JSC VTB Bank (Georgia)

Consolidated financial statements

For the year ended 31 December 2014
Together with independent auditors' report

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Independent auditors' report

To the shareholders and Board of Directors 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 2014, 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 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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 2014, and their financial performance and cash flows for the year 2014 in accordance with International Financial Reporting Standards.

EY Georgia LLC

10 March 2015

Consolidated statement of financial position

As of 31 December

(Thousands of Georgian lari)

	Notes	2014	2013
Assets			
Cash and cash equivalents	6	212,621	177,862
Amounts due from banks and international financial institutions	7	63,960	50,041
Loans and advances to customers	8	611,020	478,173
Investment securities available-for-sale	9	73,880	53,670
Property and equipment	10	33,142	33,284
Investment property	11	24,352	26,926
Current income tax assets		87	34
Deferred income tax assets	12	1,085	3,021
Other assets	13	6,122	10,624
Total assets		**1,026,269**	**833,635**
Liabilities			
Amounts due to banks and international financial institutions	14	56,758	91,521
Amounts due to customers	15	704,718	520,152
Other borrowed funds	16	100,897	91,708
Other liabilities	13	11,713	16,606
Subordinated loan	25	26,879	21,077
Total liabilities		**900,965**	**741,064**
Equity			
Share capital	17	171,293	160,293
Land and buildings revaluation reserve		943	963
Accumulated losses		(46,932)	(68,685)
Total equity		**125,304**	**92,571**
Total liabilities and equity		**1,026,269**	**833,635**

Signed and authorised for release on behalf of the Management Board of the Bank on 10 March 2015:

Archil Kontselidze
Chief Executive Officer

Mamuka Menteshashvili
Chief Financial Officer

The accompanying notes on pages 6 to 49 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	2014	2013
Interest income			
Loans and advances to customers		77,679	66,536
Investment securities Available-for-sale		3,702	1,275
Cash and cash equivalents		2,332	987
Amounts due from banks and international financial institutions		2	10
		83,715	**68,808**
Interest expense			
Amounts due to customers		(26,277)	(19,975)
Amounts due to banks, international financial institutions and other borrowed funds		(8,756)	(9,195)
Subordinated loan		(1,504)	(1,343)
		(36,537)	**(30,513)**
Net interest income		**47,178**	**38,295**
Net recovery of provision for loan impairment	8	2,051	4,275
Net interest income after recovery of provision for loan impairment		**49,229**	**42,570**
Net fee and commission income	19	8,196	5,835
Net gains/(losses) from foreign currencies:			
- dealing		922	4,566
- translation differences		4,813	(1,042)
Net gains from investment securities available-for-sale		–	32
Net gains from disposal of investment property	11	1,416	1,702
Net gains on investment property revaluation	11	(42)	498
Other income	20	6,021	4,685
Non-interest income		**21,326**	**16,276**
Personnel expenses	21	(30,463)	(27,699)
Depreciation	10	(3,154)	(2,941)
Other operating expenses	21	(13,304)	(11,744)
Other impairment and provisions charge		35	(15)
Non-interest expenses		**(46,886)**	**(42,399)**
Profit before income tax expense		**23,669**	**16,447**
Income tax expense	12	(1,936)	(3,166)
Profit for the year		**21,733**	**13,281**

The accompanying notes on pages 6 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian lari)

	Note	*2014*	*2013*
Profit for the year		**21,733**	**13,281**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Realised gains on investment securities available-for-sale reclassified to the statement of profit or loss		–	(32)
Income tax effect		–	5
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**–**	**(27)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	**–**
Other comprehensive income for the year, net of tax		**–**	**(27)**
Total comprehensive income for the year		**21,733**	**13,254**

The accompanying notes on pages 6 to 49 are an integral part of these consolidated financial statements.

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 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**
Total comprehensive income for the year		–	–	–	21,733	**21,733**
Issuance of share capital	17	11,000	–	–	–	**11,000**
Depreciation of revaluation reserve, net of tax		–	(20)	–	20	**–**
As of 31 December 2014		**171,293**	**943**	**–**	**(46,932)**	**125,304**

The accompanying notes on pages 6 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	*2014*	*2013*
Cash flows from operating activities			
Interest received		85,095	71,733
Interest paid		(36,058)	(28,179)
Fees and commissions received		13,343	9,608
Fees and commissions paid		(4,748)	(3,563)
Realised net gains from dealing in foreign currencies		(637)	5,242
Other income received		5,789	3,759
Personnel expenses paid		(29,863)	(26,443)
Other operating expenses paid		(12,116)	(12,225)
Cash flows from operating activities before changes in operating assets and liabilities		**20,805**	**19,932**
Net (increase)/decrease in operating assets			
Amounts due from banks and international financial institutions		(13,339)	(16,327)
Loans and advances to customers		(110,195)	(124,322)
Other assets		4,703	(5,910)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and international financial institutions		(39,497)	29,431
Amounts due to customers		173,152	219,211
Other liabilities		(5,822)	6,134
Net cash flows from operating activities before income tax		**29,807**	**128,149**
Income tax paid		–	(99)
Net cash from operating activities		**29,807**	**128,050**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(224,793)	(109,406)
Proceeds from sale and redemption of investment securities available-for-sale		204,911	67,417
Purchase of property, equipment and intangible assets		(3,711)	(2,032)
Proceeds from sale of property and equipment		19	2,693
Proceeds from disposal of investment property		8,495	4,940
Purchases of investment property		(599)	(7,699)
Net cash used in investing activities		**(15,678)**	**(44,087)**
Cash flows from financing activities			
Proceeds from issuance of share capital	17	11,000	12,250
Other borrowed funds received		32,961	32,135
Proceeds from Subordinated loan		5,519	–
Redemption of other borrowed funds		(29,757)	(37,552)
Dividends paid	17	(3)	(3,704)
Net cash from financing activities		**19,720**	**3,129**
Effect of exchange rates changes on cash and cash equivalents		910	102
Net increase in cash and cash equivalents		**34,759**	**87,194**
Cash and cash equivalents, beginning	6	**177,862**	**90,668**
Cash and cash equivalents, ending	6	**212,621**	**177,862**

The accompanying notes on pages 6 to 49 are an integral part of these consolidated financial statements.

