JSC ProCredit Bank

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report
31 December 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
JSC ProCredit Bank

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG Georgia LLC
31 March 2015

KPMG Georgia LLC

LIMITED LIABILITY COMPANY 404437695 KPMG Georgia

Consolidated Statement of Financial Position

in '000 GEL

	Notes	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	6	174,975	198,711
Financial assets at fair value through profit or loss		-	14
Investment securities available-for-sale	8	10,063	234
Due from banks	7	57,993	44,988
Loans and advances to customers	9	740,270	692,888
Current tax asset		-	1,743
Investment properties	10	1,255	1,264
Intangible assets	11	1,996	2,868
Property and equipment	12	77,844	84,681
Other assets	13	13,728	15,404
Total assets		**1,078,124**	**1,042,795**
Liabilities			
Due to banks	14	2,005	23
Financial liabilities at fair value through profit or loss		156	-
Customer accounts	15	598,277	569,166
Other borrowed funds	16	264,974	256,709
Subordinated debt	20	52,938	66,308
Current tax liability		889	-
Other liabilities	17	3,436	2,031
Other provisions	18	462	731
Deferred tax liability	19	2,882	2,445
Total liabilities		**926,019**	**897,413**
Equity			
Share capital	21	83,000	83,000
Share premium	21	30,803	30,803
Retained earnings		38,302	31,579
Total equity		**152,105**	**145,382**
Total equity and liabilities		**1,078,124**	**1,042,795**

Approved for issue and signed on behalf of the Board of Directors on 31 March 2015.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in '000 GEL

	Notes	2014	2013
Interest income	22	109,013	114,197
Interest expense	22	(36,629)	(44,305)
Net interest income		**72,384**	**69,892**
Provision for loan impairment	9	(9,815)	(6,057)
Net interest income after provision for loan impairment		**62,569**	**63,835**
Fee and commission income	23	11,512	11,850
Fee and commission expenses	23	(3,941)	(4,308)
Net gain from trading in foreign currency		1,263	7,655
Net foreign exchange translation gain/ (loss)		4,759	(1,510)
Personnel expenses		(24,112)	(28,412)
Other administrative expenses	24	(26,030)	(27,188)
Other operating income		2,888	1,243
Other operating expenses		(908)	(354)
Profit before income tax		**28,000**	**22,811**
Income tax expense	19	(4,277)	(3,257)
Profit and total comprehensive income for the year		**23,723**	**19,554**

Approved for issue and signed on behalf of the Board of Directors on 31 March 2015.

Consolidated Statement of Changes in Equity

in '000 GEL

	Notes	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2013		**80,000**	**28,286**	**37,025**	**145,311**
Total comprehensive income					
Profit for the year		-	-	19,554	19,554
Total comprehensive income for the year		**-**	**-**	**19,554**	**19,554**
Transactions with owners, recorded directly in equity					
Dividends declared	21	-	-	(25,000)	(25,000)
Shares issued	21	3,000	2,517	-	5,517
Total transactions with owners		**3,000**	**2,517**	**(25,000)**	**(19,483)**
Balance at 31 December 2013		**83,000**	**30,803**	**31,579**	**145,382**
Total comprehensive income					
Profit for the year		-	-	23,723	23,723
Total comprehensive income for the year		**-**	**-**	**23,723**	**23,723**
Transactions with owners, recorded directly in equity					
Dividends declared	21	-	-	(17,000)	(17,000)
Total transactions with owners		**-**	**-**	**(17,000)**	**(17,000)**
Balance at 31 December 2014		**83,000**	**30,803**	**38,302**	**152,105**

Approved for issue and signed on behalf of the Board of Directors on 31 March 2015.

Consolidated Statement of Cash Flows

in '000 GEL

	Notes	2014	2013
Profit before income tax		**28,000**	**22,811**
Provision for loan impairment	9	9,815	6,057
Depreciation and amortization	24	7,259	6,343
Net foreign exchange translation (gain)/ loss		(4,759)	1,510
Release of other provisions		(269)	(299)
Loss/ (gain) from disposal of property and equipment, investment properties and intangible assets		203	(60)
Net interest income		(72,384)	(69,892)
Operating cash flows before changes in operating assets and liabilities		**(32,135)**	**(33,530)**
Increase/decrease of assets and liabilities from operating activities after non-cash items:			
Mandatory reserve deposit with the NBG		(2,841)	(4,750)
Financial assets at fair value through profit or loss		14	18
Loans and advances to customers		(10,059)	16,078
Other assets		2,285	1,070
Due to banks		1,982	(8,263)
Financial liabilities at fair value through profit or loss		156	-
Customer accounts		5,119	36,909
Other liabilities		1,405	441
Interest received		107,270	115,041
Interest paid		(36,907)	(48,274)
Income tax paid		(1,208)	(4,727)
Net cash from operating activities		**35,081**	**70,013**
Purchase of property and equipment and intangible assets		(5,580)	(13,112)
Purchase of investment properties		(842)	(536)
Proceeds from sale of property and equipment and investment properties		6,069	388
Purchase of investment securities available -for- sale	8	(9,520)	-
Cash flows used in investing activities		**(9,873)**	**(13,260)**
Dividends paid	21	(17,000)	(25,000)
Shares issued	21	-	5,517
Proceeds from other borrowed funds		101,902	5,209
Repayments of other borrowed funds		(113,468)	(44,547)
Repayments of subordinated debt		(17,913)	-
Cash flows used in financing activities		**(46,479)**	**(58,821)**
Net decrease in cash and cash equivalents		**(21,271)**	**(2,068)**
Cash and cash equivalents at the beginning of the year		170,702	174,280
Effects of exchange rate changes		7,699	(1,510)
Cash and cash equivalents at the end of the year	6	**157,130**	**170,702**

Approved for issue and signed on behalf of the Board of Directors on 31 March 2015.

1. ORGANIZATION AND OPERATIONS

These consolidated financial statements include the financial statements of JSC ProCredit Bank (the Bank) and its subsidiary (together referred to as the Group). The Bank and its subsidiary are joint stock and limited liability companies as it is defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia.

The principal activity of JSC ProCredit Bank is commercial and retail banking operations on the territory of Georgia. For supervisory purposes the Bank qualifies as a bank according to the general banking licence number 233 and is therefore supervised by the National Bank of Georgia (the NBG).

The address of the Bank's registered office is: 21 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia. The Bank's head office is located in Tbilisi. The Bank's 43 branches, service centres and service points are located in Tbilisi, Kutaisi, Batumi, Gori, Poti, Zugdidi, Telavi, Rustavi, Lilo, Marneuli, Khashuri and Tsnori.

As at 31 December 2014 and 2013, the Bank had one wholly-owned subsidiary, LLC ProCredit Properties, which was formed as a limited liability company under Georgian law on 23 July 2007 with the principal activity of holding and managing movable and immovable properties acquired through auctions resulting from defaults of the Bank's customers.

As at 31 December 2014 and 2013, the Bank's immediate and ultimate parent company was ProCredit Holding AG & Co. KGaA (Parent). Refer to Note 28 for related party transactions.

2. BUSINESS ENVIRONMENT

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Measurement basis

These consolidated financial statements were prepared on the historic cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets, except for which are stated at cost, are stated at fair value. IFRS defines a hierarchy of fair value determination which reflects the relative reliability of different methods of determining a fair value:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Active market: Quoted price (Level 1)
Observed quoted prices for identical financial instruments in active markets.

(b) Valuation technique using observable inputs (Level 2)
Observed quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use of valuation models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs (Level 3)
Use valuation models where one or more significant inputs are not observable.

Only if the best way of determining the fair value is not available may the next best determination method be applied. If possible, the Group obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

Reporting and valuation are conducted according to the going concern principle.

The measurement techniques applied to the consolidated statement of financial position are specified in Notes 3 and 26.

Basis of consolidation

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortized cost as described below.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

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

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

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. There are no assets in the held-to-maturity category. Management determines the classification of financial assets at initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading (trading assets), including derivatives held, and financial assets designated at fair value through profit or loss at inception. The Group does not apply hedge accounting.

Financial assets may be designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. The fair values reported are usually observable market prices; as a guideline, the Group prefers to invest in securities for which market prices in active markets can be observed. Only in rare circumstances the fair value is calculated based on current observable market data by using a valuation technique. The valuation techniques applied are references to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis using observable market parameters, e.g. interest rates and foreign exchange rates.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the profit or loss of the period. Together with interest earned on financial instruments designated as at fair value through profit and loss they are shown as “net result from financial assets at fair value through profit or loss”.

Purchases and sales of financial assets for regular way transactions at fair value through profit or loss are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each reporting date and whenever there is evidence of potential impairment, the Group assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see Note 9 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the profit or loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. The Group derecognises loans and receivables when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite amount of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available-for-sale financial assets are recorded at fair value. Subsequently they are carried at fair value unless it cannot be determined. The fair values reported are either observable market prices or values calculated with a valuation technique based on currently observable market data. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in other comprehensive income in “revaluation reserve from available-for-sale financial asset”, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss as “gains and losses from available-for-sale financial assets”. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss within other operating income when the entity’s right to receive the payment is established.

Purchases and sales for regular way transactions of available-for-sale financial assets are recorded on the trade date. The Group derecognises available-for-sale financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Financial liabilities

Financial liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. All financial liabilities, other than those at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The financial liabilities at fair value through profit or loss consist solely of negative fair values arising from derivative financial instruments used for hedging, but not as hedging arrangements under the terms of hedge accounting as defined by IAS 39.

When the terms of an existing liability are substantially modified, such 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 profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – offsetting

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

Foreign currency translation

(a) Functional and presentation currency

The national currency of Georgia is the Georgian Lari (GEL), which is the Bank's and its subsidiary's functional currency and the currency in which these consolidated financial statements are presented. Management has determined the functional currency to be the GEL as it reflects the economic substance of the underlying events and circumstances of the Group. The GEL is not convertible outside Georgia.

All financial information presented in GEL has been rounded to the nearest thousand except when otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, unless the difference is due to impairment, in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

The reporting exchange rates and average rates for the period used in the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income are listed in Note 25.

Cash and cash equivalents

For the purposes of the consolidated statement of financial position, cash and cash equivalents comprise notes and coins on hand, balances with less than three months' maturity from the date of acquisition when eligible for discounting with the NBG, other money market instruments that are highly liquid and readily convertible

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to known amounts of cash with insignificant risk of changes in value, and certificates of deposits of the NBG. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including notes and coins on hand and non-restricted balances with the NBG, non-pledged treasury bills and certificates of deposit and amounts due from banks. The mandatory reserve deposit with the NBG is not considered to be a cash equivalent due to restrictions on its withdrawability.

Loans and advances to customers and banks

The amounts reported under receivables from customers consist mainly of loans and advances issued. In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and receivables to banks as well as loans and receivables to customers fall under the category "loans and receivables" and are carried at amortised cost, using the effective interest method. Premiums and discounts, including initial transactions costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Impairment of loans is recognised in separate allowance accounts.

For the purposes of the consolidated statement of cash flows, claims to banks with an original maturity of less than three months are recognised under cash and cash equivalents.

Impairment of loans and advances

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a loan or a portfolio of loans has occurred which influences the future cash flows of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the loan, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of loans. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Group does not recognise losses from expected future events.

- <u>Individually assessed loans and advances</u>

Credit exposures for which the sum of the on-balance sheet part and the off-balance sheet part exceeds the GEL equivalent of USD 30,000 are considered individually significant and as a bank-wide rule are individually assessed for impairment. For such credit exposures, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil contractual payment obligations towards the Group.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower will enter bankruptcy, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When deciding on the allowance for impairment the aggregate exposure to the client and the realisable value of collateral held are taken into account.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a credit exposure has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

- Collectively assessed loans and advances

There are two cases in which loans are collectively assessed for impairment:

- individually insignificant loans that show objective evidence of impairment;
- the group of individually significant and insignificant loans which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual loan basis.

For the purposes of the evaluation of impairment of individually insignificant loans, the loans are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are overdue in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired significant credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics with a comparable risk profile (migration analysis). After a qualitative analysis of this statistical data, management prescribed appropriate rates as the basis for the portfolio-based impairment allowances.

