	**11,870**
Net (increase)/decrease in operating assets			
Amounts due from banks and international financial institutions		(16,327)	1,164
Loans and advances to customers		(124,322)	(80,663)
Other assets		(5,910)	765
Net increase/(decrease) in operating liabilities			
Amounts due to banks and international financial institutions		29,431	14,139
Amounts due to customers		219,211	113,613
Other liabilities		6,134	(1,384)
Net cash flows from operating activities before income tax		**128,149**	**59,504**
Income tax paid		(99)	-
Net cash from operating activities		**128,050**	**59,504**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(109,406)	(26,773)
Proceeds from sale and redemption of investment securities available-for-sale		67,417	18,416
Proceeds from redemption of investment securities- Held-to-maturity		-	8,048
Purchase of property, equipment and intangible assets		(2,032)	(4,382)
Proceeds from sale of property and equipment		2,693	3,687
Proceeds from disposal of investment property		4,940	1,180
Purchases of investment property		(7,699)	(2,026)
Net cash used in investing activities		**(44,087)**	**(1,850)**
Cash flows from financing activities			
Proceeds from issuance of share capital	17	12,250	-
Other borrowed funds received		32,135	69,093
Redemption of other borrowed funds		(37,552)	(76,864)
Dividends paid	17	(3,704)	(8,457)
Net from/(used in) financing activities		**3,129**	**(16,228)**
Effect of exchange rates changes on cash and cash equivalents		102	(65)
Net increase in cash and cash equivalents		**87,194**	**41,361**
Cash and cash equivalents, beginning	6	**90,668**	**49,307**
Cash and cash equivalents, ending	6	**177,862**	**90,668**

(Thousands of Georgian Lari)

1. Introduction

JSC VTB Bank (Georgia) (the "Bank" hereafter) was formed as a joint stock company on 7 April 1995 under the laws of Georgia under the name of United Georgian Bank. The Bank changed its name to VTB Bank (Georgia) on 7 December 2006. The Bank operates under a general banking licence issued by the National Bank of Georgia (the "NBG") on 19 May 1995.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. Its main office is in Tbilisi, Georgia. As of 31 December 2013 the Bank has 16 branches (8 of them in Tbilisi) and 1 service centre. As of 31 December 2012 the Bank had 15 branches (7 of them in Tbilisi) and 1 service centre.

The Bank's registered legal address is 14 Chanturia str. Tbilisi, Georgia.

As of 31 December 2013 and 2012, the following shareholders owned more than 1% of the outstanding shares:

Shareholder	*2013* %	*2012* %
VTB Bank OJSC	96.59	96.31
Lacarpa Enterprises Limited	1.92	2.08
Other	1.49	1.61
Total	**100.0**	**100.0**

VTB Bank OJSC ("the Parent bank") is the immediate parent of the Bank. The ultimate controlling party for the Group is the State of the Russian Federation ("RF"), acting through the Federal Property Agency, which holds 60.9% of issued and outstanding shares of the Parent bank as of 31 December 2013 (2012: 75.5%)

As of 31 December 2013 and 2012 none of the Supervisory Council and Management Board members owned shares of the Bank.

As of 31 December 2013 the Bank had 1,046 employees (2012: 830).

These consolidated financial statements have been prepared for JSC VTB Bank (Georgia) and its subsidiaries (together referred to as "the Group").

The Bank is the parent company of the group (the "Group") which consists of following entities consolidated in the financial statements:

Name	*Country of incorporation*	*The Group ownership interest* 2013	2012	*Date of Incorporation*	*Activities*
Georgian Fund Company LLC	Georgia	100%	100%	24 June 1999	Financial services (Dormant)
GT+ LLC	Georgia	100%	100%	4 November 2008	Trading and commerce (Dormant)

2. Basis of preparation and 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 except for land and buildings, investment property, investment securities available-for-sale and financial instruments at fair value through profit or loss, which are carried at fair value.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. GEL is utilised as the functional currency as the majority of the Group's transactions are denominated or funded in GEL. Transactions in other currencies are treated as transactions in foreign currencies.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

If the Group has both the intention and ability to hold investment securities available-for-sale to maturity, they may be reclassified as investment securities held-to-maturity. In this case the fair value of securities, as of the date of reclassification, becomes their new amortised cost. For instruments with a fixed maturity the revaluation reserve as of the date of reclassification is amortised to profit or loss during the period until maturity using the effective interest rate method.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

Determination of fair value

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

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

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

Cash and cash equivalents

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

Derivative financial instruments

In the normal course of business, the Group enters into certain derivative financial instruments contracts primarily including foreign exchange forwards and swaps. Such financial instruments are recorded at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in net gains/(losses) from foreign currency dealing in consolidated income statement.

Borrowings

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

Amounts due to banks and international financial institutions represent funds attracted to manage the Group's liquidity, while other borrowed funds comprises funds received for general capital working purposes and under basic agreements with international credit institutions to finance activities of the Group's customers.

Operating lease – Group as lessee

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

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Operating lease – Group as lessor

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

Impairment of financial assets

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

Loans and advances to customers, amounts due from banks and international financial institutions

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Available-for-sale financial investments

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

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

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

Restructuring of financial assets

The Group from time to time restructures some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in 3 basic scenarios:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized, which requires the estimation of a new effective interest rate. If the new effective interest rate is below the market interest rate, the loss on initial recognition is recognized in the reporting period.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated, the loan is not recognized as impaired. The loan is not derecognised but the new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity. If the new effective interest rate is below the market rate at the date of restructuring, the new carrying amount is calculated as the fair value of the loan after restructuring, being the present value of the future cash flows discounted using the market rate at the date of restructuring. In this case, the difference between the carrying amount before restructuring and the fair value of the loan after restructuring is recognized as a loss on loans restructuring.
- If the loan is impaired after restructuring, the Group uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in loan impairment charge for the period.

Derecognition of financial assets and liabilities

Financial assets

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

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

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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

Non-performing loans

According to the Group's policy, non-performing loans are derecognized as follows:

- Individually significant loans are being written off based on respective decision of the Bank's Credit committee;
- Other loans are being written off individually when become overdue for 150 days.

In case the Group receives any amounts from the borrower subsequently to the loan write off, respective amounts are recognized within allowance for loan impairment as recoveries.

Financial liabilities

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Financial guarantees

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

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

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

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

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

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

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

Property and equipment

Property and equipment, except for land and buildings, are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation. Land is measured at fair value and not depreciated. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for land and buildings included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises or other premises at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	35-50
Utility systems and related features	10-40
Computers and communication equipment	4
Furniture, fixtures and office equipment	6
Motor vehicles	5
Leasehold improvements	Over the term of the underlying lease

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

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

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Investment property

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for sale in the ordinary course of business.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value which reflects current market value and represents potential price between knowledgeable, willing parties in an arm's length transaction. Revaluation of investment property is held on each reporting date and recognised in consolidated income statement as gains/losses on investment property revaluation. Earned rental income is recorded in consolidated income statement within other operating income.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

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

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Georgia.

Share capital

Share capital

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

Dividends

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

Contingencies

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

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Commission income on settlements and cash operations are recognized when the service is delivered to the customer.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees, including fee on guarantees and letters of credit issued, are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Dividend income

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

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2013 and 2012 were 1.7363 GEL and 1.6567 GEL to 1 USD, respectively. The official NBG rate as of 10 March 2014 is 1.7382 GEL to 1 USD.