(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 2014, the Bank has 18 branches (10 of them in Tbilisi) and 12 service centre. As of 31 December 2013, the Bank had 16 branches (8 of them in Tbilisi) and 1 service centre.

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

As of 31 December 2014 and 2013, the following shareholders owned more than 1% of the outstanding shares:

Shareholder	*2014 %*	*2013 %*
VTB Bank OJSC	96.81	96.59
Lacarpa Enterprises Limited	1.80	1.92
Other	1.39	1.49
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 2014 (2013: 60.9%).

As of 31 December 2014 and 2013, none of the Supervisory Council and Management Board members owned shares of the Bank.

As of 31 December 2014, the Bank had 1,116 employees (2013: 1,046).

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:

		The Group ownership interest			
Name	*Country of incorporation*	*2014*	*2013*	*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.

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.

(Thousands of Georgian lari)

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

Financial assets (continued)

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.

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.

(Thousands of Georgian lari)

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

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.

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.

(Thousands of Georgian lari)

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

Impairment of financial assets (continued)

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.

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.

(Thousands of Georgian lari)

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

Derecognition of financial assets and liabilities (continued)

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;
- Uncollectible loans are written-off against the related allowance for impairment after all necessary procedures to recover the loans have been completed and the amount of the irretrievable loss has been determined;

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.

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.

(Thousands of Georgian lari)

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

Taxation (continued)

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	2-6
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.

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.

(Thousands of Georgian lari)

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

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 2 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.

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.

(Thousands of Georgian lari)

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

Recognition of income and expenses (continued)

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 2014 and 2013 were 1.8636 GEL and 1.7363 GEL to 1 USD, respectively.

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.

(Thousands of Georgian lari)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Allowance for loan impairment (continued)

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.

During the Report Period, amendments were made to the calculation methodology for retail loans impairment with similar credit risk characteristics. According to the new methodology, the Loss Rate is calculated with consideration of the recovery rate, which is based on statistics, indicating recoverability of losses after credits reach more than 90 overdue days. The effect of transition to the new methodology, for all retail credits, by the moment of transition was GEL 1,124 (by the end of 2014: GEL 2,700, with consideration of exchange rate difference).

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 2014.

As of 31 December 2014 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.

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:

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

These amendments 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 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)

Adoption of new or revised standards and interpretations (continued)

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. This IFRIC had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

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. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position or performance

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 2015 or later periods and which the Group has not early adopted:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

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

(Thousands of Georgian lari)

5. New accounting pronouncements (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity).

The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

(Thousands of Georgian lari)

5. New accounting pronouncements (continued)

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

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

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

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- ► An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- ► The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities;
- ► IFRS 13 *Short-term Receivables and Payables* – Amendments to IFRS 13.

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

(Thousands of Georgian lari)

5. New accounting pronouncements (continued)

Annual improvements 2010-2012 Cycle (continued)

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

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

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of effective IFRSs – Amendments to IFRS 1

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

Annual improvements 2012-2014 Cycle

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

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

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

(Thousands of Georgian lari)

5. New accounting pronouncements (continued)

Annual improvements 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

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

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

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

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

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

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

6. Cash and cash equivalents

	2014	*2013*
Overnight deposit with the NBG	84,322	51,029
Current accounts with the NBG	76,519	15,284
Cash on hand	37,523	43,221
Current accounts with other credit institutions	9,935	36,641
Time deposits with credit institutions	4,322	31,687
Cash and cash equivalents	**212,621**	**177,862**

As of 31 December 2014 61% of total current accounts with credit institutions are placed with 2 non-resident credit institutions (2013: 84%).

As of 31 December 2014 overnight deposit with the NBG bears interest rate of 2.5% (2013: 2.25%).

(Thousands of Georgian lari)

6. Cash and cash equivalents (continued)

As of 31 December 2014 and 2013 the Bank's cash and cash equivalents was of high credit grade, was not either past due, or individually impaired, or renegotiated.

7. Amounts due from banks and international financial institutions

	2014	*2013*
Obligatory reserve with the NBG	63,760	49,902
Time deposits with credit institutions	200	139
Amounts due from banks and international financial institutions	**63,960**	**50,041**

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 2014 and 2013 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 2014, GEL 200 (2013: GEL 139) 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

	2014	*2013*
Corporate lending	257,758	209,686
Consumer lending	232,063	180,200
Small business lending	139,836	107,826
Loans to individuals secured by deposits	6,833	6,492
Gross loans and advances to customers	**636,490**	**504,204**
Less – allowance for impairment	(25,470)	(26,031)
Loans and advances to customers, net	**611,020**	**478,173**