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 in the group and 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 period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Writing off loans and advances

When a loan is written off according to the internal policies, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the profit or loss.

Restructured loans

Restructured loans which show signs of impairment and which are considered to be individually significant are assessed for impairment on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured loans with arrears of more than 30 days overdue, which are individually insignificant, are collectively assessed for impairment.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The Group recognises repossessed assets in the consolidated statement of financial position when it has the full and final settlement rights to the collateral, and when it is entitled to retain any excess proceeds from the realisation of the collateral.

At initial recognition repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell and are included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention with respect to recovery of these assets. They are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

The carrying amount of the repossessed assets is measured based on the value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs.

Impairment of financial assets classified as available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset classified as available for sale is impaired based on the same criteria of impairment indicators as for loans and advances to customers.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss at any point thereafter. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

The Group primarily invests in government securities with fixed or variable interest rates. Impairments on these investments are recognised when objective evidence exists that the government is unable or unwilling to service these obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation on other major classes of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Buildings	2-3%
• Furniture and fixtures	20-25%
• IT and other equipment	20-25%

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit or loss and other comprehensive income.

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. These include properties with currently undetermined future use. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Software has an expected useful life of five to eight years.

Impairment of non-financial assets

Assets that are subject to amortization are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Group companies are party only to operating lease agreements (IAS 17). The properties leased out under operating leases are included in ”investment properties”. Lease income on operating leases is recognised over the term of the lease on a straight-line basis. Lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current income tax

Income tax payable on profits is calculated on the basis of the applicable tax law in the country’s jurisdiction and is recognised as an expense in the period in which current income tax incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from impairment of loans and receivables and depreciation of property and equipment. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Liabilities to banks and customers and other borrowed funds

Liabilities to banks and customers and other borrowed funds are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.
All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Provisions

Provisions are recognised if

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be no earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as interest expense.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and performance guarantees, and provides other forms of credit insurance. Financial guarantee contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

When the Group has the contractual right to revert to its customer for recovering amounts paid to settle the financial guarantee contracts, such amounts are recognised as loans and receivables in the consolidated statement of financial position. Any increase in the liability relating to guarantees is taken to the profit or loss under "other operating expenses".

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

Subordinated debt

Subordinated debt consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early.

Following initial recognition at fair value, the subordinated debt is measured at amortised cost. Premiums and discounts are accounted for over the respective terms in the profit or loss under "net interest income".

Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. When share capital is increased, any difference between the registered amount of share capital and the actual consideration received is recognized as share premium.

Dividends

Dividends on ordinary shares are recognised as a distribution from equity in the period in which they are approved by the Bank's shareholders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income and expense

Interest income and expenses (excluding capitalized borrowing costs) for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within “interest income” and “interest expense” in the profit or loss using the effective interest method. Interest income and expense are recognised in the profit or loss in the period in which they arise.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to be prepared for its intended use form part of the cost of that asset. The Group capitalizes borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalization is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalization ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalization, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Payments received in respect of written-off loans are not recognised in net interest income.

Fee and commission income and expenses

Fee and commission income and expenses are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions for payment transfers and cash transactions and debit/credit card issuance fees, which are earned on execution of the underlying transaction, are recorded upon completion of the transaction. Account maintenance, internet bank and SMS service fees are recognized based on the applicable service contracts, usually on a time-proportion basis.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

4. USE OF ASSUMPTIONS AND ESTIMATES

The Group's financial reporting and its financial results are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the consolidated financial statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality. This applies to the allowances for impairment of loans.

To determine the Bank-wide rates to be applied for collective loan loss provisioning, the Bank and the Parent performed an evaluation of the quality of the loan portfolio, taking into account the historical loss experiences of most of the ProCredit institutions. This migration analysis is based on statistical data up to 2014 and therefore it reflects both average losses during a period of constant growth and favourable economic environments as well as average losses during a period of global recession in nearly all of the ProCredit group's countries of operation. Therefore management believes it appropriate to use the results of the migration analysis with a confidence level of 60% (2013: 60%) to cover incurred losses. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

Further information on the Bank's accounting policy on loan loss provisioning can be found in Notes 3 and 25.

5. ACCOUNTING DEVELOPMENTS

Standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance of the Group. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 Financial Instruments, published in July, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items:

in '000 GEL	31 December 2014	31 December 2013
Cash on hand	55,300	48,608
Balances at the NBG excluding mandatory reserves	16,952	20,295
Certificates of deposit of the NBG	26,885	56,811
Mandatory reserve deposit with the NBG	75,838	72,997
Total cash and cash equivalents in the consolidated statement of financial position	**174,975**	**198,711**

No cash and cash equivalents are impaired or past due. In 2014, Fitch Ratings affirmed the Government of Georgia's short term Issuer Default Rating of "B" and long-term Issuer Default Rating of "BB-" with the positive outlook (2013: short term "B" and long-term "BB-").

The following cash equivalents were considered as cash for the cash flow statement:

in '000 GEL	31 December 2014	31 December 2013
Cash and cash equivalents	174,975	198,711
Due from banks with a maturity up to three months (Note 7)	57,993	44,988
Mandatory reserve with the NBG, which does not qualify as cash for the statement of cash flows	(75,838)	(72,997)
Total cash and cash equivalents in the consolidated statement of cash flows	**157,130**	**170,702**

Balances with the NBG include the mandatory reserve deposit which is a non-interest bearing deposit calculated in accordance with regulations issued by the NBG. Refer to Note 26 for the estimated fair value of cash and cash equivalents. The interest rate analysis of cash and cash equivalents is disclosed in Note 25.

7. DUE FROM BANKS

in'000 GEL	31 December 2014	31 December 2013
Due from banks in OECD* countries	33,579	34,038
Due from banks in non-OECD countries	24,414	10,950
Total due from banks	**57,993**	**44,988**

The following table details the credit ratings of due from banks as assessed by Fitch Ratings:

in '000 GEL Neither past due nor impaired	AA	A	BBB	<BBB	Not Rated	Total
31 December 2014	326	14,017	19,236	24,414	-	**57,993**
31 December 2013	300	5,803	83	38,802	-	**44,988**

As at 31 December 2014 the Group had 1 related party bank (2013: 1 related party bank), whose balance exceeded 10% of equity. The gross value of this balance as at 31 December 2014 was GEL 19,236 thousand (2013: GEL 27,934 thousand).

Refer to Note 26 for the estimated fair value of each class of amounts due from banks. The interest rate analysis is disclosed in Note 25. Information on related party balances is disclosed in Note 28.

* Organization for Economic Cooperation and Development

8. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

All securities which are not designated as financial assets at fair value through profit or loss are classified as available-for-sale financial assets.

in '000 GEL	31 December 2014	31 December 2013
Treasury bills issued by the Government of Georgia	9,829	-
Equity investments		
Shares in companies situated in OECD countries	35	35
Shares in companies situated in non-OECD countries	199	199
Total equity investments	**234**	**234**
Total investment securities available-for-sale	**10,063**	**234**

Shares in companies comprise:

in '000 GEL	Ownership interest	At 31 December 2014	Ownership interest	At 31 December 2013
JSC Creditinfo Georgia	16.63%	95	16.63%	95
JSC United Clearing Center Georgia	6.25%	54	6.25%	54
JSC American Academy in Tbilisi	4.85%	50	4.85%	50
S.W.I.F.T.SCRL	0.01%	35	0.01%	35
Total		**234**		**234**

Equity investments are carried at cost of GEL 234 thousand (2013: GEL 234 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. Management could not reliably estimate the fair value of the equity investment securities.

Movements in investment securities available-for-sale:

in '000 GEL	Treasury bills issued by the Government of Georgia	Shares	Total
Balance at 1 January 2014	**-**	**234**	**234**
Purchases net of discounts	9,520	-	9,520
Interest accrued	309	-	309
Balance at 31 December 2014	**9,829**	**234**	**10,063**

in '000 GEL	Treasury bills issued by the Government of Georgia	Shares	Total
Balance at 1 January 2013	**-**	**234**	**234**
Movement during the year	-	-	-
Balance at 31 December 2013	**-**	**234**	**234**

None of investment securities available-for-sale are past due or impaired. Refer to Note 26 for the estimated fair value of investment securities available-for-sale.

9. LOANS AND ADVANCES TO CUSTOMERS

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2014:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December 2014**	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**	**Number of outstanding loans**	**Share of total number**
Business loans						
loan size up to USD 50,000	267,924	(9,341)	258,583	34.93%	11,794	42.51%
loan size USD 50,000 to USD 250,000	279,099	(8,710)	270,389	36.53%	1,985	7.15%
loan size more than USD 250, 000	95,762	(1,607)	94,155	12.72%	136	0.49%
Total business loans	**642,785**	**(19,658)**	**623,127**	**84.18%**	**13,915**	**50.15%**
Agricultural loans						
loan size up to USD 50,000	49,211	(1,687)	47,524	6.42%	3,024	10.90%
loan size USD 50,000 to USD 250,000	17,319	(626)	16,693	2.25%	117	0.42%
loan size more than USD 250, 000	13,524	(489)	13,035	1.76%	16	0.06%
Total agricultural loans	**80,054**	**(2,802)**	**77,252**	**10.43%**	**3,157**	**11.38%**
Housing loans						
loan size up to USD 50,000	23,908	(518)	23,390	3.16%	1,749	6.30%
loan size USD 50,000 to USD 250,000	4,466	(65)	4,401	0.59%	36	0.13%
Total housing loans	**28,374**	**(583)**	**27,791**	**3.75%**	**1,785**	**6.43%**
Consumer loans						
loan size up to USD 50,000	10,691	(352)	10,339	1.40%	8,593	30.97%
Total consumer loans	**10,691**	**(352)**	**10,339**	**1.40%**	**8,593**	**30.97%**
Other loans						
loan size up to USD 50,000	1,850	(89)	1,761	0.24%	295	1.06%
Total other loans	**1,850**	**(89)**	**1,761**	**0.24%**	**295**	**1.06%**
Total loans	**763,754**	**(23,484)**	**740,270**	**100.00%**	**27,745**	**100.00%**

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below presents contractual size and outstanding amounts of loans and advances to customers as at 31 December 2013:

in '000 GEL (except for number of outstanding loans and loan sizes) **At 31 December 2013**	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**	**Number of outstanding loans**	**Share of total number**
Business loans						
loan size up to USD 50,000	281,814	(8,841)	272,973	39.40%	15,736	52.27%
loan size USD 50,000 to USD 250,000	239,174	(7,152)	232,022	33.49%	1,880	6.25%
loan size more than USD 250,000	90,289	(2,208)	88,081	12.71%	133	0.44%
Total business loans	**611,277**	**(18,201)**	**593,076**	**85.59%**	**17,749**	**58.96%**
Agricultural loans						
loan size up to USD 50,000	46,235	(1,174)	45,061	6.50%	4,138	13.75%
loan size USD 50,000 to USD 250,000	13,386	(332)	13,054	1.88%	103	0.34%
loan size more than USD 250,000	9,186	(110)	9,076	1.31%	12	0.04%
Total agricultural loans	**68,807**	**(1,616)**	**67,191**	**9.70%**	**4,253**	**14.13%**
Housing loans						
loan size up to USD 50,000	22,827	(457)	22,370	3.23%	4,280	14.22%
loan size USD 50,000 to USD 250,000	2,365	(28)	2,337	0.34%	26	0.09%
Total housing loans	**25,192**	**(485)**	**24,707**	**3.57%**	**4,306**	**14.30%**
Consumer loans						
loan size up to USD 50,000	4,780	(168)	4,612	0.67%	3,352	11.14%
loan size USD 50,000 to USD 250,000	438	(5)	433	0.06%	5	0.02%
Total consumer loans	**5,218**	**(173)**	**5,045**	**0.73%**	**3,357**	**11.15%**
Other loans						
loan size up to USD 50,000	2,920	(106)	2,814	0.41%	437	1.45%
loan size USD 50,000 to USD 250,000	72	(17)	55	0.01%	1	0.00%
Total other loans	**2,992**	**(123)**	**2,869**	**0.41%**	**438**	**1.46%**
Total loans	**713,486**	**(20,598)**	**692,888**	**100.00%**	**30,103**	**100.00%**

The size categories above refer to the amounts originally disbursed to one single borrower.