(Thousands of Georgian Lari)

3. 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 in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

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

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Revaluation of property

The Group regularly reviews the value of its property (land, office buildings and investment property) for compliance with fair value and performs revaluation to ensure that the current carrying amount of property does not materially differ from its fair value. The Group performs revaluation using special valuation techniques and information about real estate transactions entered into in the local market. The results received from the application of the above valuation methods, however, may not always correspond to the market value of property.

Land and buildings have been revalued to market value at 31 December 2012. Revalued buildings are depreciated in accordance with their remaining useful life since 1 January 2013. The Group's management believes that carrying value of land and buildings does not differ materially from that which would be determined using fair value as of 31 December 2013.
As of 31 December 2013 an independent appraiser determined the fair value of the Group's investment property. The market value of the property was determined based on the active market data. Refer to Note 10 and Note 11.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in Georgia where the Bank and its Subsidiaries operate.

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 12

(Thousands of Georgian Lari)

4. Changes in accounting policies and adoption of new or revised standards and interpretations

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Group provides these disclosures in Note 23.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group's financial position or performance.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

(Thousands of Georgian Lari)

4. Changes in accounting policies and adoption of new or revised standards and interpretations (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights or where an entity has subsidiaries with material non-controlling interests. The Group has no subsidiaries with non-controlling interests as well as unconsolidated structured entities and accordingly IFRS 12 had no material impact on the Group's financial statements presentation.

5. New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods and which the Group has not early adopted:

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

(Thousands of Georgian Lari)

6. Cash and cash equivalents

	2013	*2012*
Overnight deposit with the NBG	51,029	21,960
Cash on hand	43,221	28,470
Current accounts with other credit institutions	36,641	20,836
Time deposits with credit institutions	31,687	18,391
Current accounts with the NBG	15,284	1,011
Cash and cash equivalents	**177,862**	**90,668**

As of 31 December 2013, 84% of total current accounts with credit institutions are placed with 2 non-resident credit institutions (2012: 88%).

As of 31 December 2013 overnight deposit with the NBG bears interest rate of 2.25% (2012: 3.75%).

As of 31 December 2013 and 2012 the Bank's cash and cash equivalents were of high credit grade, were not either past due, or individually impaired, or renegotiated.

7. Amounts due from banks and international financial institutions

	2013	*2012*
Obligatory reserve with the NBG	49,902	32,317
Time deposits	139	1,338
Amounts due from banks and international financial institutions	**50,041**	**33,655**

Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is restricted by the statutory legislation.

In 2013 and 2012 the obligatory reserve on USD account bears interest at the rate of U.S. Federal Reserve System minus 0.5 %; on EUR account – the rate of the European Central Bank minus 0.5%.

As of 31 December 2013, GEL 139 (2012: GEL 1,338) included in time deposits was placed on long term deposits and pledged as security for settlement operations to the international financial institutions.

8. Loans and advances to customers

	2013	*2012*
Corporate lending	209,686	171,087
Consumer lending	180,200	125,840
Small business lending	107,826	75,247
Loans to individuals secured by deposits	6,492	5,236
Gross loans and advances to customers	**504,204**	**377,410**
Less – Allowance for impairment	(26,031)	(32,222)
Loans and advances to customers, net	**478,173**	**345,188**

(Thousands of Georgian Lari)

8. Loans and advances customers (continued)

Allowance for impairment of loans and advances to customers

A reconciliation of the allowance for impairment of loans and advances to customers by class is as follows:

	Corporate lending 2013	*Consumer lending 2013*	*Small business lending 2013*	*Total 2013*
At 1 January 2013	25,784	2,866	3,572	**32,222**
Net (reversal)/charge for the year	(7,390)	2,052	1,063	**(4,275)**
Foreign currencies translation	820	76	94	**990**
Recoveries of previously written off loans and advances	1,718	655	687	**3,060**
Amounts written off	(1,934)	(1,979)	(2,053)	**(5,966)**
At 31 December 2013	**18,998**	**3,670**	**3,363**	**26,031**
Individual impairment	16,035	358	674	**17,067**
Collective impairment	2,963	3,312	2,689	**8,964**
	18,998	3,670	3,363	26,031
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	**30,165**	**990**	**1,598**	**32,753**

	Corporate lending 2012	*Consumer lending 2012*	*Small business lending 2012*	*Total 2012*
At 1 January 2012	33,275	861	3,046	**37,182**
Net charge/(reversal) for the year	(3,899)	2,260	311	**(1,328)**
Foreign currencies translation	(250)	(4)	(22)	**(276)**
Recoveries of previously written off loans and advances	1,644	411	641	**2,696**
Amounts written off	(4,986)	(662)	(404)	**(6,052)**
At 31 December 2012	**25,784**	**2,866**	**3,572**	**32,222**
Individual impairment	18,780	739	628	**20,147**
Collective impairment	7,004	2,127	2,944	**12,075**
	25,784	**2,866**	**3,572**	**32,222**
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	**30,414**	**1,018**	**1,151**	**32,583**

Individually impaired loans

Interest income accrued on loans and advances, for which individual impairment allowances have been recognized, as at 31 December 2013, comprised GEL 2,413 (2012: GEL 2,093).

Collateral and other credit enhancements

The amount and type of required collateral depends on the counterparty Credit Risk assessment, for which the Bank has implemented guidelines and policies defining valuation parameters and acceptability of the collateral.

Accepted collateral types are as follows:

- For commercial lending: Real estate properties, inventories, bank deposits, trade receivables and bank guarantees.
- For Retail lending: bank deposits, mortgages over residential properties, inventories, household assets and third party personal guarantees.

(Thousands of Georgian Lari)

8. Loans and advances customers (continued)

The group also accepts guarantees from customer's parent companies issued to insure the loans to their subsidiaries.

The value of the collateral is the subject to monitoring. The Group may request the additional collateral from the borrower in accordance to the loan agreement. For the measurements against the impairment losses, market value of the collateral is reviewed and assessed according to the number of products with a reference to the liquidity and maturity date of given collateral.

As of 31 December 2013 the Group holds collateral (land and buildings) repossessed during the year with cost as of repossession date of GEL 9,804 (2012: GEL 3,113), which were classified as investment property. Refer to Note 11.

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

Concentration of loans and advances to customers

As of 31 December 2013, the Bank had a concentration of loans represented by GEL 104,715 due from the ten largest third party borrowers (20.8% of gross loan portfolio) (2012 – GEL 81,208 or 21.5%). An allowance of GEL 8,869 (2012:GEL 16,863) was recognised against these loans.

As of 31 December 2013 included in total loans and advances to customers is an exposure to a single greatest borrower of GEL 21,617 or 4.3% of total loan portfolio (2012: GEL 9,919 or 2.6%).

Loans have been extended to the following types of customers:

	2013	*2012*
Commercial legal entities	295,849	232,276
Individuals	208,355	145,134
Gross loans and advances to customers	**504,204**	**377,410**

As of 31 December 2013 and 2012 loans and advances to customers are principally issued within Georgia and their distribution by industry sectors is as follows:

	2013	*2012*
Individuals	208,355	145,134
Trading and service enterprises	177,876	121,215
Real estate construction	34,541	48,304
Manufacturing	29,559	20,437
Financial	16,739	14,883
Agriculture and food processing	9,644	2,113
Telecommunication and transportation	5,416	3,540
Energy	3,711	9,862
Other	18,363	11,922
Gross loans and advances to customers	**504,204**	**377,410**

9. Investment securities available-for-sale

As of 31 December 2013 investment securities available-for-sale mainly comprised of securities of Ministry of Finance of Georgia with total carrying value of GEL 4,849 (2012: GEL 1,027) and securities of National Bank of Georgia with total carrying value of GEL 48,767 (2012: GEL 10,470).