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 2014	*Consumer lending 2014*	*Small business lending 2014*	*Total 2014*
At 1 January 2014	**18,998**	**3,670**	**3,363**	**26,031**
Net (reversal)/charge for the year	(3,493)	2,838	(1,397)	**(2,052)**
Foreign currencies translation	1,011	86	101	**1,198**
Recoveries of previously written off loans and advances	609	1,077	527	**2,213**
Amounts written off	(145)	(1,775)	–	**(1,920)**
At 31 December 2014	**16,980**	**5,896**	**2,594**	**25,470**
Individual impairment	13,428	105	839	**14,372**
Collective impairment	3,552	5,791	1,755	**11,098**
	16,980	**5,896**	**2,594**	**25,470**
Gross amount of loans and advances, individually determined to be impaired, before deducting any individually assessed impairment allowance	**23,301**	**500**	**1,629**	**25,430**

(Thousands of Georgian lari)

8. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

	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 charge/(reversal) 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**

Individually impaired loans

Interest income accrued on loans and advances, for which individual impairment allowances have been recognized, as at 31 December 2014, comprised GEL 2,333 (2013: GEL 2,413).

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.

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

As of 31 December 2014, the Group repossessed collateral (land and buildings) during the year with cost as of repossession date of GEL 8,747 (2013: GEL 9,804), 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 2014, the Bank had a concentration of loans represented by GEL 131,744 due from the ten largest third party borrowers (20.7% of gross loan portfolio) (2013 – GEL 104,715 or 20.8%) An allowance of GEL 10,397 (2013: GEL 8,869) was recognised against these loans.

As of 31 December 2014, included in total loans and advances to customers is an exposure to a single greatest borrower of GEL 25,174 or 4% of total loan portfolio (2013: GEL 21,617 or 4.3%).

(Thousands of Georgian lari)

8. Loans and advances to customers (continued)

Concentration of loans and advances to customers (continued)

Loans have been extended to the following types of customers:

	2014	*2013*
Commercial legal entities	371,289	295,849
Individuals	265,201	208,355
Gross loans and advances to customers	**636,490**	**504,204**

As of 31 December 2014 and 2013 loans and advances to customers are principally issued within Georgia and their distribution by industry sectors is as follows:

	2014	*2013*
Individuals	265,201	208,355
Trading and service enterprises	229,502	177,876
Real estate construction	45,580	34,541
Manufacturing	24,204	29,559
Agriculture and food processing	21,996	9,644
Financial	15,730	16,739
Telecommunication and transportation	6,050	5,416
Energy	5,414	3,711
Other	22,813	18,363
Gross loans and advances to customers	**636,490**	**504,204**

9. Investment securities available-for-sale

As of 31 December 2014, investment securities available-for-sale comprised of securities of Ministry of Finance of Georgia with total carrying value of GEL 9,792 (2013: GEL 4,849), securities of National Bank of Georgia with total carrying value of GEL 64,034 (2013: GEL 48,767) and corporate shares of 1 Georgian company engaged in clearance of utility payments with total carrying value of GEL 54 (2013: GEL 54).

(Thousands of Georgian lari)

10. Property and equipment

The movements in property and equipment during 2014 and 2013 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 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**	**1,262**	**2,211**	**–**	**44,632**
Additions	441	895	697		426		582	**3,041**
Transfer	188		7	–		387	(582)	**–**
Disposals	–	(101)	(136)		(82)	–	–	**(319)**
31 December 2014	**23,909**	**8,695**	**8,608**	**1,938**	**1,606**	**2,598**	**–**	**47,354**
Accumulated depreciation and impairment								
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)**
Depreciation charge	(494)	(969)	(1,148)	(68)	(156)	(319)		**(3,154)**
Disposals	–	99	109		82	–		**290**
31 December 2014	**(987)**	**(6,660)**	**(4,890)**	**(228)**	**(863)**	**(584)**	**–**	**(14,212)**
Net book value								
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**
31 December 2014	**22,922**	**2,035**	**3,718**	**1,710**	**743**	**2,014**	**–**	**33,142**

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 2014 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.

If no revaluation of property and equipment had been performed, the original cost of property and equipment as of 31 December 2014 and 31 December 2013 recorded under the caption "Land and Buildings" would have amounted to GEL 31,099 (2013 – GEL 30,470) and accumulated depreciation would have amounted to GEL 9,264 (2013 – GEL 8,588).

The total value of fully depreciated property and equipment in use as of 31 December 2014 and 2013 amounted to GEL 6,756 and GEL 5,373, respectively.

11. Investment property

	2014	*2013*
Opening balance at 1 January	**26,926**	**20,723**
Additions (Note 8)	8,747	9,804
Disposals	(11,279)	(4,099)
Unrealized gain on revaluation	(42)	498
Closing balance at 31 December	**24,352**	**26,926**

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.

(Thousands of Georgian lari)

11. Investment property (continued)

As of 31 December 2014, net gains from disposal of investment property was GEL 1,416 (2013: GEL 1,702), the five largest gains comprised GEL 1,237 (87.4% of net gains from disposal of investment property), (2013: GEL 1,479 or 86.9%) As of 31 December 2014, 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:

	2014	*2013*
Current tax expense	–	(1)
Deferred expense – origination and reversal of temporary differences	(1,936)	(3,170)
Less: deferred tax recognised in other comprehensive income	–	5
Income tax expense	**(1,936)**	**(3,166)**

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:

	2014	*2013*
Income before income tax expense	**23,669**	**16,447**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**(3,550)**	**(2,467)**
Change in unrecognized deferred tax assets (except expired portion)	887	2,134
Tax effect of expired portion of tax losses carried forward	–	(2,163)
Non-deductible expenses	(46)	(311)
Tax exempt income less income recognized for tax purposes only	773	(359)
Income tax expense	**(1,936)**	**(3,166)**