As at 31 December 2014 and 2013 the Group had no borrowers or groups of connected borrowers whose loan balances exceeded 10% of equity.

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Allowance for losses on loans and advances to customers

Credit risks that arise from loans and advances to customers are covered by allowance for impairment losses. In addition to the allowance for specific impairment losses for receivables for which there is objective evidence of impairment, allowances were formed to cover impairment losses relating to the customer loan portfolio which are incurred but not identified. The composition of allowances for loan impairment was as follows:

in '000 GEL	31 December 2014	31 December 2013
Allowance for individually significant impaired loans	7,291	7,313
Allowance for individually insignificant impaired loans	5,380	4,571
Allowance for collectively assessed loans	10,813	8,714
Total	**23,484**	**20,598**

The following table shows the development of allowances for impairment losses for loans and advances to customers by classes of loans:

in '000 GEL	Business	Agricultural	Housing	Consumer	Other	Total
Allowance for loan impairment at 1 January 2013	**16,436**	**1,593**	**396**	**207**	**109**	**18,741**
Provision for loan impairment during the year	4,790	1,013	109	85	60	6,057
Unwinding of discount on impaired loans	(802)	(34)	-	(5)	(25)	(866)
Amount written off during the year	(4,741)	(1,778)	(103)	(169)	(36)	(6,827)
Recoveries of assets previously written off	2,518	822	83	55	15	3,493
Allowance for loan impairment at 31 December 2013	**18,201**	**1,616**	**485**	**173**	**123**	**20,598**
Provision for loan impairment during the year	7,524	1,815	274	196	6	9,815
Unwinding of discount on impaired loans	(1,681)	(134)	(4)	(2)	-	(1,821)
Amount written off during the year	(7,624)	(969)	(305)	(61)	(57)	(9,016)
Recoveries of assets previously written off	3,238	474	133	46	17	3,908
Allowance for loan impairment at 31 December 2014	**19,658**	**2,802**	**583**	**352**	**89**	**23,484**

Further analysis for each group of loans is detailed in Note 25.

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

in '000 GEL	Business	Agricultural	Housing	Consumer	Other	Total
Neither past due nor specific impaired						
< 10,000 USD	26,551	13,152	4,596	8,904	874	54,077
10,000 to 50,000 USD	151,801	26,869	18,321	1,423	795	199,209
50,000 to 250,000 USD	224,166	20,625	4,891	347	85	250,114
>250,000 USD – borrowers with credit history of over two years	35,853	7,220	-	-	-	43,073
>250,000 USD – new borrowers with credit history of less than two years	162,236	7,024	303	17	-	169,580
Total neither past due nor specific impaired	**600,607**	**74,890**	**28,111**	**10,691**	**1,754**	**716,053**
Specific impaired loans						
- less than 31 days overdue	22,654	3,259	82	-	80	26,075
- 31 to 90 days overdue	5,704	1,133	-	-	-	6,837
- 91 to 180 days overdue	5,882	268	180	-	-	6,330
- 181 to 360 days overdue	7,938	504	1	-	16	8,459
Total specific impaired loans	**42,178**	**5,164**	**263**	**-**	**96**	**47,701**
Less impairment provisions	**(19,658)**	**(2,802)**	**(583)**	**(352)**	**(89)**	**(23,484)**
Total loans and advances to customers	**623,127**	**77,252**	**27,791**	**10,339**	**1,761**	**740,270**

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

in '000 GEL	Business	Agricultural	Housing	Consumer	Other	Total
Neither past due nor specific impaired						
< 10,000 USD	44,428	17,897	9,472	2,917	1,421	76,135
10,000 to 50,000 USD	148,115	21,696	12,871	1,616	1,469	185,767
50,000 to 250,000 USD	216,499	16,569	2,376	559	27	236,030
>250,000 USD – borrowers with credit history of over two years	28,426	4,387	-	-	-	32,813
>250,000 USD – new borrowers with credit history of less than two years	135,080	7,067	103	16	-	142,266
Total neither past due nor specific impaired	**572,548**	**67,616**	**24,822**	**5,108**	**2,917**	**673,011**
Specific impaired loans						
- less than 31 days overdue	22,396	604	258	110	75	23,443
- 31 to 90 days overdue	5,170	381	73	-	-	5,624
- 91 to 180 days overdue	4,254	112	-	-	-	4,366
- 181 to 360 days overdue	6,909	94	39	-	-	7,042
Total specific impaired loans	**38,729**	**1,191**	**370**	**110**	**75**	**40475**
Less impairment provisions	**(18,201)**	**(1,616)**	**(485)**	**(173)**	**(123)**	**(20,598)**
Total loans and advances to customers	**593,076**	**67,191**	**24,707**	**5,045**	**2,869**	**692,888**

The size categories above refer to the amounts originally disbursed to the groups of connected borrowers.

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

At 31 December 2014, there were no past due but not impaired loans except for less than 30 days overdue loans (2013: nil). Loans in arrears more than 30 days are classified as impaired loans. Loans in arrears with less than or equal to 30 days overdue are considered current. Balance of past due but not impaired loans that were in arrears of up to 30 days as at 31 December 2014 and 2013 was as follows:

in '000 GEL	Business	Agricultural	Housing	Consumer	Other	Total
Neither past due nor impaired loans in arrears of less than 30 days						
- As at 31 December 2014	11,465	1,904	274	268	15	**13,926**
- As at 31 December 2013	12,562	1,027	280	30	43	**13,942**

Collateral

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests the borrowers to provide it.

For loans to customers which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

The following tables provide information on collateral securing loans and advances to customers by type of collateral as at 31 December 2014 and 2013:

in '000 GEL **At 31 December 2014**	**Real estate**	**Cash collateral**	**Other**	**No collateral**	**Total**
Business	600,244	3,764	13,353	5,766	623,127
Agricultural	64,344	1,598	734	10,576	77,252
Housing	25,806	-	1	1984	27,791
Consumer	2,199	11	5	8,124	10,339
Other	1,661	-	-	100	1,761
Total	**694,254**	**5,373**	**14,093**	**26,550**	**740,270**

in '000 GEL **At 31 December 2013**	**Real estate**	**Cash collateral**	**Other**	**No collateral**	**Total**
Business	568,595	2,112	7,879	14,490	593,076
Agricultural	46,769	2,086	1,711	16,624	67,190
Housing	15,701	-	7	8,999	24,707
Consumer	3,163	-	19	1,863	5,045
Other	2,356	26	-	488	2,870
Total	**636,584**	**4,224**	**9,616**	**42,464**	**692,888**

The tables above exclude overcollateralization.

Refer to Note 26 for the estimated fair value of each class of loans and advances to customers. For more information on credit risk management and interest rate analysis of loans and advances to customers refer to Note 25.

10. INVESTMENT PROPERTIES

in '000 GEL	2014	2013
Net book value at 1 January	**1,264**	**845**
Additions	842	536
Disposals	(854)	(96)
Depreciation for the year	(24)	(24)
Disposal of depreciation	27	3
Net book value at 31 December	**1,255**	**1,264**
Total acquisition costs	1,289	1,301
Accumulated depreciation	(34)	(37)
Net book value at 31 December	**1,255**	**1,264**

Management estimates that the fair value of the investment properties approximates their carrying amount. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation method. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties.

Rental income in 2014 under operating leases was GEL 197 thousand (2013: GEL 140 thousand).

11. INTANGIBLE ASSETS

The development of intangible assets is shown in the following table:

in '000 GEL	2014	2013
Net book value as at 1 January	**2,868**	**3,491**
Additions	928	276
Disposals	(7)	-
Amortisation for the year	(1,793)	(899)
Net book value as at 31 December	**1,996**	**2,868**
Total acquisition costs as at 31 December	8,210	7,289
Accumulated amortisation as at 31 December	(6,214)	(4,421)
Net book value as at 31 December	**1,996**	**2,868**

12. PROPERTY AND EQUIPMENT

The development of property and equipment was as follows:

in '000 GEL	Land & buildings	Leasehold improvements	Assets under construction	Furniture and fixtures	IT and other equipment	Total
Total acquisition costs	34,901	4,181	37,954	10,907	18,233	106,176
Accumulated depreciation	(2,992)	(2,847)	-	(7,476)	(13,745)	(27,060)
Net book value at 1 January 2013	**31,909**	**1,334**	**37,954**	**3,431**	**4,488**	**79,116**
Transfers	29,072	717	(31,739)	1,950	-	-
Reclassified to non-current assets held for sale - cost	(4,094)	-	-	-	-	(4,094)
Additions	4,396	24	-	1,646	8,469	14,535
Disposals - at cost	-	(1,219)	-	(2,548)	(1,234)	(5,001)
Depreciation for the year	(1,219)	(510)	-	(1,314)	(2,377)	(5,420)
Disposals - accumulated depreciation	-	1,197	-	2,401	1,168	4,766
Reclassified to non-current assets held for sale – accumulated depreciation	779	-	-	-	-	779
Net book value at 31 December 2013	**60,843**	**1,543**	**6,215**	**5,566**	**10,514**	**84,681**
Total acquisition costs	64,275	3,703	6,215	11,955	25,468	111,616
Accumulated depreciation	(3,432)	(2,160)	-	(6,389)	(14,954)	(26,935)
Net book value at 1 January 2014	**60,843**	**1,543**	**6,215**	**5,566**	**10,514**	**84,681**
Transfers	694	266	(960)	-	-	-
Reclassified to non-current assets held for sale - cost	(634)	-	-	-	-	(634)
Additions	11	68	959	1,817	1,719	4,574
Disposals - at cost	(1,056)	(1,102)	(4,031)	(941)	(2,017)	(9,147)
Depreciation for the year	(1,276)	(304)	-	(1,337)	(2,525)	(5,442)
Disposals - accumulated depreciation	140	731	-	908	1,930	3,709
Reclassified to non-current assets held for sale – accumulated depreciation	103	-	-	-	-	103
Net book value at 31 December 2014	**58,825**	**1,202**	**2,183**	**6,013**	**9,621**	**77,844**
Total acquisition costs	63,290	2,935	2,183	12,831	25,170	106,409
Accumulated depreciation	(4,465)	(1,733)	-	(6,818)	(15,549)	(28,565)
Net book value at 31 December 2014	**58,825**	**1,202**	**2,183**	**6,013**	**9,621**	**77,844**

In 2014 buildings of GEL 531 thousand (2013: GEL 3,315 thousand) held by the Group with the view of subsequent disposal were reclassified as assets held for sale (Note 13).

13. OTHER ASSETS

At 31 December 2014 and 2013, other assets were as follows:

in '000 GEL	31 December 2014	31 December 2013
Accounts receivable from credit card companies and money transfer agencies	878	2,183
Other	102	672
Total other financial assets	**980**	**2,855**
Non-current		
Repossessed properties	5,503	5,703
Prepayments for court fees and charges, net of provision	1,394	1,428
Prepayments for fixed assets	451	373
Current		
Prepayments for various services	540	526
Assets classified as held for sale	3,846	3,315
Inventory and other	1,014	1,204
Total other non-financial assets	**12,748**	**12,549**
Total	**13,728**	**15,404**

In 2014 the Group classified the previously owner-occupied land and buildings of GEL 531 thousand (2013: GEL 3,315 thousand) as assets held for sale (Note 12). As at 31 December 2014 efforts to sell those assets have commenced and a sale is highly probable in 2015.

As at the date of initial recognition and as at 31 December 2014, management believes that the carrying value of the assets held for sale was not materially different from their fair value less costs to sell at those dates. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation method. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties.

None of the other financial assets are impaired or past due. Refer to Note 26 for the estimated fair value of other financial assets. Information on related party balances is disclosed in Note 28.

14. DUE TO BANKS

Due to banks consists of short-term loans obtained on the interbank market, as well as funds kept by other banks on correspondent accounts with the Bank.

in '000 GEL	31 December 2014	31 December 2013
Due to banks in OECD countries	1,999	-
Due to banks in non-OECD countries	6	23
Total	**2,005**	**23**

Refer to Note 26 for the estimated fair value of due to banks. Information on related party balances is disclosed in Note 28.