(Thousands of Georgian Lari)

10. Property and equipment

The movements in property and equipment during 2013 and 2012 were as follows:

	Land and buildings	*Computers and communi-cation equipment*	*Furniture, fixtures and office equipment*	*Utility systems and related features*	*Motor vehicles*	*Leasehold improve-ments*	*Construc-tion in progress*	*Total*
Cost or revalued amount								
31 December 2011	**29,704**	**6,691**	**6,473**	**1,938**	**1,285**	**639**	**1,850**	**48,580**
Additions	-	881	1,194	-	375	-	1,622	4,072
Transfer	575	-	412	-	-	1,682	(2,669)	-
Disposals	(2,485)	(431)	(528)	-	(460)	-	(452)	(4,356)
Effect of revaluation	(4,817)	-	-	-	-	(310)	-	(5,127)
31 December 2012	**22,977**	**7,141**	**7,551**	**1,938**	**1,200**	**2,011**	**351**	**43,169**
Additions	-	833	688	-	110	-	211	1,842
Transfer	303	-	59	-	-	200	(562)	-
Disposals	-	(73)	(258)		(48)	-	-	(379)
31 December 2013	**23,280**	**7,901**	**8,040**	**1,938**	**1,26**	**2,211**	-	**44,632**
Accumulated depreciation and impairment								
31 December 2011	**(3,253)**	**(4,559)**	**(2,473)**	**(24)**	**(984)**	**(126)**	-	**(11,419)**
Depreciation charge	(572)	(850)	(974)	(68)	(148)	(184)	-	(2,796)
Disposals	113	425	448	-	443	-	-	1,429
Effect of revaluation	3,712	-	-	-	-	310	-	4,022
31 December 2012	-	**(4,984)**	**(2,999)**	**(92)**	**(689)**	-	-	**(8,764)**
Depreciation charge	(493)	(874)	(1,092)	(68)	(149)	(265)		**(2,941)**
Disposals	-	68	240		49	-		**357**
31 December 2013	**(493)**	**(5,790)**	**(3,851)**	**(160)**	**(789)**	**(265)**	-	**(11,348)**
Net book value:								
31 December 2011	26,451	2,132	3,952	1,962	301	513	1,850	37,161
31 December 2012	22,977	2,157	4,552	1,846	511	2,011	351	34,405
31 December 2013	22,787	2,111	4,189	1,778	473	1,946	-	33,284

As of 31 December 2012, an independent appraiser determined the fair value of the Group's land and buildings. The appraiser is an industry specialist in valuing these types of property and equipment. As of 31 December 2013 the Group analysed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value. Refer to Note 23 for details on fair value measurements of the Group's premises.

As a result of revaluation of land and building performed in 2012, their value decreased by GEL 1,105, from which GEL 594 is unrealized loss on revaluation of land and building recognized in other comprehensive income, GEL 556 is loss recognized in other operating expenses and GEL 45 is reversal of negative revaluation of property and equipment recognized in other income.

If no revaluation of property and equipment had been performed, the original cost of property and equipment as of 31 December 2013 and 31 December 2012 recorded under the caption "Land and Buildings" would have amounted to GEL 25,107 (2012 – GEL 24,802) and accumulated depreciation would have amounted to GEL 4,126 (2012: GEL 3,625).

The total value of fully depreciated property and equipment in use as of 31 December 2013 and 2012 amounted to GEL 5,373 and GEL 5,110 respectively.

(Thousands of Georgian Lari)

11. Investment property

	2013	2012
Opening balance at 1 January	**20,723**	**18,182**
Additions (Note 8)	9,804	3,113
Disposals	(4,099)	(989)
Unrealized gain on revaluation	498	417
Closing balance at 31 December	**26,926**	**20,723**

Investment property is a real estate property comprised of land and buildings which was obtained by the Group through repossession of collateral on defaulted loans. Refer to Note 8.

As of 31 December 2013 net gains from disposal of investment property was GEL 1,702 (2012: GEL 190), the five largest gains comprised GEL 1,479, (86.9% of net gains from disposal of investment property), (2012: GEL 171 or 89.6%)

As of 31 December 2013, an independent appraiser determined the fair value of the Group's investment properties. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Refer to Note 23 for details on fair value measurements of investment properties.

The fair value of the property was determined based on comparable deals on local market. The market approach was used to determine the fair value, the income approach was used to validate the obtained value estimates, and the cost approach was used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area was available.

12. Taxation

The corporate income tax expense comprises:

	2013	2012
Current tax expense	(1)	(98)
Deferred expense – origination and reversal of temporary differences	(3,170)	(511)
Less: deferred tax recognised in other comprehensive income	5	84
Income tax expense	**(3,166)**	**(525)**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2013	2012
Income before income tax expense	**16,447**	**8,942**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	(2,467)	**(1,341)**
Change in unrecognized deferred tax assets (except expired portion)	2,134	1,372
Tax effect of expired portion of tax losses carried forward	(2,163)	-
Non-deductible expenses	(311)	(534)
Tax exempt income less income recognized for tax purposes only	(359)	(22)
Income tax expense	**(3,166)**	**(525)**

(Thousands of Georgian Lari)

12. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences					
	2011	*In the income statement*	*Directly in Other compre-hensive income*	*2012*	*In the income statement*	*Directly in Other compre-hensive income*	*2013*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	300	(300)	-	-	-	-	-
Tax losses carried forward	11,083	(1,918)	-	9,165	(4,818)	-	4,347
Financial instruments adjustment for effective interest rates	590	401	-	991	316	-	1,307
Accrued expenses	706	194	-	900	176	-	1,076
Securities available-for-sale	162	5	(5)	162	(6)	5	161
Investment property	207	(53)	-	154	62	-	216
Other	309	92	-	401	(46)	-	355
Gross deferred tax assets	**13,357**	**(1,579)**	**(5)**	**11,773**	**(4,316)**	**5**	**7,462**
Unrecognized deferred tax asset	(5,679)	1,372	-	(4,307)	2,134		(2,173)
Deferred tax assets	**7,678**	**(207)**	**(5)**	**7,466**	**(2,182)**	**5**	**5,289**
Tax effect of taxable temporary differences:							
Allowance for loan impairment	-	(240)	-	(240)	(746)	-	(986)
Property and equipment	(580)	(38)	-	(618)	(59)	-	(677)
Property revaluation	(396)	-	89	(307)	-	-	(307)
Allowances for impairment and provision for other losses	(178)	63	-	(115)	(173)	-	(288)
Financial instruments adjustment for effective interest rate	-	(5)	-	(5)	(5)	-	(10)
Deferred tax liabilities	**(1,154)**	**(220)**	**89**	**(1,285)**	**(983)**	-	**(2,268)**
Net deferred tax assets	**6,524**	**(427)**	**84**	**6,181**	**(3,165)**	**5**	**3,021**

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits was 15% for 2013 and 2012. The tax rate for companies other than banks was also 15%. According to the Georgian legislation, revenue from state securities is exempted from taxation.

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

The Bank and its subsidiaries have available GEL 8,587 of tax losses carried forward which begins to expire in 2014 and GEL 20,391 of tax losses carried forward which will expire in 2015 if not utilised.

During the year Bank utilised tax loss carry forward by GEL 17,775 (2012: GEL 10,891) and wrote off the expired portion of GEL 14,420 (2012: GEL 0), respective tax effect of utilisation amounted to GEL 2,666 (2012: GEL1,634) and tax effect of write off amounted to GEL 2,163 (2012: GEL 0).