(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		
	2012	*In the income statement*	*Directly in Other comprehensive income*	*2013*	*In the income statement*	*Directly in Other comprehensive income*	*2014*
Tax effect of deductible temporary differences							
Tax losses carried forward	9,165	(4,818)	–	4,347	(1,776)	–	2,571
Financial instruments adjustment for effective interest rates	991	316	–	1,307	84	–	1,391
Accrued expenses	900	176	–	1,076	100	–	1,176
Securities available-for-sale	162	(6)	5	161	–	–	161
Investment property	154	62	–	216	(216)	–	–
Other	401	(46)	–	355	(48)	–	307
Gross deferred tax assets	**11,773**	**(4,316)**	**5**	**7,462**	**(1,856)**	**–**	**5,606**
Unrecognized deferred tax asset	(4,307)	2,134		(2,173)	887	–	(1,286)
Deferred tax assets	**7,466**	**(2,182)**	**5**	**5,289**	**(969)**	**–**	**4,320**
Tax effect of taxable temporary differences							
Allowance for loan impairment	(240)	(746)	–	(986)	(897)	–	(1,883)
Property and equipment	(618)	(59)	–	(677)	(66)	–	(743)
Property revaluation	(307)	–	–	(307)	–	–	(307)
Investment property	–	–	–	–	(52)	–	(52)
Allowances for impairment and provision for other losses	(115)	(173)	–	(288)	42	–	(246)
Financial instruments adjustment for effective interest rate	(5)	(5)	–	(10)	6	–	(4)
Deferred tax liabilities	**(1,285)**	**(983)**	**–**	**(2,268)**	**(967)**	**–**	**(3,235)**
Net deferred tax assets	**6,181**	**(3,165)**	**5**	**3,021**	**(1,936)**	**–**	**1,085**

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits was 15% for 2014 and 2013. 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 17,141 of taxable losses carried forward which will expire in 2015 if not utilised.

During the year Bank utilised tax loss carry forward by GEL 11,837 (2013: GEL 17,702) and wrote off the expired portion of GEL 0 (2013: GEL 14,420), respective tax effect of utilisation amounted to GEL 1,776 (2013: GEL 2,655) and tax effect of write off amounted to GEL 0 (2013: GEL 2,163).

(Thousands of Georgian lari)

13. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Financial assets		
Derivative financial assets	1,673	12
Unsettled transactions on money transfers	1,326	882
Accrued commission receivable on guarantees and letters of credit	69	126
Accrued income for operating lease	7	47
Prepayment on settlement operations	–	5,066
Total financial assets	**3,075**	**6,133**
Non-financial assets		
Prepaid expenses	1,363	2,346
Intangible assets	1,337	914
Advances paid	185	195
Inventories in stock	120	123
Prepaid operational taxes	42	913
Total non-financial assets	**3,047**	**4,491**
Other assets	**6,122**	**10,624**

As of 31 December 2013 prepayment for settlement operations in the amount of GEL 5,066 represents advance paid to VISA Inc. that was subsequently used for settlement and clearing operations. In 2014 such operations were handled through corresponding accounts of the Bank opened with CITIBANK N.A. and DEUTSCHE BANK AG.

Other liabilities comprise:

	2014	*2013*
Financial liabilities		
Accrued bonuses	6,814	6,259
Settlements on plastic cards	1,044	6,316
Accrued expenses	895	637
Payables for unused vacations	846	804
Derivative financial liabilities	382	279
Unsettled transactions on money transfers	166	365
Settlements on acquisition of property and equipment and inventory	23	344
Total financial liabilities	**10,170**	**15,004**
Non-financial liabilities		
Advances received	1,015	1,205
Dividends payable to shareholders of the Bank	388	390
Operational taxes payable	140	–
Provision for legal claims	–	7
Total non-financial liabilities	**1,543**	**1,602**
Other liabilities	**11,713**	**16,606**

Settlement on plastic cards in total amount of GEL 6,316 primarily represents 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. The Bank has almost ceased this operations by the end of year 2014.

As of 31 December 2014 and 2013, 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:

	2014				*2013*			
	Notional amount		*Fair values*		*Notional amount*		*Fair values*	
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*
Foreign exchange contracts								
Forwards and Swaps – foreign	45,000	43,709	1,673	382	36,534	36,801	12	279
Total derivative assets/liabilities			**1,673**	**382**			**12**	**279**

14. Amounts due to banks and international financial institutions

	2014	*2013*
Loans received from the Parent bank	51,516	62,742
Time deposits and loans	5,000	24,342
Current accounts	242	4,437
Amounts due to banks and international financial institutions	**56,758**	**91,521**

As of 31 December 2014 loans received from the Parent bank had maturities ranging from March 2015 till December 2015 (2013: January 2014 till December 2015) and bear annual interest rates from 4.73% to 8.14% (2013:from 0.40% to 8.14%).

As of 31 December 2014 Time deposits and loans consist from one time deposit with maturity period in January 2015 (As of 31 December 2013 Time deposits and loans had maturities ranging from January 2014 till October 2014) and with annual interest rate of 5.1% (2013: from 2.30% to 6.50%).