15. CUSTOMERS ACCOUNTS

Customer accounts consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

in '000 GEL	31 December 2014	31 December 2013
Current accounts	**147,156**	**143,488**
- private individuals	42,574	44,980
- legal entities	104,582	98,508
Savings accounts	**227,326**	**222,049**
- private individuals	177,771	181,749
- legal entities	49,555	40,300
Term deposit accounts	**223,101**	**202,976**
- private individuals	188,681	180,958
- legal entities	34,420	22,018
Other liabilities to customers	**694**	**653**
Total	**598,277**	**569,166**

The category "legal entities" includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

The following table shows a breakdown of customer accounts by economic sector:

in '000 GEL	31 December 2014	31 December 2013
Private individuals	409,026	407,687
Trade and services	112,461	100,174
Construction	12,338	11,755
Government	9,866	-
Transportation and communications	4,460	3,294
Agriculture and forestry	2,321	609
Mining and mineral processing	817	2,774
Other	46,988	42,873
Total	**598,277**	**569,166**

At 31 December 2014, the Group had 42 customers (2013: 37 customers) with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 94,419 thousand (2013: GEL 71,827 thousand) or 15.8 % (2013: 12.6 %) of total customer accounts.

At 31 December 2014, customer accounts included deposits of GEL 5,373 thousand (2013: GEL 4,224 thousand) held as collateral for on-balance exposures and GEL 1,055 thousand (2013: GEL 1,180 thousand) held as collateral for irrevocable commitments under financial and performance guarantees and letters of credit. Refer to Note 27.

Interest rate analysis is disclosed in Note 25. Information on related party balances is disclosed in Note 28.

Refer to Note 26 for the estimated fair value of each class of customer accounts.

16. OTHER BORROWED FUNDS

Liabilities to international financial institutions are an important source of financing for the Group. Below are reported medium- to long-term loans from international financial institutions:

in '000 GEL

Liabilities with fixed interest rates	**Due**	**31 December 2014**	**31 December 2013**
ProCredit Holding AG & Co. KGaA	June 2017	9,478	-
ProCredit Bank AG, Frankfurt am Main	October 2015	5,710	5,249
ProCredit Holding AG & Co. KGaA	November 2014	-	5,201
Microfinance Enhancement Facility SA, SICAV-SIF (BlueOrchard Pool)	December 2014	-	17,336
Dexia Micro-credit Fund Sub-fund BlueOrchard	February 2014	-	26,370
Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V. (FMO)	October 2016	16,290	22,450
Ministry of Finance of Georgia	December 2026	2,497	2,670
The European Fund for Southeast Europe S.A., SICAV-SIF (EFSE)	December 2016	16,374	22,306
European Investment Bank (EIB)	April 2022	7,450	6,994
European Investment Bank (EIB)	July 2022	28,873	26,599
European Investment Bank (EIB)	February 2024	5,201	-
European Investment Bank (EIB)	April 2024	21,191	-
Oesterreichische Entwicklungsbank AG (OeEB)	March 2018	28,594	-
Total liabilities with fixed interest rates		**141,658**	**135,175**
Liabilities with variable interest rates			
Kreditanstalt für Wiederaufbau (KfW)	January 2014	-	4,867
Overseas Private Investment Corporation (OPIC)	October 2017	26,231	26,122
Credit Suisse Microfinance Fund Management Group (CSMFMC) (responsAbility Global Microfinance Fund)	April 2014	-	20,185
European Bank for Reconstruction and Development (EBRD)	December 2016	19,201	23,951
responsAbility SICAV (Lux)	April 2014	-	6,133
The European Fund for Southeast Europe S.A., SICAV-SIF (EFSE)	September 2017	32,652	34,964
SNS Institutional Microfinance Fund, legally represented by Pettelaar Effectenbewaarbedrijf N.V. and SNS Asset Management N.V.	March 2014	-	5,312
ProCredit Holding AG & Co. KGaA	November 2016	9,493	-
ProCredit Holding AG & Co. KGaA	April 2016	6,321	-
ProCredit Bank AG, Frankfurt am Main	April 2017	15,231	-
Council of Europe Development Bank (CEB)	August 2021	14,187	-
Total liabilities with variable interest rates		**123,316**	**121,534**
Total liabilities		**264,974**	**256,709**

Refer to Note 26 for the estimated fair value of other borrowed funds. The interest rate analysis is disclosed in Note 25. Information on related party balances is disclosed in Note 28.

17. OTHER LIABILITIES

in '000 GEL	31 December 2014	31 December 2013
Accounts payable	2,634	1,052
Other	306	438
Total other financial liabilities	**2,940**	**1,490**
Received prepayments and deferred fees from guarantees issued	496	541
Total other liabilities	**3,436**	**2,031**

Refer to Note 26 for the estimated fair value of other financial liabilities.

18. OTHER PROVISIONS

in '000 GEL	31 December 2014	31 December 2013
Provisions for unused annual leave	363	421
Provision for termination benefits	-	223
Others	99	87
Total provisions	**462**	**731**

Movement in provisions during the year was as follows:

in '000 GEL	2014	2013
As at 1 January	**731**	**1,030**
Provisions recorded during the year	452	891
Releases of provisions	(721)	(1,190)
As at 31 December	**462**	**731**

The outflow of economic benefits relating to the provisions for unused annual leave and off-balance sheet items is expected during the next one or two years.

19. INCOME TAXES

The applicable tax rate is the income tax rate of 15% for Georgian companies. Income tax expenses recorded in profit or loss for the year comprise the following:

in '000 GEL	2014	2013
Current tax charge	3,840	2,055
Deferred tax charge	437	1,202
Income tax expense for the year	**4,277**	**3,257**

Reconciliation between the expected and the actual taxation charge is provided below:

in '000 GEL	2014	2013
Profit before tax	**28,000**	**22,811**
Theoretical tax charge at statutory rate of 15%	4,200	3,422
Non-deductible expenses/ (non-taxable income)	77	(165)
Income tax expense for the year	**4,277**	**3,257**

19. INCOME TAXES (CONTINUED)

The tax effect of the movements in the temporary differences is detailed below and is recorded at the rate of 15% (2013:15%).

in '000 GEL **Deferred tax on:**	**31 December 2014**	**Charge to profit or loss**	**31 December 2013**	**Credit to profit or loss**	**31 December 2012**
Allowances for losses on loans and advances to customers	1,771	(145)	1,916	378	1,538
Other temporary differences	1,111	582	529	824	(295)
Total deferred tax liability	**2,882**	**437**	**2,445**	**1,202**	**1,243**

There are no material unrecognised deferred tax assets or liabilities, or any taxes recognised directly in equity or other comprehensive income.

20. SUBORDINATED DEBT

The subordinated debt can be broken down as follows:

in '000 GEL	**Due**	**31 December 2014**	**31 December 2013**
Subordinated debt with variable interest rates			
Overseas Private Investment Corporation (OPIC)	December 2019	28,370	26,076
Subordinated debt with fixed interest rates			
Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V. (FMO)	October 2018	-	17,653
ProCredit Holding AG & Co. KGaA	February 2018	5,159	4,742
ProCredit Holding AG & Co. KGaA	April 2018	5,094	4,682
ProCredit Holding AG & Co. KGaA	May 2023	14,315	13,155
Sub-total: ProCredit Holding AG & Co. KGaA		**24,568**	**22,579**
Total		**52,938**	**66,308**

Creditors’ claims to repayment of these liabilities are subordinated to the claims of other creditors. There is no obligation to repay early. In the case of liquidation or insolvency, these creditors will only be paid after the claims of all non-subordinated creditors have first been satisfied.

Refer to Note 26 for the disclosure of the fair value of subordinated debt. The interest rate analysis is disclosed in Note 25. Information on related party balances is disclosed in Note 28.

21. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2014 the shareholder structure was as follows:

in ‘000 GEL (except for the number of shares)	**31 December 2014**			**31 December 2013**		
Shareholder	**Size of stake in %**	**Number of shares**	**Amount of share capital**	**Size of stake in %**	**Number of shares**	**Amount of share capital**
ProCredit Holding AG & Co. KGaA	100%	16,600,000	83,000	100%	16,600,000	83,000
Total	**100%**	**16,600,000**	**83,000**	**100%**	**16,600,000**	**83,000**

The par value per share is GEL 5.00.

21. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

in '000 GEL (except for the number of shares)	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2012	**16,000,000**	**80,000**	**28,286**
Issue of shares	600,000	3,000	2,517
At 31 December 2013	**16,600,000**	**83,000**	**30,803**
Issue of shares	-	-	-
At 31 December 2014	**16,600,000**	**83,000**	**30,803**

Dividends

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the Georgian legislation.

In 2014, dividends declared and distributed amounted to GEL 17,000 thousand (2013: GEL 25,000 thousand). This represented dividends of GEL 1.02 per share (2013: GEL 1.56 per share).

22. NET INTEREST INCOME

Included within "net interest income" are interest income and expenses, as well as the unwinding of premiums and discounts on financial instruments at amortised cost.

in '000 GEL **Interest and similar income**	**2014**	**2013**
Loans and advances to customers	106,595	111,693
Available-for-sale assets	1,258	-
Cash and cash equivalents and due from banks	1,160	2,504
Total interest income	**109,013**	**114,197**
Interest and similar expenses		
Customer accounts	(18,790)	(26,118)
Other borrowed funds	(14,126)	(13,364)
Subordinated debt	(3,655)	(4,730)
Due to banks	(58)	(93)
Total interest expenses	**(36,629)**	**(44,305)**
Net interest income	**72,384**	**69,892**

In 2014, interest income from loans and advances to customers included unwinding of discount on impaired loans of GEL 1,821 thousand (2013: GEL 866 thousand) (Note 9).

23. FEE AND COMMISSION INCOME AND EXPENSES

in '000 GEL **Fee and commission income**	**2014**	**2013**
Payment transfers and cash transactions	6,361	6,456
Debit/credit card issuance fee	1,900	1,821
Account maintenance fee	1,406	1,579
Letters of credit and guarantees	735	579
Internet bank fee	346	290
SMS service fee	188	170
Other fee and commission income	576	955
Total fee and commission income	**11,512**	**11,850**
Fee and commission expenses		
Debit/credit card issuance fee	(2,345)	(2,088)
Payment transfers and transactions	(643)	(681)
Account maintenance fee	(592)	(660)
Service fee	(274)	-
Letters of credit and guarantees	(87)	(879)
Total fee and commission expenses	**(3,941)**	**(4,308)**
Net fee and commission income	**7,571**	**7,542**

The item “other fee and commission income” consists of transactions carried out on behalf of third parties, e.g. Western Union. “Other fee and commission expenses” consists primarily of fee expenses related to the card business.

24. OTHER ADMINISTRATIVE EXPENSES

Other administrative expenses include the following items:

in '000 GEL	**2014**	**2013**
Depreciation and amortization	7,259	6,343
Office rent	3,603	4,200
Communication and IT expenses	2,603	2,078
Personnel recruitment, training and other staff-related expenses	2,179	1,776
Consulting services	1,852	2,250
Marketing, advertising and entertainment	1,206	2,775
Repair and maintenance	1,122	889
Transport	1,093	1,084
Other	5,113	5,793
Total	**26,030**	**27,188**

Of the total personnel and administrative expenses, expenses of GEL 1,584 thousand were incurred on staff training and related activities during 2014 (2013: GEL 1,536 thousand).

25. FINANCIAL RISK AND CAPITAL MANAGEMENT

Management of the Overall Group Risk Profile – Capital Management

Objectives

Overall, the Group is not allowed to take on more risk than it is capable of bearing. The capital management of the Group has the following objectives:

- Ensuring that the Group is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Ensuring full compliance by the Bank with external capital requirements set by the regulator of the Georgian banking sector.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Group to implement its plans for continued growth while following its business strategy.

Processes and procedures

The capital management of the Group is governed by the Policy on Capital Management and the Policy on Risk Bearing Capacity. To ensure that the above stated objectives are met, the Group uses four indicators. Aside from regulatory and Basel II capital ratios, the Tier1 leverage ratio and risk bearing capacity are monitored on a monthly basis by the General Risk Unit and the Parent’s Risk Management Committee.