(Thousands of Georgian Lari)

13. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Financial assets		
Prepayment for settlement operations	5,066	-
Unsettled transactions on money transfers	882	57
Accrued commission receivable on guarantees and letters of credit	126	77
Accrued income for operating lease	47	-
Derivative financial assets	12	460
Total financial assets	**6,133**	**594**
Non-financial assets		
Prepaid expenses	2,346	533
Intangible assets	914	1,152
Prepaid operational taxes	913	30
Advances paid	195	182
Inventories in stock	123	98
Repossessed collateral (equipment)	-	40
Total non-financial assets	4,491	**2,035**
Other assets	10,624	2,629

As of 31 December 2013 prepayment for settlement operations in the amount of GEL 5,066 (2012: GEL nil) represent advance paid to VISA Inc. that was subsequently used for settlement and clearing operations. In 2012 such operations were handled through corresponding account of the Bank opened with JP Morgan, which was closed in December of 2013.

Other liabilities comprise:

	2013	*2012*
Financial liabilities		
Settlements on plastic cards	6,316	804
Accrued bonuses	6,259	5,084
Payables for unused vacations	804	721
Accrued expenses	637	577
Unsettled transactions on money transfers	365	235
Settlements on acquisition of property and equipment and inventory	344	133
Derivative financial liabilities	279	-
Total financial liabilities	**15,004**	7,554
Non-financial liabilities		
Advances received	1,205	518
Dividends payable to shareholders of the Bank	390	341
Provision for legal claims	7	63
Operational taxes payable	-	36
Total non-financial liabilities	1,602	**958**
Other liabilities	**16,606**	**8,512**

Settlement on plastic cards in total amount of GEL 6,316 (2012: GEL 804) primarily represent payable to counteragent companies engaged in "e-commerce" trading as a result of services provided by the Bank since 2013, in which the Bank acts as intermediary between the companies and its customers for certain commission.

As of 31 December 2013 and 2012 the Group's derivative financial instruments comprised of foreign exchange swaps.

(Thousands of Georgian Lari)

13. Other assets and liabilities (continued)

Derivatives are valued using a valuation technique with market observable inputs. The applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives comprise:

	2013				*2012*			
	Notional amount		*Fair values*		*Notional amount*		*Fair values*	
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*
Foreign exchange contracts								
Forwards and Swaps – foreign	36,534	36,801	12	279	19,642	19,182	460	–
Total derivative assets / liabilities			12	279			460	–

The table below shows financial assets offset against financial liabilities in the statement of financial position:

2013	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*
Derivative financial assets	36,534	36,522	12
Total	**36,534**	**36,522**	**12**

2012	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*
Derivative financial assets	19,642	19,182	460
Total	**19,642**	**19,182**	**460**

The table below shows financial liabilities offset against financial assets in the statement of financial position:

2013	*Gross amount of recognized financial liabilities*	*Gross amount of recognized financial assets set off in the statement of financial position*	*Net amount of financial liabilities presented in the statement of financial position*
Derivative financial liabilities	36,801	36,522	279
Total	**36,801**	**36,522**	**279**

(Thousands of Georgian Lari)

14 Amounts due to banks and international financial institutions

	2013	*2012*
Loans received from the Parent bank	62,742	58,428
Time deposits and loans	24,342	-
Current accounts	4,437	1,074
Amounts due to banks and international financial institutions	**91,521**	**59,502**

As of 31 December 2013 loans received from the Parent bank had maturities ranging from January 2014 till December 2015 (2012: January 2013 till December 2015) and bear annual interest rates from 0.40% to 8.14% (2012: 4.11% to 8.14%).

Time deposits and loans as of 31 December 2013 had maturities ranging from January 2014 till October 2014 and bear annual interest rates from 2.30% to 6.50%.

15. Amounts due to customers

	2013	*2012*
Individuals:		
- Current/demand accounts	69,116	37,997
- Term deposits	111,339	71,117
Total due to individuals	**180,455**	**109,114**
State and budgetary organisations:		
- Current/settlement accounts	48,260	11,481
- Term deposits	-	67
Total due to state and budgetary organisations	**48,260**	**11,548**
Commercial legal entities:		
- Current/settlement accounts	219,183	140,705
- Term deposits	72,254	31,772
Total due to commercial legal entities	**291,437**	**172,477**
Total due to legal entities	**339,697**	**184,025**
Total amounts due to customers	**520,152**	**293,139**
Held as security against undrawn loan facilities	**19**	**900**
Held as security against guarantees issued	**3,989**	**3,090**
Held as security against letters of credit issued	**19,324**	**22,415**
Held as security against settlement operations	**46**	**10**

At 31 December 2013 the Group had ten largest customers with aggregate balance due of GEL 200,096 or 38% of total amounts due to customers (2012: GEL 124,235 or 42%).

In accordance with the internal procedures and contractual terms, the Bank is obliged to repay term deposits upon demand of a customer. In case a term deposit is repaid upon demand of the customer prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

An analysis of customer accounts by industry follows:

	2013	*2012*
Individuals	180,455	109,114
Trade and service	129,270	49,825
Government	48,260	11,548
Energy	43,912	19,090
Transport and communication	43,731	37,058
Finance	30,311	41,808
Real estate constructions	20,558	12,794
Education	10,762	5,266
Manufacturing	7,837	4,080
Agriculture	1,730	273
Other	3,326	2,283
Amounts due to customers	**520,152**	**293,139**

(Thousands of Georgian Lari)

16. Other borrowed funds

	2013	*2012*
Borrowings from the Parent bank	45,397	53,032
Borrowings from international financial institutions	43,721	37,446
Borrowings from government organizations	2,590	2,407
Other borrowed funds	**91,708**	**92,885**

As of 31 December 2013 maturities of borrowings from the Parent bank were ranging from April 2014 till September 2015 (2012: January 2013 till September 2015), annual interest rates from 6.71% to 8.95% (2012 from 5.75% to 8.95%). Refer to Note 25.

Borrowings from international financial institutions as of 31 December 2013 contained facilities in U.S. dollars and Euro with maturities ranging from January 2014 to December 2032 (2012: January 2013 to December 2032) and interest rates from Libor+3% to Libor+5.5% and one loan bearing annual interest at 0.75% (2012: from 3% to Libor+5.5%; 0.75%).

Borrowings from government organizations as of 31 December 2013 contained facilities received from Municipal Development Fund of Georgia to finance energy sector companies. The borrowings are denominated in EUR, bear annual interest at 3% and mature in May 2018.

17. Equity

Share capital

Movements in ordinary shares authorized and fully paid were as follows:

	Number of shares authorized	*Number of shares fully paid*	*Nominal amount, GEL*
31 December 2011	148,042,701	148,042,701	148,043
31 December 2012	148,042,701	148,042,701	148,043
Increase in share capital	12,250,000	12,250,000	12,250
31 December 2013	160,292,701	160,292,701	160,293

The share capital of the Bank was contributed by the shareholders in Georgian Lari and they are entitled to dividends and any capital distribution in Georgian Lari.

On 23 July 2013 the Shareholders made a decision to increase the number of authorized shares by 12,250,000. Related share issue prospectus was approved by the National Bank of Georgia on 31 July 2013. The consideration received for these shares comprised of cash for the total amount of GEL 12,250.

Dividends

In accordance with the Georgian legislation, dividends may only be declared to the shareholders of the Bank from the net income as shown in the Bank's separate financial statements prepared in accordance with the NBG requirements. The NBG shall be informed regarding declaration of dividends and also shall be authorized to suspend or restrict payment of dividends, if a commercial bank has violated regulatory requirements of the NBG.