15. Amounts due to customers

	2014	*2013*
Individuals		
- Current/demand accounts	77,196	69,116
- Term deposits	123,332	111,339
Total due to individuals	**200,528**	**180,455**
State and budgetary organisations		
- Current/settlement accounts	46,942	48,260
- Term deposits	5,683	–
Total due to state and budgetary organisations	**52,625**	**48,260**
Commercial legal entities		
- Current/settlement accounts	353,659	219,183
- Term deposits	97,906	72,254
Total due to commercial legal entities	**451,565**	**291,437**
Total due to legal entities	**504,190**	**339,697**
Total amounts due to customers	**704,718**	**520,152**
Held as security against undrawn loan facilities	304	19
Held as security against guarantees issued	12,016	3,989
Held as security against letters of credit issued	**18,640**	**19,324**
Held as security against settlement operations	**347**	**46**

(Thousands of Georgian lari)

15. Amounts due to customers (continued)

At 31 December 2014, amounts due to customers of GEL 313,920 (45%) were due to the ten largest third party customers (2013 – GEL 200,096 (38%).

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:

	2014	*2013*
Individuals	200,528	180,455
Transport and communication	161,721	43,731
Energy	108,513	43,912
Trade and service	95,578	129,270
Government	52,625	48,260
Real estate constructions	38,087	20,558
Finance	25,443	30,311
Manufacturing	9,631	7,837
Education	7,927	10,762
Agriculture	1,179	1,730
Other	3,486	3,326
Amounts due to customers	**704,718**	**520,152**

16. Other borrowed funds

	2014	*2013*
Borrowings from the Parent bank	54,196	45,397
Borrowings from international financial institutions	44,748	43,721
Borrowings from government organizations	1,953	2,590
Other borrowed funds	**100,897**	**91,708**

As of 31 December 2014 maturities of borrowings from the Parent bank were ranging from February 2015 till August 2019 (2013: from April 2014 till September 2015), annual interest rates from 3.52% to 8.95% (2013 from 6.71% to 8.95%). Refer to Note 25.

Borrowings from international financial institutions as of 31 December 2014 contained facilities in U.S. dollars and Euro with maturities ranging from January 2015 to December 2032 (2013: January 2014 to December 2032) and interest rates from Libor + 3% to Libor + 5.25% and one loan bearing annual interest at 0.75% (2013: from Libor + 3% to Libor + 5.5%; 0.75%).

Borrowings from government organizations as of 31 December 2014 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% (2013: 3%) and with maturities ranging from May 2018 to November 2021 (2013: mature in May 2018).

(Thousands of Georgian lari)

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 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**
Increase in share capital	11,000,000	11,000,000	11,000
31 December 2014	**171,292,701**	**171,292,701**	**171,293**

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.

On 28 February 2014 the Shareholders made a decision to increase the number of authorized shares by 11,000,000. Related share issue prospectus was approved by the National Bank of Georgia on 20 March 2014. The consideration received for these shares comprised of cash for the total amount of GEL 11,000.

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. No dividends were declared by the Bank during 2014.

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.

18. Commitments and contingencies

Operating environment

In 2014 economic standing of Georgia was comparatively stable. 5% increase has been achieved. Particular difficulties incurred in the fourth quarter due to the standing of the European economy, and especially, conflict political and therefore economic processes in the general trading partner countries. Deterioration of the trading balance shall be underlined in the first place compared with the previous year, as well as significant decrease of the currency exchange rate, though inflation was 2% and went behind significantly (by 6%) the target parameter.
Due to the economic tendencies observed by the end of the year 2014, economic growth decline is forecasted by the end 2015.

In 2014, number of states imposed limited sectorial sanctions on the parent company. The parent company takes into consideration mentioned sanctions and constantly keeps their track, analysing their impact on financial position and financial results of its activities. In the short run the given issue, might influence high paces of development of JSC "VTB Bank (Georgia)". Though, the potential accumulated during the last years, gives good opportunity to develop in sustainable manner and to maintain the position held 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.

(Thousands of Georgian lari)

18. Commitments and contingencies (continued)

Financial commitments and contingencies

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

	2014	*2013*
Credit related commitments		
Guarantees issued	54,200	31,649
Undrawn loan facilities	42,471	37,467
Letters of credit	25,046	34,766
Other credit-related commitments	**7,181**	**6,148**
Financial commitments and contingencies (before deducting collateral)	**128,898**	**110,030**
Less – cash held as security against letters of credit and guarantees issued (Note 15)	(30,960)	(23,332)
Financial commitments and contingencies	**97,938**	**86,698**
Operating lease commitments		
Not later than 1 year	616	617
Later than 1 year but not later than 5 years	2,271	2,137
Later than 5 years	1,045	1,369
	3,932	**4,123**

19. Net fee and commission income

	2014	*2013*
Commission on settlements operations	8,148	6,080
Commission on guarantees and other credit related commitments	3,456	2,127
Commission on cash operations	1,191	965
Other	215	308
Fee and commission income	**13,010**	**9,480**
Commission on settlements operations	(3,590)	(2,798)
Commission on guarantees and other credit related commitments	(623)	(493)
Commission on cash operations	(488)	(327)
Other	(113)	(27)
Fee and commission expense	**(4,814)**	**(3,645)**
Net fee and commission income	**8,196**	**5,835**

20. Other income

	2014	*2013*
Penalties received from lending operations	4,598	3,175
Income from operation lease	376	350
Reimbursement of losses from insurance companies	362	4
Reimbursement of integrated marketing communication campaign costs	261	–
Penalties received for deposit redemption before maturity	252	150
Reimbursement of legal fees	26	224
Income from disposal of property	19	13
Gain on derecognition of loan	–	717
Other	127	52
Other income	**6,021**	**4,685**

(Thousands of Georgian lari)

21. Personnel and other operating expenses

	2014	*2013*
Salaries	21,517	19,876
Bonuses and premiums	8,946	7,823
Personnel expenses	**30,463**	**27,699**
Marketing and advertising	1,881	1,342
Occupancy and rent	1,759	1,470
Legal and consultancy	1,617	974
Other operating expenses on plastic cards operation	1,302	1,002
Computer software maintenance	851	730
Office supplies	772	756
Expenses on money collection services	759	693
Communications	674	674
Utilities	653	623
Repairs and maintenance of property and equipment	612	758
Representation expenses	587	631
Business travel and related expenses	395	437
Operating taxes	385	389
Amortisation of intangible assets	273	271
Insurance	176	222
Security	80	269
Impairment charge for property and equipment	28	22
Other	500	481
Other operating expenses	**13,304**	**11,744**

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.