Compliance with external and internal capital requirements

External minimum capital requirements are imposed and monitored by the local banking supervision authorities of Georgia. Capital adequacy is calculated and reported to the members of the General Risk Management Committee on a monthly basis. These reports include rolling forecasts to ensure not only current but also future compliance.

As at 31 December 2014 the Bank was in compliance with the regulatory capital adequacy requirements imposed by the NBG according to the guidelines of the Basel Committee (Basel I).

The following table shows the capital adequacy ratios as calculated in accordance with NBG requirements:

As at 31 December	2014	2013
Tier 1 Capital /Risk Weighted Assets (RWA) (required to be above 8%)*	9.64%	9.94%
Tier 1 + Tier 2 Capital / RWA (required to be above 12%)*	15.63%	16.77%

As at 31 December 2014 the Bank was also in compliance with the regulatory capital adequacy requirements imposed by the NBG according to the guidelines of the Basel Committee (Basel II and III). The following table shows the capital adequacy ratios as calculated in accordance with those requirements:

As at 31 December	2014	2013
Tier 1 Capital /RWA (required to be above 8.5%)*	10.22%	9.53%
Tier 1 + Tier 2 Capital /RWA (required to be above 10.5%)*	14.70%	14.65%

* These amounts are unaudited

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Additionally, capital adequacy is monitored by using a uniform capital adequacy calculation across the Parent according to the guidelines of the Basel Committee (Basel II).

The following table shows the Basel II capital adequacy ratios of the Group:

Calculation based on Basel II **As at 31 December**	**2014**	**2013**
Tier 1 Capital / RWA*	16.39%	16.30%
Tier 1 + Tier 2 Capital / RWA*	22.21%	23.35%

in '000 GEL **As at 31 December**	**2014**	**2013**
Ordinary share capital	83,000	83,000
Share premium	30,803	30,803
Retained earnings	38,302	31,579
Less other intangibles	(1,996)	(2,868)
Tier I capital	**150,109**	**142,514**
Subordinated loans	42,503	52,957
Other inherent loss allowance	10,813	8,714
Tier II capital	**53,316**	**61,671**
Total regulatory capital	**203,425**	**204,185**

in '000 GEL **As at 31 December**	**2014**	**2013**
RWA on balance*	765,386	725,502
RWA off balance*	12,751	13,350
RWA from open currency position*	2,789	198
RWA from operational risk*	134,962	135,235
Total RWA*	**915,888**	**874,285**

The Group uses a combination of straight equity and subordinated debt, mainly issued by the Parent for capital management purposes.

With respect to leveraging, a lower limit for the ratio of Tier 1 capital to recognized and unrecognized exposures (Tier 1 leverage ratio) was introduced in 2011 according to which the leverage ratio of the Group should not fall below 5%. As at 31 December 2014 and 2013 the Group's leverage ratio was above 10%.

* These amounts are unaudited.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Risk bearing capacity

In addition to regulatory capital ratios, the Group assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Group, i.e. comparing potential losses arising from its operations with its risk bearing capacity.

The risk bearing capacity of the Group is defined as equity (net of intangibles) plus subordinated debt, which amounted to GEL 203 million as at December 2014 (2013: GEL 208 million). The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential, i.e. GEL 122 million* for 2014 (2013: GEL 125 million*). For calculating potential losses in the different risk categories the following concepts are used:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates are calculated and applied to the current loan portfolio to calculate potential loan losses;
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation;
- Market risks: Whereas historical currency fluctuations are statistically analysed and the highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the 12-months interest earnings at a standard interest rate shock for EUR/USD (two percentage points, Basel interest rate shock) and higher (historical) shock levels for local currency;
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

The underlying portfolio quality did not show major changes and stayed stable as at 31 December 2014 and 2013. Counterparty, interest rate and currency risk limit utilisation remained low. All risks combined, as quantified by the methods established in the Group Standards for Risk-bearing Capacity Calculations, are below 60% of the Group’s total risk taking potential as defined. Other risks have been assessed as not sufficiently relevant for the Group or as relevant, but not quantifiable.

The table below shows the distribution of the RAtCR among the different risk categories as determined by the Parent’s Risk Management Committee and the level of utilisation for the Group as at the end of December 2014. The economic capital required to cover operational risk is calculated according to the Basel II standard approach.

Risk Factor	**Risk Detail**	**Limit** (in %) *	**Limit** (in '000 GEL)*	**Actual** (in '000 GEL)*	**Limit Used** (in % of risk bearing capacity)*
Credit Risk (Clients)		33.0%	66,666	18,616	9.2%
Counterparty Risk	Commercial Banks	1.0%	2,020	12	0.0%
	Central Banks	4.0%	8,081	2,126	1.1%
Market Risk	Interest Rate Risk	10.0%	20,202	7,028	3.5%
	Currency Risk	2.0%	4,040	557	0.3%
Operational Risk		10.0%	20,602	10,797	5.3%
Resources Available to Cover Risk		**60.0%**	**121,611**	**39,136**	**19.4%**

* These amounts are unaudited.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

As at the end of December 2013 the distribution of RAtCR was as follows:

Risk Factor	Risk Detail	Limit (in %)*	Limit (in '000 GEL)*	Actual (in '000 GEL)*	Limit Used (in % of risk bearing capacity)*
Credit Risk (Clients)		33.0%	68,516	17,469	8.4%
Counterparty Risk	Commercial Banks	1.0%	2,076	11	0.0%
	Central Banks	4.0%	8,305	2,031	1.0%
Market Risk	Interest Rate Risk	10.0%	20,762	8,781	4.2%
	Currency Risk	2.0%	4,152	10	0.0%
Operational Risk		10.0%	20,762	10,819	5.2%
Resources Available to Cover Risk		**60.0%**	**124,573**	**39,121**	**18.8%**

Management of individual risks

In 2014, the Group further developed the policies and tools in managing of individual risks that serve the further enhancement of the risk management of the Group. In particular, strengthened processes were introduced for the management of:

- Credit risk
- Counterparty risk
- Market risk
- Liquidity risk
- Operational risk and
- Anti-money laundering activities.

The Group places emphasis on a general understanding of the factors driving risk and an ongoing analysis and group-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood completely and managed appropriately. This includes, for example, ensuring that no products or services are offered unless they are thoroughly understood by all parties and can be properly managed.

Deviations from limits used for individual risks within which the Group positions its own risk strategies are only allowed upon approval of the Parent's Risk Management Committee, but under consideration of being in compliance with stricter limits (e.g. in cases where such limits are stipulated by local law).

Credit risk

Credit risk is defined as the danger that the party to a credit transaction will not be able, or will only partially be able, to meet its contractually agreed obligations towards the Group. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk faced by the Group.

* These amounts are unaudited.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The following table shows the maximum exposure to credit risk:

in '000 GEL **As at 31 December**	**2014**	**2013**
Interbank placements		
Balances at NBG	119,675	150,103
Due from banks	57,993	44,988
Total interbank placements	**177,668**	**195,091**
Loans and advances to customers		
Loans and advances to customers	763,754	713,486
Allowance for impairment	(23,484)	(20,598)
Loans and advances to customers	**740,270**	**692,888**
Treasury bills issued by the Government of Georgia	**9,829**	**-**
Other financial assets	**980**	**2,855**
Financial guarantees and stand-by letters of credit	**6,953**	**8,865**
Performance guarantees	**12,487**	**10,398**
Commitments to extend credit	**28,465**	**24,925**

Credit default risk from customer credit exposures

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on a thorough implementation of the following lending principles:

- analysis of the debt capacity of borrowers
- documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- avoidance of over indebting the Group’s borrowers
- maintaining regular contact with the borrowers
- monitoring of loan repayment
- practising effective arrears management
- exercising strict collateral collection in the event of default
- investing in staff training
- implementing carefully designed and well-documented processes
- application of the “four-eyes principle”

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures. The processes are distinguished mainly in terms of segregation of duties; the information collected from the clients, ranging from audited financial statements to self-declarations; the key criteria for credit exposure decisions based on the financial situation of the borrower; in particular for individually insignificant credit exposures, the liquid funds, creditworthiness and character of the borrower; and the collateral requirements. All credit decisions are taken by a credit committee.

Loans in arrears are defined as loans for which contractual interest and/or principal payments are overdue. Once arrears occur, the Group rigorously follows-up on the non-repayment of credit exposures, and identifies any potential for default on a credit exposure. Recovery and collection efforts are performed by specialised employees, typically with either a lending or a legal background.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The quality of the loan portfolio is monitored on an ongoing basis. The measure for loan portfolio quality is the portfolio at risk (PAR), which the Group defines as all outstanding credit exposures with one or more interest and/or principal payment overdue by more than 30 days. This measure was chosen because the vast majority of all credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. No collateral is deducted and no other exposure-reducing measures are applied when determining the PAR of such loans.

Additionally, the quality of credit operations is assured by the Business Operations Control Unit which is responsible for monitoring the Group's credit operations and compliance with its procedures. These departments, made up of experienced front office staff with a lending background, ensure compliance, in form and substance, with the lending policy and procedures through on-site checks and system screening.

in '000 GEL	PAR (> 30 days based on the exposure)	PAR (> 30 days based on individual loans)
At 31 December 2014	**3.74%**	**3.20%**
At 31 December 2013	**3.15%**	**2.83%**

The restructuring of credit exposures is generally necessitated by economic problems encountered by the borrower. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, the credit exposures for which the terms have been renegotiated would be past due or impaired.

The Group regularly analyses the level of credit exposure defaults that are expected within a given year, based on past experience. The management estimates that incurred losses are fully covered with loan loss provisions.

According to the policies of the Parent, usually only short-term credit exposures may be issued without being fully collateralised. Credit exposures with a higher risk profile are always covered with solid collateral, typically real estate. As the majority of credit exposures are fixed instalment loans with a rather short maturity, the fair value of collateral usually decreases at a substantially slower rate than the outstanding loan amount and, therefore, is not monitored for exposures below USD 70,000.

The Parent's policy on the treatment of repossessed property requires that all goods obtained due to customers' defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. Also, repossessed property is sold at the highest possible price via public auction, and any remaining balance after the payment of principal, interest and penalty is credited to the customer's account. Most repossessed property consists of land and buildings. A smaller part is composed of inventory, equipment and vehicles.

Credit portfolio risk from customer lending

The granularity of the credit exposure portfolio is an effective credit risk mitigating factor. The core business of the Group, lending to very small, small and medium enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR 250,000 constitutes a supplementary area of the Group's business in terms of its overall strategic focus. Many of these clients are dynamically growing enterprises that have been clients of the Group for many years. Nonetheless, the higher complexity of these

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

Overall, the loan portfolio of the Group includes 204 borrower group credit exposures of more than USD 250,000 (2013: 112 borrower group credit exposures).

The structure of the loan portfolio is regularly reviewed by the Portfolio Management and Analysis Group, in order to identify potential events which could have an impact on large portion of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

in '000 GEL **At 31 December 2014**	**Business**	**Agricultural**	**Housing**	**Consumer**	**Other**	**Total**
< 50,000 USD	267,924	49,211	23,908	10,691	1,850	353,584
50,000 to 250,000 USD	279,099	17,319	4,466	-	-	300,884
>250,000 USD	95,762	13,524	-	-	-	109,286
Total	**642,785**	**80,054**	**28,374**	**10,691**	**1,850**	**763,754**

in '000 GEL **At 31 December 2013**	**Business**	**Agricultural**	**Housing**	**Consumer**	**Other**	**Total**
< 50,000 USD	281,814	46,235	22,827	4,780	2,920	358,576
50,000 to 250,000 USD	239,174	13,386	2,365	438	72	255,435
>250,000 USD	90,289	9,186	-	-	-	99,475
Total	**611,277**	**68,807**	**25,192**	**5,218**	**2,992**	**713,486**

The Group follows a guideline that limits concentration risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) must be approved by the Parent's Credit Risk Committee and Supervisory Board. No single large credit exposure may exceed 25% of the Group’s regulatory capital.