On 16 May 2013, the annual general meeting of shareholders of the Bank declared 2012 dividends comprising GEL 3,753 or Georgian Lari 0.02535 per share, based on 2012 separate financial statements prepared in accordance with the NBG requirements. The declaration is effective from 17 June 2013. From total declared amount, dividends in the amount of GEL 3,704 were paid to shareholders in 2013.

On 3 May 2012, the annual general meeting of shareholders of the Bank declared 2011 dividends comprising GEL 8,566 or Georgian Lari 0.06 per share, based on 2011 separate financial statements prepared in accordance with the NBG requirements. The declaration is effective from 30 May 2012. From total declared amount, dividends in the amount of GEL 8,457 were paid to shareholders in 2012.

(Thousands of Georgian Lari)

18. Commitments and contingencies

Operating environment

In 2013, trends throughout the world as well as the European economical tendencies affected significantly the economic situation in Georgia. Political processes having occurred in the country, such as change of the state power, caused reduction in investment flows and business activities. The government has made several adjustments to expenditure policy. Considering all abovementioned, as compared with previous years, economic growth slowed down considerably. Slowdown became more significant within 9 month; also deflation process had been on its way. The results of the new government consistent policy were shown in the fourth quarter and it became possible to overcome deflation. Business expectations turned into more stable. Commencement of the large investment projects was announced.

Therefore, further development and financial position of the Group is practically assured, and supported properly by the parent bank of the Group, the latter will be able to strengthen its positions in the banking system of Georgia.

Legal

From time to time and in the normal course of business, claims against the Group are received. At the reporting date the Group had several unresolved legal claims. Management is of the opinion that there would be no material outflow of resources and accordingly no material provisions have been made in these consolidated financial statements except those presented in note 13.

Financial commitments and contingencies

As of 31 December the Group's financial commitments and contingencies comprised the following:

	2013	*2012*
Credit related commitments		
Undrawn loan facilities	37,467	26,363
Guarantees issued	31,649	24,492
Letters of credit	34,766	27,060
Other credit-related commitments	6,148	-
Financial commitments and contingencies (before deducting collateral)	**110,030**	**77,915**
Less – cash held as security against letters of credit and guarantees issued (Note 15)	(23,332)	(26,405)
Financial commitments and contingencies	**86,698**	**51,510**

19. Net fee and commission income

	2013	*2012*
Commission on settlements operations	6,080	3,635
Commission on guarantees and other credit related commitments	2,127	1,671
Commission on cash operations	965	832
Other	308	214
Fee and commission income	**9,480**	**6,352**
Commission on settlements operations	(2,798)	(1,053)
Commission on guarantees and other credit related commitments	(493)	(436)
Commission on cash operations	(327)	(230)
Other	(27)	(24)
Fee and commission expense	**(3,645)**	**(1,743)**
Net fee and commission income	**5,835**	**4,609**

(Thousands of Georgian Lari)

20. Other income

	2013	*2012*
Penalties earned from lending operations	3,175	2,308
Gain on derecognition of a loan	717	-
Income from operating lease	350	189
Reimbursement of legal fees	224	189
Penalties received for deposit redemption before maturity	150	129
Income from disposal of property	13	1,773
Gain from loan restructuring	-	528
Other	56	270
Other income	**4,685**	**5,386**

21. Personnel and other operating expenses

	2013	*2012*
Salaries	19,876	16,995
Bonuses and premiums	7,823	6,577
Personnel expenses	**27,699**	**23,572**
Occupancy and rent	1,470	1,135
Marketing and advertising	1,342	1,604
Other operating expenses on plastic cards operation	1,002	485
Legal and consultancy	974	1,184
Repairs and maintenance of property and equipment	758	757
Office supplies	756	711
Computer software maintenance	730	678
Expenses on money collection services	693	720
Communications	674	569
Representation expenses	631	391
Utilities	623	602
Business travel and related expenses	437	303
Operating taxes	389	403
Amortisation of intangible assets	271	236
Security	269	350
Insurance	222	239
Loss on revaluation of property and equipment	22	556
Other	481	566
Other operating expenses	**11,744**	**11,489**

22. Risk management

The Group is required to manage financial risks that arise as a consequence of its operations to deliver its policy objectives as well as in the course of managing the Group's statement of financial position. These risks primarily include credit risk, liquidity risk and funding management, market risk, prepayment risk and operational risk.

Risk is inherent to the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

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

Risk management structure

The Bank's Board of Directors is ultimately responsible for identifying and controlling risks of the Group; however, there are separate independent bodies responsible for managing and monitoring risks.

(Thousands of Georgian Lari)

22. Risk management (continued)

Supervisory Council

The Supervisory Council is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group. The Asset – liability and Risk management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Unit

The Risk Management Unit (Risk Department) -is responsible for implementing and maintaining risk related procedures to ensure an independent control process. As at the end of 2013 Risk Department consisted of the following sub-divisions:

- Consolidated risk analysis division;
- Entities credit risk division;
- Individuals credit risk division;
- Market and operational risks division;
- Collateral evaluation and monitoring group.
- Credit dealings monitoring group.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Group's assets and liabilities. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit

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

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected losses likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

(Thousands of Georgian Lari)

22. Risk management (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the business divisions is examined and processed to analyse, control and identify risks timely. This information is provided to the Management Board, the Asset - liability and Risk management Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Risk management department assesses the appropriateness of the allowance for credit losses on a monthly basis.

A daily summary on liquidity utilisation is provided to the Management Board and all other relevant employees of the Group.

Risk mitigation

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

Credit risk

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

Credit-related commitments risks

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

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings.

For the purpose of these consolidated financial statements all not past due collectively assessed loans to legal entities (Corporate lending and small business lending) are classified in three quality groups presented in the tables below.

- The high grade group includes borrowers with sound level of liquidity and profitability. The probability of default is assessed as low.
- The standard grade includes borrowers with average level of liquidity and profitability. The probability of default is assessed as moderate.
- The sub-standard grade group includes borrowers with satisfactory level of liquidity and profitability. The probability of breach of default is assessed as above moderate.

For the purpose of these consolidated financial statements all not past due collectively assessed loans to individuals are classified in three quality groups presented in the tables below.

- The high grade group includes borrowers with good debt servicing and excellent financial position of the borrower, loans secured with deposits, loans secured with gold.
- The standard grade group includes borrowers with good/average debt servicing and excellent/moderate financial position of the borrower.
- The sub-standard grade group is represented by loans with average debt servicing and moderate financial position of the borrower.

(Thousands of Georgian Lari)

22. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of credit risk bearing assets:

	Notes	*Neither past due nor impaired* High grade 2013	Standard grade 2013	Sub-standard grade 2013	*Past due or individually impaired 2013*	*Total 2013*
Amounts due from banks and international financial institutions	7	49,989	52	-	-	50,041
Investment securities available-for-sale	9	53,670	-	-	-	53,670
Loans and advances to customers	8					
Corporate lending		35,132	81,724	57,110	16,723	190,689
Small business lending		80,740	19,657	2,447	1,619	104,463
Consumer lending		169,065	-	1,778	5,686	176,529
Loans to individuals secured with deposits		6,492	-	-	-	6,492
		291,429	**101,381**	**61,335**	**24,028**	**478,173**
Total		**395,088**	**101,433**	**61,335**	**24,028**	**581,884**

	Notes	*Neither past due nor impaired* High grade 2012	Standard grade 2012	Sub-standard grade 2012	*Past due or individually impaired 2012*	*Total 2012*
Amounts due from banks and international financial institutions	7	33,601	54	-	-	33,655
Investment securities:						
- available-for-sale	9	11,551	-	-	-	11,551
- held-to-maturity						
Loans and advances to customers	8					
Corporate lending		29,076	39,576	60,528	16,123	145,303
Small business lending		56,637	11,655	1,487	1,896	71,675
Consumer lending		119,875	-	875	2,224	122,974
Loans to individuals secured with deposits		5,236	-	-	-	5,236
		210,824	**51,231**	**62,890**	**20,243**	**345,188**
Total		**255,976**	**51,285**	**62,890**	**20,243**	**390,394**

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

Overdue but not impaired loans and advances include solely loans and advances that are not individually significant. The tables below show aging analysis of overdue loans.