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.

(Thousands of Georgian lari)

22. Risk management (continued)

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 2014 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.

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.

(Thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

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.

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

		Neither past due nor impaired				
	Notes	*High grade 2014*	*Standard grade 2014*	*Sub-standard grade 2014*	*Past due or individually impaired 2014*	*Total 2014*
Cash in credit organisations		175,024	74			175,098
Amounts due from banks and international financial institutions	7	63,909	51	–	–	**63,960**
Debt securities available-for-sale	9	73,826	–	–	–	73,826
Loans and advances to customers	8					
Corporate lending		41,431	103,142	75,835	20,370	**240,778**
Small business lending		61,974	71,275	1,219	2,774	**137,242**
Consumer lending		108,523	105,835	5,251	6,558	**226,167**
Loans to individuals secured with deposits		6,733	–	–	100	**6,833**
		218,661	**280,252**	**82,305**	**29,802**	**611,020**
Other financial assets	13	1,673	1,402	–	–	3,075
Total		**533,093**	**281,779**	**82,305**	**29,802**	**926,979**

(Thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

	Notes	*Neither past due nor impaired* High grade 2013	Standard grade 2013	Sub-standard grade 2013	*Past due or individually impaired 2013*	*Total 2013*
Cash in credit organisations	6	134,634	7	-		134,641
Amounts due from banks and international financial institutions	7	49,989	52	–	–	**50,041**
Debt securities available-for-sale	9	53,616	–	–	–	**53,616**
Loans and advances to customers	8					
Corporate lending		35,131	81,724	57,110	16,723	**190,689**
Small business lending		80,740	19,657	2,447	1,619	**104,463**
Consumer lending		169,066	–	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**
Other financial assets		5,078	1,055	–		6,133
Total		**534,746**	**102,495**	**61,335**	**24,028**	**722,604**

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.

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

As of 31 December 2014	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans and advances to customers					
Corporate lending	2,783	–	–	1,460	**4,243**
Consumer lending	637	843	349	154	**1,983**
Small business lending	4,133	739	680	612	**6,164**
Loans collateralized with deposits	–	100	–	–	**100**
Total	**7,553**	**1,682**	**1,029**	**2,226**	**12,490**

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**

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.

(Thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

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.

	2014	*2013*
Loans and advances to customers		
Corporate lending	3,749	5,446
Small business lending	1,631	2,307
Consumer lending	3,297	1,054
Total	**8,677**	**8,807**

Impairment assessment

Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired include any known financial difficulties of counterparties, infringement of the original terms of the contract, whether any payments of principal or interest is overdue and the reliability of related collateral if any.

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.

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.

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

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

(Thousands of Georgian lari)

22. Risk management (continued)

Credit risk (continued)

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

	2014				*2013*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	199,916	11,289	1,416	**212,621**	109,912	67,319	631	**177,862**
Amounts due from banks and international financial institutions	63,816	93	51	**63,960**	49,954	87	–	**50,041**
Loans and advances to customers	598,882	3,229	8,909	**611,020**	471,599	2,036	4,538	**478,173**
Investment securities – available-for-sale	73,880	–	–	**73,880**	53,670	–	–	**53,670**
Other assets	2,371	–	704	**3,075**	6,133	–	–	**6,133**
	938,865	**14,611**	**11,080**	**964,556**	**691,268**	**69,442**	**5,169**	**765,879**
Liabilities								
Amounts due to banks and international financial institutions	5,065	49	51,644	**56,758**	28,482	114	62,925	**91,521**
Amounts due to customers	624,349	22,370	57,999	**704,718**	440,882	47,408	31,862	**520,152**
Other borrowed funds	1,953	44,747	54,197	**100,897**	2,590	43,721	45,397	**91,708**
Subordinated loan	–	–	26,879	**26,879**	–	–	21,077	**21,077**
Other liabilities	9,788	–	382	**10,170**	14,998	–	6	**15,004**
	641,155	**67,166**	**191,101**	**899,422**	**486,952**	**91,243**	**161,267**	**739,462**
Net assets/(liabilities)	**297,710**	**(52,555)**	**(180,021)**	**65,134**	**204,316**	**(21,801)**	**(156,098)**	**26,417**
Net financial commitments	**107,627**	**226**	**21,045**	**128,898**	**88,275**	**20**	**21,735**	**110,030**

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.

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.