Larger credit exposures are analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Committee. Information about related parties is typically collected prior to lending.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Individually significant credit exposures are monitored by the respective Credit Committee and Business Client Adviser or Credit Analyst. For such credit exposures, the committee assesses whether objective evidence of impairment exists, i.e.:

- more than 30 days in arrears
- delinquencies in contractual payments of interest or principal
- breach of covenants or conditions
- initiation of bankruptcy proceedings
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client)
- changes in the customer's market environment
- the general economic situation

In addition, individual credit exposures which are regarded as insignificant, or groups of individually insignificant credit exposures, may be classified as impaired if events, such as political unrest, a significant economic downturn, a natural disaster or other external events occur in the country.

For individually significant exposures a discounted cash flow approach is applied in order to calculate the respective impairment allowance. Expectations regarding both the timing and the amount of future cash flows are conservative and adequately reflects the uncertainties of the future. This concerns any net expected future payments from the customer and its guarantor (s), as well as expected net recoveries on collateral. The expected direct costs of collateral recoveries is based on actually incurred costs in previous, comparable cases as well as on external standards such as established costs for presenting cases to the court, execution costs as percentages of the collateral value etc. The expected cash inflows from the customer or its guarantor (s) are based on the assessment of the payment capacity of the respective customer or guarantor (s). In cases where a relevant financial analysis showing the payment capacity of the customer or guarantor (s) is not available, only cash flows from collateral are assumed. The amount that can be recovered on collateral and the expected time until recovery is estimated based on the previous relevant experience of the Bank with collateral enforcement on comparable collateral items. If the Bank's internal data is not reliable or comparable enough, the Bank uses sufficient and reliable information from external sources that supports the assumptions used for the timing and value of expected future cash flows from collateral.

As at 31 December 2014 and 2013 more than 80% of the carrying amount of the individually impaired loans was fully collateralized by the real estate. The fair value of real estate and other assets was determined using the internal guidelines for collateral evaluation.

Individually significant non-restructured credit exposures for which there is no need for an individual impairment allowance are covered by collective assessment allowances. Different allowance rates are applied for non-restructured and standard and non-standard restructured credit exposures. The key determining factors in differentiating between the different types of restructured credit exposures are the number of days in arrears at the time of restructuring, the magnitude of the payment problems and the nominal value of the interest rate after restructuring took place.

For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days (as well as insignificant restructured credit exposures not being in arrears but qualified as impaired), the impairment is determined depending on the number of days in arrears.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk from interbank placements and issuer risk

Conceptual risk management framework

The objective of counterparty and issuer risk management is to prevent the Group from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Group. This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time;
- replacement risk: the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market;
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed;
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security.

Counterparty and issuer risks evolve especially from the Group's need to invest its liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. Excess liquidity is placed in the interbank market with short maturities, typically up to three months. Foreign exchange transactions are also concluded with short maturities, typically up to two days. Derivative contracts, which are used to protect the Group against foreign currency risk, may have maturity of up to one year. Furthermore, as a result of the Group's efforts to finance its lending activities with retail deposits, there is also an exposure towards the NBG. This is because the NBG requires banks operating in its territory to hold a mandatory reserve in a NBG account, the size of which depends on the amount of deposits taken from customers or other funds used to fund the Group's operations.

The counterparty and issuer risks are managed according to the Counterparty Risk Management Policy (incl. Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international banks of systemic importance and, for local currency business, local banks with a good reputation and financial standing are eligible counterparties. As a general rule, the Group applies limits of up to 10% of its regulatory capital for exposures to banking groups in non-OECD countries and up to 25% for those in OECD countries with maximum remaining maturity of 3 months. Higher limits and longer maturities are subject to approval by the Parent's Risk Management Committee.

The Asset Liability Committee (ALCO) ensures that every counterparty is subject to a thorough analysis, typically conducted by the General Risk Unit in collaboration with the Treasury and Cash Management Unit and Compliance and Anti-Money Laundering (AML) Unit. If the counterparty is approved, a limit for the maximum exposure is set.

According to the Counterparty Risk Management Policy the Group is not supposed to conduct any speculative trading activities. However, for liquidity management purposes, the Group is allowed to buy and hold securities (treasury bills and certificates of deposits). The inherent issuer risk is managed by the provisions of the Treasury Policy. Among other requirements, the policy stipulates that the securities should preferably be issued by the Government of Georgia or the NBG, or in case of foreign currency by international and/or multinational institutions with very high credit ratings (i.e. an international rating of AA- or better).

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The following table provides an overview of the types of counterparties and issuers with whom the Group concludes transactions.

in '000 GEL	2014	In %	2013	In %
Banking groups	**57,993**	**31%**	**44,988**	**23%**
OECD banks	33,579	18%	34,038	17%
Non-OECD banks	24,414	13%	10,950	6%
NBG	**119,675**	**64%**	**150,103**	**77%**
Mandatory reserve	75,838	41%	72,997	37%
Other exposures	43,837	23%	77,106	40%
Government of Georgia	**9,829**	**5%**	-	-
Treasury bills	9,829	5%	-	-
Total counterparty and issuer exposure	**187,497**	**100%**	**195,091**	**100%**

Interbank placements are transactions with banks which are subdivided into those based in OECD countries and those in non-OECD countries. The total exposure to banks increased in 2014 by approximately GEL 13 million and amounted to 31% (2013: 23%) of the total counterparty and issuer risk exposure. The exposure is distributed across five OECD and four non-OECD banking groups.

The exposure to the NBG is primarily related to the mandatory reserve requirement which makes up 64% (2013: 77%) of the Group's counterparty and issuer exposure. The largest exposure to the NBG relates to cash accounts and certificates of deposits issued by the NBG. The distribution of the NBG and government exposures across currencies can be seen in the following table:

in '000 GEL **31 December 2014**	GEL	EUR	USD	Total
NBG	**43,225**	**12,742**	**63,708**	**119,675**
Mandatory reserve	-	12,660	63,178	75,838
Balances at NBG excluding mandatory reserves	16,340	82	530	16,952
NBG certificates of deposit	26,885	-	-	26,885
Government of Georgia	**9,829**	**-**	**-**	**9,829**
	53,054	**12,742**	**63,708**	**129,504**

in '000 GEL **31 December 2013**	GEL	EUR	USD	Total
NBG	**76,689**	**12,923**	**60,491**	**150,103**
Mandatory reserve	-	12,506	60,491	72,997
Balances at NBG excluding mandatory reserves	19,878	417	-	20,295
NBG certificates of deposit	56,811	-	-	56,811
	76,689	**12,923**	**60,491**	**150,103**

Liquidity risk

The Group's liquidity risk management (LRM) system is tailored to the specific characteristics of the Group. On the one hand, the Group was founded as a lending institution and financial intermediary for ordinary people. Consequently, its loan portfolio is the largest single component on the asset side, and is primarily funded through locally mobilised deposits. On the other hand, the loan portfolio is characterised by a large number of exposures to small businesses and is therefore highly diversified. The majority of loans are disbursed as instalment term loans, and the default rate is low. Therefore cash flows are highly predictable. Since deposits are the primary source of financing for loan portfolio growth, the Group's dependency on

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital market instruments is low. All of these factors justify the use of a relatively simple and straightforward LRM system.

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Group will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

The ALCO determines the liquidity strategy of the Group and sets the liquidity risk limits. The Treasury and Cash Management Unit manage the Group’s liquidity on a daily basis and is responsible for the execution of the ALCO’s decisions. Compliance with strategies, policies and limits are constantly monitored by the General Risk Unit.

In addition to the requirements set by the local regulatory authorities, the standards that the Group applies in this area are guided by the Liquidity Risk Management Policy and the Treasury Policy. Both policies were first implemented by the Group in 2009 and are updated on an annual basis. These policies are also in line with the Principles for Sound Liquidity Risk Management defined by the Basel Committee on Banking Supervision. Limit breaches and exceptions to these policies are subject to decisions of the Parent’s ALCO and Parent’s Risk Management Committee.

The Treasury and Cash Management Unit manages liquidity on a daily basis using a cash flow analysis tool. This tool is designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.

The key tools for measuring liquidity risks includes a forward looking liquidity gap analysis, which shows the contractual maturity structure of assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Group’s liquidity situation in a worst-case scenario (stress test). Based on the gap analyses, a set of key liquidity risk indicators and early warning indicators are calculated on at least a monthly basis and are closely monitored. The main indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which compares the amounts of assets available and liabilities assumed to be due within the next 30 days. The indicator must be above 1, which implies that the Group has sufficient funds to repay the liabilities simulated to be due within the next 30 days.

This is complemented by the early warning indicators, especially the highly liquid assets indicator, which correlates highly liquid assets to customer deposits

The Group also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The respective key indicator is defined as the Liquidity Position. This analysis also takes into account credit lines which can be drawn by the Group with some time delay, and other assets which take some time to liquidate.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy also defines reporting triggers. If the highly liquid asset indicator drops below 20%, if the short-term liquidity position becomes negative, or if the depositor concentration rises above 20%, the ALCO and the Parent’s ALCO or Risk Management Committee must be involved in decisions on appropriate measures.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

In order to safeguard the liquidity of the Group even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and on this basis the Group's liquidity reserve target is determined by the ALCO. The results of these stress tests are also used to determine liquidity standby lines provided by the Parent to the Group if necessary.

The Group also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors.

The Group also minimises its dependency on the interbank market. The Group's policies stipulate that the total amount of interbank liabilities may not exceed 40% of its available lines and overnight funding may not exceed 4% of total liabilities. Higher limits need to be approved by the Parent's ALCO.

In order to manage liquidity risk on a daily level, the Group works with a cash flow analysis tool. This tool is designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast the level of highly liquid assets in the future.

The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Group's available assets should always exceed its expected liabilities, as calculated by applying the above assumptions.

In addition, liquidity risk is measured and limited, based on a forward-looking liquidity gap analysis showing the contractual maturity structure of the assets and liabilities.

The following tables show the remaining contractual maturities of the undiscounted financial assets and financial liabilities. The remaining contractual maturity is defined as the period between the reporting date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

in '000 GEL At 31 December 2014	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 -5 years	More than 5 years	Total
Financial Assets							
Cash and cash equivalents	160,091	15,000	-	-	-	-	175,091
Due from banks	57,999	-	-	-	-	-	57,999
Unused unconditional credit commitments	18,890	-	-	-	-	-	18,890
Loans and advances to customers	44,787	61,458	84,774	175,604	496,552	105,631	968,806
Investment securities available-for-sale	11	94	-	437	11,951	234	12,727
Gross settled forwards	-	41,281	-	-	-	-	41,281
Other financial assets	766	93	121	-	-	-	980
Total Financial Assets	**282,544**	**117,926**	**84,895**	**176,041**	**508,503**	**105,865**	**1,275,774**
Financial Liabilities							
Due to banks	2,005	-	-	-	-	-	2,005
Customer accounts	392,013	36,973	53,130	71,113	56,417	3,812	613,458
Other borrowed funds	2,465	8,207	18,438	37,478	185,937	37,403	289,928
Gross settled forwards	-	41,437	-	-	-	-	41,437
Financial and performance guarantees and letters of credit	3,597	1,712	4,653	5,599	3,367	512	19,440
Commitments to extend credit	28,465	-	-	-	-	-	28,465
Other financial liabilities	2,940	-	-	-	-	-	2,940
Subordinated debt	-	731	1,463	1,179	50,241	19,158	72,772
Total Financial Liabilities	**431,485**	**89,060**	**77,684**	**115,369**	**295,962**	**60,885**	**1,070,445**
Liquidity Gap	**(148,941)**	**28,866**	**7,211**	**60,672**	**212,541**	**44,980**	
Cumulative Liquidity Gap	**(148,941)**	**(120,075)**	**(112,864)**	**(52,192)**	**160,349**	**205,329**	

in '000 GEL At 31 December 2013	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 -5 years	More than 5 years	Total
Financial Assets							
Cash and cash equivalents	166,972	31,981	-	-	-	-	198,953
Due from banks	44,988	-	-	-	-	-	44,988
Unused unconditional credit commitments	17,363	-	-	-	-	-	17,363
Loans and advances to customers	41,695	57,626	85,935	171,703	451,116	104,887	912,962
Investment securities available-for-sale	-	-	-	-	-	234	234
Gross settled forwards	19,113	23,891	-	-	-	-	43,004
Other financial assets	2,855	-	-	-	-	-	2,855
Total Financial Assets	**292,986**	**113,498**	**85,935**	**171,703**	**451,116**	**105,121**	**1,220,359**
Financial Liabilities							
Due to banks	23	-	-	-	-	-	23
Customer accounts	387,981	32,411	54,471	69,041	44,503	4,238	592,645
Other borrowed funds	385	51,622	23,426	40,528	136,108	20,288	272,357
Gross settled forwards	19,104	23,886	-	-	-	-	42,990
Financial and performance guarantees and letters of credit	1,685	2,883	6,285	4,785	3,145	480	19,263
Commitments to extend credit	24,925	-	-	-	-	-	24,925
Other financial liabilities	1,490	-	-	-	-	-	1,490
Subordinated debt	-	673	3,960	3,615	38,148	45,809	92,205
Total Financial Liabilities	**435,593**	**111,475**	**88,142**	**117,969**	**221,904**	**70,815**	**1,045,898**
Liquidity Gap	**(142,607)**	**2,023**	**(2,207)**	**53,734**	**229,212**	**34,306**	
Cumulative Liquidity Gap	**(142,607)**	**(140,584)**	**(142,791)**	**(89,057)**	**140,155**	**174,461**	