(Thousands of Georgian Lari)

22. Risk management (continued)

Credit risk (continued)

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

As of 31 December 2013	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans and advances to customers					
Corporate lending	587	1,916	-	89	2,592
Consumer lending	3,398	742	913	1	5,054
Small business lending	441	203	50	-	694
Total	**4,426**	**2,861**	**963**	**90**	**8,340**

As of 31 December 2012	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans and advances to customers					
Corporate lending	4,350	138	-	-	4,488
Consumer lending	1,113	620	212	-	1,945
Small business lending	1,049	296	27	-	1,372
Total	**6,512**	**1,054**	**239**	**-**	**7,805**

For the purpose of these consolidated financial statements a loan is considered overdue when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as overdue.

Loans and advances to customers have been assessed for impairment on the collective basis. Details of loan loss allowance of loan portfolio are disclosed in Note 8.

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

The table below shows the carrying amount for renegotiated (prolonged or refinanced) financial assets, by class.

	2013	*2012*
Loans and advances to customers		
Corporate lending	5,446	10,048
Small business lending	2,307	1,596
Consumer lending	1,054	750
Total	**8,807**	**12,394**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days for individuals and 60 days for legal entities or there are any known difficulties in the cash flows of counterparties, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas- individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy occurred, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Georgian Lari)

22. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances to customers that are not individually significant (including consumer lending and small business lending) and for individually significant loans where there is not yet any evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet any evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by Risk management department to ensure alignment with the Group's overall policy.

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

	2013				*2012*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	109,912	67,319	631	**177,862**	60,372	29,366	930	**90,668**
Amounts due from banks and international financial institutions	49,954	87	-	50,041	32,371	1,284	-	33,655
Loans and advances to customers	471,599	2,036	4,538	478,173	345,188	-	-	345,188
Investment securities - available-for-sale	53,670	-	-	53,670	11,551	-	-	11,551
Other assets	6,133	-	-	6,133	134	-	460	594
	691,268	69,442	5,169	765,879	449,616	30,650	1,390	481,656
Liabilities:								
Amounts due to banks and international financial institutions	28,482	114	62,925	91,521	71	818	58,613	59,502
Amounts due to customers	440,882	47,408	31,862	520,152	241,306	42,703	9,130	293,139
Other borrowed funds	2,590	43,721	45,397	91,708	-	39,853	53,032	92,885
Subordinated loan	-	-	21,077	21,077	-	-	20,127	20,127
Other liabilities	14,998	-	6	15,004	7,484	70	-	7,554
	486,952	91,243	161,267	739,462	248,861	83,444	140,902	473,207
Net assets/(liabilities)	**204,316**	**(21,801)**	**(156,098)**	**26,417**	**200,755**	**(52,794)**	**(139,512)**	**8,449**
Net financial commitments	88,275	**20**	**21,735**	**110,030**	**50,334**	**3,574**	**24,007**	**77,915**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

It is the Group policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

(Thousands of Georgian Lari)

22. Risk management (continued)

Credit risk (continued)

The list of acceptable forms of credit support is subject to periodical review. The Group has a set of requirements applicable to each from of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, an bank officer conducts inspection the physical existence of collateral offered.

The Group reassesses the fair value of pledged property with frequency stated for each from of pledge and, if necessary, requires additional collateral or acceptable forms of credit support.

Liquidity risk and funding management

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

The Group maintains a portfolio of state securities that can be pledged to the NBG to obtain financing in the event of demand. The Group also has committed lines of credit that it can assess to meet liquidity needs.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratio established by National Bank of Georgia. As of 31 December 2013 and 2012 the ratio was as follows:

	2013	*2012*
LK "Average Liquidity Ratio" (Average monthly volume of liquid assets / Average monthly volume of liabilities)	38%	32%

In 2013 minimum limit of average liquidity ratio is 30% (2012: 30%).

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Non-derivative liabilities As of 31 December 2013	*On demand and less or equal 1 month*	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	36,854	3,226	676	29,732	24,954	**95,442**
Amounts due to customers	354,635	54,095	69,922	37,539	9,821	**526,012**
Other borrowed funds	12,089	921	9,087	10,117	67,570	**99,784**
Subordinated loan	343	-	339	690	27,722	**29,094**
Other liabilities	7,686	3,829	242	3,214	33	**15,004**
Total cash flow payable under non-derivative liabilities	**411,607**	**62,071**	**80,266**	**81,292**	**130,100**	**765,336**
Derivative financial instruments-gross settled						
Positive fair value of derivatives						
(Inflow)	(10,430)					(10,430)
Outflow	10,418					10,418
Derivative financial instruments-gross settled						
Negative fair value of derivatives						
(Inflow)	(26,104)					(26,104)
Outflow	26,383					26,383

(Thousands of Georgian Lari)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Non-derivative liabilities As of 31 December 2012	*On demand and less or equal 1 month*	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	11,265	18,850	5,446	830	27,793	**64,184**
Amounts due to customers	196,570	17,904	41,858	29,731	12,794	**298,857**
Other borrowed funds	13,589	813	2,110	11,289	76,694	**104,495**
Subordinated loan	344	-	337	686	28,093	**29,460**
Other liabilities	1,358	3,122	180	2,877	17	**7,554**
Total cash flow payable under non-derivative liabilities	**223,126**	**40,689**	**49,931**	**45,413**	**145,391**	**504,550**
Derivative financial instruments-gross settled						
Positive fair value derivatives						
(Inflow)	-	(19,642)	-	-	-	(19,642)
Outflow	-	19,182	-	-	-	19,182

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

	On demand and less or equal 1 month	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Total*
2013	25,370	11,385	26,078	20,158	27,039	**110,030**
2012	6,502	13,982	23,205	24,410	9,816	**77,915**

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

Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand and in less or equal one month in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency and interest rate risks, the Group has no significant concentration of market risk.

Market risk – Trading

The Management Board has set limits on the level of risk that may be accepted. The Group's activity in market risks area is limited by NBG Deposit certificates, Ministry of Finance of Georgia Treasury Bills, CDs operations, also interbank loans and deposits, and exchange operations. The Group does not perform derivative trading.

(Thousands of Georgian Lari)

22. Risk management (continued)

Market risk (continued)

Market risk – Non - trading

Interest rate risk

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

The sensitivity of the consolidated income statement includes the effect of the reasonably possible changes in interest rates on the net interest income for one year based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2013*	*Sensitivity of pre-tax income 2013*
USD	0.03%	(17)
USD	(0.03%)	17
GEL	0.75	(46)
GEL	(0.75%)	46

Currency	*Increase in basis points 2012*	*Sensitivity of pre-tax income 2012*
USD	0.03%	(14)
USD	(0.03%)	14

Currency risk

The Group is exposed to currency risk. Currency risk arises from open position in foreign currencies and adverse movements of market exchange rates that may have a negative impact on financial performance of the Group. The Management Board has set limits on positions by currency based on the NBG's regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2013 and 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lari, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on consolidated statement of comprehensive income does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or consolidated statement of comprehensive income, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2013*	*Effect on profit before tax 2013*	*Increase in currency rate in % 2012*	*Effect on profit before tax 2012*
USD	4.73%	(16)	(0.75%)	28
EUR	9.35%	3	1.34%	(7)

Currency	*Decrease in currency rate in % 2013*	*Effect on profit before tax 2013*	*Decrease in currency rate in % 2012*	*Effect on profit before tax 2012*
USD	(4.73%)	16	0.75%	(28)
EUR	(9.35%)	(3)	(1.34%)	7

(Thousands of Georgian Lari)

22. Risk management (continued)

Prepayment risk

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

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income
2013	6,913
2012	5,748

Operational risk

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

As of 31 December 2013 the Group obtained Banker's Blanket Bond and Computer Crime insurance on a total insured sum of GEL 868 (2012: GEL 828) from „IC-Group" insurance company. Total sum of insurance was reinsured by Lloyd's insurance company.