(Thousands of Georgian lari)

22. Risk management (continued)

Liquidity risk and funding management (continued)

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 2014 and 2013 the ratio was as follows:

	2014	*2013*
LK "Average Liquidity Ratio" (Average monthly volume of liquid assets / Average monthly volume of liabilities)	44%	38%

In 2014 minimum limit of average liquidity ratio is 30% (2013: 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 2014 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 2014	*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	5,242	3,693	656	49,692	–	**59,283**
Amounts due to customers	495,427	38,935	80,328	76,573	22,468	**713,731**
Other borrowed funds	14,753	9,521	11,029	26,646	45,945	**107,894**
Subordinated loan	484	–	474	963	35,119	**37,040**
Other liabilities	2,102	3,872	221	3,925	50	**10,170**
Total cash flow payable under non-derivative liabilities	**518,008**	**56,021**	**92,708**	**157,799**	**103,582**	**928,118**
Derivative financial instruments-gross settled						
Positive fair value of derivatives						
(Inflow)	(25,196)	(3,945)				**(29,141)**
Outflow	24,227	3,241				**27,468**
Derivative financial instruments-gross settled						
Negative fair value of derivatives						
(Inflow)	(15,859)					**(15,859)**
Outflow	16,241					**16,241**

(Thousands of Georgian lari)

22. Risk management (continued)

Liquidity risk and funding management (continued)

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**

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*
2014	19,454	15,299	23,784	31,727	38,634	**128,898**
2013	25,370	11,385	26,078	20,158	27,039	**110,030**

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 2014*	*Sensitivity of pre-tax income 2014*
USD	0.05%	(25)
USD	(0.05%)	25
GEL	0.78%	(48)
GEL	(0.78%)	48

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 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 2014 and 2013 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% 2014*	*Effect on profit before tax 2014*	*Increase in currency rate in% 2013*	*Effect on profit before tax 2013*
USD	8.64%	272	4.73%	(16)
EUR	7.01%	28	9.35%	3

(Thousands of Georgian lari)

22. Risk management (continued)

Market risk (continued)

Currency	Decrease in currency rate in% 2014	Effect on profit before tax 2014	Decrease in currency rate in% 2013	Effect on profit before tax 2013
USD	(8.64%)	(272)	(4.73%)	16
EUR	(7.01%)	(28)	(9.35%)	(3)

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
2014	7,822
2013	6,913

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 2014 the Group obtained Banker's Blanket Bond and Computer Crime insurance on a total insured sum of GEL 1,864 (2013: GEL 868) 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)

Fair value hierarchy (continued)

At 31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Investment securities available for sale	–	73,826	54	**73,880**
Total investment property	–	–	24,352	**24,352**
Land	–	–	4,234	**4,234**
Residential properties	–	–	5,668	**5,668**
Non-residential properties			14,450	**14,450**
Total revalued land and premises	–	–	22,922	**22,922**
Land	–	–	186	**186**
Office buildings	–	–	15,983	**15,983**
Service centers/means of production	–	–	6,753	**6,753**
Derivative financial assets	–	1,673		**1,673**
Assets for which fair values are disclosed				
Loans to customers	–	–	599,642	**599,642**
Liabilities measured at fair value				
Derivative financial liabilities	–	–	382	**382**
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	706,731	**706,731**
Other borrowed funds	–	99,092	–	**99,092**
Subordinated loans	–	26,879	–	**26,879**

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**

During the years ended 31 December 2014 and 2013, there have been no transfers between levels of fair value hierarchy.

(Thousands of Georgian lari)

23. Fair value measurements (continued)

Fair value hierarchy (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 2014	*Fair value 2014*	*Unrecognised gain/(loss) 2014*	*Carrying value 2013*	*Fair value 2013*	*Unrecognised gain/(loss) 2013*
Financial assets						
Amounts due from banks and international financial institutions	63,960	63,960	-	50,041	50,041	-
Loans and advances to customers	611,020	599,642	(11,378)	478,173	486,685	8,512
Financial liabilities						
Amounts due to banks and international financial institutions	56,758	56,758	-	91,521	91,521	-
Amounts due to customers	704,718	706,731	(2,013)	520,152	521,493	(1,341)
Other borrowed funds	100,897	99,092	1,805	91,708	89,627	2,081
Subordinated loan	26,879	26,879	-	21,077	21,077	-
Total unrecognised change in unrealised fair value			**(11,586)**			**9,252**

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.

(Thousands of Georgian lari)

23. Fair value measurements (continued)

Fair value hierarchy (continued)

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.

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 2014:

	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	**24,352**						
Land	4,234	Market approach	Price per square metre	0.06-226.01 (47.66) Georgian lari	Square metre	100-22,902 (3,353)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 394
Residential properties	5,668	Market approach	Price per square metre	22.22-1,973.83 (572.2) Georgian lari	Square metre	14-1,149 (138)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 592
Non-Residential properties	14,450						
	13,040	Market approach	Price per square metre	4.28-3,428.57 (1,062.2) Georgian lari	Square metre	13-30,001 (771)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 805
	1,410	Income approach	Cap. Rate	15.29%-15.29% (15.29%)			10% increase (decrease) in the cap rate would result in increase (decrease) in fair value by 130
Revaluated land and premises	**22,922**						
Land	186	Market approach	Price per square metre	0.06-226.01 (47.66) Georgian lari	Square metre	100-22,902 (3,353)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 19
Office buildings	15,983	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	6,753						
	6,523	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
	230	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)

23. Fair value measurements (continued)

Fair value hierarchy (continued)

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%)			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 2014 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.