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The Group does not use the above maturity analysis, which includes future contractual interest, for the purpose of managing liquidity risk. Instead, the Group monitors the expected remaining maturities (excluding accrued interest, and provision for impairment and deferred fees) and the resulting expected liquidity gap as follows:

in '000 GEL **At 31 December 2014**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**More than 1 year**	**Total**
Assets						
Cash on hand and balances with NBG	148,090	-	-	-	-	148,090
Due from banks	57,693	-	-	-	-	57,693
Unused irrevocable and unconditional credit commitments	18,890	-	-	-	-	18,890
Certificates of deposit with the NBG	12,086	14,914	-	-	-	27,000
Treasury bills	-	-	-	-	9,520	9,520
Loans and advances to customers	33,258	49,047	66,989	136,920	473,852	760,066
Currency derivatives	-	41,281	-	-	-	41,281
Total Assets	**270,017**	**105,242**	**66,989**	**136,920**	**483,372**	**1,062,540**
Liabilities						
Current liabilities to banks	1,003	1,002	-	-	-	2,005
Current liabilities to customers	75,035	15,007	22,511	45,021	217,602	375,176
Contingent liabilities from financial and performance guarantees	919	-	-	-	-	919
Unused irrevocable credit commitments	5,693	-	-	-	-	5,693
Liabilities to related party banks	-	-	-	5,667	39,669	45,336
Liabilities to International Financial Institutions	2,255	5,384	15,600	27,086	167,255	217,580
Liabilities to customers	15,569	33,600	49,940	65,990	52,414	217,513
Subordinated debt	-	-	-	-	51,948	51,948
Currency derivatives	-	41,437	-	-	-	41,437
Total Liabilities	**100,474**	**96,430**	**88,051**	**143,764**	**528,888**	**957,607**
Expected Liquidity Gap	**169,543**	**8,812**	**(21,062)**	**(6,844)**	**(45,516)**	
Expected Cumulative Liquidity Gap	**169,543**	**178,355**	**157,293**	**150,449**	**104,933**	

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

in '000 GEL **At 31 December 2013**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**More than 1 year**	**Total**
Assets						
Cash on hand and balances with NBG	141,900	-	-	-	-	141,900
Due from banks	44,688	-	-	-	-	44,688
Unused irrevocable and unconditional credit commitments	17,363	-	-	-	-	17,363
Certificates of deposit with the NBG	25,004	31,807	-	-	-	56,811
Loans and advances to customers	31,103	44,654	68,045	133,279	434,309	711,390
Currency derivatives	19,113	23,891	-	-	-	43,004
Total Assets	**279,171**	**100,352**	**68,045**	**133,279**	**434,309**	**1,015,156**
Liabilities						
Current liabilities to banks	11	12	-	-	-	23
Current liabilities to customers	73,107	14,621	21,932	43,864	212,011	365,535
Contingent liabilities from financial and performance guarantees	904	-	-	-	-	904
Unused irrevocable credit commitments	4,985	-	-	-	-	4,985
Liabilities to related party banks	160	-	-	4,689	5,209	10,058
Liabilities to International Financial Institutions	-	49,237	20,497	36,590	138,752	245,076
Liabilities to customers	18,920	29,206	50,646	59,148	39,490	197,410
Subordinated debt	-	-	1,736	1,736	61,639	65,111
Currency derivatives	19,104	23,886	-	-	-	42,990
Total Liabilities	**117,191**	**116,962**	**94,811**	**146,027**	**457,101**	**932,092**
Expected Liquidity Gap	**161,980**	**(16,610)**	**(26,766)**	**(12,748)**	**(22,792)**	
Expected Cumulative Liquidity Gap	**161,980**	**145,370**	**118,604**	**105,856**	**83,064**	

The expected liquidity gap quantifies the potential liquidity needs within a time bucket if it has a negative value, and it shows a potential excess liquidity if it has a positive one. This calculation includes positive excess values from the previous time buckets. On an operational level, the gap report is broken down into the most important currencies (EUR/USD together and the local currency). The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities.

As at 31 December 2014, the Group was in compliance with the sufficient liquidity indicator limit set at 1 according to the Liquidity Risk Management Policy.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

In order to ensure that the Group has a sufficient level of funds in the event that its customers suddenly wish to withdraw their deposits, the Group monitors the ratio of highly liquid assets to customer deposits. These amounts are held in highly liquid assets, which can quickly be converted into cash. As at the end of 2014 the highly liquid assets indicator was at 41% (2013: 43%), being above the reporting trigger of 20%.

As mentioned above, the Group also performs stress test calculations in order to safeguard its liquidity. The result is analysed and the Group's liquidity reserve target is determined by ALCO. The results of the stress tests are also used to determine liquidity stand-by lines provided by the Parent to the Group if necessary. As at 31 December 2014 the Group had a positive liquidity gap in the first time bucket according to the internal worst-case stress test calculation.

The Group aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), such as the EBRD, EFSE, OPIC, FMO, SNS, CEB, OeEB EIB which provide earmarked funds under targeted financing programmes (e.g. for lending to SMEs). In order to further diversify its sources of funds, the Group also maintains relationships with other banks, especially for short-term liquidity lines. In addition, the Parent and also ProCredit Bank Germany provide short- and long-term funding.

In order to maintain a high level of diversification among its customer deposits, the Group has implemented a concentration trigger, which aims at ensuring that the ten largest customer deposits do not exceed 20% of total deposits.

The table below shows the approximate distribution of funding sources as at 31 December 2014 and 2013. It shows that, as mentioned above, customer deposits are by far the largest source of funds. The second largest source of funding is liabilities to IFIs.

In %	31 December 2014	31 December 2013
Liabilities to banks	0.2%	0.0%
Customer deposits	64.9%	63.7%
Liabilities to the companies under Parent's control	7.7%	3.7%
Liabilities to IFIs	26.8%	32.4%
Other liabilities	0.4%	0.2%

Overall, the Group considers its funding sources to be sufficiently diversified, especially given that the bulk of the funds are provided by a large number of customer deposits.

Funding risk

The business plan, which is reviewed annually, serves as the basis for determining medium-term funding needs in regard to both equity and debt financing for the Group. In order to ensure sufficient liquidity at all times, the Parent holds a liquidity reserve, which can be tapped in case of emergency.

The Group still considers funding risk to be low due to strong reliance on customer deposits as well as the fact that the Group continues to access funding from various international sources.

Market price risk

Market price risk for the Group is defined as currency risk and interest rate risk.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Currency risk

The assets and liabilities of the Group are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Group has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Due to the still developing financial market, a history of high inflation and exchange rate fluctuations a considerable part of private savings in Georgia is held in USD or EUR. Also, loans in USD which are available at (nominally) lower interest rates and have longer maturities (as compared to GEL loans) still play an important role in the financing of many of the country's businesses. As a result, foreign currencies play a major role in the Group's operations.

Currency risk management is guided by the Foreign Currency Risk Management Policy. This policy was first implemented by the Group in 2009 and is updated on an annual basis. Its adherence to this policy is constantly monitored by Parent's financial risk team at the group level, and amendments as well as exceptions to this policy are decided by the Parent's ALCO or Risk Management Committee.

The Treasury Department is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury Department also manages the currency positions of the Group on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. According to the Treasury Policy, derivatives may only be used for hedging purposes to close positions of the Group as well as for liquidity purposes. Permissible foreign exchange derivatives are currency forwards (including non-deliverable forwards) and currency swaps. The Group's foreign currency exposures are monitored and controlled on a daily basis by the Treasury back office and General Risk Unit.

Developments in the foreign exchange markets and the currency positions are regularly reported to the ALCO, which is authorised to take strategic decisions with regard to Treasury activities. In cases where exceptions to the Group's policy may be necessary or violations to the limits may have occurred, the General Risk Unit reports to the Parent's ALCO or Risk Management Committee and proposes appropriate measures.
The Group aims to close currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Group has established two levels of control: early warning indicators and limits. In cases where the positions cannot be brought back below 5% of the regulatory capital for a single currency, or 7.5% for the aggregate of all currencies, the bank's ALCO and the Parent's ALCO have to be informed and appropriate measures taken. This mechanism helps to ensure that the Group's total OCP does not exceed 10% of regulatory capital. Exemptions from the limit or strategic positions are subject to approval by the Parent's ALCO or Risk Management Committee.

The Group's OCPs were within the aforementioned limits as at 31 December 2014.

The following significant exchange rates applied during the year:

in GEL	**Average rate 2014**	**Average rate 2013**	**Reporting date spot rate 31 December 2014**	**Reporting date spot rate 31 December 2013**
USD 1	1.7643	1.6634	1.8890	1.7363
EUR 1	2.3439	2.2094	2.2934	2.3891

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The following tables show the distribution of financial monetary assets and liabilities across its material operating currencies:

in '000 GEL **As at 31 December 2014**	**EUR**	**USD**	**Other currencies**	**Local currency**	**Total**
Assets					
Cash and cash equivalents	17,306	88,588	524	68,557	174,975
Due from banks	19,721	21,309	956	16,007	57,993
Investment securities available-for-sale	-	-	-	9,829	9,829
Loans and advances to customers	8,850	566,395	-	165,025	740,270
Other financial assets	372	376	-	232	980
Total financial assets	**46,249**	**676,668**	**1,480**	**259,650**	**984,047**
Open forward position (assets)	**41,281**	**-**	**-**	**-**	**-**
Liabilities					
Due to banks	2	1,999	-	4	2,005
Customer accounts	83,852	341,135	1,348	171,942	598,277
Other borrowed funds	2,447	243,296	-	19,231	264,974
Other financial liabilities	1,197	30	-	1,713	2,940
Subordinated debt	-	52,938	-	-	52,938
Total financial liabilities	**87,498**	**639,398**	**1,348**	**192,890**	**921,134**
Open forward position (liabilities)	**-**	**41,437**	**-**	**-**	**-**
Net position	**32**	**(4,167)**	**132**	**66,760**	**62,757**
Financial and performance guarantees and letters of credit	501	10,303	-	8,636	**19,440**
Commitments to extend credit	2,133	19,064	-	7,268	**28,465**

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

in '000 GEL **As at 31 December 2013**	**EUR**	**USD**	**Other currencies**	**Local currency**	**Total**
Assets					
Cash and cash equivalents	17,670	81,367	397	99,277	198,711
Due from banks	14,507	24,999	480	5,002	44,988
Loans and advances to customers	9,224	535,096	-	148,568	692,888
Other financial assets	608	1,504	1	742	2,855
Total financial assets	**42,009**	**642,966**	**878**	**253,589**	**939,442**
Open forward position (assets)	**43,004**	**-**	**-**	**-**	
Liabilities					
Due to banks	1	-	-	22	23
Customer accounts	81,940	308,671	728	177,827	569,166
Other borrowed funds	2,926	225,013	-	28,770	256,709
Other financial liabilities	-	485	-	1,005	1,490
Subordinated debt	-	66,308	-	-	66,308
Total financial liabilities	**84,867**	**600,477**	**728**	**207,624**	**893,696**
Open forward position (liabilities)	**-**	**42,990**	**-**	**-**	
Net position	**146**	**(501)**	**150**	**45,965**	**45,760**
Financial and performance guarantees and letters of credit	1,231	6,797	-	11,235	**19,263**
Commitments to extend credit	2,371	13,286	-	9,268	**24,925**

In order to identify maximum expected losses associated with currency fluctuations, seven years of historical currency movements are statistically analysed and the highest variances (99% and 95% confidence levels, 1-year holding period) are applied to current currency positions:

in '000 GEL **As at 31 December 2014**	**95% confidence**	**99% confidence**
Maximum loss (VaR)	(468)	(565)
Average loss in case confidence interval is exceeded	(412)	(461)

in '000 GEL **As at 31 December 2013**	**95% confidence**	**99% confidence**
Maximum loss (VaR)	(77)	(90)
Average loss in case confidence interval is exceeded	(69)	(77)

Interest rate risk

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities. Most of the Group’s loans are offered at fixed interest rates. The average maturity of loans typically exceeds that of customer deposits, thus exposing the Group to interest rate risk as described above. Given that financial instruments to mitigate interest rate risks (hedges) are only available for hard currencies such as EUR and USD, this requires the Group to closely monitor interest rate risk.