23. Fair value measurements

The Group's Board of directors determines the policies and procedures for recurring fair value measurement, such as investment property and buildings.

External valuers are involved for valuation of significant assets, such as investment property and buildings. Involvement of external valuers is decided upon annually by the Board of directors. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Board of directors decides, after discussions with the Bank's Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Board of directors analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the oard of directors in conjunction with Group's external valuers verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Fair value hierarchy

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

(Thousands of Georgian Lari)

23. Fair value measurements (continued)

At 31 December 2013	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment securities available for sale	-	53,616	54	**53,670**
Total investment property	-	-	26,926	**26,926**
Land	-	-	10,327	**10,327**
Residential properties	-	-	6,864	**6,864**
Non-residential properties			9,735	**9,735**
Total revalued land and premises	-	-	22,787	**22,787**
Land	-	-	186	**186**
Office buildings	-	-	16,148	**16,148**
Service centers/means of production	-	-	6,453	**6,453**
Derivative financial assets	-	12		**12**
Assets for which fair values are disclosed				
Loans to customers	-	-	486,685	**486,685**
Liabilities measured at fair value				
Derivative financial liabilities	-	-	279	**279**
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	521,493	**521,493**
Other borrowed funds	-	89,627	-	**89,627**
Subordinated loans	-	21,077	-	**21,077**

At 31 December 2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Derivative financial assets	-	460	-	**460**
Investment securities available for sale	-	11,497	54	**11,551**
Total investment property	-	-	20,723	**20,723**
Land	-	-	12,717	**12,717**
Residential properties	-	-	6,766	**6,766**
Non-residential properties			1,240	**1,240**
Total revalued land and premises	-	-	22,977	**22,977**
Land	-	-	186	**186**
Office buildings	-	-	16,500	**16,500**
Service centers/means of production	-	-	6,291	**6,291**
Assets for which fair values are disclosed				
Loans to customers	-	-	345,874	**345,874**
Liabilities measured at fair value				
Derivative financial liabilities	-	-	-	-
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	293,991	**293,991**
Other borrowed funds	-	90,261	-	**90,261**
Subordinated loans	--	20,127	-	**20,127**

During the years ended 31 December 2013 and 2012, there have been no transfers between levels of fair value hierarchy.

(Thousands of Georgian Lari)

23. Fair value measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position, except for assets for which fair value approximates carrying value – those assets that are liquid or have a short term maturity (less than three months or bear floating interest rate).

	Carrying value 2013	*Fair value 2013*	*Unrecognised gain/(loss) 2013*	*Carrying value 2012*	*Fair value 2012*	*Unrecognised gain/(loss) 2012*
Financial assets						
Loans and advances to customers	478,173	486,685	8,512	345,188	345,874	686
Financial liabilities						
Amounts due to customers	520,152	521,493	(1,341)	293,139	293,991	(852)
Other borrowed funds	91,708	89,627	2,081	92,885	90,261	2,624
Total unrecognised change in unrealised fair value			**9,252**			**2,458**

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) or bear floating interest rate, it is assumed that the carrying amounts approximate to their fair value.

Fixed rate financial instruments

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are already recorded at fair value in the consolidated financial statements.

Investment securities available-for-sale

Investment securities available-for-sale are valued using valuation technique. These securities are valued using models which incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Derivatives

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

Property and equipment (buildings and land) and investment property

The market value of the property is determined based on the active market data. The market approach is used to determine the fair value, the income approach is used to validate the obtained value estimates, and the cost approach is used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area is available.

(Thousands of Georgian Lari)

23. Fair value measurements (continued)

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

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment as of 31 December 2013:

	Amount	Valuation technique	Significant unobservable inputs	Range (weighted average) in	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	26,926						
Land	10,327	Market approach	Price per square metre	0.06-412.5(60.62) Georgian Lari	square metre	90-25,019 (3,084)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,029
Residential properties	6,864	Market approach	Price per square metre	0.23-1,782 (511.12) Georgian Lari	square metre	24-6,005 (199)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 695
Non-Residential properties	9,735						
	7,952	Market approach	Price per square metre	5-3,804.25 (1,017.41) Georgian Lari	square metre	7-6,528 (193)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 728
	1,783	Income approach	Cap. Rate	10.78%-13.85% (11.85%) Georgian Lari			10 % increase (decrease) in the cap rate would result in increase (decrease) in fair value by 210
Revaluated land and premises	22,787						
land	186	Market approach	Price per square metre	0.06-412.5(60.62) Georgian Lari	square metre	90-25,019 (3,084)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 19
office buildings	16,148	Market approach	Price per square metre	907-3,884 (2,187) Georgian Lari	square metre	900-4,725 (1,957)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,801
service centers/means of production	6,453						
	6,218	Market approach	Price per square metre	337-7,662 (1,741) Georgian Lari	square metre	13-750 (147)	10 % increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 524
	235	Income approach	Estimated rental value per sqm per month	21-28(24) Georgian Lari	square metre	17-100 (59)	10 % increase (decrease) in the estimated rental value per sqm per month would result in increase (decrease) in fair value by 27
			Cap. rate	15.1%	square metre	17-100 (59)	10 % increase (decrease) in the cap.rate would result in increase (decrease) in fair value by 25

(Thousands of Georgian Lari)

24. Maturity analysis of financial assets and liabilities

The table below shows assets and liabilities at 31 December 2013 by their remaining expected maturity. Refer to Note 22 for the Bank's contractual undiscounted repayment obligations.

Following principles underlying gap analysis presentation and the Group liquidity risk management are based on the mix of National Bank of Georgia approach and the Bank's practice:

- Cash and cash equivalents represent highly liquid assets and are classified as "On demand and less or equal 1 month"
- Investment securities held-to-maturity are classified based on the remaining maturities
- Loans and advances to customers, amounts due from banks and international financial institutions, other assets, amounts due to banks and international financial institutions, other borrowed funds and other liabilities are included into gap analysis table based on remaining contractual maturities
- Diversification of customer deposits of the bank by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long-term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Group during the previous periods and assumptions regarding the "stable part" of current account balances.