	2014							
	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	212,621	–	–	–	–	–	–	**212,621**
Amounts due from banks and international financial institutions	26,306	6,436	8,214	20,185	2,819	–	–	**63,960**
Loans and advances to customers	36,244	60,525	94,712	107,857	307,823	3,859	–	**611,020**
Investment securities - available-for-sale	–	54,666	13,499	–	5,661	–	54	**73,880**
Other assets	2,099	712	–	253	–	–	11	**3,075**
Total	**277,270**	**122,339**	**116,425**	**128,295**	**316,303**	**3,859**	**65**	**964,556**
Financial liabilities								
Amounts due to banks and international financial institutions	5,242	3,063	–	48,453	–	–	–	**56,758**
Amounts due to customers	138,685	61,839	92,887	73,742	337,565	–	–	**704,718**
Other borrowed funds	14,617	9,039	10,085	25,235	41,921	–	–	**100,897**
Subordinated debt	360	–	–	–	26,519	–	–	**26,879**
Other liabilities	2,102	3,872	221	3,925	50	–	–	**10,170**
Total	**161,006**	**77,813**	**103,193**	**151,355**	**406,055**	**–**	**–**	**899,422**
Net	**116,264**	**44,526**	**13,232**	**(23,060)**	**(89,752)**	**3,859**	**65**	**65,134**
Cumulative gap	**116,264**	**160,790**	**174,022**	**150,962**	**61,210**	**65,069**	**65,134**	**–**

(Thousands of Georgian lari)

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

	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	69,158	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**	**76,091**	**85,716**	**75,269**	**343,514**	**–**	**–**	**739,462**
Net	**62,517**	**10,083**	**2,431**	**24,649**	**(75,561)**	**2,244**	**54**	**26,417**
Cumulative gap	**62,517**	**72,600**	**75,031**	**99,680**	**24,119**	**26,363**	**26,417**	**–**

As of 31 December 2014, total amount of funding obtained from the Parent bank amounted to GEL 132,714 (2013: GEL 129,399). 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 2014 and 2013, outstanding balances on related party transactions are as follows:

	2014			2013		
	The Parent bank	*Entities under common control*	*Key management personnel*	*The Parent bank*	*Entities under common control*	*Key management personnel*
Cash and cash equivalents	1,294	501	–	331	22,916	–
Loans and advances to customers, gross	–	–	316	–	–	387
Less: allowance for impairment	–	–	–	–	–	(3)
Loans and advances to customers, net	–	–	316	–	–	384
Other assets	704	–	–	–	–	–
Amounts due to banks and international financial institutions (Note 14)	51,639	7	–	62,925	–	–
Amounts due to customers	–	39,327	2,161	–	23,084	1,543
Other borrowed funds (Note 16)	54,196	–	–	45,397	–	–
Subordinated loan	26,879	–	–	21,077	–	–
Other liabilities	382	–	2,722	6	–	2,229

(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. On 13 October 2014, the Group entered into a subordinated loan agreement with the Parent bank for the total amount of RUR 126,400 thousand, with interest rate of 11% payable quarterly and maturity on 13 October 2021.In the case of a liquidation of the Group, these loans are only repayable after all the obligations to the Group senior creditors have been met.

As of 31 December 2014 other liabilities to key management personnel comprised of accrued bonuses totalling GEL 2,624 (2013: GEL 2,141) and unpaid vacation of GEL 98 (2013: GEL 86).

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

	2014			*2013*		
	The Parent bank	*Entities under common control*	*Key management personnel*	*The Parent bank*	*Entities under common control*	*Key management personnel*
Interest income	2	12	38	1	76	34
Interest expense	(7,933)	(1,361)	(94)	(7,759)	(686)	(106)
Loan impairment charge	–	–	(3)	–	–	(4)
Fee and commission income	–	16	2	–	11	1
Fee and commission expense	(5)	(77)	–	(2)	(76)	–
Net gains from foreign currencies dealing	(4,363)	319	7	585	115	3

For the year ended 31 December 2014, remuneration of the members of the key management personnel comprised salaries, bonuses and other staff related expenses totalling GEL 4,771 (2013: GEL 4,068).

Key management personnel as of 31 December 2014 and 2013 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 2014 and 2013.

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.

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.

(Thousands of Georgian lari)

26. Capital adequacy (continued)

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 2014 the Bank's statutory regulatory capital adequacy ratio as calculated in accordance with the NBG requirements was 13.79% (2013: 12.10%).

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 2014 the Bank's statutory tier one capital adequacy ratio as calculated in accordance with the NBG requirements was 8.50% (2013: 7.78%) As of 31 December 2013 the Bank had 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.

Besides from 30 June 2014 the NBG also requires fulfilment of capital adequacy ratios computed in accordance with Basel II/III with some modifications by the NBG requirements. The requirements for banks are to maintain a minimum tier one capital adequacy ratio of 8.5% of risk-weighted assets and total regulatory capital of 10.5% of risk-weighted assets computed based on the NBG guidelines. The Bank was in compliance with these capital adequacy ratios as of 31 December 2014 and 2013. The Bank's capital adequacy ratios on this basis were as follows:

	2014	*2013*
Tier 1 capital	105,180	72,938
Tier 2 capital	33,956	29,818
Total regulatory capital for ratio calculation	**139,136**	**102,756**
Risk weighted assets	**1,080,826**	**842,096**
Tier 1 capital adequacy ratio	**9.73%**	**8,66%**
Total Capital adequacy ratio	**12.87%**	**12,20%**

Capital adequacy ratio of the Bank in accordance with Basel I computed on IFRS-based of the groups consolidated financial statements as modified by the NBG requirements is as follows:

	2014	*2013*
Tier 1 capital	123,024	90,681
Tier 2 capital	31,638	28,996
Total regulatory capital for ratio calculation	**154,662**	**119,677**
Risk weighted assets	**751,389**	**633,928**
Capital adequacy ratio	**20.58%**	**18.88%**