The Group’s approach to measuring and managing interest rate risk is guided by the Interest Rate Risk Management Policy.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The main indicator for managing interest rate risk measures the potential impact on the economic value of all assets and liabilities. The indicator analyses the potential loss that the Group would incur in the event of very unfavourable movements (shocks) of the interest rates on assets and liabilities. For EUR or USD, a parallel shift of the interest rate curve by +/- 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last five years. The potential economic impact on the consolidated statement of financial position must not exceed 10% of its regulatory capital for all currencies. A reporting trigger is set at 5%, providing an early warning signal. Also regularly analysed is the potential impact of interest rate risk on the Group's expected earnings over the next three months. This measure indicates how the profit or loss may be influenced by interest rate risk under a short-term perspective.

Deviations from the Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Parent's Risk Management Committee.

The Group's interest rate risk position is monitored by the General Risk Management Committee. The indicators are also reported to the Parent's Risk Management Committee.

Beyond monitoring and limiting interest rate risk in the sense of re-pricing risk, the Group also aims to align the maturities of its assets and liabilities which generate interest earnings and interest expenses.

The table below presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

in '000 GEL **As at 31 December 2014**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 -12 months**	**1 -5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and cash equivalents	96,216	14,914	-	-	-	-	63,845	174,975
Due from banks	42,328	-	-	-	-	-	15,665	57,993
Investment securities available-for-sale	-	-	-	-	9,520	-	543	10,063
Loans and advances to customers	71,834	56,391	61,222	124,875	335,185	82,361	8,402	740,270
Other financial assets	-	-	-	-	-	-	980	980
Total financial assets	**210,378**	**71,305**	**61,222**	**124,875**	**344,705**	**82,361**	**89,435**	**984,281**
Liabilities								
Due to banks	-	-	-	-	-	-	2,005	2,005
Customer accounts	277,162	33,398	49,293	65,555	40,621	11,758	120,490	598,277
Other borrowed funds	26,155	46,564	58,044	16,185	84,859	31,033	2,134	264,974
Other financial liabilities	-	-	-	-	-	-	2,940	2,940
Subordinated debt	-	28,335	-	-	9,445	14,168	990	52,938
Total liabilities	**303,317**	**108,297**	**107,337**	**81,740**	**134,925**	**56,959**	**128,559**	**921,134**
Net interest sensitivity gap	**(92,939)**	**(36,992)**	**(46,115)**	**43,135**	**209,780**	**25,402**		

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

in '000 GEL **As at 31 December 2013**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 -1 2 months**	**1 -5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and cash equivalents	106,290	31,807	-	-	-	-	60,614	198,711
Due from banks	41,107	-	-	-	-	-	3,881	44,988
Investment securities available-for-sale	-	-	-	-	-	-	234	234
Financial assets at fair value through profit or loss	-	-	-	-	-	-	14	14
Loans and advances to customers	43,943	45,083	66,392	126,888	326,321	78,211	6,050	692,888
Other financial assets	-	-	-	-	-	-	2,855	2,855
Total financial assets	**191,340**	**76,890**	**66,392**	**126,888**	**326,321**	**78,211**	**73,648**	**939,690**
Liabilities								
Due to banks	-	-	-	-	-	-	23	23
Customer accounts	257,465	29,207	50,646	59,148	28,805	10,684	133,211	569,166
Other borrowed funds	36,214	73,793	44,497	29,527	51,963	18,914	1,801	256,709
Other financial liabilities	-	-	-	-	-	-	1,490	1,490
Subordinated debt	-	26,046	1,736	1,736	22,572	13,022	1,196	66,308
Total liabilities	**293,679**	**129,046**	**96,879**	**90,411**	**103,340**	**42,620**	**137,721**	**893,696**
Net interest sensitivity gap	**(102,339)**	**(52,156)**	**(30,487)**	**36,477**	**222,981**	**35,591**		

In quantitative terms, the risks associated with interest rate fluctuations are currently limited by stipulating that the interest rate risk exposure (economic value impact in present value) of the Group following an interest rate shock of +/- 200 bps on EUR/USD and historical worst case +/-800 bps for local currency, may not exceed 10% of regulatory capital for all currencies. As at 31 December 2014, the Group was in compliance with these requirements. Cumulative interest earnings impact for three months shows the following figures as at 31 December 2014:

	Impact on profit or loss (equals impact on equity)			
	Probable adverse case scenario		Stress scenario	
	+2%	-2%	+5%	-5%
USD	(64)	64	(160)	160
EUR	133	(133)	333	(333)
GEL	321	(321)	803	(803)
	390	**(390)**	**976**	**(976)**

As at 31 December 2013, the impact of cumulative interest earnings was as follows:

	Impact on profit or loss (equals impact on equity)			
	Probable adverse case scenario		Stress scenario	
	+2%	-2%	+5%	-5%
USD	(94)	94	(113)	113
EUR	107	(107)	(320)	320
GEL	144	(144)	(416)	416
	157	**(157)**	**(849)**	**849**

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The Group monitors interest rates for its financial instruments by each major currency. The table below summarises average interest rates based on reports reviewed by key management personnel:

At 31 December 2014 in % p.a.	**EUR**	**USD**	**Local currency**
Financial assets			
Due from banks	-	0.59	4.00
Loans and advances to customers	10.03	11.43	15.50
Financial liabilities			
Customer accounts	3.18	4.45	3.64
Other borrowed funds	2.50	3.84	6.34
Subordinated debt	-	8.65	-

At 31 December 2013 in % p.a.	**EUR**	**USD**	**Local currency**
Financial assets			
Due from banks	0.09	0.61	3.50
Loans and advances to customers	11.60	12.70	16.50
Financial liabilities			
Customer accounts	3.42	3.37	3.58
Other borrowed funds	2.50	4.31	6.83
Subordinated debt	-	7.38	-

Country risk

Country risk is defined as the risk that the Group may not be able to enforce rights over certain assets in a foreign country (expropriation risk) or that a counterparty in a foreign country is unable to perform an obligation because specific political, economic or social risks prevailing in that country have an adverse effect on the credit exposures (transfer and convertibility risk). Given the nature of the Group’s business and the environment in which it operates, the Group defines country risk more broadly to refer to the possible adverse impact that significant country-specific external macroeconomic, socio-political or regulatory factors can have on the Group’s earnings, capital or liquidity. In particular, it includes the risk of direct or indirect government intervention in the business operations of the Group in the form of nationalisation or seizure of assets, or significant market or regulatory intervention.

The Group’s business strategy is to focus on meeting the demand for credit exhibited by small and medium businesses in the local market. Therefore, it does not normally enter into cross-border transactions or incur country risks. However, as stated above, for the purpose of financial risk management the Group may need to enter into cross-border transactions, e.g. for the purpose of investing excess liquidity in bond exposures to highly rated international or multinational institutions.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Broader country risk issues are addressed by, and inherent in the Group's policies and methodologies for the management of credit, market, liquidity, counterparty/issuer and operational risk. As cross-border exposures are controlled by the Group's and the Parent's risk management functions, the Group is exposed to country risk only to a limited degree.

Insurance risk - amount, timing and uncertainty of profit and loss and future cash flows

The insurance risk arises in connection with the performance guarantees issued by the Group. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Bank uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Bank to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Bank manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Bank has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests. Most of the performance guarantee contracts are collateralised.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

A number of accounting policies and disclosures require the determination of fair values for financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. In case observable market rates are not available to determine the fair value of financial liabilities measured at amortized cost, the Parent’s Treasury rates are used as an input for a discounted cash flow model. The Parent’s Treasury rates are determined considering the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. These internal rates are regularly compared to those applied for third party transactions.

27. CONTINGENT LIABILITIES AND COMMITMENTS

The Group has outstanding commitments to extend credit. These commitments take the form of approved loans limits and overdraft facilities. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans and advances to customers.

in '000 GEL **As at 31 December**	**2014**	**2013**
Financial guarantees and stand-by letters of credit	6,953	8,865
Performance guarantees	12,487	10,398
Commitments to extend credit:		
- Original term to maturity of one year or less	22,832	23,357
- Original term to maturity of more than one year	5,633	1,568
Total	**47,905**	**44,188**

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. The management believes that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements. An estimate of amount and timing of outflow is not practicable. Provisions for credit related commitments and performance guarantees are disclosed in Note 18.

Operating lease commitments

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

in '000 GEL	**2014**	**2013**
- No later than one year	1,118	1,284
- Later than one year and no later than five years	320	320
Total	**1,438**	**1,604**

27. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Tax legislation

Taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred. These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation

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

28. RELATED PARTY TRANSACTIONS

The Group's immediate and ultimate parent company is ProCredit Holding AG & Co. KGaA, which produces publicly available financial statements.

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

The Group had the following balances outstanding as at 31 December 2014 and 2013 with related parties:

in '000 GEL	Contractual interest rate, p.a.	2014	2013
Assets			
Due from banks			
- Entities under common control	0.0%-0.2 %	21,563	28,554
Financial assets at fair value through profit or loss			
- Parent		-	14
Loans and advances to customers			
- Key management	11%-18%	8	39
Other assets			
- Parent		37	176
- Entities under common control		-	16
Liabilities			
Due to banks			
- Entities under common control	0.0%	6	23
Financial liabilities at fair value through profit or loss			
-other related parties		156	-
Customer accounts			
- Key management	0.0%-5.5%	81	141
Other borrowed funds			
- Parent	3.45%-11.39%	25,292	5,201
- other related parties	3.41%-3.42%	20,941	5,249
Subordinated debt			
- Parent	9.93%-10.92%	24,568	22,579

28. RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the profit or loss for the year ended 31 December 2014 and 2013 are the following amounts which arose due to transactions with related parties:

in '000 GEL	2014	2013
Revenue		
Interest income		
- other related parties	37	24
Other income		
- key management	4	4
Expense		
Interest expense		
- Parent	4,837	2,937
- entities under common control	542	92
- key management	1	8
Fees and commission expenses		
- Parent	-	805
- entities under common control	902	991
Other operating income		
- Parent	4	3
Personnel expenses		
- Key management	337	336
Other administrative expenses		
- Parent	2,114	2,489
- entities under common control	1,727	1,291

The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavourable features.

Credit commitments

As at 31 December 2014 and 2013 the Group has outstanding unused irrecoverable and unconditional credit commitments of USD 10,000 thousand towards the Parent.

29. SUBSEQUENT EVENTS

On 27 January 2015 the Group sold its portfolio of micro loans that represents approximately 5% of the carrying amount of the Group's total loan portfolio to JSC TBC Bank, one of the leading banks in Georgia, at a premium of approximately GEL 2,500 thousand.