	2013							
	On demand and less or equal 1 month	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Overdue*	*No stated maturity*	*Total*
Financial assets								
Cash and cash equivalents	177,862	-	-	-	-	-	-	177,862
Amounts due from banks and international financial institutions	8,323	6,699	7,403	8,059	19,557	-	-	50,041
Loans and advances to customers	29,118	51,638	59,771	87,007	248,395	2,244	-	478,173
Investment securities available-for-sale	-	27,807	20,960	4,849	-	-	54	53,670
Other assets	6,086	30	13	3	1	-	-	6,133
Total	221,389	86,174	88,147	99,918	267,953	2,244	54	765,879
Financial liabilities								
Amounts due to banks and international financial institutions	36,783	2,666	-	28,458	23,614	-	-	91,521
Amounts due to customers	102,177	69,159	77,298	35,749	235,770	-	-	520,152
Other borrowed funds	11,985	438	8,176	7,848	63,261	-	-	91,708
Subordinated debt	241	-	-	-	20,836	-	-	21,077
Other liabilities	7,686	3,829	242	3,214	33	-	-	15,004
Total	158,872	76,092	85,716	75,269	343,514	-	-	739,462
Net	62,517	10,083	2,431	24,649	(75,561)	2,244	54	26,418
Cumulative gap	62,517	72,600	75,032	99,681	24,120	26,364	26,418	-

(Thousands of Georgian Lari)

24. Maturity analysis of financial assets and liabilities (continued)

	2012							
	On demand and less or equal 1 month	*More than 1 month and less or equal 3 months*	*More than 3 months and less or equal 6 months*	*More than 6 months and less or equal 1 year*	*More than 1 year*	*Overdue*	*No stated maturity*	*Total*
Financial assets								
Cash and cash equivalents	90,668	-	-	-	-	-	-	**90,668**
Amounts due from banks and international financial institutions	6,082	4,973	6,717	4,882	11,001	-	-	**33,655**
Loans and advances to customers	22,004	43,206	48,744	56,248	171,578	3,408	-	**345,188**
Investment securities - available-for-sale	10,470	-	1,027	-	-	-	54	**11,551**
Other assets	95	473	25	1	-	-	-	**594**
Total	**129,319**	**48,652**	**56,513**	**61,131**	**182,579**	**3,408**	**54**	**481,656**
Financial liabilities								
Amounts due to banks and international financial institutions	11,205	18,311	4,970	-	25,016	-	-	**59,502**
Amounts due to customers	55,432	27,446	50,785	30,072	129,404	-	-	**293,139**
Other borrowed funds	13,468	317	1,098	8,846	69,156	-	-	**92,885**
Subordinated debt	247	-	-	-	19,880	-	-	**20,127**
Other liabilities	1,358	3,122	180	2,877	17	-	-	**7,554**
Total	**81,710**	**49,196**	**57,033**	**41,795**	**243,473**	**-**	**-**	**473,207**
Net	**47,609**	**(544)**	**(520)**	**19,336**	**(60,894)**	**3,408**	**54**	**8,449**
Cumulative gap	**47,609**	**47,065**	**46,545**	**65,881**	**4,987**	**8,395**	**8,449**	**-**

As of 31 December 2013 total amount of funding obtained from the Parent bank amounted to GEL 129,399 (2012: GEL 131,770). Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment. Refer to note 25.

Long-term loans are generally not available in Georgia. However, in the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

25. Related party disclosures

As of 31 December 2013 and 2012 outstanding balances on related party transactions are as follows:

	2013			*2012*		
	The Parent bank	*Entities under common control*	*Key management personnel*	*The Parent bank*	*Entities under common control*	*Key management personnel*
Cash and cash equivalents	331	22,916	-	351	17,372	-
Loans and advances to customers, gross	-	-	387	-	-	54
Less: allowance for impairment	-	-	(3)	-	-	(1)
Loans and advances to customers, net	-	-	384	-	-	53
Other assets	-	-	-	460	-	-
Amounts due to banks and international financial institutions (Note 14)	62,925	-	-	58,611	2	-
Amounts due to customers	-	23,084	1,543	-	15,831	1,089
Other borrowed funds (Note 16)	45,397	-	-	53,032	-	-
Subordinated loan	21,077	-	-	20,127	-	-
Other liabilities	6	-	2,229	-	-	2,052

(Thousands of Georgian Lari)

25. Related party disclosures (continued)

Entities under common control are companies that directly or indirectly through one or more intermediaries control or are controlled by or are under common control with the Bank (this includes holding companies subsidiaries and fellow subsidiaries). In these consolidated financial statements included into entities under common control are the members of VTB Group and other legal entities controlled by the Russian Federation.

On 25 October 2005, the Group entered into a subordinated loan agreement with the Parent bank for the total amount of USD 12,000 thousand, with interest rate of Libor+6% payable quarterly and maturity on 26 October 2019. In the case of a liquidation of the Group, this loan is only repayable after all the obligations to the Group senior creditors have been met.

As of 31 December 2013 other liabilities to key management personnel comprised of accrued bonuses totalling GEL 2,141 (2012: GEL 1,977) and unpaid vacation of GEL 86 (2012: GEL 75).

The income and expense arising from related party transactions are presented in the table below:

	2013			*2012*		
	The Parent bank	*Entities under common control*	*Key management personnel*	*The Parent bank*	*Entities under common control*	*Key management personnel*
Interest income	1	76	34	1	60	6
Interest expense	(7,759)	(686)	(106)	(7,335)	(611)	(83)
Loan impairment charge	-	-	(4)	-	-	(1)
Fee and commission income	-	11	1	-	12	1
Fee and commission expense	(2)	(76)	-	(52)	(63)	-
Net gains from foreign currencies dealing	585	115	3	968	108	2

For the year ended 31 December 2013, remuneration of the members of the key management personnel comprised salaries, bonuses and other staff related expenses totalling GEL 4,068 (2012: GEL 3,810).

Key management personnel as of 31 December 2013 and 2012 comprise 5 members of the Supervisory Board and 5 members of the Management Board of the Bank.

The Group had no significant transactions with members of the Supervisory Board in 2013 and 2012.

26. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the National Bank of Georgia (the "NBG") in supervising the Bank.

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

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

Capital adequacy ratio

Regulatory capital consists of Tier 1 capital, which comprises common shares, reserve fund and retained earnings excluding current year profit or loss less amount of property revaluation reserve transferred to authorised capital, and intangible assets. The other component of regulatory capital is Tier 2 capital, which includes profit or loss of current year, general reserves (not more than 1.25% of risk weighted assets) and subordinated long-term debt.

The NBG requires banks to maintain a minimum regulatory capital adequacy ratio of 12% of risk-weighted assets, computed based on the NBG guidelines. As of 31 December 2013 the Bank's statutory regulatory capital adequacy ratio as calculated in accordance with the NBG requirements was 12.10% (2012: 13.48%).

(Thousands of Georgian Lari)

26. Capital adequacy (continued)

The NBG also requires banks to maintain a minimum tier one capital adequacy ratio of 8% of risk-weighted assets, computed based on the NBG guidelines. As of 31 December 2013 the Bank's statutory tier one capital adequacy ratio as calculated in accordance with the NBG requirements was 7.78% (refer to Note 27). As of 31 December 2013 the Bank has obtained waiver letter from the NBG according to which the NBG requires the Bank to maintain a minimum tier one capital adequacy ratio of 7.5% of risk-weighted assets until 31 March 2014.

The Bank was in compliance with the capital adequacy ratio calculated based on the NBG requirement as of 31 December 2012.

Capital adequacy ratio of the Bank in accordance with Basel I as modified by the NBG requirements is as follows:

	2013	*2012*
Tier 1 capital	90,681	68,684
Tier 2 capital	28,996	27,991
Total regulatory capital for ratio calculation	119,677	96,675
Risk weighted assets	633,928	624,740
Capital adequacy ratio	18.88%	15.47%

27. Events after the reporting period

As of 28 February 2014 by decision of the major shareholder of The Bank, VTB Bank OJSC, additional issuance of shares was approved, to increase the capital by GEL 11,000. VTB Bank OJSC intends to exercise its pre-emptive right and will transfer GEL 10,625, its proportionate share of ownership, by end of March 2014. After the increase of share capital, it is expected that the Bank will be in compliance with the capital adequacy requirement of NBG.